IMPORTANT NOTICE

NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES.

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE ADDRESSEES OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached Offering Memorandum. You are advised to read this disclaimer carefully before accessing, reading or making any other use of the attached Offering Memorandum. In accessing the attached Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

Confirmation of Your Representation: This Offering Memorandum is being sent to you at your request and by accepting the e-mail and accessing the attached Offering Memorandum, you shall be deemed to represent to ABCI Capital Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of China Limited, China Construction Bank (Asia) Corporation Limited, China International Capital Corporation Hong Kong Securities Limited, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, Merrill Lynch International, Morgan Stanley Co. & International plc, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, SMBC Nikko Capital Markets Limited, Standard Chartered Bank and UBS AG, Hong Kong Branch (together, the "**Joint Lead Managers**") that (1) you or any customers you represent are not located in the United States (as defined under Regulation S under the Securities Act of 1933, as amended (the "**Securities Act**"), (2) the e-mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories or possessions, and (3) you consent to delivery of the attached Offering Memorandum and any amendments or supplements thereto by electronic transmission.

The attached Offering Memorandum has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently none of the Joint Lead Managers, The Hongkong and Shanghai Banking Corporation Limited (the "**Trustee**") or the Agents (as defined in the attached Offering Memorandum) or any of their respective affiliates, directors, officers, employees, representatives, agents and each person who controls any Joint Lead Manager nor any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any discrepancies between the document distributed to you in electronic format and the hard copy version. The Issuer will provide a hard copy version to you upon request.

Restrictions: The attached document is being furnished in connection with an offering exempt from registration under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") solely for the purpose of enabling a prospective investor to consider the purchase of securities described in the attached Offering Memorandum.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. THIS OFFERING IS MADE SOLELY IN OFFSHORE TRANSACTIONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT.

Nothing in this electronic transmission constitutes an offer or an invitation by or on behalf of any of the Issuer of the securities or the Joint Lead Managers, the Trustee or the Agents to subscribe for or purchase any of the securities described therein, and access has been limited so that it shall not constitute in the United States or elsewhere a general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) or directed selling efforts (within the meaning of Regulation S under the Securities Act). If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Joint Lead Manager or any of its affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by it or such affiliate on behalf of the Issuer in such jurisdiction.

You are reminded that you have accessed the attached Offering Memorandum on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached.

Actions that You May Not Take: If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "Reply" function on your e-mail software, will be ignored or rejected.

THE ATTACHED OFFERING MEMORANDUM MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED.

IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED HEREIN. YOU ARE NOT AUTHORISED TO AND YOU MAY NOT FORWARD OR DELIVER THE ATTACHED OFFERING MEMORANDUM, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON OR REPRODUCE SUCH OFFERING MEMORANDUM IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THE ATTACHED OFFERING MEMORANDUM IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

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Hangzhou Hikvision Digital Technology Co., Ltd.
杭州海康威視數字技術股份有限公司

(incorporated with limited liability in the PRC and listed on the Shenzhen Stock Exchange under stock code 002415)

€400,000,000 1.25 per cent. Notes due 2019

Issue Price: 99.959 per cent.

The 1.25 per cent. Notes due 2019 in the aggregate principal amount of €400,000,000 (the "**Notes**") will be issued by Hangzhou Hikvision Digital Technology Co., Ltd. (杭州海康威視數字技術股份有限公司) (the "**Issuer**"), a company incorporated in the People's Republic of China under the registration number of 91330000733796106P. The ordinary shares of the Issuer are listed on the Shenzhen Stock Exchange under the stock code 002415.

The Notes will bear interest from 18 February 2016 at the rate of 1.25 per cent. per annum. Interest will be payable annually in arrear on 18 February each year commencing with the first Interest Payment Date (as defined in the Terms and Conditions of the Notes) on 18 February 2017. The Notes will constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

Pursuant to the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知 (發改外資[2015]2044號)) (the "**NDRC Circular**") issued by the National Development and Reform Commission of the PRC (as defined below) or its local counterparties (the "**NDRC**") on 14 September 2015 which came into effect on the same day, the Issuer has registered the issuance of the Notes with the NDRC and obtained a certificate from the NDRC on 13 January 2016 evidencing such registration which, at the date of this Offering Memorandum, remains valid and in full force and effect and intends to provide the requisite information on the issuance of the Notes to the NDRC within 10 PRC Business Days (as defined in the Terms and Conditions of the Notes) after the Issue Date.

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 18 February 2019, subject as provided in Condition 6 (*Payments*) of the Terms and Conditions of the Notes. The Notes may be redeemed at the option of the Issuer, in whole but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, in the event of certain changes affecting taxes of the PRC. See "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Tax Reasons*". Furthermore, at any time following the occurrence of a Change of Control (as defined in "*Terms and Conditions of the Notes*"), each Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of such Noteholder's Notes on the Put Settlement Date (as defined in Terms and Conditions of the Notes) at 101 per cent. of their principal amount, together with accrued interest to such Put Settlement Date. See "*Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Change of Control*".

The Notes are expected to be assigned a rating of "A-" by Standard & Poor's Hong Kong Limited, a division of the McGraw-Hill Companies, Inc. ("**S&P**"), a rating of "A3" by Moody's Investors Service Hong Kong Limited ("**Moody's**") and a rating of "A-" by Fitch Ratings Limited ("**Fitch**"). These ratings do not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by S&P, Moody's or Fitch.

Investing in the Notes involves certain risks. See "*Risk Factors*" beginning on page 16 for a discussion of certain factors to be considered in connection with an investment in the Notes.

Investing in the Notes involves certain risks. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Memorandum and the merits and risks of investing in the Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase the Notes unless they understand and are able to bear risks associated with the Notes.

This Offering Memorandum constitutes a prospectus for the purpose of Directive 2003/71/EC (the "**Prospectus Directive**") as amended (which includes the amendments made by Directive 2010/73/EU). This Offering Memorandum has been approved by the Central Bank of Ireland (the "**Central Bank**"), as competent authority under the Prospectus Directive. The Central Bank only approves this Offering Memorandum as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange (the "**ISE**") for the Notes to be admitted to the Official List of the ISE (the "**Official List**") and to trading on its regulated market (the "**Main Securities Market**"). Such approval only relates to Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in a Member State of the European Economic Area. References in this Offering Memorandum to the Notes being "listed" (and all related references) will mean that the Notes have been admitted to the Official List and have been admitted to trading on the Main Securities Market. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC.

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only outside the United States in offshore transactions in compliance with Regulation S under the Securities Act ("Regulation S"). For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Memorandum, see the section entitled "*Subscription and Sale*" on page 147.

The Notes are in registered form in the denomination of €100,000 each and integral multiples of €1,000 in excess thereof. The Notes will be represented initially by beneficial interests in a global note certificate (the "**Global Note Certificate**") which will be registered in the name of a nominee of, and shall be deposited on or about 18 February 2016 (the "**Issue Date**") with a common depositary for, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, S. A. ("**Clearstream**"). Interests in the Global Note Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, individual certificates for Notes ("**Individual Note Certificates**") will not be issued in exchange for interests in the Global Note Certificate.

Joint Global Coordinators

Citigroup | **Deutsche Bank** | **Morgan Stanley**

Joint Bookrunners and Joint Lead Managers

Agricultural Bank of China | **Bank of China** | **BofA Merrill Lynch** | **China Construction Bank (Asia)**

CICC | **Citigroup** | **Deutsche Bank** | **HSBC** | **ICBC**

Morgan Stanley | **Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch** | **SMBC Nikko** | **Standard Chartered Bank** | **UBS**

Offering Memorandum dated 4 February 2016

IMPORTANT NOTICE

The Issuer, having made all reasonable enquiries, confirms that (i) this Offering Memorandum contains all information with respect to the Issuer, the Issuer and its subsidiaries (collectively, the "**Group**") and the Notes which is material in the context of the issue, offering, sale, marketing or distribution of the Notes (including all information which is required by all applicable laws or, according to the particular nature of the Issuer, the Group and of the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer, the Group, and of the rights attaching to the Notes); (ii) this Offering Memorandum does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (iii) the statements of fact contained in this Offering Memorandum are in every material respect true and accurate and not misleading, and there are no other facts in relation to the Issuer, the Group and the Notes the omission of which would, in the context of the issue, offering, sale, marketing and distribution of the Notes, make any statement in this Offering Memorandum misleading; (iv) all statistical, industry and market related data included in this Offering Memorandum do not contain any untrue statement or a material fact and are in every material respect true and are derived from sources which are accurate and reliable; (v) the statements of intention, opinion, belief or expectation contained in this Offering Memorandum are honestly and reasonably made or held and have been reached after considering all relevant circumstances and based on reasonable assumptions; (vi) all reasonable enquiries have been and will be made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements; and (vii) all descriptions of contracts or other material documents described in this Offering Memorandum are accurate descriptions in all material respects and fairly summarise the contents of such contracts or documents. In addition, the Issuer accepts responsibility for the information contained in this Offering Memorandum and declares that, to the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Memorandum has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes described in this Offering Memorandum. This Offering Memorandum does not constitute an offer of, or invitation by or on behalf of, the Issuer, ABCI Capital Limited, Agricultural Bank of China Limited Hong Kong Branch, Bank of China Limited, China Construction Bank (Asia) Corporation Limited, China International Capital Corporation Hong Kong Securities Limited, Citigroup Global Markets Limited, Deutsche Bank AG, London Branch, The Hongkong and Shanghai Banking Corporation Limited, Industrial and Commercial Bank of China (Asia) Limited, Merrill Lynch International, Morgan Stanley Co. & International plc, Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch, SMBC Nikko Capital Markets Limited, Standard Chartered Bank and UBS AG, Hong Kong Branch (together, the "**Joint Lead Managers**") to subscribe for or purchase any of the Notes. The distribution of this Offering Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Notes or the distribution of this Offering Memorandum or any offering or publicity material in relation to the Notes in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including the United States, the United Kingdom, Hong Kong, the People's Republic of China, Singapore, Japan, the Italian Republic and European Economic Area, to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and distribution of this Offering Memorandum, see "*Subscription and Sale*". This Offering Memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the Notes. Distribution of this Offering Memorandum to any other person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorised. Each prospective investor, by accepting delivery of this Offering Memorandum, agrees to the foregoing and agrees not to make photocopies of this Offering Memorandum or any documents referred to in this Offering Memorandum.

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Group or the Notes, other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, the Joint Lead Managers, the Trustee or the Agents (as defined herein) or their respective affiliates, employees, directors, agents or advisors. The information contained in this Offering Memorandum is accurate in all material respects only as at the date of this Offering Memorandum, regardless of the time of delivery of this Offering Memorandum or of any sale of the Notes. Neither the delivery of this Offering Memorandum nor any offering, sale or delivery made in connection with the issue of the Notes shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer, the Group or any of them since the date hereof or create any implication that the information contained herein is correct at any date subsequent to the date hereof. This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Joint Lead Managers, the Trustee or the Agents to subscribe for or purchase any of the Notes and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

The Issuer has submitted this Offering Memorandum to a limited number of institutional investors so that they can consider a purchase of the Notes. The Issuer has not authorised its use for any other purpose. This Offering Memorandum may not be copied or reproduced in whole or in part. It may be distributed only to and its contents may be disclosed only to the prospective investors to whom it is provided. By accepting delivery of this Offering Memorandum, each investor agrees to these restrictions.

This Offering Memorandum is being furnished by the Issuer solely in connection with the offering of the Notes exempt from registration under the Securities Act solely for the purpose of enabling a prospective investor to consider purchasing the Notes. Investors must not use this Offering Memorandum for any other purpose, make copies of any part of this Offering Memorandum or give a copy of it to any other person, or disclose any information in this Offering Memorandum to any other person. The information contained in this Offering Memorandum has been provided by the Issuer and other sources identified in this Offering Memorandum. Any reproduction or distribution of this Offering Memorandum, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Notes offered by this Offering Memorandum is prohibited. Each offeree of the Notes, by accepting delivery of this Offering Memorandum, agrees to the foregoing.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers the Trustee, the Agents or any of their respective affiliates, officers, employees, directors, agents or advisors as to the accuracy, completeness or sufficiency of the information contained in this Offering Memorandum, and nothing contained in this Offering Memorandum is, or shall be relied upon as, a promise, representation or warranty by the Joint Lead Managers, the Trustee or the Agents.

To the fullest extent permitted by law, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, officers, employees, directors, agents and advisors do not accept any responsibility for the contents of this Offering Memorandum or any statement made or purported to be made by any person or on its behalf in connection with the Issuer, the Group, the issue, offering, sale, marketing and distribution of the Notes, and assume no responsibility for the contents, accuracy, completeness or sufficiency of any such information or for any other statement, made or purported to be made by the Joint Lead Managers, the Trustee and the Agents or on their behalf in connection with the Issuer, the Group or the issue and offering of the Notes. Each of the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, officers, employees, directors, agents and advisors accordingly disclaims all and any liability whether arising in tort, contract, strict liability or otherwise for any direct, indirect, incidental, consequential, punitive or special damages howsoever arising from or in respect of the use of, or reliance upon this Offering Memorandum or any statement herein.

None of the Joint Lead Managers, the Trustee, any Agent or any of their respective affiliates, officers, employees, directors, agents and advisors undertakes to review the financial condition or affairs of the Issuer or the Group after the date of this Offering Memorandum nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers, the Trustee or any Agent.

None of the Joint Lead Managers, the Trustee and the Agents or any of their affiliates, officers, employees, directors, agents or advisors has independently verified any of the information contained in this Offering Memorandum and can give any assurance that this information is accurate, truthful or complete. This Offering Memorandum is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by any of the Issuer, the Joint Lead Managers, the Trustee or the Agents or any of their respective affiliates, officers, employees, directors, agents or advisors that any recipient of this Offering Memorandum should purchase the Notes. Each person receiving this Offering Memorandum acknowledges that such person has not relied on any Joint Lead Manager, the Trustee or the Agents or any person affiliated with any Joint Lead Manager, the Trustee or the Agents in connection with its investigation of the accuracy of such information or its investment decision. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Memorandum and its purchase of the Notes should be based upon such investigations with its own tax, legal and business advisors as it deems necessary.

The Notes are expected to be assigned a rating of "A-" by S&P, a rating of "A3" by Moody's and a rating of "A-" by Fitch. A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to revision, qualification, suspension or withdrawal at any time by the assigning rating organisation. A revision, qualification, suspension or withdrawal of any rating assigned to the Notes may adversely affect the market price of the Notes.

Any of the Joint Lead Managers and their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Memorandum relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group.

Investors are advised to read and understand the contents of this Offering Memorandum before investing. If in doubt, investors should consult his or her advisor.

IN CONNECTION WITH THE ISSUE OF THE NOTES, ANY OF THE JOINT LEAD MANAGERS, AS THE STABILISING MANAGER (THE "STABILISING MANAGER") (OR PERSONS ACTING ON ITS BEHALF) MAY, SUBJECT TO ALL APPLICABLE LAWS AND DIRECTIVES, OVER-ALLOT AND EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON ITS BEHALF) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the offering, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes.

The Issuer, the Group, the Joint Lead Managers, the Trustee and the Agents and their respective affiliates, officers, employees, directors, agents and advisors are not making any representation to any purchaser of the Notes regarding the legality of any investment in the Notes by such purchaser under any legal investment or similar laws or regulations. The contents of this Offering Memorandum should not be construed as providing legal, business, accounting or investment advice.

The Issuer will comply with any undertaking that it has given from time to time to the ISE in connection with the Notes and will furnish to the ISE all such information as the rules of the ISE may require in connection with the listing of the Notes.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

The Issuer has prepared this Offering Memorandum using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we," "us," "our," the "Issuer," the "Group" and words of similar import, we are referring to Hangzhou Hikvision Digital Technology Co., Ltd. (杭州海康威視數字技術股份有限公司) itself and its consolidated subsidiaries, as the context requires.

Market data, industry forecast and the PRC and property industry statistics in this Offering Memorandum have been obtained from both public and private sources, including market research, publicly available information and industry publications. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by public and private sources, including market research, publicly available information and industry publications. No facts have been omitted which would render the reproduced information inaccurate or misleading. Although we believe this information to be reliable, it has not been independently verified by us or the Joint Lead Managers or our or their respective directors and advisors, and neither we, the Joint Lead Managers nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. Due to possibly inconsistent collection methods and other problems, such statistics herein may be inaccurate. You should not unduly rely on such market data, industry forecast and the PRC and property industry statistics.

We record and publish our financial information in Renminbi. Unless otherwise stated in this Offering Memorandum, all translations from Renminbi amounts to U.S. dollar amounts were made at the rate of RMB6.2000 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York on 30 June 2015, and all translations from H.K. dollar amounts into U.S. dollar amounts were made at the rate of HK$7.7513 to US$1.00, the noon buying rate in New York City for cable transfers payable in H.K. dollars as certified for customs purposes by the Federal Reserve Bank of New York on 30 June 2015. All translations from euro to U.S. dollars have been made at a rate of US$1.1154 to €1.00, the noon buying rate for U.S. dollars in New York City for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York on 30 June 2015. All such translations in this Offering Memorandum are provided solely for your convenience and no representation is made that the Renminbi amounts referred to herein have been, could have been or could be converted into U.S. dollars, H.K. dollars or euro, or vice versa, at any particular rate, or at all. All amounts converted into U.S. dollars contained in this Offering Memorandum are unaudited and for reference purposes only. For further information relating to the exchange rates, see the section entitled "*Exchange Rates*".

Unless otherwise specified or the context otherwise requires, all references to "**PRC**" and "**China**" in the context of statistical information and description of laws and regulations in this Offering Memorandum, except where the context otherwise requires, are to People's Republic of China, which does not include Hong Kong, Macau Special Administrative Region of the PRC ("**Macau**"), or Taiwan. "**PRC government**" or "**State**" means the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governments) and instrumentalities thereof, or, where the context requires, any of them, all references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references herein to "**EU**" or "**E.U.**" are to the European Union, all references herein to "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC, and references herein to "**Hong Kong dollars**", "**H.K. dollars**", "**HK$**", "**HK cents**" or "**HK¢**" are to the lawful currency of Hong Kong, all references herein to "**€**" or "**euro**" are to the lawful currency of the member state of the European Union and all references herein to "**U.S. dollars**", "**U.S.$**", "**USD**", "**U.S. cents**" or "**US¢**" are to the lawful currency of the United States of America. In addition, references herein to the financial ratios of the Issuer and defined terms used in the calculation of such ratios may differ from those in the Terms and Conditions of the Notes.

"**CAGR**", or compound annual growth rate, is calculated by taking the nth root of the total percentage growth rate, where n is the number of years in the period being considered.

The language of the Offering Memorandum is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Offering Memorandum.

For ease of reference, the names of the PRC established companies or entities, laws or regulations have been included in this Offering Memorandum in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

"**Frost & Sullivan**" means Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., our independent industry consultant.

The following glossary contains explanations of certain terms used in this Offering Memorandum in connection with the Issuer and its businesses. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

"A/D"	Analog to digital, which converts continuous signals in analog form to discrete signals in digital form
"A&S"	A&S Magazine, the world's leading security protection media and information platform
"API"	Application programming interface, routines, protocols, and tools for applications which is building a set of software
"App"	Application programs designed to run on smart phones, tablet computers and other mobile devices or inside a web browser
"ASIC"	Application Specific Integrated Circuits, which are designed and manufactured to meet the specific requirements of customers and electronic systems
"ATCA"	Advanced Telecommunications Computing Architecture
"AVC/H.264"	A digital audio and video codec standard developed by the Joint Video Team (JVT) of the Video Coding Experts Group (VCEG) of the International Telegraph Union Telecommunication Standardization Sector (ITU-T) and Moving
"Picture Experts Group (MPEG) of the International"	Organization for Standardization/ International Electrotechnical Commission (ISO/IEC). Since the standard was jointly developed by two different institutions, it is regarded as H.264 by the ITU-T and 10th part of MPEG-4, i.e. AVC by the ISO/IEC
"AVS"	Audio Video coding Standard, or the standard technology of digital audio and video codec, which is the second generation of source coding standards for Chinese intellectual property rights
"base-line products"	Standardized products in accordance with the standards of production of the Issuer

"Big Data"	Use of analysis to extract value from large volume of data
"cloud computing"	An evolved computing terminology based on utility and consumption of computing resources which involves deploying groups of remote servers and software networks that allow centralized data storage and online access to computer services or resources
"CMMI-DEV"	Capability Maturity Model Integration, a process improvement training and appraisal program and service that defines maturity levels of a process as initial, managed, defined, quatitatively managed or optimized
"customized products"	Specific products tailored to the individual requirements of customers
"CVR"	Video specific memory technology that integrates the functions of encoding device management, video management, storage and forwarding
"D1"	Video encoding resolution of 720x570 or 720x480
"DLP"	Digital Light Processing, a display device based on micro-electro-mechanical technology that uses a digital micromirror device
"dome camera"	Dome camera, which is different from a traditional box camera
"DSP"	Digital Signal Processor
"DVR"	Digital Video Recorder, of which embedded DVR is based on embedded processors and embedded real-time operating system
"DVS"	Digital Video Server
"FQC"	Final Quality Control
"GFA"	Gross Floor Area
"H.265"	High Efficiency Video Coding, an improved successor to H.264 video coding standard
"HD"	High definition
"HD-SDI"	High definition serial digital interface which provides a nominal data rate of 1.485 Gbit/s
"IC"	Integrated circuit, microstructure formed from a set of electronic circuits on one small plate of semiconductor material
"Internet of Things", or "IoT"	Network of physical objects or "things" embedded with electronics, software, sensors and connectivity to enable it to achieve greater value and service by exchanging data with the manufacturer, operator and/or other connected devices

"IP"	Internet Protocol
"IPQC"	InPut Process Quality Control
"IQC"	Incoming Quality Control
"ISO14001：2004 Standard"	International Standard Organization 14000 Quality Management Systems Standards
"ISO9001：2000 Standard"	International Standard Organization 9000 Quality Management Systems Standards
"LCD"	Liquid Crystal Display
"MPEG-4"	Fourth generation of digital audio and video codec standard defined by Moving Picture Experts Group (MPEG)
"NAS"	Network Attached Storage
"NVR"	Network Video Recorder
"OEM"	Original Equipment Manufacturer
"ONVIF"	Open Network Video Interface Forum
"OQA"	Outgoing Quality Assurance
"OQC"	Outgoing Quality Control
"PCB"	Printed Circuit Board, which is used for the assembly of electronic components
"PCBA"	Printed Circuit Board Assembly, i.e. the whole procedure of PCB with SMT, plug-ins and assembly. Besides, it also refers to PCB with component placement
"PDP"	Plasma Display Panel
"RoHS"	Restriction of Hazardous Substances Directive, short for Directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment, which is the environmental directives for the effect on environment from electrical and electronic equipment in production stage by the European Union
"RTSP"	Real Time Streaming Protocol, a network control protocol designed for use in entertainment and communications system to control streaming content
"SAN"	Storage Area Network, a high-speed network or subnetwork providing data transfer between computers and storage systems
"SD"	Standard definition
"SMB"	Small Enterprises and Micro Businesses

"SMT"	Surface Mount Technology, which can achieve automatic welding of electronic component the
"SOC"	System on Chip, an integrated circuit that integrates all components of a computer or other electronic system into a single chip
"surveillance camera"	Box camera, which is used for the capture and processing of video signal
"TCP/IP"	Computer networking model comprised by Internet Protocol from network layer and Transmission Control Protocol from transmission layer, which defines the way that electronic devices connected to Internet and the standard of data transfer between them
"Telnet"	An application protocol used on the Internet or local area networks to provide a bidirectional interactive text-oriented communication facility using a virtual terminal connection
"THT"	Through Hole Technology, which can stick the components into circuit board and weld through soldering
"TVI"	Transport Video Interface, a high transport norm based on coaxial cable definition video
"TVI-DVR"	Transport Video Interface Digital Video Recorder
"VMS"	Video Management System
"WEEE"	The Waste Electrical and Electronic Equipment Directive which is the environmental directives for the effect on environment from electrical and electronic equipment in production stage by the European Union

PRESENTATION OF FINANCIAL INFORMATION

The consolidated financial information of the Issuer as at and for the three years ended 31 December 2012, 31 December 2013 and 31 December 2014 has been extracted from the audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2013 and 2014, audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP ("**DTT**") in accordance with the International Financial Reporting Standards ("**IFRS**").

The unaudited consolidated financial information of the Issuer as at and for the six months ended 30 June 2014 and 2015 has been extracted from the unaudited consolidated financial statements of the Issuer as at and for the six months ended 30 June 2014 and 2015, reviewed by DTT in accordance with IFRS.

The consolidated quarterly financial information of the Issuer as at and for the nine months ended 30 September 2014 and 2015 (the "**Issuer's September 2015 Financial Information**") were prepared and presented in accordance with generally accepted accounting principles in the PRC (the "**PRC GAAP**"), which is required by the Shenzhen Stock Exchange, and have not been audited or reviewed by DTT or any other independent auditor. The Issuer's September 2015 Financial Information have been published on the Shenzhen Stock Exchange's website in accordance with the listing requirements of the Shenzhen Stock Exchange. PRC GAAP differs in certain material respects from IFRS. See "*Difference between PRC GAAP and International Financial Reporting Standards*". The Issuer has not prepared any reconciliation of such consolidated financial information between PRC GAAP and IFRS and has not quantified such differences. Therefore, such consolidated financial information is not comparable with the consolidated financial statements prepared in accordance with IFRS set forth in this Offering Memorandum. In addition, the Issuer's September 2015 Financial Information have not been audited or reviewed by DTT or any other independent auditors. Consequently, such financial information should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit or review by an independent auditor. None of the Joint Lead Managers, the Trustee or Agents or any of their respective officers, employees, affiliates, directors or advisors makes any representation or warranty, express or implied, regarding the accuracy of such consolidated financial information or their sufficiency for an assessment of, and potential investors must exercise caution when using such data to evaluate the Issuer's financial condition and results of operations. Such financial information as at and for the nine months ended 30 September 2015 should not be taken as an indication of the expected financial condition or results of operations of the Issuer for the full financial year ending 31 December 2015. See "*Risk Factors — Quarterly financial information of the Issuer contained in this Offering Memorandum has not been audited or reviewed by the Issuer's auditors and is not comparable with consolidated financial statements prepared in accordance with IFRS*".

The Issuer has prepared English translations of the Issuer's September 2015 Financial Information as set out elsewhere in this Offering Memorandum. None of the Joint Lead Managers, the Trustee or the Agents has independently verified or checked the accuracy of the English translations and can give any assurance that the information contained in the English translations of the Issuer's September 2015 Financial Information is accurate, truthful or complete.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum includes forward-looking statements. All statements other than statements of historical facts contained in this Offering Memorandum , including, without limitation, those regarding our future financial position, our strategies, plans, objectives, goals, targets and future developments in the markets where we participate or are seeking to participate, and any statements preceded by, followed by or that include the words "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," or similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. Important factors that could cause our actual performance or achievements to differ materially from those in the forward-looking statements include, among other things, the following:

- our ability to successfully implement our business plans and strategies;
- future developments, trends and conditions in the industry and markets in which we operate;
- development and advancement in video surveillance technologies;
- our business prospects;
- our capital expenditure plans;
- the actions and developments of our competitors and distributors;
- our financial condition and performance;
- PRC surveillance and security products industry developments;
- our dividend policy;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business;
- general political and economic conditions, including those related to the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- various business opportunities that we may pursue;
- macroeconomic measures taken by the PRC government to manage economic growth; and
- changes in the global economic conditions and material changes in the global surveillance and security products industry.

Additional factors that could cause actual performance or achievements to differ materially include, but are not limited to, those discussed in "*Risk Factors*" and elsewhere in this Offering Memorandum. We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as of the date of this Offering Memorandum. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Memorandum might not occur. All forward-looking statements contained in this Offering Memorandum are qualified by reference to the cautionary statements set out in this section.

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OVERVIEW

This summary does not contain all the information that may be important to you in deciding to invest in the Notes. You should read the entire Offering Memorandum, including the section entitled "Risk Factors" and our consolidated financial statements and related notes thereto, before making an investment decision.

The Issuer

According to Frost & Sullivan, we are the largest provider of video surveillance solutions in the world in terms of revenue, with a focus on becoming a world-leading provider of intelligent video solutions and video content services. Our solutions include software and hardware covering a comprehensive range of video capture, transfer, storage, display, content management and analytics applications. Specifically, these primarily include cameras, digital video servers, recorders, transmission devices, monitors, controllers, video management software, centralized storage devices and cloud computing platform. We target to offer one-stop solutions to our customers in order to serve their video surveillance requirements.

According to Frost & Sullivan, in terms of revenue, we are the largest video surveillance company in China since 2007 and the largest global provider of video surveillance solutions for the last four consecutive years from 2011 to 2014. Our leading market position is the culmination of our transformation from a manufacturer of audio-visual compression card in 2002 to a provider of comprehensive video surveillance products and solutions today. Our success stems from our ability to capitalize on shifting industry trends, our ability to launch products on a timely basis, our ability to offer customized products and solutions to meet the diverse demands of our customers, and our economies of scale in R&D.

Our products and solutions are used for numerous end user market applications. We have seven industry-focused groups, including public security, intelligent properties, transportation, financial institutions, culture, education and healthcare, energy as well as judiciary systems, to design, develop and provide over 200 specific video surveillance solutions. We also provide products and solutions to the SMB market. We provide our products and solutions to end users through distributors, system integrators and installers.

We recorded total revenue of approximately RMB7.1 billion, RMB10.6 billion and RMB17.1 billion for 2012, 2013 and 2014, respectively, representing a CAGR of 54.7% and we recorded total revenue of RMB6.0 billion and RMB9.7 billion for the six months ended 30 June 2014 and 2015, respectively, representing an increase of 63.4%. For 2012, 2013 and 2014, we recorded net profit of approximately RMB2.1 billion, RMB3.1 billion and RMB4.7 billion, respectively, representing a CAGR of 47.9% and we recorded net profit of RMB1.5 billion and RMB2.2 billion for the six months ended 30 June 2014 and 2015, respectively, representing an increase of 45%.

Our business has a global presence and grew rapidly. Within China, one of the world's fastest growing video surveillance markets, our leading market position is supported by an extensive distribution network of 35 branches and over 200 sales offices covering every province. Our domestic revenue grew from approximately RMB6.0 billion in 2012 to approximately RMB12.9 billion in 2014, representing a CAGR of 47% and our domestic revenue grew 65.1% from approximately RMB4.3 billion for the six months ended 30 June 2014 to RMB7.2 billion for the six months ended 30 June 2015. Outside of China, we currently operate in 17 countries and regions, offering our products, solutions and services to customers in over 150 countries and regions. Our overseas business has experienced robust growth in recent years. Our overseas revenue increased from approximately RMB1.2 billion in 2012 to approximately RMB4.2 billion in 2014, representing a CAGR of 90.6%, and our overseas revenue grew 58.7% from approximately RMB1.6 billion for the six months ended 30 June 2014 to RMB2.6 billion for the six months ended 30 June 2015. Our "HIKVISION" brand is well recognized and we have received a number of industry recognitions. We have been ranked by A&S Magazine, a renowned security industry publication, as first in its China Top 50 Security rankings and third in its Global Security Top 50 rankings in 2014, as well as the "Leading Brand of China's Security Industry" by China International E-Commerce Association in 2014, among other honors and recognitions. Our products and/or solutions were used in a number of high profile projects, including the Beijing Olympic Games in 2008, Shanghai Expo in 2010 and the FIFA World Cup Brazil in 2014.

We are highly committed to R&D. Our R&D activities are focused on new technology commercialization and next-generation products' user requirements. As of 30 June 2015, our R&D team consisted of approximately 6,000 staff located across Hangzhou, Beijing, Shanghai, Chongqing and Wuhan. In 2014 and the first half of 2015, our R&D expenditures were approximately RMB1.3 billion and RMB0.8 billion, or approximately 7.6% and 8.4% of total revenue of the relevant periods, respectively. According to Frost & Sullivan, our R&D expenses in 2014 was the highest among our main competitors in China and overseas. We also led or participated in the formulation of several domestic and international industry standards for the video surveillance industry. We focus on developing the latest generation of products and solutions in the field of intelligent video analytics, cloud computing, cloud storage and Internet-based video content services. Since 2013, as part of our efforts to reach the consumer market, we have launched our "EZVIZ" branded Internet-based video business. Our "EZVIZ" products mainly include Internet cameras, cloud storage, wireless sensors and action cameras. The "EZVIZ" ecosystem provides numerous applications of household security, caring, sharing and entertainment for consumers as well as enterprise security applications and services for SMBs. We have also developed an "EZVIZ" cloud platform and mobile App enabling customers to remotely monitor, watch and share videos, receive information and interact using a smart phone or tablet. Our "EZVIZ" business is at an early development stage and we will further invest in this business. We will continue to maintain our growth momentum and expand our potential end user markets by constantly developing new products, solutions and business models.

Our Competitive Strengths

We believe the following competitive strengths contribute to our success and differentiate us from our competitors:

- The world's largest video surveillance solution provider with significant economies of scale and a well-recognized brand well-positioned to benefit from the growing video surveillance industry

- Comprehensive product portfolio and strong solution delivery capabilities that support our diverse customer base

- One-stop video surveillance solutions and proactive customer management that enhance our customer loyalty

- Extensive domestic and international sales network to support our future growth

- Strong R&D capability with a large base of accumulated technological know-how and rapid technology commercialization abilities

- Strong support from PRC government and our state-owned parent

- Experienced and stable management team with a proven track record period

- Strong financial performance through the cycles

Our Strategies

- Further enhance our leading market position in the domestic video surveillance industry

- Strengthen our market share and brand recognition globally

- Strengthen our innovation leadership through continuous significant R&D investment

- Develop our Internet-based video business and video content services business

- Maintain high profit margins and strong cash flow with prudent financial management policies

- Maintain our cost advantages and optimize our supply chain by leveraging our economies of scale

Recent Developments

The Issuer has published its third quarterly financial statement report for the nine months ended 30 September 2015, which was prepared in accordance with PRC GAAP. The report is available on the website of the Shenzhen Stock Exchange at http://www.szse.cn/. A copy of the English translation of the consolidated quarterly financial information of the Issuer as at and for the nine months ended 30 September 2015 contained in the third quarterly financial statement report is set out on page F-95 of this Offering Memorandum.

The Issuer's September 2015 Financial Information were prepared and presented in accordance with the PRC GAAP, which is required by the Shenzhen Stock Exchange, and have not been audited or reviewed by DTT or any other independent auditor. The Issuer's September 2015 Financial Information have been published on the Shenzhen Stock Exchange's website in accordance with the listing requirements of the Shenzhen Stock Exchange. PRC GAAP differs in certain material respects from IFRS. See "*Difference between PRC GAAP and International Financial Reporting Standards*". The Issuer has not prepared any reconciliation of such consolidated financial information between PRC GAAP and IFRS and has not quantified such differences. Therefore, such consolidated financial information is not comparable with the consolidated financial statements prepared in accordance with IFRS set forth in this Offering Memorandum. In addition, the Issuer's September 2015 Financial Information have not been audited or reviewed by DTT or any other independent auditors. Consequently, such financial information should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit or review by an independent auditor. None of the Joint Lead Managers, the Trustee or Agents or any of their respective officers, employees, affiliates, directors or advisors makes any representation or warranty, express or implied, regarding the accuracy of such consolidated financial information or their sufficiency for an assessment of, and potential investors must exercise caution when using such data to evaluate the Issuer's financial condition and results of operations. Such financial information as at and for the nine months ended 30 September 2015 should not be taken as an indication of the expected financial condition or results of operations of the Issuer for the full financial year ending 31 December 2015. See "*Risk Factors — Quarterly financial information of the Issuer contained in this Offering Memorandum has not been audited or reviewed by the Issuer's auditors and is not comparable with consolidated financial statements prepared in accordance with IFRS*".

General Information

We are a company incorporated as a limited liability company on 30 November 2001 in the PRC in accordance with the laws and regulations of the PRC. The registration number of our business license is 91330000733796106P and the operation period is indefinite. Our registered company domicile is 36 Macheng Road, Xihu District, Hangzhou, Zhejiang, 310012, PRC. The phone number is +86 571 8971 0492. The business address of the Directors and Senior Management is 21F, Tower A, 555 Qianmo Road, Binjiang District, Hangzhou, 310051, PRC. Our ordinary shares are listed on the Shenzhen Stock Exchange under stock code 002415. The phone number is +86 571 8807 5998.

RISK FACTORS

An investment in the Notes is subject to a number of risks. Investors should carefully consider all of the information in this Offering Memorandum and, in particular, the risks described below, before deciding to invest in the Notes. The following describes some of the significant risks that could affect the Group and the value of the Notes. Some risks may be unknown to the Group and other risks, currently believed to be immaterial, could in fact be material. Any of these could materially and adversely affect the business, financial condition, results of operations and prospects of the Group. The market price of the Notes could decline due to any of these risks, and investors may lose part or all of their investment. This Offering Memorandum also contains forward-looking statements that involve risks and uncertainties. The actual results of the Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this Offering Memorandum. The Group is materially affected by requirements and restrictions that arise under PRC laws, regulations and government policies in nearly all aspects of its business in the PRC.

There are certain risks and uncertainties involved in our operations and this offering, many of which are beyond our control. We have categorized these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to doing business in the PRC; and (iii) risks relating to the Notes.

Risks Relating To Our Business And Industry

The video surveillance market is intensively competitive. Our failure to compete effectively would harm our results of operations and financial condition

The video surveillance market in China is intensively competitive. The rapidly growing market demand for video surveillance products and solutions in recent years has attracted a large number of participants in this industry, which has resulted in increasingly fierce competition, decline in product selling prices, rapid technological changes and accelerated product obsolescence. Meanwhile, the huge market demand also attracts globally well-known video surveillance enterprises to enter into the Chinese domestic market through the establishment of joint ventures or the acquisition of existing market players operating in China. By leveraging their brand recognition and industry experience these enterprises have certain competitive advantages in the video surveillance market in China. Although our major products, including video surveillance cameras, DVRs and NVRs, already ranked first domestically and globally in terms of revenue in 2014, fierce competition still drives us to continuously advance our technologies, accelerate the development of innovative products and solutions, improve the quality of our products and services, and explore new markets, failing which we may not be able to sustain our market leading position.

In the overseas market, we compete directly with globally well-known video surveillance enterprises. Although we have certain advantages such as cost efficiency and home advantages in China, our competitive position could be compromised by companies that have greater financial, technical, marketing, manufacturing and distribution resources, broader product groups, better access to large customer bases, greater brand recognition, longer operating histories and more established strategic and financial relationships than we do in the overseas market. These companies may be able to adapt more quickly to new or emerging technologies and customer requirements, devote greater resources to the promotion and sale of their products and services and respond more quickly than we can to market opportunities.

If we are unable to successfully meet these competitive challenges domestically and globally, our results of operations will be materially and adversely affected and our financial condition will be impaired.

Our R&D may not always produce anticipated results and we may not be able to keep up with the development of new technologies and launch new generations of products

Due to fierce competition among market participants and rapid development of new technologies such as the migration to cloud storage and cloud computing, video surveillance products experience rapid obsolescence. Although we have devoted substantial resources to our R&D activities, we cannot assure you that we are able to anticipate or adapt to the development of new technologies or our R&D activities will generate the anticipated results. In addition, there is no assurance that we are able to capture market opportunities or develop new products or product enhancements that achieve a significant or sustainable level of acceptance in new and existing markets. Furthermore, our R&D objectives may not be accomplished within the planned time frame and the costs of such R&D activities may not be fully or partially recovered. If we are unable to accurately anticipate or adapte to the trend of the technological developments, respond quickly to changing customer demands, timely market our new products or continue to develop our proprietary technologies and know-how to maintain or further enhance our competitive advantage in technologies, our business, financial condition, results of operations, and our prospects will be materially and adversely affected.

If we are unable to manage our growth or execute our strategies effectively, our business and prospects may be materially and adversely affected

Our revenues were RMB7.1 billion, RMB10.6 billion and RMB17.1 billion in 2012, 2013 and 2014, respectively, representing a CAGR of 54.7% from 2012 to 2014, and were RMB6.0 billion and RMB9.7 billion for the six months ended 30 June 2014 and 2015, respectively, representing an increase of 63.4%. We may not be able to sustain such rates of growth in the future due to a number of factors, including, among others, competition within the video surveillance industry in both the PRC and overseas markets, our inability to successfully expand our business into new markets, the market acceptability of our new products and solutions, macroeconomic factors beyond our control, the greater difficulty of maintaining continuous growth from an already large revenue base, our inability to control our expenses, and the unavailability of resources for our growth. In addition, our development strategies require us to further invest in our recently developed business, such as Internet-based video business, and explore new business opportunities. These strategies will require substantial managerial efforts and the incurrence of additional expenditures may subject us to new or increased risks. We may not be able to efficiently or effectively implement our development strategies or manage the growth of our operations, and any failure to do so may materially and adversely affect our business.

There are uncertainties in the development of our Internet-based video business

The rapid development of the Internet constantly gives rise to new business opportunities. As the technologies of cloud computing, Big Data and artificial intelligence, among others, evolve continuously, consumer demand and business model may also change. In response to this trend, we introduced our Internet-based video business under the brand of "EZVIZ" in 2013. This business provides SMB, families and individual consumers with Internet-based video application and content services. Compared to our traditional business, our Internet-based video business is based more on the Internet, encompassing mobile Apps, a cloud-based intelligent video service platform as well as intelligent video products and other sensors. We will further invest in this area. However, our Internet-based video business is still in the early exploration stage and a mature and effective business model is yet to be established. Potential changes in our business model, innovation in our business model during the development process and the competition within the Internet-based video business that we face in both the PRC and overseas markets, will bring us substantial uncertainties in the development of our Internet-based video business, which may adversely affect our financial condition and results of operations.

Our gross margin may decrease as a result of a decline in the selling prices of our products or a change of our product mix, which may adversely affect our business, results of operations and financial condition

Our gross margin was 48.4%, 46.5% and 43.5% in the years ended 31 December 2012, 2013 and 2014, and 46.4% and 42.1% for the six months ended 30 June 2014 and 2015, respectively. Our gross margin may decrease primarily as a result of a decline in the selling prices of our products or a change of our product mix. The reasons that may lead to the decline in the selling prices of our products include, among others, our competitive pricing of products, any failure of our products to achieve continued market acceptance, customer adoption of alternatives to our products, supply of competitive products in the market, new technological standards or changes to existing standards that we are unable to address with our products, manufacturing or supply issues that hinder us from meeting our customers' demand, failure to release new products or enhanced versions of our existing products on a timely basis, and the failure of our new products to achieve market acceptance. The reasons that may lead to the change of our product mix include, among others, shifts in technology developments, market conditions, customer demand, and changes in our customer base and our marketing strategies. If we are unable to maintain or increase our gross margin by partially offsetting the declines in selling prices of our existing products with commensurate reductions in cost of sales, or introducing new products with higher selling prices and/or lower cost of sales, or increase the percentage of products with higher margin among our product offerings, our business, results of operations and financial condition could be adversely affected.

The uncertainties and changes in our major end users' industries and changes in government policies in respect of the video surveillance industry may negatively affect our business, financial condition and results of operations

Our video surveillance products are widely used in industries including public security, properties, transportation, finance, culture, education and healthcare, energy, and judiciary system. Any changes in the prospects of those industries resulting from fluctuations of the macro economy or adjustments in relevant policies or budgets or unexpected events will lead to fluctuations in the demand for our products. Governments may also change their policies and the regulation of the video surveillance industry from time to time due to changes in macroeconomic trends or unexpected events. If we are unable to develop or introduce compelling video surveillance products and solutions in response to changing industry conditions, evolving expectations of customers in those industries or changing government policies, our business, financial condition and results of operations may be materially and adversely affected.

System integrators/installers are our important customers. If we are unable to maintain a good relationship with them, our business, financial condition and results of operations may be materially and adversely affected

We sell our products to system integrator/installer customers. In addition, we provide industry-specific video surveillance solutions to end users in various industries directly or indirectly through system integrators and/or installers. For details on our business with system integrators/installers, please see the section headed "*Description of the Issuer — Our System Integrator/Installer Customers.*" Cooperation with system integrators/installers not only provides us with the source of our revenue, but also provides us with the channel of understanding the end users' needs and promoting our solutions. Although we enter into supply agreements with system integrators/installers, those agreements are generally individual agreements for specific projects, rather than, to some extent, a guarantee for the future cooperation with system integrators/installers. Moreover, disputes could arise from the performance of the supply agreements, which may damage our relationships with system integrators/installers. As a result, we cannot assure you that we are able to continuously maintain a good relationship with our system integrator/installer customers, which in turn, may materially and adversely affect our business, financial condition and results of operations.

We are partially reliant on our distributors for the sales of our products and we have limited control over the manner of sales of our distributors

We engage distributors in the PRC and overseas markets for the sales and marketing of our products. For details on our distributorship, please see the section headed "*Description of the Issuer — Our System Integrator/Installer Customers*." We usually enter into annual distribution agreements with all of our distributors, but our sales to distributors are made on the basis of individual purchase orders. In the event that our distributors fail to perform their obligations under the contracts satisfactorily, including failure of reaching sales targets and misconducts in the marketing and promotion of our products, or we are unable to maintain cooperative relationship with some of our distributors, our reputation, business, financial condition and results of operations will be adversely affected. In addition, even though we have direct contractual relationship with our distributors and we enter into agreement with both of our distributor and the sub-distributors engaged by the distributor per our permission, we have limited control over their resale of our products to sub-distributors or end users. Furthermore, as some of our distributors do not sell our products on an exclusive basis, our products also compete with similar products from our competitors sold by our distributors. Such limited control and competition may adversely affect the sales of our products, which may in turn materially and adversely affect our results of operations.

We are subject to credit risk related to defaults of customers, and any significant default on our receivables could materially and adversely affect our liquidity, financial condition and results of operations

We extend credit to a number of our customers based on ongoing credit evaluations of those customers. As of 30 June 2015, our trade receivables amounted to RMB6.4 billion. Delays in settling receivables by our customers may affect our cash flows and increase our working capital needs. If a customer defaults on making its payments under a contract to which we have devoted significant resources, it could also affect our liquidity and limit the capital resources available to us for other purposes. Moreover, some of our products are sold to system integrators and installers in connection with the constructions of complex video surveillance projects for medium to large commercial, industrial and government facilities. Given the nature of such projects, payment to us by those system integrators and installers may be lengthy and subject to a number of risks over which we have little or no control, for example, payment to us may only be made until those system integrators and installers receive payments from the end users of those projects.

We may file a claim for compensation of the loss that we incurred under the contract, but settlement of disputes generally takes significant time, financial and other resources, and the outcome may not be favorable to us. Our customers may fail to settle receivables in a timely manner or at all and we may not be able to efficiently manage the level of bad debts arising from such payment defaults. If this occurs, our liquidity, financial condition and results of operations may be materially and adversely affected.

Potential technical bugs or vulnerabilities in our system and products and security breaches and attacks targeting our systems and products could materially and adversely affect our reputation, business, financial condition and results of operations

Although we have dedicated resources to enhance the secure performance of our system and products and develop security measures against breaches and attacks, potential product or firmware bugs or vulnerabilities, especially those related to technologies used in our products, customers' failure to properly follow our product installation procedures or upgrade the product or system passwords in a timely manner, third-party deliberate attempts to damage the firmware embedded in our products and compromise our systems or products, including distributed denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering or other attacks and similar disruptions, may jeopardize the security of information stored in and transmitted by our systems or products or impact the proper functioning of our products and systems. It could further result in unauthorized access to and control of our systems or products, misappropriation of information or data, deletion or modification of user information, intrusion of user privacy or other interruption to our business operations.

As techniques used to obtain unauthorized access to or sabotage the systems and the product firmware evolve rapidly and frequently and may not be known until an attack is launched against our product, we may be unable to anticipate, or implement adequate measures to protect against such attacks and the consequent failures. If we are unable to improve our products by resolving potential technical bugs or vulnerabilities and avert these attacks and security breaches and failures, or fail to warn the users of our products of such potential security risks, in the future, we could be subject to legal and financial liability, our reputation could be harmed and we could sustain substantial revenue loss from lost sales due to customer dissatisfaction. Moreover, we may not have sufficient resources or technical sophistication to anticipate or prevent rapidly evolving types of attacks. Actual or anticipated attacks and risks may cause us to incur significant costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants, which may adversely affect our financial condition and results of operations.

We may face intellectual property infringement claims that could be time-consuming and costly to defend and, if successful, result in our loss of significant rights and ability to continue providing our existing and new products

Our business depends in large part on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. Many participants in the video surveillance industry have a significant number of patents and have frequently demonstrated a readiness to commence litigation based on allegations of patent and other intellectual property infringements. From time to time, third parties, including those patent holding companies who do not have concrete business operations in this industry and whose main business are to engage in litigations with companies like us, had in the past and may in the future, assert infringement claims against us. For the intellectual property infringement claims that we have been involved in, please refer to "*Description of the Issuer — Legal Proceedings*" in this Offering Memorandum for details.

Intellectual property litigation is expensive and time-consuming, and could divert management's attention from our business. If there is a successful claim of infringement against us, we may be required to pay substantial compensation, develop non-infringing technologies or enter into royalty or license agreements that may not be available on acceptable terms, if at all. Our failure to develop non-infringing technologies or license the proprietary rights on a timely basis with acceptable terms would harm our business. Protracted litigation could also result in our customers or potential customers deferring or limiting their purchases from us or use of our products until resolution of such litigation. Also, we may be unaware of filed patent applications that relate to our products. Parties making infringement claims may be able to obtain an injunction, which could prevent us from selling our products or using technology that contains the allegedly infringing intellectual property. Such intellectual property litigation or proceedings could have a material adverse effect on our business, results of operations or financial condition.

We may be unable to adequately protect our intellectual property rights, which could have a material adverse impact on our competitive advantage and business

Our patents, software copyrights, non-registered trade secrets and know-how and other intellectual property rights are important to our business. We seek to protect our intellectual property rights primarily through intellectual property laws, relying upon a combination of patents, copyrights, trademarks and similar protections, as well as through confidentiality policies, non-disclosure and other contractual arrangements. However, the measures we take to protect our intellectual property rights may not be adequate and we may not be able to detect any unauthorized use of, or take appropriate, adequate and timely actions to enforce, our intellectual property rights. Although we have taken detection and enforcement measures, including engaging professionals to investigate the potential infringement incidents, it would still be possible for third parties to infringe our intellectual property rights by counterfeiting our trademark, copying or pirating our products or solutions. We brought two lawsuits against a Turkish company in December 2012 and August 2014, respectively, with respect to two registered trademarks, please see "*Description of the Issuer — Legal Proceedings*" in this Offering Memorandum for more details. Furthermore, the protection of intellectual property rights in the PRC faces certain challenges, and it is difficult to monitor and prevent unauthorized use is difficult. The protection of our intellectual properties may also be compromised as a result of expiration of the protection period of our registered intellectual property rights, or refusal by relevant regulatory authorities to approve our pending patent applications. If we are unable to adequately protect our intellectual property rights, it may have an adverse impact on our competitive advantage and our business may be materially and adversely affected.

We are exposed to the risks of doing business internationally. If we fail to meet the challenges presented by our increasingly globalized operations, our business, financial condition and results of operations may be materially and adversely affected

We currently have 20 overseas subsidiaries and have sold our products to customers in over 150 countries and regions, and we intend to further expand our presence globally. Revenue from outside the PRC accounted for 16.3%, 22.8%, 24.8% of our total revenue for the years ended 31 December 2012, 2013 and 2014 , respectively, and 27.2% and 26.4% of our total revenue for the six months ended 30 June 2014 and 2015, respectively. We expect this portion to continue to increase in the future. Our international operations are subject to significant risks, including, among others:

- restrictions and/or changes in taxation on repatriation of earnings;
- economic, social or political instability in certain countries, regions and markets;
- changes in foreign laws and regulatory requirements, such as those on qualifications and permits for video surveillance products, foreign ownership of assets or business models;
- uncertainty or potential ineffectiveness or lack of enforcement in relation to our customer agreements or other contractual rights;
- currency exchange rate fluctuations, including increases or decreases in raw material and selling products prices related to such fluctuations;
- labor market conditions and workers' rights;
- difficulties in recruiting and the management of overseas employees after localization, including managing an increasing number of overseas employees and following various labor laws in different jurisdictions;
- cultural differences in the conduct of business;
- the possibility of being exposed to legal proceedings in a foreign jurisdiction given the numerous, and sometimes conflicting, legal regimes on matters as diverse as anti-corruption, import/export controls, trade restrictions, tariffs, taxation, sanctions, immigration, internal and disclosure control obligations, intellectual property rights, securities regulation, anti-competition, employment and labor relations; and
- natural disasters, acts of terrorism, widespread illness and war.

If we fail to meet those challenges presented by our increasingly globalized operations, our business, financial condition and results of operations may be materially and adversely affected.

If we fail to maintain an effective quality control system, our product quality, and thus our business, may be materially and adversely affected

The performance and quality of our products are critical to our customers, our reputation and, ultimately, our business success. Accordingly, we have established and maintained stringent quality assurance standards and inspection procedures, including quality controls for raw materials purchased from suppliers and products manufactured by third-party manufacturers. The effectiveness of our quality control system is affected by various factors, including, among others:

- the design and implementation of our quality control system;
- the implementation of our quality standards;
- the quality of our training programs;
- monitoring of our employees' compliance with our quality control policies and guidelines; and
- our ability to monitor and influence the quality control systems of our suppliers and outsourced manufacturers.

Failure to maintain an effective quality control system may result in defective products, which may lead to our failure of timely manufacturing of products based on our customers' orders, increase of production cost or expose us to product liability and warranty claims and undermine our reputation and relationships with our customers, thereby materially and adversely affecting our business.

If our customers or end users are not satisfied with our customer services, including technical support and software updates, they may choose not to purchase our products and we may face brand and reputational harm, either of which would adversely impact our business and results of operations

Our business relies, in part, on our customers' satisfaction with our customer services including the technical support and software updates that we provide to support our products. If we fail to provide technical support services that are responsive, satisfy our customers' expectations and resolve issues that they encounter using our products, our customers may choose not to purchase additional products from us and we may face brand and reputational harm, which could adversely affect our business and results of operations.

Our failure to maintain and promote the value and reputation of our brand may adversely affect our business

We believe the value and reputation of our brand, including our primary trademark "HIKVISION," is integral to our business and our growth and expansion into new markets. Maintaining, promoting and positioning our brand will largely depend on the success of our ability to provide consistent and high quality products and services to our customers. If we fail to achieve these objectives or if our public image or reputation were to be tarnished by negative publicity, such as hostile media reports about us or potential reputation attacks by our competitors, our brand, business and results of operations could be adversely affected. In addition, if we fail to maintain and promote our brand or if we incur excessive expenses in our effort, our business and results of operations could be adversely affected.

We rely on third-party suppliers to provide raw materials for our products

We procure various raw materials, primarily including electronic components, from selected third-party suppliers for manufacturing our video surveillance products. In 2012, 2013, 2014 and the six months ended 30 June 2015, our top five customers accounted in the aggregate for 3.1%, 3.8%, 3.6% and 3.7% of our total revenue, respectively. If we experience a significant disruption in the supply of raw materials from our existing suppliers or we fail to obtain sufficient amounts of raw materials from alternative sources with satisfactory quality at commercially acceptable prices and in a timely manner, or at all, our manufacturing operations could be interrupted and our business could be materially and adversely affected.

In addition, if we experience a significant increase in demand for our products, our suppliers might not have the capacity to produce the amount of raw material we need or may elect not to meet our needs as they allocate raw materials to their other customers. Identifying a suitable supplier is an involved process that requires us to become satisfied with the supplier's quality control, responsiveness and quality of service, financial stability and labor and other corporate responsibility practices, and if we seek to source raw materials from new suppliers, there can be no assurance that we could do so in a manner that does not disrupt the manufacture and sale of our products, which would limit our ability to expand production capacity and hence adversely affect our business.

Failure to maintain and predict inventory levels in line with the level of demand for our products could cause us to lose sales or face excess inventory risks and holding costs, either of which could have a material adverse effect on our business, financial condition and results of operations

To operate our business successfully and meet our customers' demands and expectations, we must maintain a certain level of inventory for all of our existing and future products to ensure immediate delivery when required. Furthermore, we are required to maintain an appropriate level of inventory of our raw materials for our commercial production. However, we maintain our inventory levels based on our internal forecasts which are inherently uncertain. Generally, we place orders to component and raw materials suppliers based in part on our estimates of future orders from customers. However, such estimates of the demand for our products could be affected by other factors, including product introductions by competitors, unanticipated changes in general market demand, macroeconomic conditions or consumer confidence. As a result, such estimates may deviate substantially from actual orders. If our forecast demand is lower than actual demand, we may not be able to maintain an adequate inventory level of our products or produce our products in a timely manner, and may lose sales and market share to our competitors. On the other hand, we may also be exposed to increased inventory risks due to accumulated excess inventory of our products or raw materials. Excess inventory levels may increase our inventory holding costs, risk of inventory obsolescence or write-offs. Despite our efforts to adjust production schedules based on anticipated customer demand, there can be no assurance that we will maintain appropriate inventory levels. Inability to maintain appropriate inventory levels due to incorrect estimates of future orders or time delays with respect to product delivery may have a material adverse effect on our business, financial condition and results of operations. Additionally, the obsolescence of a significant amount of inventory due to changes in customer preferences or technological improvements could have a material adverse effect on our business, financial condition and results of operations.

Significant increases in raw materials costs may materially and adversely affect our financial condition and results of operations

We incur significant costs in procuring raw materials for the manufacturing of video surveillance products. During the years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015, the price of raw materials we use stayed relatively stable. The prices of raw materials, however, may be affected by factors beyond our control and may even increase significantly during certain times such as natural disasters. We generally price our products to match the competition in the market. In addition, a significant portion of our business is conducted pursuant to sales contracts awarded on a competitive bidding basis, and the unit sales prices of our products are usually determined at the time of contracts and such contracts generally do not contain provisions for price adjustments. As a result, we may not be able to pass on significant increases in our raw materials costs to our customers over the term of the contracts, and the profit margins realized on such sales contracts may vary from our original estimates. In the event that the prices of raw materials increase significantly, to the extent we cannot pass on such increases to our customers, our financial condition and results of operations may be materially and adversely affected.

Engaging third-party manufacturers may reduce our control over product quality and cost and delivery schedules, which could adversely affect our business and results of operations

We outsource a portion of the PCBA manufacturing and the manufacturing of certain base-line products to independent third-parties. For the years ended 31 December 2012, 2013 and 2014, the expenses related to our outsourced manufacturing were RMB124.2 million, RMB212.6 million and RMB480.9 million, respectively, representing 3.4%, 3.7%, 5.0% of our total cost of sales and services for the respective periods. And for the six months ended 30 June 2014 and 2015, the expenses related to our outsourced manufacturing were RMB168.4 million and RMB316.9 million respectively, representing 5.28% and 5.63% of our total cost of sales and services for the respective periods. We place great emphasis on the quality control of our outsourced manufacturing processes and provide technology guidance to our third-party manufacturers. However, we cannot assure you that our third-party manufacturers will strictly perform their obligations according to the outsourcing agreements. In addition, we may also fail to engage qualified third-party manufacturers at commercially acceptable prices, or defects may also exist in our quality control process, either of which may negatively affect our delivery of qualified products to our customers in a timely manner, which could in turn materially and adversely affect our business and results of operations.

Failure to fulfill customer orders due to delays in our production or delivery process may have a material adverse effect on our business, financial condition, results of operations and prospects

The production and delivery of our products involve purchases of components, manufacturing of products and transportation of finished products. Any unexpected delay in the process may affect our ability to deliver products and fulfill our customer orders in a timely manner. Such unexpected delays may result from a variety of causes, for example, our suppliers' failure to deliver raw materials to us in a timely manner or the raw materials delivered to us failing to meet our quality standards, our machinery and equipment experiencing problems in achieving acceptable output and efficiency levels, or our third-party delivery service providers' failure to transport our products to designated destinations in a timely manner. While we have not experienced any material failures in fulfilling customer orders in the past, we cannot assure you that such failures will not occur in the future. Any failure to fulfill customer orders due to delays in our production or delivery process may affect our sales, subject us to contractual penalties, and undermine our reputation and market position, and thus adversely affect our business, financial condition, results of operations and prospects.

We are exposed to foreign currency fluctuations when we are doing business globally, which may adversely affect our business, results of operations and financial condition

We import raw materials from overseas and sell products to overseas customers. We settle the transactions with overseas suppliers and customers in USD, Euro, RMB or other foreign currencies. Price increases caused by currency exchange rate fluctuations may make our products less competitive or have a material adverse effect on our margins. Currency exchange rate fluctuations may also disrupt the business of our suppliers by making their purchases of raw materials more expensive and more difficult to finance. See "*Description of the Issuer — Hedging*" for more details.

We are exposed to certain risks in respect of the development and construction of Tonglu Production Base and Internet Industrial Base

As of the date of this Offering Memorandum, we are constructing a production base in the Hangzhou Tonglu Economic Development Zone (the "**Tonglu Production Base**") to meet the increasing market demand for our products. The construction of the first phase of Tonglu Production Base is expected to be completed in May 2016, and as of the date of this Offering Memorandum, the construction plan of the second phase has not been determined yet. We are also constructing a production base, which is expected to be mainly used for R&D activities and the development of our Internet-based video business (the "**Internet Industrial Base**"). The construction of the Internet Industrial Base is expected to be completed in 2018. There is no assurance that we will be able to complete the construction and development of Tonglu Production Base and Internet Industrial Base within budget or in a timely manner, or at all. As a result, we may not expand as rapidly as we expect, and our competitiveness may be adversely affected.

The development and construction of Tonglu Production Base and Internet Industrial Base require substantial capital expenditure. There is no assurance that we will be able to obtain sufficient funding. Furthermore, the development and construction of Tonglu Production Base and Internet Industrial Base also faces other risks commonly associated with construction projects, such as shortage or delay in the supply of labor, materials and equipment, cost overruns, natural disasters, accidents or other unforeseen circumstances. In addition, the development and construction of Tonglu Production Base and Internet Industrial Base are also subject to various regulatory approvals from local and provincial governments, including local counterparts of the Ministry of Environmental Protection of the PRC, the Ministry of Land and Resources of the PRC and the National Development and Reform Commission of the Government of the PRC. There is no assurance that pertinent regulatory authorities would grant such approvals or that there will not be a delay in securing such approvals.

Although we conducted a detailed business analysis with respect to our expansion plan for the development and construction of Tonglu Production Base and Internet Industrial Base, the macroeconomic conditions and development of the industries that we operate in are beyond our control and cannot be predicted with certainty. As a result, we cannot assure you that demand for our products, solutions or services will continue to grow at the historical rates or grow at our expected rates to justify our investment for Tonglu Production Base and Internet Industrial Base. If future demand for our products, solutions and services does not match our growth in capacity, our business, financial condition and results of operations will be materially and adversely affected.

We may face potential product liability claims and warranty claims or suffer losses due to product defects

We may be subject to claims associated with product liability or breach of contract if any of our products are alleged or found to be defective. If our products are proven to be defective, which results in losses to our customers, we may be subject to product liability claims under the laws of the PRC or other jurisdictions in which our products are sold. Despite our insurance coverage for product liability, we may still have to incur significant legal costs and divert our administrative resources regardless of the outcome of the claims, and any such claims could damage our customer relationships and business and result in negative publicity. Moreover, we provide customers with product warranties, typically for one to two years. We believe our warranty period is consistent with industry practice. We make provisions for each type of product. However, if we are required to settle warranty claims after we have delivered our products and recognized revenue and the amount of our warranty provision is not sufficient, our financial results would be adversely affected.

As of the date of this Offering Memorandum, we have not received any customer claims for any accident, breach of warranty or defects related to our products which have material adverse effects on our business, financial condition and operation results. However, we may suffer from material losses as a result of claims for accident, breach of warranty or pay compensation and penalties defects related to our products in the future and we may have to incur significant costs to defend such claims or pay compensation and penalties.

Our business practices with respect to data could give rise to liabilities, restrictions on our business or harm to our reputation as a result of evolving governmental regulation or legal requirements relating to consumer privacy and data protection

Our hardware and software products for video surveillance and Internet-based video business collect, transmit, store customer information. Given the purpose of utilizing our hardware and software products, sensitive information or privacy data may be transmitted wirelessly or electronically through cables via the Internet and stored in our storage devices or through Internet service. We have adopted necessary measures to prevent customer-related information from being divulged to the public. However, we cannot assure you that our efforts will be effective in preventing such kind of sensitive information from being disclosed to the public or accessed by third parties maliciously. Any actual or perceived failure by us to comply with laws and regulations regulating to privacy, consumer data, security or consumer protection, or disclosure or unauthorized access by third parties to such information, could lead to proceedings or actions against us by governmental entities, private parties or others. Any proceedings or actions against us alleging violations of consumer protection laws or asserting privacy-related claims could hurt our reputation, force us to spend significant amounts of money in defense of these proceedings, distract our management, increase our costs of doing business, adversely affect the demand for our products and solutions or ultimately result in the imposition on us of monetary liability. If such incidents occur, our business operations, financial results, and our reputation may be materially and adversely affected.

Failure of any critical information technology system upon which we rely may result in serious harm to our reputation, business, financial condition and results of operations

We are dependent on our technology infrastructure and rely upon certain critical information systems for the effective operation of our business, including our corporate intranet, various computer hardware and software applications, cloud servers and cloud storages, network communications and e-mail systems. These information technology systems are subject to damage or interruption from a number of potential sources, including natural disasters, viruses, destructive computing code, malware, power failures, cyber-attacks and other events. To the extent that these information systems are under our control, we have implemented security procedures, such as virus protection software and emergency recovery processes. We may incur significant costs in order to implement, maintain and/or upgrade security systems that we believe are necessary to protect our information systems. A material breach in the security of our information systems could include the theft of our intellectual property or trade secrets, negatively impact our operations, or result in the compromise of personal and confidential information of our employees, customers or suppliers. Our reputation, business, financial condition and results of operations could be materially and adversely affected by any such failure, accident or security breach.

Failure to manage our liquidity and cash flows or inability to obtain additional financing in the future may materially and adversely affect our business, results of operations and financial condition

As of 30 June 2015, our outstanding borrowings from financial institutions totaled RMB1.55 billion. From time to time, we are required to repay our short-term and long-term borrowings when they become due. We may not be able to generate sufficient cash flows from our operations or obtain additional financing to service these obligations. Furthermore, additional financing needed to fund our construction, maintenance and operation of new facilities, machinery and equipment purchases, R&D activities and the overall expansion of our business may not be available on commercially reasonable terms, or at all. To the extent that we engage in debt financing, we may become subject to restrictive covenants that could limit our flexibility in conducting future business activities.

Our ability to retain our existing financial resources and obtain additional financing on acceptable terms is subject to a variety of uncertainties, including but not limited to:

- economic, political and other conditions in the PRC and internationally;
- investors' perception of, and demand for, securities of video surveillance product, solution and service suppliers;
- PRC governmental policies relating to bank loans and other credit facilities;
- conditions of the E.U. and other capital markets in which we may seek to raise funds; and
- our future results of operations, financial condition and cash flows.

If additional financing is not available on acceptable terms or at all when we need it, our business, results of operations and financial condition may be materially and adversely affected.

A small amount of our revenue is derived from countries that are targets of sanctions imposed by the United States, the European Union and other government authorities

The U.S. government, through the U.S. Department of the Treasury's Office of Foreign Assets Control and the U.S. Department of State, administers and enforces economic and trade sanctions against a number of foreign countries and territories (including but without limitation Crimea, Cuba, Iran, North Korea, Sudan and Syria (the "**Sanctioned Countries**")), entities and individuals based on U.S. foreign policy and national security goals. The E.U. and its member states, as well as other countries, also administer and enforce sanctions. In addition, the U.S. Department of Commerce administers and enforces U.S. export controls that prohibit entities and individuals globally from exporting, reexporting or transferring export-controlled U.S. origin goods to Sanctioned Countries and/or persons without a license or authorization.

As a non-U.S. and non-E.U. corporation, we are generally not required to comply with U.S. or E.U. sanctions that generally prohibit U.S. or E.U persons (and, in some cases, subsidiaries of U.S. or E.U. companies) from conducting business activities in Sanctioned Countries or with certain individuals and entities that are targets of U.S./E.U. sanctions programs. However, if certain of our business activities in Sanctioned Countries or with sanctioned entities or individuals come within U.S. or E.U. jurisdiction or involve U.S. or E.U. persons, including U.S. financial institutions, or export-controlled US origin goods, we would be required to comply with these sanctions in connection with such business activities and could face civil and criminal penalties if we are found to have violated any of the sanctions programs or export control laws or regulations. We could also suffer reputational damage as a result of such activities.

In addition, certain U.S. sanctions laws operate on an entirely extraterritorial basis by authorizing the imposition of sanctions on non-U.S. companies that engage in certain forms of targeted activity. In particular, these sanctions, sometimes called "secondary sanctions", seek to deter non-U.S. companies such as the Group and non-U.S. financial institutions from specified activities within certain economic sectors of Sanctioned Countries such as Iran and Syria, for example, dealings with these Sanctioned Countries involving certain types of materials, dealings with certain designated entities and transactions that might facilitate nuclear proliferation, human rights abuses or certain weapons acquisitions by these Sanctioned Countries. It is possible that the U.S. government could determine that we engage or have engaged in sanctionable activities targeted by such U.S. sanctions. If the U.S. administration were to determine that we engaged in sanctionable activities, the U.S. government could impose certain sanctions on us, which could range from restrictions on our access to U.S. exports or bank financing to blocking of our property within U.S. jurisdiction means. If the most extreme sanction, blocking, were applied to our property, including our controlled subsidiaries, we could be prohibited from engaging in business activities in the U.S. or with U.S. individuals or entities, and U.S. transactions in our securities and distributions to U.S. individuals and entities with respect to our securities could also be prohibited.

We have entered into contracts with local distributors and integrators to export a small amount of our products to Iran, Syria and Sudan. We currently do not derive, or expect to derive, a total of more than one (1) per cent. of our revenues and profits from business of or with any government, individual or entity that is the subject of Sanctions or in Sanctioned Countries. Since our businesses are conducted through local distributors and integrators, we are not able to identify the end-users in the Sanctioned Countries or know whether they are targets sanctioned by the U.S. or other jurisdictions. If it were determined that any transaction in which the Group participated has violated U.S. or other sanctions, or U.S. export controls the Group could be subject to sanctions or other penalties and its reputation and future business prospects in the U.S. or with U.S. persons or in other jurisdictions, could be adversely affected. Any such exposure to sanctions enforcement or designation risk could materially and adversely affect the investor's investment in the Notes. None of the proceeds from this offering will be used to fund transactions or activities which would, if undertaken by a U.S. person as defined in the U.S. economic sanctions programs or by a person required to comply with E.U. economic sanctions, be prohibited by U.S. or E.U. economic sanctions.

In addition, certain U.S. state and local governments and colleges have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain countries that are the subject of U.S. sanctions, such as Iran, Sudan and Syria. We may in future do business with countries, individuals or entities that are targets of sanctions imposed by the U.S., the E.U. or other government authorities. Additionally, we are unable to predict the interpretation or implementation of U.S., E.U. or other sanctions with respect to any past, current or future activities by us in countries or with individuals or entities that are the subject of U.S. or E.U. sanctions. Our business activities in Sanctioned Countries or involving other sanctions targets could limit our ability to pursue business opportunities in the U.S. or the E.U. or obtain financing from the U.S. or the E.U., which may in turn materially and adversely affect our business, financial condition or results of operations. In addition, because sanctions programs are constantly evolving, new requirements or restrictions could come into effect, or U.S. or E.U. regulatory authorities may interpret current sanctions in such a manner, that might increase scrutiny on our business or result in one or more of our business activities being deemed to have violated sanctions or being sanctionable. Over the past few years, the U.S. and the E.U. have significantly increased the scope of their Iran sanctions, although certain of the E.U. sanctions and above-referenced U.S. secondary sanctions are expected to be eased once the Joint Comprehensive Plan of Action among the permanent members of the UN Security Council plus Germany (the "**P5+1**"), the High Representative of the European Union for Foreign Affairs and Security Policy, and Iran is implemented, which is expected to occur in early 2016.

In addition, as a result of various sanctions programs, we may have to engage in additional due diligence of prospective customers, suppliers and other third parties, which may delay or prohibit us from entering into agreements with these third parties. Any negative perception by our international customers or suppliers of our direct and indirect relationships with sanctioned parties may make it more difficult to do business with these customers or suppliers and may negatively impact our revenue and profitability.

Our business, financial condition and results of operations may be materially adversely affected by the U.S. and the E.U. sanctions against Russian and Ukrainian persons and entities

The United States first imposed sanctions in response to the situation in Ukraine in March 2014, followed by other countries or groups of countries (i.e. the European Union). These sanctions target specified Russian and Ukrainian persons and entities (and entities that are at least 50% owned, directly or indirectly, by them) and prohibit certain activities in or related to the Crimea region. Additional sanctions relate to the provision of goods and services in the Russian petroleum and defense industries, and dealings in the debt and equity of and the extension of credit to certain Russian entities. The U.S. and the E.U. have also imposed extensive restrictions on trade with and investment in Crimea. The sanctions against Russian and Ukrainian persons and entities do not apply to us other than our U.S. or E.U. subsidiaries, and do not target our customers in Russia. We cannot assure you that if the scope of the sanctions were expanded, our business, financial condition and results of operations would not be materially adversely affected. In addition, there can be no assurances that a U.S. or E.U. sanctions enforcement agency would not take a different view in the future, and the relevant agencies retain substantial discretion in the enforcement of sanctions.

Our business could be harmed if we were to lose the services of one or more members of our senior management team, or if we are unable to attract and retain qualified personnel

We have an exceptional and seasoned management team that we can rely on for managing the Issuer, developing and executing our business strategies, and managing our relationships with key suppliers and customers. The loss of the services of one or more of our executive officers or key employees, or the decision of one or more of these individuals to join a competitor, or run the business that competes with us, could materially and adversely affect our business and harm our results of operations and financial condition. In addition, our operation and growth also rely on our technological talents. We have cultivated and recruited a number of top talents in the video surveillance industry who play a vital role in our R&D activities. To retain these key personnel, we have adopted various measures, including systematic training, industry competitive remuneration and benefits and long-term incentive mechanisms such as share incentive schemes. In addition, we also enter into non-compete agreement with our key employees. However, competition for qualified personnel is intense in our industry. Despite the above measures we have adopted, we cannot assure you that we can retain our key employees. If we are unable to attract and retain highly skilled personnel, we may not be able to achieve our strategic objectives, and our business, financial condition and results of operations could be materially and adversely affected.

We may not be able to effectively ensure that our employees, distributors or system integrator/installer customers will comply with anti-corruption measures, which may adversely affect our reputation, business, financial condition and results of operations

We are subject to anti-corruption laws and regulations in the PRC and abroad. We have established an anti-corruption internal control system and our employee handbook stipulates our anti-corruption policies and guidance. We provide anti-corruption compliance trainings to our employees to cultivate a compliance culture within the Issuer. However, we cannot assure you that our employees or our distributor or system integrator/installer customers will not engage in corruption for purposes of obtaining purchase orders or successful biddings for projects. Moreover, we may not be able to detect or prevent corruption or other misconduct of our employees or distributors or system integrator/installer customers on a timely basis. If our employees or distributors or system integrator customers engage in such practices, our reputation could be adversely affected, we could become the target of negative publicity and we may suffer from the consequences of such anti-corruption laws and regulations, which may have a material adverse effect on our business, financial condition and results of operations.

Any acquisitions or strategic investments we may undertake may not be successful or may not achieve the anticipated economic results or commercial targets and may negatively impact our results of operations and financial condition

We may in the future acquire other business or companies whose assets, capabilities and strategies we believe are complementary to and are likely to enhance or expand our business operations. Acquisitions involve numerous risks, including potential financing pressures, difficulties in retaining and assimilating personnel and integrating the operations and corporate culture of the acquired business, diversion of management's attention and other resources, and lack of experience and knowledge in the industry and market in which the acquired business operates.

In addition, as part of our business strategies, we may in the future undertake strategic investments in new business or companies, which involve large amounts of capital expenditure and take years to complete. Strategic investments may be adversely affected by a number of risks or uncertainties, including those relating to market condition, policies and regulations of the PRC and other relevant jurisdictions, availability of sufficient funding, disputes with business partners, technology and equipment suppliers and other contractors, natural disasters, availability of technology or human resources, and war or other significant adverse developments in international relations.

We may not be able to identify suitable targets for acquisition or strategic investment. Extensive pre-feasibility studies on potential acquisition or strategic investment may require significant investment in resources and management efforts including capital outlays and may not ultimately be implemented or generate any profits. Even if we do identify suitable targets for acquisition or strategic investment, we may not be able to complete those transactions on terms commercially acceptable to us or at all, or we may fail to obtain the required governmental and other approvals for such acquisitions or strategic investments. The inability to identify suitable targets for acquisition or strategic investment or the inability to complete such transactions may adversely affect our competitiveness and/or our growth prospects. Moreover, actual costs for our acquisition or strategic investment may exceed our original budgets due to reasons such as delays in schedule, increases in funding costs and changes in the original acquisition or investment plan. Acquisitions or strategic investments may result in the incurrence and inheritance of debts and other liabilities, assumption of potential legal liabilities in respect of the acquired business or investments and incurrence of impairment charges relating to goodwill and other intangible assets, any of which could harm our financial condition and results of operations. As a result, there can be no assurance that we will be able to achieve the objective of any acquisition or strategic investment, the desired level of operational integration or our investment return target.

Any loss of or significant reduction in the preferential tax treatment we currently enjoy in China may negatively affect our financial condition

We have benefited from preferential tax treatment in the PRC. During 2012, 2013 and 2014, we were recognized as a key software enterprise within the National Programming Layout (國家規劃佈局內重點軟件企業) by relevant PRC government authorities, which entitled us to a reduced income tax rate of 10% (compared to the standard income tax rate of 25%). In 2012, 2013 and 2014, we and three of our subsidiaries were recognized as high and new technology enterprises by relevant PRC government authorities, and therefore our three subsidiaries were entitled to a reduced income tax rate of 15%. In 2012, 2013 and 2014, we and one of our subsidiaries were recognized as software enterprises by relevant PRC government authorities, which entitled our subsidiary to an exemption from paying income taxes for the first two years since the year in which it has taxable income, and subsequently to a reduced income tax rate of 12.5% for the next three years. During 2012, 2013 and 2014, two of our subsidiaries were approved by relevant PRC government authorities to enjoy preferential tax treatment for western development from 2011 to 2020, which entitles these two subsidiaries to a reduced income tax rate of 15%. In addition to the above preferential tax policies on income tax, we and several of our subsidiaries also enjoyed certain preferential treatment on value-added tax during 2012, 2013 and 2014.

The qualification as a key software enterprise within the National Programming Layout is subject to review by the relevant authorities in China every two years. The qualification as high and new technology enterprises is subject to evaluation and a three-year review by the relevant authorities in China. In order to maintain such qualifications and the preferential tax rates, we must submit a review application to the relevant authorities and agencies and apply for the preferential tax treatment in accordance with applicable laws and regulations. Our qualification as a software enterprise and a key software enterprise within the National Programming Layout has expired as of 31 December 2014. As of the date of this Offering Memorandum, we have not applied for renewal since the accreditation of software enterprise and key software enterprise within the National Programing Layout has been cancelled pursuant to the decision by the State Council of the PRC (the "**State Council**") on cancelling certain administrative approval items and the relevant new policies have not been published. We cannot assure you that the relevant new policies will be published in the near future or even if the new policies are published, we will continue to qualify for such status. Currently, qualification as a high and new technology enterprise entitles us to enjoy a preferential income tax rate of 15%. If we fail to maintain or renew the above mentioned qualifications for preferential tax treatment, our applicable income tax rate would increase and our preferential treatment on value-added tax may discontinue, which could have a material adverse effect on our financial condition and results of operations.

Expiration or elimination of, or other adverse changes to, any of these tax incentives, could adversely affect our financial condition and results of operations. In addition, the PRC government from time to time adjusts or changes its policies on value-added tax, business tax and other taxes. Such adjustments or changes, together with any uncertainty resulting therefrom, could have an adverse effect on our business, financial condition and results of operations.

We are required to obtain qualifications or licenses to undertake our business operations and any revocation, cancellation or non-renewal of these qualifications or licenses could have a material and adverse impact on our business

We need qualifications and licenses issued by relevant government authorities to conduct our businesses. We must comply with certain restrictions and conditions imposed by various levels of government authorities to maintain our qualifications and licenses. See "Regulations" in this Offering Memorandum for more information on the laws and regulations regarding qualifications and licenses applicable to us. If we fail to comply with any of the conditions required for obtaining and maintaining the qualifications and licenses required for our businesses, our qualifications and licenses could be cancelled or revoked, or the renewal of our licenses, upon expiry of their original terms, may be delayed, which could directly, materially and adversely impact our business operations.

Our business operations are subject to various environmental, health and safety laws and regulations, and any failure by us to control the costs associated with any increased standards of these laws and regulations could materially and adversely affect our business

Our business operations are subject to various environmental, health and safety laws and regulations in the PRC and international jurisdictions where we operate, which require us to undergo environmental impact assessments and review processes and implement environmental, health and safety programs and procedures to control risks associated with the design, construction and operation of our production facilities. For example, we are required to prepare and submit an environmental impact assessment report to the relevant PRC environmental protection authorities for approval before we can start the construction of our production facilities. When construction is completed, these facilities also need to pass certain inspection processes to ensure the satisfaction of environmental protection requirements prior to their commercial operation. In addition, the PRC Environmental Protection Law and related regulations require us to establish an environmental protection and management system, including adoption of effective measures to prevent and control exhaust gas, sewage, waste residues, dust, noise, light pollution or other waste materials, to discharge waste properly and to pay certain discharge fees. Although our business operation generally does not have a significant hazardous impact to the environment and we have complied with the applicable laws and regulations in all material aspects in the past, the PRC and overseas government authorities may adopt more stringent environmental, health and safety laws and regulations in the future. Any enhanced standards of these laws and regulations may require us to incur substantial additional costs in order to comply with such enhanced environmental, health and safety laws and regulations, including costs relating to maintenance and inspection, development and implementation of emergency procedures, and insurance coverage or other financial assurance of our ability to address pollution, health and/or safety incidents. Any failure by us to control the costs associated with any enhanced standards in these laws and regulations could have a material adverse effect on our business, financial condition, results of operations, profitability and prospects.

We are subject to governmental inquiries and investigations, and future governmental inquiries and investigations may impose additional requirements and other obligations on our business which could materially and adversely affect our business, financial condition and results of operations

We have occasionally been subject to inquiries and investigations by PRC governmental authorities, including those from industry, commerce or tax bureaus. We also face inquiries and investigations from foreign governmental authorities that focus on cross-border trade, intellectual property protection and user privacy matters.

As of the date of this Offering Memorandum, we have not experienced any inquiries or investigations that have resulted in significant restrictions or a material and adverse impact on our business operations. However, as we continue to grow in scale and significance, we expect to face increased scrutiny, which will result in our having to increase our expenditures in compliance and related capabilities and systems. Any increased involvement in inquiries or investigations could result in significantly higher legal and other costs, diversion of management attention and other resources, as well as negative publicity, which could harm our reputation, business and results of operations.

We are dependent on the availability of a stable supply of labor at a reasonable cost

Our production relies on a stable supply of labor. There is no guarantee that our supply of labor will remain stable or that our labor cost will not increase significantly. If we fail to maintain a stable labor force and/or recruit sufficient replacement workers in a timely manner, we may not be able to cope with a sudden increase in demand for our products or properly implement our expansion plans. If a significant portion of our skilled workers terminate their employment relationships with us in a short period of time, we may encounter interruption in our production or services, which may substantially impact our operations. Moreover, if we face significant increases in labor costs as a result of changes to labor laws and regulations or general market condition, our operating costs could increase and our results of operations may be materially and adversely affected.

Injuries or fatalities to persons or substantial damage or loss of property may occur in the course of our production and construction processes

Our production and construction processes involve dangerous activities, including engineering and routine construction works. We are required to comply with the necessary safety requirements and standards. Risks associated with our production and construction activities include work-related injuries, which may result in personal injuries or fatalities, and damage to property and equipment. Accidents related to any of these may result in personal injury claims, cessation of business, or civil and criminal penalties. If we incur substantial losses or liabilities due to the above reasons and our insurance coverage is insufficient or inadequate to cover such losses or liabilities, our financial condition and results of operations may be materially and adversely affected.

We may be involved in legal proceedings and commercial disputes, which could have a material adverse effect on our business, financial condition and results of operations

We may be involved in legal proceedings and commercial disputes from time to time that may be significant. These are typically claims that arise in the ordinary course of business, such as commercial disputes, including disputes during the collection of receivables and other matters with customers and suppliers, intellectual property matters, personal injury claims, tax matters and employment matters, any of which may have a material adverse effect on our business, financial condition and results of operations. With respect to our unresolved litigations, see "*Description of the Issuer — Legal Proceedings*"

We do not insure against all risks to which we may be subject, and the insurance coverage for the risks against which we are insured may be inadequate

We have maintained insurance within certain ranges of coverage which we believe consistent with industry practice. For further information on insurance, see "*Description of the Issuer — Insurance*" in this Offering Memorandum. However, in line with what we believe to be industry practice, we have elected not to insure against certain other risks as a result of high premiums or other reasons or have agreed to policy limits on certain coverage. As a result, we do not have business disruption insurance. There can also be no assurance that we will be able to maintain our current insurance coverage at economically reasonable premiums, or at all, or that any coverage we obtain will be adequate and available to cover the extent of any claims against us. If we suffer a significant liability for which we are not insured or our insurance coverage is inadequate, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our controlling shareholders have substantial control over the Issuer and their interests may not be aligned with the interests of our other shareholders

As of the date of this Offering Memorandum, CETHIK Group Co., Ltd. holds 1,623,855,536 shares of the Issuer representing 39.91% of its total issued shares and is one of the Issuer's controlling shareholders. China Electronics Technology Corporation holds 1,704,200,000 shares of the Issuer through its wholly-owned subsidiaries CETHIK Group Co., Ltd. and 52nd Institute of China Electronics Technology Group Corporation representing 41.88% of the total issued shares and is one of the Issuer's controlling shareholders. Our controlling shareholders will continue to be in a position to exert significant influence over our business and other matters of significance to us. The Issuer has established a standardized corporate governance structure and provided internal control rules, such as Articles of Association, Rules of Procedures of General Shareholders' Meetings, Rules of Procedures of the Board of Directors, Rules of Procedures of the Board of Supervisors, General Manager Working Rules, External Investment Management System, External Guarantee Management Rules, Connected Transaction Management System and Independent Directors Working Rules, to prevent the controlling shareholders or their beneficiaries from improperly intervening in the operation of the Issuer. However, these rules will not eliminate the possibilities that the controlling shareholders or their beneficiaries may improperly control the significant business, finance and personnel of the Issuer by way of exercising the voting rights, which will damage the interests of the Issuer and its other shareholders. Our controlling shareholders have the power to prevent or cause a change in control of the Issuer. Without the consent of our controlling shareholders, we may be prevented from entering into transactions that could be beneficial to us and the holders of the Notes.

Any future occurrence of force majeure events, natural disasters or outbreaks of contagious diseases may have a material adverse effect on our business operations, financial condition and results of operations

Any future occurrence of force majeure events, natural disasters, epidemics, war or terrorist activities, may restrict business activities in the areas affected and materially and adversely affect our business and results of operations. For example, in 2009 and 2013, there were reports of the occurrence of two types of avian influenza in certain regions of the world, including the PRC, where we operate our business. Moreover, any future occurrence of severe natural disasters like earthquakes, floods and droughts may materially and adversely affect the economy and therefore our business. We cannot assure you that any future occurrence of force majeure events, natural disasters or outbreaks of epidemics, or the measures taken by the PRC government or other countries in response to such events, disasters and epidemics, will not seriously disrupt our operations or those of our customers, which may have a material and adverse effect on our business and results of operations.

Quarterly financial information of the Issuer contained in this Offering Memorandum has not been audited or reviewed by the Issuer's auditors and is not comparable with consolidated financial statements prepared in accordance with IFRS

The consolidated quarterly financial information as of the nine months ended 30 September 2014 and 2015 were prepared and presented in accordance with PRC GAAP, which is required by the Shenzhen Stock Exchange. The Issuer's September 2015 Financial Information has been published on Shenzhen Stock Exchange's website in accordance with the listing requirements of the Shenzhen Stock Exchange. None of the consolidated quarterly financial information as of and for the nine months ended 30 September 2015 included in this Offering Memorandum has been audited or reviewed by the Issuer's auditors. Consequently, such financial information should not be relied upon by potential investors to provide the same quality of information associated with information that has been subject to an audit or review by an independent auditor. PRC GAAP differs in certain material respects from IFRS. See "*Difference between PRC GAAP and International Financial Reporting Standards*". The Issuer has not prepared any reconciliation of such financial information between PRC GAAP and IFRS and has not quantified such differences. Therefore, such financial information is not comparable with the consolidated financial statements prepared in accordance with IFRS set forth in this Offering Memorandum. Potential investors must exercise caution when using such data to evaluate the Issuer's financial condition and results of operations.

RISKS RELATING TO DOING BUSINESS IN THE PRC

PRC economic, political and social conditions as well as government policies could adversely affect our business, financial condition and prospects

The PRC economy differs from the economies of most developed countries in many aspects, including, but not limited to, political structure, degree of government involvement, control level of corruption, growth rate, development level, control of capital investment, reinvestment control of foreign exchange and allocation of resources.

The PRC economy has been transitioning from a centrally planned economy to a more market-oriented economy. For approximately three decades, the PRC government has implemented economic reform measures to utilize market forces in the development of the PRC economy. We cannot predict whether changes in the PRC's economic, political and social conditions and in its laws, regulations and policies will have any adverse effect on our current or future business, financial condition or results of operations. In addition, many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. This refining and improving process may not necessarily have a positive effect on our operations and business development. For example, the PRC government has in the past implemented a number of measures intended to slow down certain segments of the economy, including the property industry, which the government believed to be overheating. These actions, as well as other actions and policies of the PRC government, could cause a decrease in the overall level of economic activity in the PRC and, in turn, have an adverse impact on our business, financial condition and prospects.

The legal system of the PRC is still evolving and there are inherent uncertainties that may affect the protection afforded to our business and our Shareholders

Our business and operations in China are governed by the PRC laws and regulations. The PRC legal system is generally based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, as these laws and regulations are relatively new and continue to evolve, interpretation and enforcement of these laws and regulations involve some uncertainties and different degrees of inconsistency. Some of the laws and regulations are still in the developmental stage and are therefore subject to policy changes. Many laws, regulations, policies and legal requirements have only been recently adopted by PRC central or local government agencies, and their implementation, interpretation and enforcement may involve uncertainty due to the lack of established practice available for reference. We cannot predict the effect of future legal developments in China, including the promulgation of new laws, changes in existing laws or their interpretation or enforcement, or the pre-emption of local regulations by national laws. As a result, there is substantial uncertainty as to the legal protection available to us and our Shareholders. Furthermore, due to the volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, which may limit the legal protection available to us.

You may experience difficulties in effecting service of legal process and enforcing judgments against us and our management

We are a company incorporated under the laws of the PRC and substantially all of our business, assets and operations are located in the PRC. In addition, the majority of our Directors, Supervisors and senior management resides in China and substantially all of the assets of such Directors, Supervisors and senior management are located in China. As a result, it may not be possible to effect service of process within the United States, Europe or elsewhere outside China upon us or our Directors, Supervisors or senior management, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, China has not entered into any treaty for the reciprocal recognition and enforcement of court judgments with the United States, the United Kingdom, Japan and many other countries. In addition, Hong Kong has no arrangement with the United States for reciprocal enforcement of judgments. As a result, recognition and enforcement in China of a court judgment obtained in the United States and many other jurisdictions may be difficult or impossible.

On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院互相認可和執行當事人協議管轄的民商事案件判決的安排》), or the Arrangement, pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between parties after the effective date of the Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it is not possible to enforce a judgment rendered by a Hong Kong court in the PRC if the parties in dispute have not agreed to enter into a choice of court agreement in writing. Although the Arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the Arrangement may still be uncertain.

We are subject to restrictions on the remittance of Renminbi into and out of the PRC and governmental controls on currency conversion, and may be affected by the risks relating to fluctuations in exchange rates in the future

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and the remittance of currency out of China. Substantially all of our revenues are denominated in Renminbi, a portion of which may need to be converted into other currencies in order to meet our foreign currency obligations, such as payments of dividends, overseas acquisitions, and service of the Notes or other debt service on foreign currency denominated debt, if any.

Under the existing PRC law and regulations on foreign exchange, payments of current account items, including profit distributions, interest payments and trade and service related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration of Foreign Exchange of the PRC (the "**SAFE**") by complying with certain procedural requirements. Approval from or registration with competent government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may, at its discretion, take measures to restrict access to foreign currencies for current account and capital account transactions under certain circumstances. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to holders of our Notes. Further, there is no assurance that new regulations will not be promulgated in the future that would have the effect of further restricting the remittance of RMB into or out of PRC.

While a significant portion of our revenues and expenditures are denominated in RMB, we have subsidiaries and operate in a number of countries and regions using various kinds of currencies. As our overseas operations expand, revenue generated from it will grow continuously. Fluctuations in the exchange rate will affect our financial results without giving effect to any underlying change in our business or results of operations. The value of Renminbi against the euro and the U.S. dollar and other foreign currencies is subject to changes in the PRC's policies, as well as international economic and political developments. On 21 July 2005, the PRC Government adopted a more flexible managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band that is based on market supply and demand with reference to a basket of currencies. From 21 July 2005 to 17 March 2014, the floating band of inter-bank spot foreign exchange market trading price of RMB against U.S. dollar was gradually widened from 0.3% to 2%. On 11 August 2015, the People's Bank of China (the "**PBOC**") adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate of the last trading date, the supply and demand of foreign exchange and the rate change at primary international currencies. On 11 December 2015, the China Foreign Exchange Trade System, a sub-institutional organization of the PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective.

The proceeds from this offering will be received in euro. As a result, any appreciation of Renminbi against euro, U.S. dollars or any other foreign currencies may result in the decrease in the value of our foreign-currency-denominated assets and our proceeds from the this offering. Conversely, any depreciation of Renminbi may adversely affect our ability to service the Notes. Additionally, the value of the Renminbi has depreciated significantly against U.S. dollars since the end of 2015 and there is no assurance that the Renminbi will not experience significant depreciation or (as the case may be) appreciation against U.S. dollars or against any other currency in the future. Furthermore, we are also currently required to obtain the SAFE's approval before converting significant amounts of foreign currencies into Renminbi. As a result, any significant increase in the value of Renminbi against foreign currencies could reduce the value of our foreign-currency-denominated revenue and assets and could materially and adversely affect our business, financial condition, results of operations and prospects.

Risks Relating to the Notes

The Notes do not contain restrictive operating covenants

The Trust Deed will contain various covenants intended to benefit the holders of the Notes that limit the ability of the Issuer, among other things, to create security interest over Relevant Indebtedness (as defined in the Terms and Conditions of the Notes) outside the PRC. The Trust Deed, however, does not contain restrictions on the payment of dividends or making of other restricted payments. In addition, the Trust Deed does not contain any other covenants or provisions designed to afford holders of the Notes protection in the event of a highly leveraged transaction involving the Issuer that could adversely affect such holders. Subject to the terms of the existing debt and credit facilities of the Issuer, the Issuer may incur substantial additional indebtedness in the future.

The Notes are unsecured obligations

The Notes are unsecured obligations of the Issuer. The repayment of the Notes may be adversely affected if:

- the Issuer enters into bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under the Issuer's future secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of the Issuer's indebtedness.

If any of these events were to occur, the Issuer's assets may not be sufficient to pay amounts due on the Notes.

If the Issuer is unable to comply with the restrictions and covenants in its debt agreements (if any), or the Notes, there could be a default under the terms of these agreements, or the Notes, which could cause repayment of the Issuer's debt to be accelerated

If the Issuer is unable to comply with the restrictions and covenants in the Notes, or current or future debt obligations and other agreements (if any), there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Issuer, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of the debt agreements of the Issuer, contain cross acceleration or cross default provisions. As a result, the default by the Issuer under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under its other debt agreements, including the Notes. If any of these events occur, there can be no assurance that the Group's assets and cash flows would be sufficient to repay in full all of the Issuer's indebtedness, or that it would be able to find alternative financing. Even if the Issuer could obtain alternative financing, there can be no assurance that it would be on terms that are favourable or acceptable to the Issuer.

As the Issuer is a "resident enterprise" of the PRC, interest payments to non-PRC Noteholders will be subject to PRC withholding tax and gains from disposition of the Notes will generally (in the case of non-PRC enterprise holders) or may (in the case of non-PRC individual holders) be subject to PRC tax

Under the EIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10% is normally applicable to PRC-source income derived by non-resident enterprises. The EIT Law's implementation regulations further set forth that interest income is viewed as PRC-source income if the enterprise or the establishment that pays or bears the interest is situated in the PRC. Since the Issuer is a PRC resident enterprise for tax purposes, interest paid to non-PRC Noteholders should be regarded as PRC-sourced and therefore be generally subject to PRC withholding tax at a rate of 10% for enterprise Noteholders and 20% for individual Noteholders. Any gains realised on the transfer of the Notes will generally be subject to PRC income tax at a rate of 10% for non-PRC enterprise Noteholders. In addition, any gains realized on the transfer of the Notes may be subject to PRC income tax for at a rate of 20% for individual Noteholders if such gains are regarded as PRC-sourced.

The Issuer is required to withhold PRC tax from interest payments on the Notes to non-PRC Noteholders, and subject to certain exceptions, to pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received had no such withholding been required. The requirement to pay additional amounts will increase the cost of servicing interest payments on the Notes, and could have an adverse effect on the Issuer's financial condition.

If the Issuer fails to complete the post-issuance report to the NDRC in connection with the Notes, NDRC may impose penalties or other administrative procedures on the Issuer

On 14 September 2015, the NDRC promulgated the NDRC Circular pursuant to which if a PRC enterprise or an offshore enterprise controlled by a PRC enterprise wishes to issue bonds outside of the PRC with a maturity of more than one year, such PRC enterprise must in advance of issuing such bonds, file certain prescribed documents with the NDRC and procure a registration certificate from the NDRC in respect of such issue. According to the NDRC Circular, the NDRC is expected to issue a decision on the submission within seven working days after it accepts the submission. The enterprise must also report certain details of the bonds to the NDRC within 10 business days upon the completion of the bond issue.

The NDRC Circular is silent on the legal consequences of non-compliance with the pre-issue registration requirement. In the worst case scenario, it might become unlawful for the Issuer to perform or comply with any of its obligations under the Notes and the Notes might be subject to enforcement as provided in Condition 8 (*Events of Default*). Similarly, there is no clarity on the legal consequences of non-compliance with the post-issue notification requirement under the NDRC Circular. Additional guidance has been issued by the NDRC (《企業境外發行債券指引》, the "**NDRC Circular Guidelines**") on 18 December 2015, which states that companies, investment banks, law firms and other intermediaries involved in debt securities issues which do not comply with the registration requirement under the NDRC Circular will be subject to a blacklist and sanctions. The NDRC Circular Guidelines are silent as to how such blacklist will be implemented or the exact sanctions that will be enacted by the NDRC, or any impact on the Noteholders, in the event of a non-compliance by the Issuer with the NDRC Circular. The Issuer has undertaken to notify the NDRC of the particulars of the Issue of the Notes within the prescribed period under the NDRC Circular.

Since the NDRC Circular is new and without any detailed implementation procedures, there is no assurance that the NDRC will not issue further implementation rules or notices which may require additional steps in terms of the registration or provide sanctions or other administrative procedures the NDRC may impose in case of failure of such registration with, or post issuance report to, the NDRC.

The Issuer has completed the registration with the NDRC and obtained the registration certificate on 13 January 2016 which, at the date of this Offering Memorandum, remains valid and in full force and effect. If the Issuer does not report the post issuance information with respect to the Notes within the timeframe as provided under the NDRC Circular, the NDRC may impose sanctions or other administrative procedures on the Issuer which may have a material adverse impact to its business, financial condition or results of operations.

The Issuer may not be able to repurchase the Notes upon the exercise of a redemption option by Noteholders

Upon the occurrence of a Change of Control as described in "*Terms and Conditions of the Notes*", Noteholders may require the Issuer to redeem their Notes. The source of funds for any such redemption would be the Issuer's available cash and third-party financing. The Issuer, however, may not have sufficient available funds at the time of the occurrence of any such event to redeem the tendered outstanding Notes. The Issuer's failure to redeem the tendered Notes would constitute an Event of Default (as defined in "Terms and Conditions of the Notes"). This Event of Default may, in turn, constitute an event of default under other indebtedness, which could cause the related debt to be accelerated after any applicable notice or grace periods.

The Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's existing and future subsidiaries and effectively subordinated to the Issuer's secured debt to the extent of the value of the collateral securing such indebtedness

The Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's existing and future subsidiaries whether or not secured. The Notes will not be guaranteed by any of the Issuer's subsidiaries, and the Issuer may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer. The ability of such subsidiaries to pay dividends or otherwise transfer assets to the Issuer is subject to various restrictions under applicable laws. Each of the Issuer's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or make any funds available therefore, whether by dividends, loans or other payments. The Issuer's right to receive assets of any of the Issuer's subsidiaries upon that subsidiary's liquidation or reorganisation will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer is creditor of that subsidiary). Consequently, the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's subsidiaries and any subsidiaries that the Issuer may in the future acquire or establish.

The Notes are the Issuer's unsecured obligations and will (i) rank equally in right of payment with all the Issuer's other present and future unsubordinated and unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing its loans will be prior to the Noteholders with respect to those assets. In the event of the Issuer's bankruptcy, insolvency, liquidation, reorganisation, dissolution or other winding up, or upon any acceleration of the Notes, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to the Noteholders rateably with all of the Issuer's other unsecured and unsubordinated creditors, including trade creditors. If there are not sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid.

The liquidity and price of the Notes following this offering may be volatile

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the revenues, earnings and cash flows of the Group and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There can be no assurance that these developments will not occur in the future.

Developments in other markets may adversely affect the market price of the Notes

The market price of the Notes may be adversely affected by declines in the international financial markets and world economic conditions. The market for the Notes is, to varying degrees, influenced by economic and market conditions in other markets, especially those in Asia. Although economic conditions are different in each country, investors' reactions to developments in one country can affect the securities markets and the securities of issuers in other countries, including China. Since the sub-prime mortgage crisis in 2008, the international financial markets have experienced significant volatility. If similar developments occur in the international financial markets in the future, the market price of the Notes could be adversely affected.

An active trading market for the Notes may not develop

The Notes are a new issue of securities for which there is currently no trading market. Although an application has been made to the ISE for the Notes to be admitted to the Official List and trading on the Main Securities Market, there is no assurance that such application will be approved or the listing status of the Notes could be maintained through their tenor. Even if the Issuer maintains a listing of the Notes, can be no assurance as to the liquidity of the Notes or that an active trading market will develop. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group's operations and the market for similar securities. The Joint Lead Managers are not obligated to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Joint Lead Managers.

The Notes may not be a suitable investment for all investors

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with a measured appropriate addition of risk to the investor's overall portfolios. A potential investor should not invest in the Notes unless they have the expertise (either alone or with the help of a financial advisor) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Offering Memorandum or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible economic scenarios, such as interest rate and other factors which may affect its investment and the ability to bear the applicable risks.

Government control of currency conversion may adversely affect the value of the Notes

The Notes are denominated in euro while a significant portion of the Issuer's turnover is generated by its PRC operating subsidiaries and is denominated in Renminbi. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency to jurisdictions outside China. Under existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local branch of SAFE by complying with certain procedural requirements. However, approval from the appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted to a jurisdiction outside China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. The PRC government may also, at its discretion, restrict access to foreign currencies for current account transactions in the future. The Issuer must present certain documents to SAFE, its authorised branch, or the designated foreign exchange bank, for approval before they can obtain and remit foreign currencies out of China, including, in the case of dividends, evidence that the relevant PRC taxes have been paid and, in the case of shareholder loans, evidence of the registration of the loan with SAFE. If the PRC foreign exchange control system prevents the Issuer from obtaining sufficient foreign currency, particularly euro, it may adversely affect the Issuer's ability to satisfy its obligations under the Notes.

The Notes will initially be held in book-entry form, and therefore you must rely on the procedures of the relevant clearing systems to exercise any rights and remedies

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the Global Note Certificate representing the Notes will trade in book-entry form only, and Notes in definitive registered form will be issued in exchange for book-entry interests only in very limited circumstances.

Owners of book-entry interests will not be considered owners or holders of the Notes for purposes of the Trust Deed. A common depositary for Euroclear and Clearstream will be the sole registered holder of the Global Note Certificate. Accordingly, you must rely on the procedures of Euroclear or Clearstream, and if you are not a participant in Euroclear or Clearstream, on the procedures of the participant through which you own your interest, to exercise any rights and obligations of a holder of the Notes under the Trust Deed.

Upon the occurrence of an event of default under the Trust Deed, unless and until definitive registered Notes are issued in respect of all book-entry interests, if you own a book-entry interest, you will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes. See "*Summary of Provisions Relating to the Notes in Global Form*".

The Issuer will follow the applicable corporate disclosure standards for debt securities listed on the ISE, which standards may be different from those applicable to companies in certain other countries

The Issuer will be subject to reporting obligations in respect of the Notes to be listed on the ISE. The disclosure standards imposed by the ISE may be different than those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to what Noteholders are accustomed to.

The ratings of the Notes may be downgraded or withdrawn

The Notes are expected to be assigned a rating of "A-" by S&P, a rating of "A3" by Moody's and and a rating of "A-" by Fitch. The ratings represent the opinions of the rating agencies and their assessment of the ability of the Issuer to perform their respective obligations under the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. There can be no assurance that the ratings assigned to any Notes will remain in effect for any given period or that the ratings will not be revised or withdrawn by the rating agencies in the future if, in their judgement, the circumstances so warrant. The Group has no obligation to inform holders of the Notes of any such suspension, revision, downgrade or withdrawal. A suspension, downgrade or withdrawal of the ratings of any Notes at any time may adversely affect the market price of the Notes.

Exchange rate risks, exchange controls and interest rate risks may result in a Notehodler receiving less on the Notes than expected

The Issuer will pay principal, premium (if any) and interest on the Notes in euro. This presents certain risks relating to currency conversions if a Noteholder's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than euro.

These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the euro would decrease (i) the Investor's Currency equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes. Governments and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, a Noteholder may receive less interest or principal than expected, or no interest or principal. The Notes will carry a fixed interest rate. Consequently, the trading price of the Notes will vary with fluctuations in interest rates. If a Noteholder tries to sell any Notes before their maturity, the Noteholder may receive an offer that is less than the amount invested.

Several initial investors (including several of the Joint Lead Managers purchasing for their respective own accounts) will, in aggregate, purchase a majority of the Notes and may therefore be able to exercise certain rights and powers collectively as a group which will be binding on all holders. Where the individual holding of a Noteholder is equal to or exceed 25 per cent. of the aggregate principal amount of the outstanding Notes, such Noteholder may under certain circumstances also exercise certain rights and power on its own which will be binding on all holders. Additionally, this may reduce the liquidity of the Notes in the secondary trading market

Several initial investors (including several of the Joint Lead Managers purchasing for their own respective accounts) will, in aggregate, purchase a majority of the aggregate principal amount of the Notes in this offering. Some of these initial investors may have individual holdings which is equal to or exceeds 25 per cent. of the aggregate principal amount of the outstanding Notes.

Any holder or holders (acting collectively as a group) of a majority aggregate principal amount of the Notes will be able to exercise certain rights and powers on its/their own under the Conditions and Trust Deed, which will be binding on Noteholders. For example, certain provisions of the Notes and the Trust Deed may be amended with the consent of the holders of a majority of the aggregate principal amount of the Notes, and any Event of Default or non-compliance with any provision of the Conditions and the Trust Deed may be waived with the consent of the holders of a majority of the aggregate principal amount of the Notes, subject in each case to certain exceptions in connection with the reserved matters set forth in the Trust Deed. Accordingly, any holder or holders (acting collectively as a group) of a majority in aggregate principal amount of the Notes will be able to exercise such rights and powers on its/their own which will be binding on all Noteholders and control the outcome of votes on such matters. Subject to certain exceptions, a holder of the relevant percentage of Notes outstanding may by way of written resolutions in accordance with the Trust Deed direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it. In addition, holders of at least 75 per cent. of the aggregate principal amount of the Notes will be able to vote on reserved matters, including reduction or cancellation of the Notes and reduction or variation of interest rate of the Notes on its own, which decision will be binding on all Noteholders. Further, any holder of a significant percentage of the Notes, even if less than a majority, will be able to exercise certain rights and powers and will have significant influence on matters voted on by Noteholders. For example, holders of at least 25 per cent. of the aggregate principal amount of the Notes may, subject to the provisions of the Trust Deed, direct the Trustee to declare all the Notes to be due and payable immediately if an Event of Default has occurred or at any adjourned meeting, form the necessary quorum. Additionally, the existence of any such significant Noteholder may reduce the liquidity of the Notes in the secondary trading market.

The Issuer may issue additional Notes in the future

The Issuer may, from time to time, and without prior consultation of the Noteholder, create and issue further notes (see "*Terms and Conditions of the Notes — Further Issues*") or otherwise raise additional capital through such means and in such manner as it may consider necessary. There can be no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Notes.

The Trustee may request holders of the Notes to provide an indemnity and/or security and/or prefunding to its satisfaction

In certain circumstances, including without limitation, giving notice to the Issuer pursuant to the Terms and Conditions of the Notes and taking enforcement steps pursuant to the Terms and Conditions of the Notes, the Trustee may, at its sole discretion, request holders of the Notes to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of holders of the Notes. The Trustee shall not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed or the Terms and Conditions of the Notes and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the holders of the Notes to take such actions directly.

Decisions that may be made on behalf of all holders of the Notes may be adverse to the interests of individual holders of the Notes

The Terms and Conditions of the Notes contain provisions for calling meetings of holders of the Notes to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Notes including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of holders of the Notes may be adverse to the interests of the individuals.

The bankruptcy laws of the PRC may differ from those of other jurisdictions with which the holders of the Notes are familiar

The Issuer is incorporated under the laws of the PRC. Any bankruptcy proceeding relating to the Issuer would likely involve PRC bankruptcy laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the holders of the Notes are familiar.

A change in English law which governs the Notes may adversely affect the Noteholders

The Terms and Conditions of the Notes are governed by English law. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Notes.

Additional procedures may be required to be taken to bring English law-governed matters or disputes to the Hong Kong courts, and the Noteholders would need to be subject to the exclusive jurisdiction of the Hong Kong courts. There is also no assurance that the PRC courts will recognise and enforce judgments of the Hong Kong courts in respect of English law governed matters or disputes

The Terms and Conditions of the Notes and the transaction documents are governed by English law, whereas parties to these documents have submitted to the exclusive jurisdiction of the Hong Kong courts. In order to hear English law-governed matters or disputes, Hong Kong courts may require certain additional procedures to be taken. Under the Arrangement on Reciprocal Recognition and

Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》), judgments of Hong Kong courts are likely to be recognised and enforced by the PRC courts where the contracting parties to the transactions pertaining to such judgments have agreed to submit to the exclusive jurisdiction of Hong Kong courts.

However, recognition and enforcement of a Hong Kong court judgment could be refused if the PRC courts consider that the enforcement of such judgment is contrary to the social and public interest of the PRC or meets other circumstances specified by the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned. While it is expected that the PRC courts will recognise and enforce a judgment given by Hong Kong courts in respect of a dispute governed by English law, there can be no assurance that the PRC courts will do so for all such judgments as there is no established practice in this area. Compared to other similar debt securities issuances in the international capital markets where the relevant holders of the debt securities would not typically be required to submit to an exclusive jurisdiction, the holders of the Notes will be deemed to have submitted to the exclusive jurisdiction of the Hong Kong courts, and thus the holder's ability to initiate a claim outside of Hong Kong will be limited.

THE ISSUE

The following summary contains some basic information about the Notes and is qualified in its entirety by the remainder of this Offering Memorandum. Prospective investors should therefore read the entire Offering Memorandum, including the section entitled "Risk Factors" and the Group's financial statements and related notes thereto, before making an investment decision. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in the section entitled "Terms and Conditions of the Notes" shall have the same meanings in this summary. For a complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Memorandum.

Issuer	Hangzhou Hikvision Digital Technology Co., Ltd. (杭州海康威視數字技術股份有限公司).
Notes	€400,000,000 aggregate principal amount of 1.25 per cent. Notes due 2019.
Issue Price	99.959 per cent.
Form and Denomination	The Notes will be issued in registered form in the denomination of €100,000 and integral multiples of €1,000 in excess thereof.
Interest	The Notes will bear interest from 18 February 2016 at the rate of 1.25 per cent. per annum, payable in arrear on 18 February in each year.
Issue Date	18 February 2016.
Maturity Date	18 February 2019.
Status of the Notes	The Notes will constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 3(a) (*Negative Pledge*) of the Terms and Conditions of the Notes.
Redemption at Maturity	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 18 February 2019, subject as provided in Condition 6 (*Payments*) of the Terms and Conditions of the Notes.

Taxation	All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. Where such withholding or deduction is made by the Issuer by or within the PRC at the rate of up to and including 10 per cent. (the "**Applicable Rate**"), the Issuer will pay additional amounts as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required. If the Issuer is required to make such deduction or withholding by or within the PRC, in excess of the Applicable Rate, the Issuer shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Noteholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required. However, no additional amounts or Additional Amounts referred to in this paragraph shall be payable in respect of any Note in the circumstances set out in Condition 7 (*Taxation*) of the Terms and Conditions of the Notes.
Redemption for Tax Reasons . . .	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders in accordance with the Terms and Conditions of the Notes (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that: (A) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction) or the statement of an official position with respect thereto, which change or amendment becomes effective or in the case of a statement of an official position, is announced, on or after 3 February 2016; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due. See Condition 5(b) (*Redemption for Taxation Reasons*) of the Terms and Conditions of the Notes.

Redemption for Change of Control . . . .

At any time following the occurrence of a Change of Control, each Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of that Noteholder's Notes on the Put Settlement Date at 101 per cent. of their principal amount, together with accrued interest to such Put Settlement Date.

A "**Change of Control**" occurs when each of China Electronics Technology Group Corporation or the State-owned Assets Supervision and Administration Commission of the State Council ceases to (i) be the single largest group of holders directly or indirectly of the issued share capital of the Issuer or (ii) own or hold at least 30 per cent. directly or indirectly of the issued share capital of the Issuer or its successor entity.

Events of Default . . . .

Upon the occurrence of certain events as described in Condition 8 (*Events of Default*) of the Terms and Conditions of the Notes, the Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality.

Cross-Default . . . .

The Notes will contain a cross-default provision in relation to the Issue and its subsidiaries as further described in Condition 8(c) (*Cross-default of Issuer or Subsidiary*) of the Terms and Conditions of the Notes.

Clearing Systems . . . .

The Notes will be represented by beneficial interests in the Global Note Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with a common depositary for, Euroclear and Clearstream. Beneficial interests in the Global Note Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described herein, Individual Note Certificates will not be issued in exchange for beneficial interests in the Global Note Certificate.

Clearance and Settlement	The Notes have been accepted for clearance by Euroclear and Clearstream under the following codes: ISIN: XS1341358247 Common Code: 134135824
Governing Law and Jurisdiction	English law, and the courts of Hong Kong have exclusive jurisdiction to settle any disputes arising out of or in connection with the Notes, the Trust Deed and the Agency Agreement.
Trustee	The Hongkong and Shanghai Banking Corporation Limited.
Principal Paying Agent, Registrar and Transfer Agent .	The Hongkong and Shanghai Banking Corporation Limited.
Listing.	Application has been made to the ISE for the Notes to be admitted to the Official List and to trading on the Main Securities Market and such permission is expected to become effective on or about 18 February 2016. Such approval only relates to Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2004/39/EC and/or which are to be offered to the public in a Member State of the European Economic Area. The Main Securities Market is a regulated market for the purposes of Directive 2004/39/EC.
Rating	The Notes are expected to be rated "A-" by S&P, "A3" by Moody's and "A-" by Fitch and the Issuer has been rated "A-" by S&P, "A3" by Moody's and "A-" by Fitch. Security ratings are not recommendations to buy, sell or hold the Notes. Ratings are subject to revision or withdrawal at any time by the rating agencies. Standard & Poor's Hong Kong Limited is not itself established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended). Standard & Poor's Hong Kong Limited is endorsed by Standard & Poor's Credit Markets Services Europe Limited, which is established in the European Union and registered under Regulation (EC) No. 1060/2009 (as amended). Moody's Investors Service Hong Kong Limited is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009 (as amended). Please be advised that Moody's Investors Service Hong Kong Limited is a corporation incorporated under the laws of Hong Kong and its registered office address is 24/F, One Pacific Place, 88 Queensway, Admiralty, Hong Kong. Fitch Ratings Limited is established in the Europe Union and registered under Regulation (EC) No. 1060/2009 (as amended).

Further Issues	The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the timing for reporting to the NDRC) so as to form a single series with the Notes, as further described in Condition 14 (*Further Issues*) of the Terms and Conditions of the Notes.
Use of Proceeds	See "*Use of Proceeds*".
Selling Restrictions.	The Notes will not be registered under the Securities Act or under any state securities laws of the United States and will be subject to customary restrictions on transfer and resale. See "*Subscription and Sale*".

SELECTED FINANCIAL INFORMATION OF THE ISSUER

The following table presents our summary financial data. The summary consolidated statement of profit and loss and other comprehensive income data for the years ended 31 December 2012, 2013 and 2014 and the summary consolidated statement of financial position data as of 31 December 2012, 2013 and 2014 set forth below have been derived from our audited consolidated financial statements, as audited by DTT, and included elsewhere in this Offering Memorandum. The summary condensed consolidated statement of profit and loss and other comprehensive income data for the six months ended 30 June 2014 and 2015 and the summary condensed consolidated statement of financial position data as of 30 June 2015 set forth below have been derived from our unaudited condensed consolidated interim financial statements, as reviewed by DTT, included elsewhere in this Offering Memorandum. Our financial statements have been prepared and presented in accordance with IFRS, which differ in certain respects from generally accepted accounting principles in other jurisdictions. The summary financial data below should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements and the notes to those statements included elsewhere in this Offering Memorandum. Historical results of the Group are not necessarily indicative of results that may be achieved for any future period. The U.S. dollar amounts in the following table are derived from the RMB figures in the respective accounts, which are included for the purposes of this Offering Memorandum and are not included in our consolidated financial statements included elsewhere in this Offering Memorandum. Translations from RMB amounts to USD amounts were made at the rate of RMB6.2000 to US$1.00, the noon buying rate in New York City for cable transfers payable in RMB as certified for customs purposes by the Federal Reserve Bank of New York on 30 June 2015. All amounts converted into U.S. dollars contained in this Offering Memorandum are unaudited and for reference purposes only.

Summary Consolidated Statement of Profit or Loss and Other Comprehensive Income Data

	Year ended 31 December				Six months ended 30 June		
	2012	2013	2014	2014	2014	2015	2015
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000	RMB'000 (unaudited)	US$'000 (unaudited)
Revenue	7,135,722	10,630,798	17,081,420	2,755,068	5,953,866	9,725,663	1,568,655
Cost of sales and services	(3,684,472)	(5,689,336)	(9,646,149)	(1,555,830)	(3,190,264)	(5,628,068)	(907,753)
Gross profit	3,451,250	4,941,462	7,435,271	1,199,238	2,763,602	4,097,595	660,902
Other income	408,890	608,765	1,161,142	187,281	373,037	611,979	98,706
Other gains and losses	(49,069)	(149,706)	(156,321)	(25,213)	(81,018)	(152,779)	(24,642)
Distribution and selling expense	(718,722)	(902,436)	(1,507,701)	(243,178)	(633,453)	(900,032)	(145,166)
Administrative Expense	(171,782)	(187,698)	(369,995)	(59,677)	(148,832)	(192,942)	(31,120)
Research and development expenses	(606,467)	(921,877)	(1,300,704)	(209,791)	(549,115)	(815,574)	(131,544)
Finance costs	(200)	(2,102)	(54,947)	(8,862)	(15,691)	(30,254)	(4,880)
Share of profit of a joint venture	(295)	(454)	(404)	(65)	(353)	—	—
Profit before taxation	2,313,605	3,385,954	5,206,341	839,733	1,708,177	2,617,993	422,256
Taxation	(173,179)	(308,901)	(525,641)	(84,781)	(178,940)	(399,903)	(64,500)
Profit for the year/period	2,140,426	3,077,053	4,680,700	754,952	1,529,237	2,218,090	357,756
Other comprehensive (expense) income							
Items that may be reclassified subsequently to profit or loss:							
Exchange difference arising on translation	(667)	(805)	(11,660)	(1,881)	(8,439)	(11,096)	(1,789)
Profit and total comprehensive income for the year/period	2,139,759	3,076,248	4,669,040	753,071	1,520,798	2,206,994	355,967
Profits and total comprehensive income attributable to:							
Owner of the Issuer	2,136,377	3,067,354	4,654,610	750,744	1,511,035	2,197,203	354,388
Non-controlling interests	3,382	8,894	14,430	2,327	9,763	9,791	1,579
	2,139,759	3,076,248	4,669,040	753,071	1,520,798	2,206,994	355,967
	RMB cents	RMB cents	RMB cents	US$ cents	RMB cents	RMB cents	US$ cents
Earning per share							
- Basic	53	77	117	19	38	55	9
- Diluted	53	77	116	19	38	55	9

Summary Consolidated Statement of Financial Position Data

	As of 31 December				As of 30 June	
	2012	2013	2014	2014	2015	2015
	RMB'000	RMB'000	RMB'000	US$'000 (unaudited)	RMB'000 (unaudited)	US$'000
Non-current assets						
Property, plant and equipment	825,419	1,054,747	1,597,712	257,695	1,975,661	318,665
Deposits paid for acquisition of property, plant and equipment	260,932	301,801	190,201	30,678	213,861	34,494
Prepaid lease payments	28,852	28,211	27,570	4,447	154,562	24,929
Deposits paid for acquisition of prepaid lease payment	20,000,	20,000	64,640	10,426	18,000	2,903
Goodwill	131,016	117,860	117,860	19,010	117,860	19,010
Interest in a joint venture	858	404	—	—	—	—
Deferred tax assets	37,763	63,675	96,083	15,497	134,620	21,713
Financial lease receivable	5,221	39,244	31,238	5,038	30,754	4,960
Available-for-sale investment	604	604	604	97	604	97
Other financial assets	—	700,000	—	—	—	—
Total non-current asset	1,310,665	2,326,546	2,125,908	342,888	2,645,922	426,761
Current assets						
Inventories	1,017,937	1,428,668	2,291,935	369,667	2,801,065	451,785
Trade and bill receivable	1,910,441	3,637,848	6,131,853	989,009	7,991,248	1,288,911
Amounts due from customers for contract work	160,587	45,000	36,000	5,806	27,000	4,355
Other receivable and prepayments	246,333	454,177	597,964	96,446	736,815	118,841
Finance lease receivables	4,893	7,795	20,083	3,239	9,858	1,590
Prepaid lease payments	641	641	641	103	3,206	517
Derivative financial instruments	—	—	3,033	489	5,831	941
Other financial assets	300,000	400,000	2,750,000	443,548	970,000	156,452
Structured deposits	—	1,152,950	108,000	17,419	854,000	137,742
Amounts due from related parties	4,502	25,295	25,443	4,104	49,293	7,950
Prepaid income tax	98,726	—	—	—	—	—
Restricted bank deposits	1,097	8,474	88,404	14,259	66,855	10,783
Bank balances and cash	5,533,663	4,584,133	7,111,255	1,146,977	6,256,894	1,009,176
Total current asset	9,278,820	11,744,981	19,164,611	3,091,066	19,772,065	3,189,043
Total assets	10,589,485	14,071,527	21,290,519	3,433,954	22,417,987	3,615,804
Capital and reserves						
Share Capital	2,008,612	4,017,223	4,069,128	656,311	4,069,128	656,311
Reserve	6,556,379	7,069,416	10,773,115	1,737,599	11,425,901	1,842,887
Equity attributable to owners of the Issuer	8,564,991	11,086,639	14,842,243	2,393,910	15,495,029	2,499,198
Non-controlling interests	14,706	26,050	36,913	5,954	44,378	7,158
Total Equity	8,579,697	11,112,689	14,879,156	2,399,864	15,539,407	2,506,356
Non-current liabilities						
Long term bank Loans	—	—	244,760	39,477	949,497	153,145
Other borrowings	3,000	—	—	—	3,000	484
Deferred income	—	12,770	14,812	2,389	19,073	3,076
Provisions	20,008	31,311	36,661	5,913	41,155	6,638
Total non-current liabilities	23,008	44,081	296,233	47,779	1,012,725	163,343

	As of 31 December				As of 30 June	
	2012	2013	2014	2014	2015	2015
	RMB'000	RMB'000	RMB'000	US$'000	RMB'000	US$'000
				(unaudited)		(unaudited)
Current liability						
Trade and bill payables	1,053,953	1,582,634	3,548,121	572,277	3,038,870	490,140
Other payable and accruals	897,028	1,056,404	1,926,669	310,753	1,813,621	292,520
Dividend payable	—	2,239	4,402	710	28,678	4,625
Short-term bank loans	—	180,800	362,318	58,438	602,228	97,134
Amounts due to related parties	24,838	29,328	49,381	7,965	62,875	10,141
Derivative financial liabilities	—	—	—	—	13,746	2,217
Other borrowings	—	3,000	3,000	484	—	—
Income tax payable	10,961	60,352	221,239	35,684	305,837	49,328
Total current liabilities	1,986,780	2,914,757	6,115,130	986,311	5,865,855	946,105
Total liabilities	2,009,788	2,958,838	6,411,363	1,034,090	6,878,580	1,109,448
Total equity and liabilities	10,589,485	14,071,527	21,290,519	3,433,954	22,417,987	3,615,804

Non-GAAP Measures

We use EBITDA to provide additional information about our operating performance. EBITDA is not a standard measure under IFRS. Capital expenditure requirements and levels of debt and interest expenses may have a significant impact on the profit for the period of companies with similar operating results. Therefore, we believe the investor community commonly uses this type of financial measure to assess the operating performance of companies in our market sector.

As a measure of our operating performance, we believe that the most directly comparable IFRS measure to EBITDA is profit for the year/period. We operate in a capital intensive industry. We use EBITDA in addition to profit for year/period because profit for the year/period includes many accounting items associated with capital expenditures, such as depreciation, as well as non-operating items, such as amortization of intangible assets and interest income and interest expense. These accounting items may vary between companies depending on the method of accounting adopted by a company. By minimizing differences in capital expenditures and the associated depreciation expenses as well as reported tax positions, intangible assets amortization and interest income and expense, EBITDA provides further information about our operating performance and an additional measure for comparing our operating performance with other companies' results. Funds depicted by this measure may not be available for debt service due to covenant restrictions, capital expenditure requirements and other commitments.

The following table reconciles our gross profit under IFRS to our definition of EBITDA for the periods indicated.

	Year ended 31 December				Six months ended 30 June		
	2012	2013	2014	2014	2014	2015	2015
	RMB	RMB	RMB	US$	RMB (unaudited)	RMB	US$ (unaudited)
	(in thousands, except percentages)						
Gross profit	3,451,250	4,941,462	7,435,271	1,199,237	2,763,602	4,097,595	660,902
Adjustments:							
Less:							
Distribution and selling expense	(718,722)	(902,436)	(1,507,701)	(243,178)	(633,453)	(900,032)	(145,166)
Administrative expense	(171,782)	(187,698)	(369,995)	(59,677)	(148,832)	(192,942)	(31,120)
Research and development expenses	(606,467)	(921,877)	(1,300,704)	(209,791)	(549,115)	(815,574)	(131,544)
Add:							
Depreciation	61,570	71,872	108,736	17,538	41,557	70,194	11,322
Amortization	641	641	641	103	321	558	90
Government grants	315,959	429,980	838,059	135,171	261,900	440,595	71,064
EBITDA	**2,332,449**	**3,431,944**	**5,204,307**	**839,403**	**1,735,980**	**2,700,394**	**435,548**
EBITDA margin(1)	**32.7%**	**32.3%**	**30.5%**	**30.5%**	**29.2%**	**27.8%**	**27.8%**

Note:

(1) EBITDA margin is calculated by dividing EBITDA by revenue.

Our definition of EBITDA should not be considered in isolation or construed as an alternative to profit for the year/period or as an indicator of operating performance or any other standard measure under IFRS. Our definition of EBITDA does not account for taxes and other non-operating cash expenses. Our EBITDA measures may not be comparable to similarly titled measures used by other companies.

CAPITALISATION AND INDEBTEDNESS OF THE ISSUER

The following table sets forth our capitalization and indebtedness as of 30 June 2015 on an actual basis and on an adjusted basis after giving effect to the issuance of the Notes after deducting the discounts and commissions and other estimated expenses payable by us in connection with this offering. The following table should be read in conjunction with, and is qualified in its entirety by reference to, the consolidated financial statements and related notes included in this Offering Memorandum.

	As of 30 June 2015			
	Actual		As adjusted	
	RMB'000	US$'000	RMB'000	US$'000
	(unaudited)			
Long-term borrowings:[1]				
Long-term bank loans	949,497	153,145	949,497	153,145
Other borrowings	3,000	484	3,000	484
Notes to be issued	—	—	2,766,192	446,160
Total long-term borrowings	952,497	153,629	3,718,689	599,789
Total equity	15,539,407	2,506,356	15,539,407	2,506,356
Total capitalization[2]	16,491,904	2,659,985	19,258,096	3,106,145

Note:

(1) Long-term borrowings does not include current portion of bank loans and other borrowings or capital commitments and other contingent liabilities.

(2) Total capitalization equals total long-term borrowings plus total equity.

Except as otherwise disclosed above, and as described under "Description of Material Indebtedness and Other Obligations", there has been no material change in our capitalization and indebtedness since 30 June 2015.

USE OF PROCEEDS

The Issuer estimates that the net proceeds from this offering, after deducting the discounts and commissions to be charged by the Joint Lead Managers and other estimated expenses payable in connection with this offering, will be approximately €397.12 million. The Issuer intends to use the net proceeds from this offering for the construction of Tonglu Production Base and Internet Industrial Base, the procurement of fixed assets and other general corporate purposes.

TERMS AND CONDITIONS OF THE NOTES

The following other than the words in italics is the text of the terms and conditions of the Notes which will appear on the reverse of each of the individual certificates evidencing the Notes:

The €400,000,000 1.25 per cent. Notes due 2019 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 14 (*Further Issues*) and forming a single series therewith) of Hangzhou Hikvision Digital Technology Co., Ltd (杭州海康威視數字技術股份有限公司) (the "**Issuer**") are constituted by, are subject to, and have the benefit of, a trust deed dated on or about 18 February 2016 (as amended, restated, replaced or supplemented from time to time, the "**Trust Deed**") between the Issuer and The Hongkong and Shanghai Banking Corporation Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated on or about 18 February 2016 (as amended, restated, replaced or supplemented from time to time, the "**Agency Agreement**") between the Issuer, The Hongkong and Shanghai Banking Corporation Limited as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Hongkong and Shanghai Banking Corporation Limited as principal paying agent (the "**Principal Paying Agent**", which expression includes any successor principal paying agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. References herein to the "**Agents**" are to the Registrar, the Principal Paying Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them.

Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours with reasonable prior written notification at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. **Form, Denomination and Status**

   (a) *Form and denomination*: The Notes are in registered form in the denomination of €100,000 and integral multiples of €1,000 in excess thereof (each, an "**Authorised Denomination**").

   (b) *Status of the Notes*: The Notes constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

*Upon issue, the Notes will be evidenced by a global note certificate (the "**Global Note Certificate**") substantially in the form scheduled to the Trust Deed. The Global Note Certificate will be registered in the name of a nominee for, and deposited with, a common depositary for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), and will be exchangeable for individual Note Certificates (as defined below) only in the circumstances set out therein.*

2. **Register, Title and Transfers**

(a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

Transfers of interests in the Notes evidenced by the Global Note Certificate will be effected in accordance with the rules of the relevant clearing systems.

(d) *Registration and delivery of Note Certificates*: Within seven business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be made available for inspection by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. **Covenants**

(a) *Negative Pledge*: So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer shall not, and the Issuer shall procure that none of its Subsidiaries will create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Relevant Indebtedness, or to secure any guarantee or indemnity in respect of any Relevant Indebtedness without at the same time or prior thereto (i) securing the Notes equally and rateably therewith to the satisfaction of the Trustee or (ii) providing such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders.

(b) *Financial Statements etc.*: So long as any Note remains outstanding, (i) the Issuer shall provide to the Trustee a Compliance Certificate (on which the Trustee may rely as to such compliance) within 14 Business Days from a request by the Trustee and at the time of provision of the Issuer Audited Financial Reports and the Issuer Reviewed Financial Reports and (ii) the Issuer shall provide to the Trustee (A) two copies of the Issuer Audited Financial Reports within 180 days of the end of each Relevant Period, prepared in accordance with PRC GAAP (audited by an internationally recognised firm of independent accountants); and (B) two copies of the Issuer Reviewed Financial Reports within 120 days of the end of each Relevant Period, prepared on a basis consistent with the Issuer Audited Financial Reports, and if such statements, in each case, shall be in the Chinese language, together with an English translation of the same translated by (x) an internationally recognised firm of independent accountants or (y) a professional translation service provider and checked by an internationally recognised firm of independent accountants, together with a certificate signed by an authorised signatory of the Issuer certifying that such translation is complete and accurate.

(c) *Notification to NDRC*: The Issuer undertakes to file or cause to be filed with the NDRC the requisite information and documents within 10 PRC Business Days after the Issue Date (as defined below) in accordance with the Circular on Promoting the Reform of the Administrative System on the Issuance by Enterprises of Foreign Debt Filings and Registrations (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資 [2015] 2044 號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules as issued by the NDRC from time to time (the "**NDRC Post-issue Filing**").

The Issuer shall complete the NDRC Post-issue Filing and provide such document(s) evidencing due filing with the NDRC within the prescribed timeframe and, shall comply with all applicable PRC laws and regulations in connection with the Notes. The Issuer shall within five PRC Business Days after submission of such NDRC Post-issue Filing (i) provide the Trustee with a certificate signed by any authorised signatory of the Issuer confirming the submission of the NDRC Post-issue Filing and (ii) give notice to the Noteholders in accordance with Condition 15 (*Notices*) of the same.

The Trustee shall have no obligation to monitor or ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to Noteholders or any other person for not doing so.

In these Conditions:

"**Compliance Certificate"** means a certificate of the Issuer signed by any two of its directors or authorised signatories that, having made all enquiries, to the best of the knowledge, information and belief of the Issuer as at a date (the "**Certification Date**") not more than five days before the date of the certificate:

(i) no Event of Default (as defined in Condition 8 (*Events of Default*)) or Potential Event of Default had occurred since the Certification Date of the last such certificate or (if none) the date of the Trust Deed or, if such an event had occurred, giving details of it; and

(ii) the Issuer has complied with all its obligations under the Trust Deed, the Agency Agreement and the Notes;

"**Issuer Audited Financial Reports**" means the annual audited consolidated statements of profit or loss and other comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity and consolidated statements of cash flows of the Issuer together with any statements, reports (including any directors' and auditors' reports) and notes attached to or intended to be read with any of them;

"**Issuer Reviewed Financial Reports**" means the interim reviewed condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity and consolidated statement of cash flows of the Issuer and its Subsidiaries, together with any statements, reports (including any directors' and auditors' review reports) and notes attached to or intended to be read with any of them;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Potential Event of Default**" means an event or circumstance which could with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 8 (*Events of Default*) become an Event of Default;

"**PRC**" means the People's Republic of China which, for the purposes of these Conditions, shall not include Hong Kong, Macau and Taiwan;

"**PRC Business Day**" means a day on which commercial banks open for business in the PRC;

"**PRC GAAP"** means the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006 and other relevant regulations issued thereafter;

"**Relevant Indebtedness**" means any present or future indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other securities which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market) and has a final maturity of one year or more from its date of incurrence or issuance, but excludes any indebtedness that is issued in the PRC;

"**Relevant Period**" means (i) in relation to the Issuer Audited Financial Reports, each period of twelve months ending on the last day of the Issuer's financial year (being 31 December of that financial year); and (ii) in relation to the Issuer Reviewed Financial Reports, each period of six months ending on the last day of the Issuer's first half financial year (being 30 June of that financial year);

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

4. **Interest**

The Notes bear interest from 18 February 2016 (the "**Issue Date**") at the rate of 1.25 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 18 February in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be €12.50 in respect of each Note of €1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means €1,000;

"**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

5. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 18 February 2019, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that (A) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the PRC or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction) or the statement of an official position with respect thereto, which change or amendment becomes effective, or in the case of a statement of an official position, is announced, on or after 3 February 2016; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, *provided, however, that* no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Trustee:

(A) a certificate signed by two directors of the Issuer stating that the circumstances referred to above prevail and setting out the details of such circumstances; and

(B) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment or statement.

The Trustee shall be entitled to accept and rely upon such certificate and opinion (without further investigation or enquiry) as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 5(b) (*Redemption for tax reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b) (*Redemption for tax reasons*).

(c) *Redemption for Change of Control*: At any time following the occurrence of a Change of Control, each Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of that Noteholder's Notes on the Put Settlement Date at 101 per cent. of their principal amount, together with accrued interest to such Put Settlement Date. To exercise such right, the Noteholder must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Note Certificates evidencing the Notes to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 15 (*Notices*). The "**Put Settlement Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes subject to the Put Exercise Notices delivered as aforesaid.

The Issuer shall give notice to Noteholders and the Trustee in accordance with Condition 15 (*Notices*) by not later than 14 days following the first day on which the Issuer becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by Holders of their rights to require redemption of the Notes pursuant to this Condition 5(c) (*Redemption for Change of Control*).

In this Condition 5(c) (*Redemption for Change of Control*), a "**Change of Control**" occurs when each of China Electronics Technology Group Corporation or the State-owned Assets Supervision and Administration Commission of the State Council ceases to (i) be the single largest group of holders directly or indirectly of the issued share capital of the Issuer or (ii) own or hold at least 30 per cent. directly or indirectly of the issued share capital of the Issuer or its successor entity.

(d) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (c) (*Redemption for Change of Control*) above.

(e) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price.

(f) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries shall be cancelled and may not be reissued or resold.

(g) *No duty to monitor:* The Trustee shall not be obliged to take any steps to ascertain whether a Change of Control or a Potential Event of Default or an Event of Default has occurred or to monitor the occurrence of any Change of Control, Potential Event of Default or Event of Default, and shall not be liable to the Noteholders or any other person for not doing so.

(h) *Calculations:* Neither the Trustee nor any of the Agents shall be responsible for calculating or verifying the calculations of any amount payable under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

6. **Payments**

(a) *Principal*: Payments of principal shall be made by Euro cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, or by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by Euro cheque drawn on, or, upon application by a Holder of a Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(c) *Interpretation*: In these Conditions:

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro; and

"**TARGET System**" means the TARGET2 system.

(d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 (*Taxation*)) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(e) *Payments on business days*: Where payment is to be made by transfer to a Euro account (or other account to which Euro may be credited or transferred), payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a business day or (B) a cheque mailed in accordance with this Condition 6 (*Payments*) arriving after the due date for payment or being lost in the mail. In this paragraph "**business day**" means:

(i) in the case of payment by transfer to a Euro account (or other account to which Euro may be credited or transferred) as referred to above, any day which is a TARGET Settlement Day or a day on which banks are open for general business (including dealings in foreign currencies) in Hong Kong; and

(ii) in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, any day on which banks are open for general business (including dealings in foreign currencies) in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed) and the Specified Office of the relevant Paying Agent is open for business.

(f) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(g) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

*Whilst the Notes are evidenced by the Global Note Certificate, each payment in respect of the Global Note Certificate will be made to the person shown as the holder in the Register at the close of business (of the relevant clearing system) on the Clearing System Business Day before the due date for such payment, where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive, except 25 December and 1 January).*

7. **Taxation**

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the PRC or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law.

Where such withholding or deduction is made by the Issuer by or within the PRC at the rate of up to and including 10 per cent. (the "**Applicable Rate**"), the Issuer will pay additional amounts as will result in receipt by the Holders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required. If the Issuer is required to make such deduction or withholding by or within the PRC, in excess of the Applicable Rate the Issuer shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the Holders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required. However, no additional amounts or Additional Amounts referred to in this paragraph shall be payable in respect of any Note:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note; or

(b) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts or Additional Amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

If the Issuer becomes subject at any time to any taxing jurisdiction other than the PRC, references in these Conditions to the PRC shall be construed as references to the PRC and/or such other jurisdiction.

Neither the Trustee nor any Agent shall be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and shall not be responsible or liable for any failure by the Issuer, the Noteholders or any other person to pay such tax, duty, charges, withholding or other payment.

8. **Events of Default**

If any of the following events occurs (each, an "**Event of Default**"), then the Trustee at its discretion may and, if so requested in writing by Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to the Trustee having been indemnified and/or provided with security and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within seven days after the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default (i) is incapable of remedy or (ii) being a default which is capable of remedy remains unremedied for 30 days after the Trustee has given written notice thereof to the Issuer; or

(c) *Cross-default of Issuer or Subsidiary*:

(i) any indebtedness of the Issuer or any of its Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period;

(ii) any such indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or (as the case may be) the relevant Subsidiary or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such indebtedness; or

(iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any guarantee of any indebtedness;

provided that the amount of indebtedness referred to in sub-paragraph (i) and/or sub-paragraph (ii) above and/or the amount payable under any guarantee referred to in sub-paragraph (iii) above, individually or in the aggregate, exceeds €50 million (or its equivalent in any other currency or currencies); or

(d) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment of any amount is rendered against the Issuer or any of its Principal Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries, as the case may be; or

(f) *Insolvency, etc.*: (i) the Issuer or any of its Principal Subsidiaries becomes insolvent or is unable to pay its debts as they fall due, (ii) an administrator or liquidator is appointed (or application for any such appointment is made) in respect of the Issuer or any of its Principal Subsidiaries or the whole or any part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries, (iii) the Issuer or any of its Principal Subsidiaries takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness or any guarantee of any indebtedness given by it or (iv) the Issuer or any of its Principal Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business; or

(g) *Winding-up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or any of its Principal Subsidiaries; or

(h) *Government intervention*: (i) all or any substantial (in the opinion of the Trustee) part of the undertaking, assets and revenues of the Issuer or any of its Principal Subsidiaries is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (ii) the Issuer or any of its Principal Subsidiaries is prevented by any such person from exercising normal control over all or any substantial (in the opinion of the Trustee) part of its undertaking, assets and revenues; or

(i) *Failure to take action etc.*: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes and the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Note Certificates and the Trust Deed, admissible in evidence in the courts of the PRC is not taken, fulfilled or done; or

(j) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes, the Trust Deed and the Agency Agreement; or

(k) *Analogous Events*: any event occurs which under the laws of the PRC has an analogous effect to any of the events referred to in paragraphs (d) (*Unsatisfied judgment*) to (j) (*Unlawfulness*) above.

In these Conditions, "**Principal Subsidiary**" in respect of the Issuer means any Subsidiary:

(a) whose revenue or (in the case of a Subsidiary which itself has Subsidiaries) consolidated revenue, as shown by its latest audited income statement are at least 3 per cent. of the consolidated revenue as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(b) whose net profits or (in the case of a Subsidiary which itself has Subsidiaries) consolidated net profit, as shown by its latest audited income statement are at least 3 per cent. of the consolidated net profit as shown by the latest published audited consolidated income statement of the Issuer and its Subsidiaries including, for the avoidance of doubt, the Issuer and its consolidated Subsidiaries' share of profits of Subsidiaries not consolidated and of jointly controlled entities and after adjustments for minority interests; or

(c) whose net assets or (in the case of a Subsidiary which itself has Subsidiaries) net consolidated assets, as shown by its latest audited balance sheet are at least 3 per cent. of the amount which equals the amount included in the consolidated net assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Issuer and its Subsidiaries as being represented by the investment of the Issuer in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Issuer and after adjustment for minority interests; or

(d) to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Principal Subsidiary, *provided that* the Principal Subsidiary which so transfers its assets shall forthwith upon such transfer cease to be a Principal Subsidiary and the Subsidiary to which the assets are so transferred shall cease to be a Principal Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate), of the Issuer prepared as of a date later than such transfer are issued unless such Subsidiary would continue to be a Principal Subsidiary on the basis of such accounts by virtue of the provisions of paragraphs (a), (b) or (c) above of this definition;

provided that, in relation to paragraphs (a), (b) and (c) above of this definition:

(i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Issuer relate, the reference to the then latest consolidated audited accounts of the Issuer for the purposes of the calculation above shall, until consolidated audited accounts of the Issuer for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published be deemed to be a reference to the then latest consolidated audited accounts of the Issuer adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiaries) of such Subsidiary in such accounts;

(ii) if at any relevant time in relation to the Issuer or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, revenue, net profit or net assets of the Issuer and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Issuer;

(iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its revenue, net profit or net assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Issuer; and

(iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Issuer, then the determination of whether or not such Subsidiary is a Principal Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Issuer.

In addition, any Subsidiary which is not itself a Principal Subsidiary shall nevertheless be treated as a Principal Subsidiary if the revenue (or consolidated revenue if the Subsidiary itself has subsidiaries), net profit (or consolidated net profit if the Subsidiary itself has subsidiaries) or net assets (or consolidated net assets if the Subsidiary itself has subsidiaries) attributable to such Subsidiary when aggregated with the revenue (or consolidated revenue if appropriate), net profit (or consolidated net profit if appropriate) or net assets (or consolidated net assets if appropriate) attributable to any other Subsidiary which is not itself a Principal Subsidiary and with respect to which any of the events referred to in these Conditions has occurred since the Issue Date of the Notes, exceeds 3 per cent. of the consolidated revenue, consolidated net profit or consolidated net assets of the Issuer and its Subsidiaries as shown by the latest published audited consolidated accounts of the Issuer.

9. Prescription

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

10. Replacement of Note Certificates

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. **Trustee and Agents**

Under the Trust Deed, the Trustee is entitled to be indemnified and/or provided with security and/or pre-funded and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee, the Agents and their respective directors and officers are entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions, the Trust Deed and the Agency Agreement, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserves the right (with the prior approval of the Trustee) at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or principal paying agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer shall at all times maintain a principal paying agent and a registrar.

The initial Agents and their initial Specified Offices are listed on the last page of this Offering Memorandum.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. **Meetings of Noteholders; Modification and Waiver**

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions, the Trust Deed and the Agency Agreement. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to effect the exchange, conversion or substitution of the Notes for other obligations or securities, to amend Condition 3 (*Covenants*), in each case otherwise than in accordance with Condition 12(b) (*Modification and waiver*) or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of Noteholders holding not less than 90% of the aggregate principal amount of the Notes outstanding who for the time being are entitled to receive notice of a meeting of Noteholders under the Trust Deed will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification and waiver*: The Trustee may, without the consent of the Noteholders, agree to any modification of these Conditions, the Trust Deed or the Agency Agreement (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes, the Trust Deed or the Agency Agreement which is of a formal, minor or technical nature or is to correct a manifest error. In addition, the Trustee may, without the consent of the Noteholders, authorise or waive any proposed breach or breach of the Notes, the Trust Deed or the Agency Agreement (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders by the Issuer as soon as practicable thereafter.

13. **Enforcement**

The Trustee may at any time, at its discretion and without notice, institute such actions, steps and proceedings as it thinks fit to enforce its rights under the Trust Deed or the Agency Agreement in respect of the Notes, but it shall not be bound to do so unless:

(a) it has been so requested in writing by the Holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and

(b) it has been indemnified and/or provided with security and/or pre-funded to its satisfaction.

No Noteholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and the timing for reporting to the NDRC) so as to form a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed, *provided that* such supplemental documents are executed and further opinions are obtained as the Trustee may require, as further set out in the Trust Deed.

15. **Notices**

Notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

Until such time as any individual Note certificates are issued and so long as the Global Note Certificate is held in its entirety on behalf of Euroclear and Clearstream, Luxembourg any notice to the Noteholders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.

16. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify the Trustee and each Noteholder, on the written demand of the Trustee or such Noteholder addressed to the Issuer and delivered to the Issuer, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which the Trustee or such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection therewith are governed by English law.

(b) *Jurisdiction*: The courts of Hong Kong have exclusive jurisdiction to settle any disputes arising out of or in connection with the Notes, the Trust Deed and the Agency Agreement, and accordingly any legal action or proceedings arising out of or in connection with the Notes, the Trust Deed and the Agency Agreement ("**Proceedings**") may be brought in such courts. Pursuant to the Trust Deed, the Issuer has irrevocably submitted to the jurisdiction of the courts of Hong Kong.

(c) *Agent for Service of Process*: The Issuer irrevocably appoints Hikvision International Co. Limited (currently at c/o Suite 03 15/F Carnival Commercial Building, 18 Java Road, North Point, Hong Kong) as its authorised agent for service of process in Hong Kong. If for any reason Hikvision International Co., Limited shall cease to have an office in Hong Kong for service of process, the Issuer shall promptly appoint a new agent for service of process in Hong Kong and deliver to the Trustee a copy of the new agent's acceptance of that appointment within 30 days of such agent ceasing to be its agent for service of process.

(d) *Waiver of immunity*: To the extent that the Issuer may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

The Global Note Certificate for the Notes contains provisions which apply to the Notes while they are in global form, some of which modify the effect of the Terms and Conditions set out in this Offering Memorandum. The following is a summary of certain of those provisions.

The Notes will be represented by a Global Note Certificate that will be registered in the name of HSBC Nominees (Hong Kong) Limited as nominee for, and deposited with, the common depositary for Euroclear and Clearstream.

Under the Global Note Certificate, the Issuer, for value received, will promise to pay the amount payable upon redemption under the Terms and Conditions represented by the Global Note Certificate to the Noteholders in such circumstances as the same may become payable in accordance with the Terms and Conditions of the Notes.

The Global Note Certificate will become exchangeable in whole, but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occurs.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered Holder of the Global Note Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Global Note Certificate at the Specified Office (as defined in the Conditions) of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder or the Trustee, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange. In this paragraph, "**business day**" means a day on which commercial banks are open for business (including dealings in foreign currencies) in the city in which the Registrar has its Specified Office.

In addition, the Global Note Certificate will contain provisions that modify the Terms and Conditions of the Notes as they apply to the Notes evidenced by the Global Note Certificate. The following is a summary of certain of those provisions:

Payments on business days: In the case of all payments made in respect of the Global Note Certificate, "**business day**" means any day which is a TARGET Business Day, where "**TARGET Business Day**" means a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET2) System, which utilises a single shared platform and which was launched on 19 November 2007, or any successor thereto, is operating credit or transfer instructions in respect of payments in euro.

Payment Record Date: Each payment in respect of the Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "**Clearing System Business Day**" means a weekday (Monday to Friday, inclusive, except 25 December and 1 January).

Exercise of put option: In order to exercise the option contained in Condition 5(c) (*Redemption for Change of Control*) the Holder of the Global Note Certificate must, within the period specified in the Terms and Conditions of the Notes for the deposit of the relevant Note Certificate and Put Exercise Notice, give written notice of such exercise to the Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Notices: Notwithstanding Condition 15 (*Notices*), so long as the Global Note Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), notices to Holders of Notes represented by the Global Note Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

The Issuer confirms that information in this "Industry Overview" has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by public and private sources, including market research, publicly available information and industry publications. No facts have been omitted which would render the reproduced information inaccurate or misleading. Although we believe this information to be reliable, it has not been independently verified by us or the Joint Lead Managers or our or their respective directors and advisors, and neither we, the Joint Lead Managers nor our or their respective directors and advisors make any representation as to the accuracy or completeness of that information.

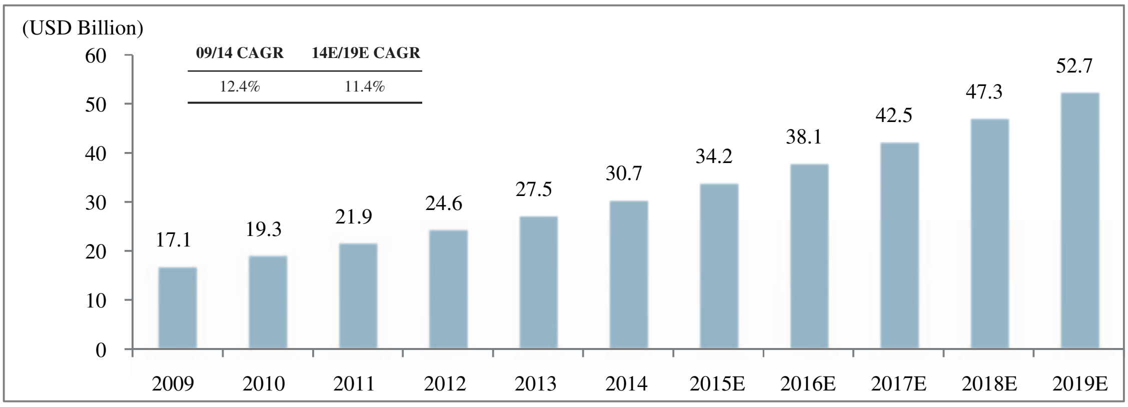
Overview of Global Video Surveillance System Industry

Video surveillance systems are electronic systems designed to record and transmit video data from a given area over a period of time for the purpose of monitoring for activities such as theft and intrusions as well as objects such as license plates and faces. Video surveillance systems are a sub-segment of the global electronic security and protection systems market, which also encompasses anti-theft alarms, access-control systems and building intercom systems, etc. According to Frost & Sullivan, global sales of the video surveillance industry, as measured at the manufacturer level, totaled US$30.7 billion as of 2014, or 58.8% of the global electronic security and protection systems market.

Video surveillance systems are sophisticated technology products, which are generally comprised of three constituent parts: "front-end equipment", "back-end equipment" and "controlling center equipment". Front-end equipment primarily consists of cameras and DVS which serve to collect video and other data; back-end equipment primarily consists of recorders for the storage of video and audio data; and the controlling center equipment primarily consists of transmission devices, centralized storage devices, displays and controllers, as well as video management systems ("VMS") platforms. Distribution, installation, maintenance and service of video surveillance systems are not included in the scope of this section. The Internet video market, a related but separate field, is described in detail in "Overview of Internet-based Video Market".

According to Frost & Sullivan, the global video surveillance system industry grew at a CAGR of 12.4% between 2009 and 2014. From 2014 to 2019, the industry is expected to grow at a CAGR of 11.4%.

Market Size of Global Video Surveillance Industry, 2009-2019E



Source: Frost & Sullivan

In recent years, the growth of the video surveillance industry has been driven by economic growth and infrastructure investments worldwide, particularly in China. Another important contributing factor has been the increasing public and government focus on public safety issues, as well as rapid advances in video surveillance technology.

Global Industry Landscape

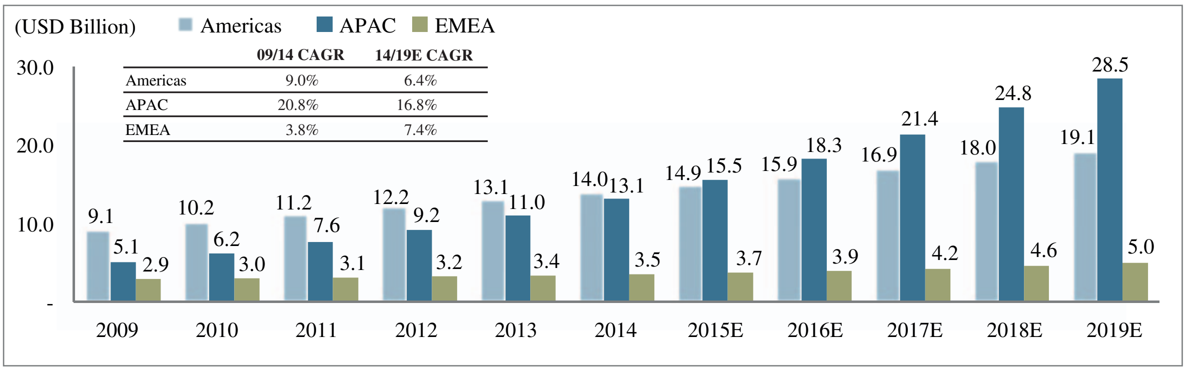
The video surveillance industry is a global industry, characterized by intense competition among global players. The industry once had long been dominated by U.S., European and Korean brands such as Hanwha (Techwin), Schneider Electric (Pelco), Axis, Bosch and Honeywell, many of which are business divisions of much larger industrial conglomerates. In recent years, Chinese video surveillance companies have emerged as leading global players, as exemplified by Hikvision, thanks to a faster growth rate in the APAC market.

The Americas is currently the world's largest video surveillance system market, accounting for 45.6% of global sales as of 2014, according to Frost & Sullivan. Within the Americas, North America is the largest market for video surveillance systems and the largest exporting market for China-made video surveillance products. With increasing governmental and public awareness of national security, border control and crime prevention issues in the Americas, the market is expected to grow at a CAGR of 6.4% from 2014 to 2019.

APAC is the world's second largest video surveillance market, accounting for 42.9% of global sales as of 2014. According to Frost & Sullivan, APAC is expected to grow at a faster rate than the Americas, at a CAGR of 16.8% from 2014 to 2019. According to Frost & Sullivan, APAC is projected to surpass the Americas in market size by 2015, driven by the rapid growth of the Chinese market, which accounted for 79.5% of APAC sales as of 2014, as well as the expected increase in pan-Asia investment due to China's "One Belt One Road" policies and establishment of the Asia Infrastructure Investment Bank.

EMEA is the third largest video surveillance market in the world, accounting for 11.5% of the global market as of 2014. It is projected to grow at a CAGR of 7.4% between 2014 and 2019. EMEA is a highly fragmented market, characterized by intense competition with a number of leading industry players.

Market Size of Global Video Surveillance Industry, 2009-2019E



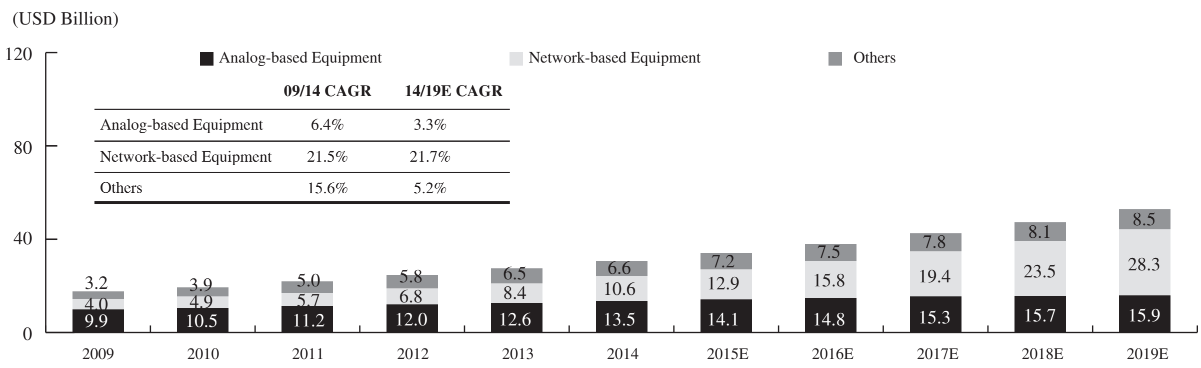
Source: Frost & Sullivan

Global Technology Trends

The global technology trends of the video surveillance industry include the proliferation high-definition and network technology solutions, intelligent capabilities and cloud technology, among others.

Currently, the video surveillance industry is transitioning towards high definition and network technology, driven by end-users' requirements for higher resolution images, greater interoperability, reliability and flexibility for video after-treatment, which current standard definition or analog technology are unable to fully satisfy. According to Frost & Sullivan, from 2009 to 2014 the market for network video surveillance equipment grew at a CAGR of 21.5%. It is expected to further grow at a CAGR of 21.7% from 2014 to 2019, compared to a CAGR of 3.3% for the analog video surveillance equipment market during the same time period. The market for analog-based video surveillance equipment is based on estimated market size for analog cameras, encoders, decoders and related storage equipment, while internet-based video surveillance equipment is based on network cameras, NVRs and related storage equipment.

Market Size of Global Video Surveillance Industry, 2009-2019E



Source: Frost & Sullivan

Video surveillance systems are used by a multitude of end-users in different industries with wide ranging requirements. The ability to design, assemble, integrate, test and provide aftersales service for integrated system solutions based on the end-user's industry-specific requirements is a key differentiating factor and a continuing trend within the industry.

As the video surveillance industry further develops its intelligent video capabilities, video surveillance systems are capable of conducting automatic video content analysis ("VCA") based on customized end-user requirements, which improves efficiency and reduces labor and other operating costs. Additionally, intelligent video applications can potentially reduce human errors and improve safety, further boosting wider adoption and usage of video surveillance systems.

The development of cloud technologies has provided a new model for data storage and analysis. Advances in the adoption and application of cloud storage and cloud-computing technology enable customers such as SMBs to cost effectively store, manage and analyze large volumes of video content date, reducing the cost to set up and maintain video surveillance systems.

Global Competitive Landscape

The global video surveillance industry is highly fragmented, with the top five players accounting for approximately 20.0% of global sales as of 2014. According to Frost & Sullivan, market concentration is expected to increase in the future as large enterprises with economies of scale increase their market shares, as exemplified by Hikvision. Compared to smaller scale competitors, larger players are better positioned in R&D, providing comprehensive solutions and achieving economies of scale in procurement and manufacturing, which increases the barriers of entry.

According to Frost & Sullivan, the top five video surveillance system providers in the world based on sales revenue from 2012 to 2014 were as follows:

Global Video Survellance Market Share and Ranking, 2012-2014

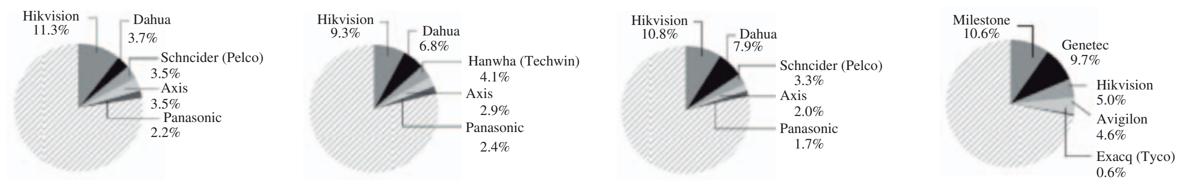
2012			2013			2014		
Rank	**Company**	**Market Share**	**Rank**	**Company**	**Market Share**	**Rank**	**Company**	**Market Share**
1	Hikvision	4.3%	1	Hikvision	6.1%	1	Hikvision	9.0%
2	Schneider (Pelco)	2.9%	2	Dahua	3.1%	2	Dahua	3.7%
3	Hanwha (Techwin)	2.7%	3	Schneider (Pelco)	2.6%	3	Axis	2.7%
4	Axis	2.5%	4	Axis	2.6%	4	Panasonic	2.4%
5	Bosch	2.3%	5	Hanwha (Techwin)	2.4%	5	Hanwha (Techwin)	2.2%
	Total	14.7%		Total	16.8%		Total	20%

Source: *Frost & Sullivan*

By product segment, the top five providers of video surveillance cameras, DVR, NVR and VMS products are as follows:

Global Market Share and Ranking, 2014

Camera (Front-end) | **DVR (Bank-end)** | **NVR (Back-end)** | **VMS (Controlling Center)**

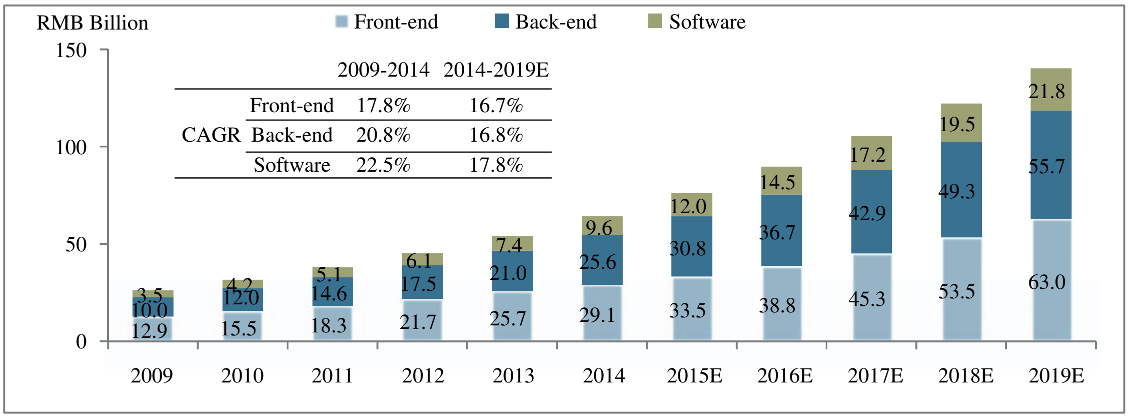


Source: Frost & Sullivan

Overview of Chinese Video Surveillance System Industry

China is one of the most important markets globally for the manufacturing and application of video surveillance systems. It is also the fastest growing video surveillance system market in the world, growing at a CAGR of 19.6% from 2009 to 2014, almost double the CAGR of the global market in the same period. According to Frost & Sullivan, due to having a larger base of growth, the Chinese video surveillance market growth rate is expected to moderate to a CAGR of 16.9% over 2014-2019. The continually evolving demand of Chinese enterprises and government customers are expected to drive further growth of the market in China.

Chinese Video Surveillance System Sales, 2009-2019E

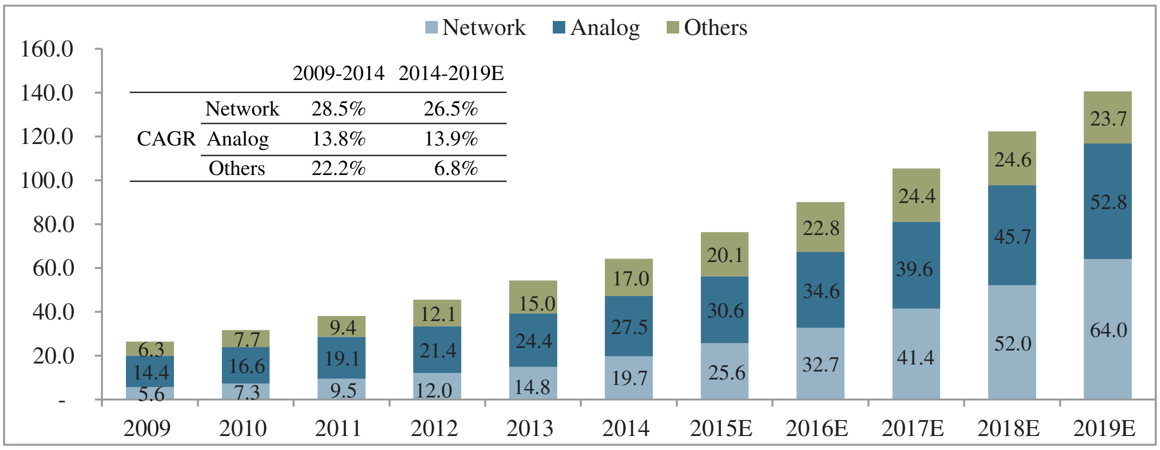


Source: Frost and Sullivan

According to Frost & Sullivan, front-end, back-end and controlling center products respectively accounted for 45.3%, 39.8% and 14.9% of the Chinese video surveillance system sales as of 2014. Frost & Sullivan expects this proportion to remain relatively stable going forward. Sales of front-end cameras are typically positively correlated to back-end systems, as one recorder is required to support a number of cameras. Controlling center equipment, on the other hand, is typically used in larger systems and applications where the capabilities to monitor, control and analyze a large network of cameras at a central location are required.

Market Size Breakdown by Transmission Mode of Video Surveillance Industry (China), 2009-2019E

(RMB Billion)



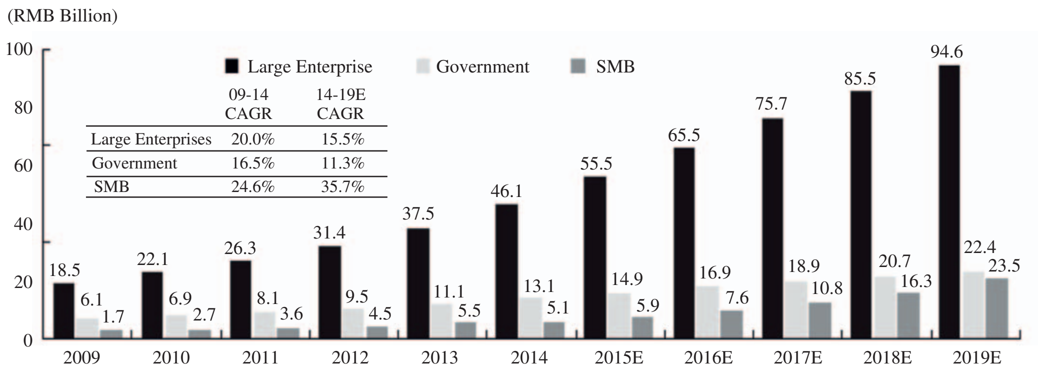
China's video surveillance industry is sharing the same trend as global market, transitioning towards high definition and network technology. According to Frost & Sullivan, from 2009 to 2014 the market for network video surveillance equipment grew at a CAGR of 28.5%. It is expected to further grow at a CAGR of 26.5% from 2014 to 2019, compared to a CAGR of 13.9% for the analog video surveillance market in China during the same time period.

Similar to other technology products, video surveillance systems generally experience price declines over time, mainly depending on the speed of new product development. In China, products with higher specifications are generally introduced into the market every 12 to 18 months, and in recent years the pace of new technology innovation has accelerated. Currently, video surveillance products generally have a replacement cycle of three to five years, though the availability of newer products with higher specifications, more compelling designs that are more suitable for customer needs, or better value-for-money may spur end-users to upgrade products much sooner.

According to Frost & Sullivan, the major end users of video surveillance systems in China include the three following segments: large enterprises, government and SMB. The large enterprise segment in China mainly encompasses banking and financial services, commercial and residential property management, energy, education, healthcare and retail. These customers tend to demand highly industry-specific products and solutions, as well as specialized after-sale services.

The government market includes direct or indirect purchases of video surveillance systems by government entities, but not including state-owned enterprises. The government market encompasses “Safe City” projects, “Smart City” projects, traffic management, public security, law enforcement, mass transit, and other critical facilities and infrastructure. Government investment in video surveillance systems is driven by government and public perceptions of public safety and relevant local or national government initiatives, as well as tax receipts of the particular locality and jurisdiction. According to Frost & Sullivan, the Chinese large enterprises and government market achieved sales of RMB46.1 billion and RMB13.1 billion as of 2014, respectively. Frost & Sullivan estimates that large Enterprise and government market would grow at a CAGR of 15.5% and 11.3% respectively from 2014 to 2019.

Market Size of Video Surveillance Industry (China), 2009-2019E



Source: Frost & Sullivan

The SMB market, on the other hand, remains a burgeoning source of growth for the video surveillance systems market. As advances in technology continue to bring down the cost of video surveillance systems while simultaneously increasing its technology content and ease of use, video surveillance systems are expected to evolve beyond security and protection to provide users with a broader range of value-added applications, increasing penetration among SMB customers. Frost & Sullivan expects the market to increase by a CAGR of 35.7%, from RMB5.1 billion in 2014 to RMB 23.5 billion by 2019.

Competitive Landscape

The Chinese video surveillance market is a fragmented market, with the top five players accounting for approximately 30.9% of sales in China in 2014. PRC local enterprises rank among the top firms while foreign players focus on the niche and high-end markets. Going forward, larger competitors such as Hikvision are expected to consolidate their market shares at the expense of smaller competitors.

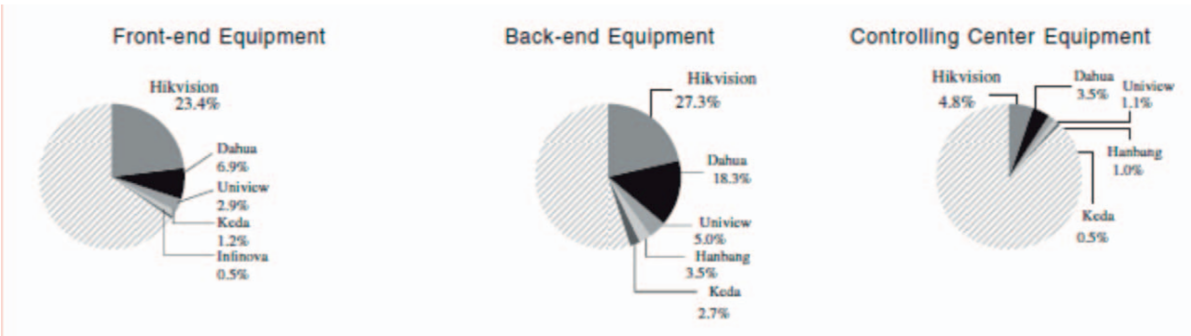
Chinese Video Surveillance Market Share and Ranking, 2012-2014

2012			2013			2014		
Rank	Company	Market Share	Rank	Company	Market Share	Rank	Company	Market Share
1	Hikvision	13.1%	1	Hikvision	15.1%	1	Hikvision	19.9%
2	Dahua	5.8%	2	Dahua	7.3%	2	Dahua	7.2%
3	Uniview	1.2%	3	Uniview	1.5%	3	Uniview	1.8%
4	Hanbang	1.0%	4	Hanbang	1.0%	4	Keda	1.1%
5	Keda	0.9%	5	Keda	1.0%	5	Hanbang	0.9%
	Total	22.0%		Total	26.0%		Total	30.9%

Source: Frost & Sullivan

By product segments, the top five providers of front-end equipment, back-end equipment and controlling center equipment are as follows:

Chinese Market Share and Ranking, 2014



Source: Frost & Sullivan

Factors Driving the Global Video Surveillance System Industry

Economic Growth and Infrastructure Investments

Growth of the global video surveillance system is driven by general economic growth, as well as investments in public transport, public logistics hubs and other infrastructure which create the need to safeguard these assets. Correspondingly, in developing countries and some developed countries, the increase in citizens' disposal income and personal net worth is driving the growth of video surveillance systems as people have more to protect and can afford to do so.

Meanwhile, with the establishment of Asia Infrastructure Investment Bank, combined with China's "One Belt One Road" policies, pan-Asia infrastructure investments are expected to increase further going further, investing demand for video surveillance systems in the region.

China experienced rapid economic growth during the past decade, which led to increased infrastructure investments, personal disposable income, urbanization and improvements in living standards. According to Frost & Sullivan, nominal personal disposable income per capita is expected to grow at a CAGR of 10% from 2014 to 2019. The urbanization rate is expected to reach 59.1% by 2019 from 54.8% as of 2014. Continuing economic and disposable income growth is expected to further fuel the growth momentum of the video surveillance industry.

Rising Awareness for Public Security Issues

Increasing frequency of public security incidents is leading to wider public awareness of the necessities of video surveillance systems. According to "2013 Global Homicide Study Report" published by United Nations, international homicide caused the deaths of almost half a million people across the world in 2012, and it is a more serious problem in developing countries than that of the developed countries. The rise of public opinion regarding public security has led to large volumes of new regulatory and non-regulatory standards concerning public safety all over the world, as well as increased investments in video surveillance projects.

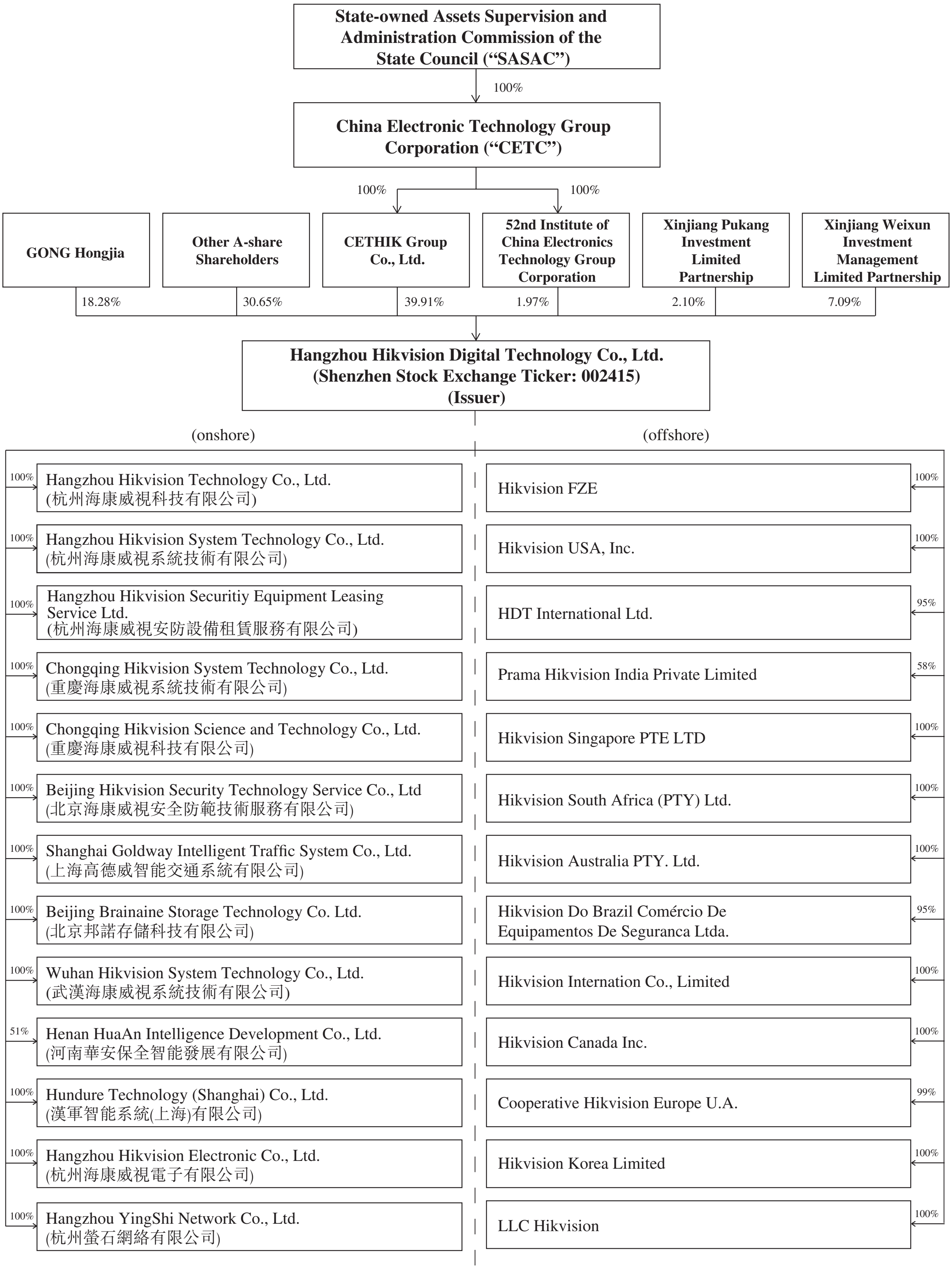
For example, the Australian government has mandated the deployment of security guards and installation of video surveillance systems in 50 schools as of March 2015, following increasing public demand for implementation of anti-terrorism measures. In September 2014 the Mexican government signed an agreement to install video surveillance systems in 44 out of 123 cities nationwide. Also, since 11 September terrorist attacks, the United States has deployed video surveillance systems to increase monitoring of its Northern and Southern borders, as well as extensively expanded its use of intelligent monitoring solutions in airports and other infrastructure.

Advances in technology applications and value-added services

Introduction of new applications and new technology, such as high definition cameras and network-based equipment, stimulates replacement demand by existing customers. On the software sale, advances in video content analysis, cloud storage and analytics technology are enabling the creation of new addressable markets and business models, which in turn faster new demand, leading to the evolution of the video surveillance industry.

CORPORATE STRUCTURE

This is a simplified version of the corporate structure of the Group as of the date of this Offering Memorandum:



DESCRIPTION OF THE ISSUER

OVERVIEW

We are the largest provider of video surveillance solutions in the world in terms of revenue, with a focus on becoming a world-leading provider of intelligent video solutions and video content services. Our solutions include software and hardware covering a comprehensive range of video capture, transfer, storage, display, content management and analytics applications. Specifically, these primarily include cameras, digital video servers, recorders, transmission devices, monitors, controllers, video management software, centralized storage devices and cloud computing platform. We target to offer one-stop solutions to our customers in order to serve their video surveillance requirements holistically. Our ordinary shares are listed on the Shenzhen Stock Exchange under stock code 002415.

According to Frost & Sullivan, in terms of revenue, we are the largest video surveillance company in China since 2007 and the largest global provider of video surveillance solutions for the last four consecutive years from 2011 to 2014. Our leading market position is the culmination of our transformation from a manufacturer of audio-visual compression card in 2002 to a provider of comprehensive video surveillance products and solutions today. Our success stems from our ability to capitalize on shifting industry trends, our ability to launch products on a timely basis, our ability to offer customized products and solutions to meet the diverse demands of our customers, and our economies of scale in R&D.

Our products and solutions are used for numerous end user market applications. We have seven industry-focused groups, including public security, intelligent properties, transportation, financial institutions, culture, education and healthcare, energy as well as judiciary systems, to design, develop and provide over 200 specific video surveillance solutions. We also provide products and solutions to the SMB market. We provide our products and solutions to end users through distributors, system integrators and installers.

We recorded total revenue of approximately RMB7.1 billion, RMB10.6 billion and RMB17.1 billion for 2012, 2013 and 2014, respectively, representing a CAGR of 54.7% and we recorded total revenue of RMB6.0 billion and RMB9.7 billion for the six months ended 30 June 2014 and 2015, respectively, representing an increase of 63.4%. For 2012, 2013 and 2014, we recorded net profit of approximately RMB2.1 billion, RMB3.1 billion and RMB4.7 billion, respectively, representing a CAGR of 47.9% and we recorded net profit of RMB1.5 billion and RMB2.2 billion for the six months ended 30 June 2014 and 2015, respectively, representing an increase of 45%.

Our business has a global presence and grew rapidly. Within China, one of the world's fastest growing video surveillance markets, our leading market position is supported by an extensive distribution network of 35 branches and over 200 sales offices covering every province. Our domestic revenue grew from approximately RMB6.0 billion in 2012 to approximately RMB12.9 billion in 2014, representing a CAGR of 46.7% and our domestic revenue grew 65.1% from approximately RMB4.3 billion for the six months ended 30 June 2014 to RMB7.2 billion for the six months ended 30 June 2015. Outside of China, we currently have 20 overseas subsidiaries, offering our products, solutions and services to customers in over 150 countries and regions. Our overseas business has experienced robust growth in recent years. Our overseas revenue increased from approximately RMB1.2 billion in 2012 to approximately RMB4.2 billion in 2014, representing a CAGR of 90.6%, and our overseas revenue grew 58.7% from approximately RMB1.6 billion for the six months ended 30 June 2014 to RMB2.6 billion for the six months ended 30 June 2015. Our "HIKVISION" brand is well recognized and we have received a number of industry recognitions. We have been ranked by A&S Magazine, a renowned security industry publication, as first in its China Top 50 Security rankings and third in its Global Security Top 50 rankings in 2014, as well as the "Leading Brand of China's Security Industry" by China International E-Commerce Association in 2014, among other honors and recognitions. Our products and/or solutions were used in a number of high profile projects, including the Beijing Olympic Games in 2008, Shanghai Expo in 2010 and the FIFA World Cup Brazil in 2014.

We are highly committed to R&D. Our R&D activities are focused on new technology commercialization and next-generation products' user requirements. As of 30 June 2015, our R&D team consisted of approximately 6,000 staff located across Hangzhou, Beijing, Shanghai, Chongqing and Wuhan. In 2014 and the first half of 2015, our R&D expenditures were approximately RMB1.3 billion and RMB0.8 billion, or approximately 7.6% and 8.4% of total revenue of the relevant periods, respectively. According to Frost & Sullivan, our R&D expenses in 2014 was the highest among our main competitors in China and overseas. We also led or participated in the formulation of several domestic and international industry standards for the video surveillance industry. We focus on developing the latest generation of products and solutions in the field of intelligent video analytics, cloud computing, cloud storage and Internet-based video content services. Since 2013, as part of our efforts to reach the consumer market, we have launched our "EZVIZ" branded Internet-based video business. Our "EZVIZ" products mainly include Internet cameras, cloud storage, wireless sensors and action cameras. The "EZVIZ" ecosystem provides numerous applications of household security, caring, sharing and entertainment for consumers as well as enterprise security applications and services for SMBs. We have also developed an "EZVIZ" cloud platform and mobile App enabling customers to remotely monitor, watch and share videos, receive information and interact using a smart phone or tablet. Our "EZVIZ" business is at an early development stage and we will further invest in this business. We will continue to maintain our growth momentum and expand our potential end user markets by constantly developing new products, solutions and business models.

GENERAL INFORMATION

We are a company incorporated as a limited liability company on 30 November 2001 in the People's Republic of China in accordance with the laws and regulations of the People's Republic China. The registration number of our business license is 91330000733796106P and the operation period is indefinite. Our registered company domicile is 36 Macheng Road, Xihu District, Hangzhou, Zhejiang, 310012, PRC. The phone number is +86 571 8971 0492. The business address of the Directors and Senior Management is 21F Tower A, 555 Qianmo Road, Bingjiang District, Hangzhou, 310051, PRC. Our ordinary shares are listed on the Shenzhen Stock Exchange under stock code 002415. The phone number is +86 571 8807 5998.

We are founded by Haikang Information Technology and Gong Hongjia in 2001. Six years later in 2007, we entered A&S Magazine's Global Security Top 50 list and ranked as the highest among Chinese firms. In the same year, we were also listed as a key software enterprise with the National Programming. In 2010, we listed our A-share on Shenzhen Stock Exchange (under stock code 002415). And according to Frost & Sullivan, in 2011, we became the world's largest video surveillance firm in terms of sales. In 2014, we ranked 3rd among Global Security Top 50 by A&S Magazine, and nearly 1 million users registered on the EZVIZ cloud platform. In 2015, we ranked No.1 globally as per evaluation by Karlsruhe Institute of Technology and Toyota Technological Institute at Chicago for its world leading computer vision technology and intelligence analysis.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success and differentiate us from our competitors:

The world's largest video surveillance solution provider with significant economies of scale and a well-recognized brand well-positioned to benefit from the growing video surveillance industry

We are the largest global video surveillance solution provider in the world for the last four consecutive years from 2011 to 2014 in terms of revenue according to Frost & Sullivan. We were also the largest player in the video surveillance market in China since 2007 in terms of revenue according to Frost & Sullivan. According to Frost & Sullivan, from 2012 to 2014, we have increased our share of the Chinese video surveillance market from 13.1% to 19.9%; at the same time, our share of the global video surveillance market has increased from 4.3% to 9.0%. We are the only

Chinese video surveillance company to consistently rank first globally in terms of revenue in an industry characterized by intense competition. We also consistently rank first globally across a number of sub-categories within the video surveillance industry. According to Frost & Sullivan, we were, in terms of revenue for the year ended 31 December 2014:

- the largest video surveillance camera provider in the world;
- the largest DVR provider in the world;
- the largest NVR provider in the world; and
- the third largest VMS software provider in the world.

Our market-leading position will enable us to benefit from the rapidly growing video surveillance market globally and in China, particularly the network-based video surveillance market that we focus on. According to Frost & Sullivan, the global video surveillance market is expected to grow from US$34.2 billion in 2015 to US$52.7 billion in 2019, representing a CAGR of 11.4%; at the same time, the Chinese video surveillance market is expected to grow from US$12.3 billion in 2015 to US$22.7 billion in 2019, representing a CAGR of 16.7%. We successfully anticipated and capitalized on the rapid rise and adoption of network-based video surveillance technology within the last 4-5 years. According to Frost & Sullivan, the growth of the network-based video surveillance market is expected to outpace the overall video surveillance market both globally and in China, according to Frost & Sullivan. The global network-based video surveillance market is expected to grow from US$12.9 billion in 2015 to US$28.3 billion in 2019, representing a CAGR of 21.7%; at the same time, the Chinese network-based video surveillance market is expected to grow from US$4.1 billion in 2015 to US$10.3 billion in 2019, representing a CAGR of 25.9%. Starting in 2010, we started to develop and commercialize a full suite of network-based video surveillance products, including network cameras, storage solutions and video management software. By 2014, we derived a large portion of revenue from network-based equipment and became a globally leading provider of network-based video surveillance solutions. Going forward, we are well-positioned to continue capitalizing on our leading market position in the global video surveillance market and further distinguish ourselves from our competitors and particularly in the network-based solutions segment.

Our significant economies of scale allow us to competitively provide customers with cost-effective products and solutions. It also enables us to allocate significant resources to R&D initiatives, which lead to shortened product development cycles and faster commercialization of new technologies. These scale advantages also enable us to gain greater bargaining power and enhance our supply chain management efficiency.

After years of continuous efforts, our "HIKVISION" brand has achieved strong recognition both within China and overseas. We believe our brand is a key strategic asset that distinguishes us from our competitors and provides competitive advantages in our market expansion. We believe the combination of our market leading position, economies of scale and brand recognition position us well to increase our profitability, mitigate risks and benefit from industry consolidation.

Comprehensive product portfolio and strong solution delivery capabilities that support our diverse customer base

Our management team has significant insight into the latest market developments and potential opportunities based on their years of experience. We have also anticipated long-term trends and expanded into new product categories overtime in ways that have transformed our business. We began as a manufacturer of audio-visual compression cards in 2002. From 2003 to 2005, we expanded our back-end product categories, including various types of multiple DVR and NVR products. Leveraging on our strength in back-end products, starting in 2006 we expanded our product categories to encompass front-end cameras, transfer, display, control, and video content management solutions. By 2012, we had become the world's largest provider of comprehensive video surveillance solutions in terms of revenue, according to Frost & Sullivan. In 2015, we launched Smart video solutions to provide real-time online video surveillance services.

We have combined our accumulated expertise in video surveillance technologies with our deep understanding of the needs of end users in various industries to provide solutions tailored to these industries. To efficiently and cost-effectively serve our customers in different industries, we have established seven industry-focused groups, consisting of public security, intelligent properties, transportation, financial institutions, culture, education and healthcare, energy and judiciary system and others, to design, develop and provide over 200 specific video surveillance solutions to these industries. In addition, we customize our solutions by adding additional features and applications according to our customer's needs.

Our comprehensive video surveillance product portfolio and strong solution delivery capabilities have allowed us to develop diverse sale channels and a global customer base. In China, we sell our products to end users directly, and indirectly through distributors and system integrators/installers. We also sell our products primarily through system integrators/installers in our overseas markets, including the United States, Europe, South America, Asia-Pacific regions and others.

One-stop video surveillance solutions and proactive customer management that enhance our customer loyalty

We provide video surveillance one-stop solutions to meet the needs of our customers and their respective end user markets by leveraging our full range of video surveillance products and experience in industry-specific solutions. We implement a matrix system to manage our customer relationships by industries, products and sales regions, thereby ensuring we have holistic knowledge of our customer needs at any given time. We believe our close contact with end users allows us to gain insight into the latest market trends and optimize the allocation of our R&D resources to refine or develop products in line with customer needs and industry trends. Our in-depth knowledge of our end customers and their respective industries also enable us to seize business opportunities and develop personalized products and deliver one-stop solutions that cater to their specific needs. In addition, our sales and distribution network provides crucial training and service support to our end users, and the proximity to the end users enhances our customer experience and awareness. We believe that our one-stop video surveillance solutions and proactive management of customer relationships have built strong customer loyalty.

Extensive domestic and international sales network to support our future growth

In China, one of the world's fastest-growing video surveillance markets, we possess an extensive sales network with 35 branches and over 200 sales offices covering every province. We sell our products to system integrators/installers, which mainly serve governmental entities and large-scale corporations, and provide designs and solutions customized to their specific needs. In addition, we cover SMEs through our cooperation with over 500 distributors in China to provide products, aftersales services and technical support. We launched our "EZVIZ" branded Internet-based video business in 2013, which will help to further diversity our sales channels. Our "EZVIZ" business provide Internet-based video applications and content services to SMBs, families and individuals primarily through intelligent video products and other sensors, cloud-based intelligent video service platform and mobile Apps. Our extensive sales network in China has contributed to our fast growth over the last several years. Our domestic revenue grew from approximately RMB6.0 billion in 2012 to approximately RMB12.9 billion in 2014, representing a CAGR of 46.7%. The number of our branches grew from 30 in 2012, to 32 in 2013 and to 34 in 2014 and the number of our offices grew from 106 in 2012, to 156 in 2013, and to 225 in 2014. As of 30 June 2015, we had 35 branches domestically.

In our overseas market, as of 30 June 2015, we had 20 overseas subsidiaries located across the Americas, Europe, and Asia Pacific regions, offering our products, solutions and services to customers in over 150 countries and regions. Our overseas revenue grew from approximately RMB1.2 billion in 2012 to approximately RMB4.2 billion in 2014, representing a CAGR of 90.6%, and our overseas revenue grew 58.7% from approximately RMB1.6 billion for the six months ended 30 June 2014 to RMB2.6 billion for the six months ended 30 June 2015. The revenue contribution of our overseas business also increased from approximately 16.3% in 2012 to approximately 24.8% in 2014 and approximately 26.4% for the six months ended 30 June 2015. We believe that our experience in China can be readily tailored to transform us from a product manufacturer to a comprehensive video surveillance solution provider in the overseas market.

Strong R&D capability with a large base of accumulated technological know-how and rapid technology commercialization abilities

Since the inception of our company, we have been deeply rooted in the culture of innovation and entrepreneurship. Most of our senior management came from technical backgrounds with experience in R&D and product development. As of 30 June 2015, we had approximately 6,000 R&D staff located across Hangzhou, Beijing, Shanghai, Chongqing and Wuhan. We implement incentive policies for our R&D management personnel and R&D staff, attracting plenty of talents for our long-term development. In 2014 and the first half year of 2015, our R&D expenditures were approximately RMB1.3 billion and RMB 0.8 billion, or approximately 7.6% and 8.4%, of total revenue of the relevant periods, respectively. According to Frost & Sullivan, our R&D expenses in 2014 was the highest among our main competitors in China and overseas. As of 30 June 2015, we held over 500 registered patents issued by the State Intellectual Property Office of the PRC, over 20 patents issued by overseas authorities and over 400 software copyrights globally. We also led or participated in the formulation of domestic industry standards for video surveillance industry.

In February 2015, aiming to further develop and enhance our R&D capability, we established a Research Institute to integrate our R&D resources and achievements in next-generation technologies and solutions. We plan to invest in next-generation R&D projects in potential areas with significant business opportunities to maintain our strong technological leadership position, which is critical to our long-term development. In addition to our in-house R&D activities, we have established long-term relationships with several universities and research institutions in China. We also entered into cooperation relationship with globally leading technology companies.

Our proven track record of successful product innovation and business transformations demonstrates our ability to adapt to and capitalize on rapidly changing potential markets. Furthermore, our strategic focus is now on expanding from traditional video surveillance products and solutions to intelligent video and Internet-based video solutions for a much broader potential end user market. Our business model is evolving to provide intelligent video analytics, cloud storage, cloud computing and Internet-based video content services and solutions. With such initiatives in place, we are steering our R&D activities in order to deepen our relationships with government and large corporate customers, and expand into the SMB and consumer segments. Our consistent investments in application-based R&D and human capital, together with our extensive intellectual capital and large base of accumulated technical know-how, serve as a fundamental driver for our competitive strength within this industry.

Strong support from PRC government and our state-owned parent

Our parent company China Electronics Technology Group Corporation ("**CETC**") was founded in 2002 and formed on the basis of the Electronics Research Institute, which was a former large state-owned enterprise under the Ministry of Industry and High-tech Enterprises. CETC is one of the top 10 defense companies directly under SASAC and the only large national centrally-owned enterprise focused on the development of electronic information technology and systems. As the national leader for defense electronics, CETC plays a fundamental and leading role in the digitization of China's information systems.

We are the only platform for security video surveillance under CETC with access to state-of-the-art technologies and a full range of products and solutions. We act as the contractor for CETC's milestone projects such as Safe City and Smart City, responsible for project management and execution. In 2014 our net profit accounted for 42.5% of CETC's net profit. We are the largest listed company owned by CETC and have become the most profitable entity under CETC.

We also enjoy strong support from central and local PRC government. In 2014, the NDRC issued Guidance on the Promotion of the Healthy Development of Smart Cities (《關於促進智慧城市健康發展的指導意見》) to ensure smooth progression of "Smart City" projects and Several Opinions on Strengthening Public Security Video Surveillance Network Construction (《關於加強公共安全視頻監控建設聯網應用工作的若干意見》) to build a comprehensive public security video surveillance network by 2020. As the State Certified Enterprise Technology Centre (國家認定企業技術中心), Post-doctoral Research Work Station of the Enterprises (企業博士後科研工作站), Zhejiang Provincial Engineering and Technology Research Centre (浙江省省級工程技術研究中心) and the Key Laboratory of Public Security Information Application Based on Big-data Architecture granted by the Ministry of Public Security (基於大數據架構的公安信息化應用公安部重點實驗室), we undertake or participate in numerous R&D projects initiated by government entities. In addition, the Zhejiang People's Government standardized the construction of "Smart City" projects to further promote the scientific development of these projects. We have also entered into a cooperation agreement with Zhejiang Provincial Public Security Bureau to conduct technology and application research in the area of video surveillance and smart public security.

The Hangzhou government has provided ample land for our development through overall planning and provision of reserved land, including: Hangzhou Phase I production facilities, covering an area of 45,000 square meter(s) ("**sq.m.**"), Hangzhou R&D headquarters building, covering an area of 22,000 sq.m., Hangzhou Tonglu intelligent production facilities, covering an area of 600,000 sq.m., Hangzhou Internet Security Base, covering an area of 55,000 sq.m. Government agencies like NDRC and the Ministry of Industry and Information Technology of the PRC (the "**MIIT**") offer substantial fiscal subsidies to us for undertaking important research and industrial projects. In January 2015, Hangzhou Municipal Committee and Hangzhou Government published Suggestions on Introduction and Development of High-Level Talent and Individuals for Entrepreneurship in Hangzhou, (《關於杭州市高層次人才、創新創業人才及團隊引進培養工作的若干意見》) to attract talent to innovate and start-up companies in Hangzhou by helping them to hire and retain better human capital.

Experienced and stable management team with a proven track record

We have a diversified and well-balanced shareholding structure consisting of a state-owned shareholder, financial investors, senior management and the public. Our experienced senior management members have been with our company for an average of eight years, out of which the core members have been with our company since inception. Our management team comes from technical background has a deep understanding of the video surveillance industry and broader potential markets, maintained a track record of successfully transforming our company to capture new opportunities and consistently delivered shareholder value.

Since our inception, we have implemented a "sharing the company's growth" compensation scheme, wherein part of our management's pay is tied to our company's performance. We have an effective and complete Restrictive A Share Incentive Schemes that grant A Shares to a number of our senior, middle and working level management and employees. The evaluation criteria of our incentive scheme include return on assets and revenue growth targets. In 2012 and 2014, a total of approximately 8,600,000 and 52,910,000 restricted A shares were granted to 562 and 1,128 recipients under the Restricted A Share Incentive Schemes, respectively. We believe our compensation and incentive programs align the interests of our management and employees with our shareholders.

Strong financial performance through the cycles

We maintain stable and healthy growth and profitability in the past years. We recorded total revenue of approximately RMB7.1 billion, RMB10.6 billion and RMB17.1 billion for 2012, 2013 and 2014, respectively, representing a CAGR of 54.7% and we recorded total revenue of RMB6.0 billion and RMB9.7 billion for the six months ended 30 June 2014 and 2015, respectively, representing an increase of 63.4%. We recorded net profit of approximately RMB2.1 billion, RMB3.1 billion and RMB4.7 billion for 2012, 2013 and 2014, respectively, representing a CAGR of 47.9% and we recorded net profit of RMB1.5 billion and RMB2.2 billion for the six months ended 30 June 2014 and 2015, respectively, representing an increase of 45.0%.

OUR STRATEGIES

We are the world's largest video surveillance solution provider, with a focus on becoming a world-leading provider of intelligent video solutions and video content services. We plan to further expand our video surveillance solutions and the scope of services for customers over a broader range of end user markets and geographies. In addition, we plan to continue developing Internet-based video solutions for the SMB and consumer markets, which we believe have significant potential for future development. To achieve these goals, we aim to:

Further enhance our leading market position in the domestic video surveillance industry

In terms of our product portfolio and solutions, we will continue to introduce new video surveillance products and enhance our design capabilities to provide customized solutions to customers in more industry segments, which we believe will further strengthen our leading market position in video surveillance industry in China. We will expand our pre-sales and solution design team, respond to the needs of our cooperative partners and end users in a timely manner, and further enhance our strengths in designing and customizing industry solutions to strengthen our customer stickiness and increase barriers to entry.

In terms of our sales channels, we plan to continue to increase the number of our branches, expand our distribution channels to cover cities, counties and towns with business development potential and tier three and tier four cities in China. We will also further expand our distribution channels. In order to enter into the growing SMB market, we will further strengthen our cooperation with our domestic distributors and partners, including the provision of marketing and technical training support.

Strengthen our market share and brand recognition globally

We plan to further expand our sales and distribution network in overseas markets by establishing new subsidiaries, joint ventures and/or sales offices and by liaising with our distributors. In conjunction with expansion of our sales network, we plan to establish comprehensive localized capabilities including local sales and marketing, technical support, logistics and after-sale services in our current and future regional hubs. Meanwhile, we plan to establish a localized team of talent to provide services in order to better serve our local customers and further improve our international growth momentum. We will also work closely with local system integrators and end-users to develop solutions that cater to local market needs, enabling us to evolve from being a provider of products to being a provider of both products and solutions.

With respect to our "HIKVISION" brand, we plan to further carry out marketing activities to increase our brand awareness in overseas markets. We also plan to upgrade our products and solutions such that they are suitable for the mid-to-high-end overseas market by positioning "HIKVISION" as a global quality brand. In addition, we plan to explore overseas SMB and consumer markets to realize the global promotion of "EZVIZ" products and applications and the global presence of our "EZVIZ" users.

Strengthen our innovation leadership through continuous significant R&D investment

We will continue to maintain and further strengthen our investment in our R&D activities, focus on accelerating the commercialization of technology to enable us to rapidly respond to market demands, as well as shorten the time required for launching and upgrading of new products. We plan to further strengthen our software design capabilities and develop more intelligent video solutions for our end users by continuing to integrate the latest technological advances in high-definition video, video content analytics, patterns identifications, Big Data and cloud-based technology. Furthermore, relying on our newly established research institute, we will strengthen our research on fundamental, prospective technologies such as the next generation of video technology and intelligent video and audio analysis technology, continue to strengthen our understanding of technological developments and innovation trends, improve our ability to enter new industries and new businesses and lay the foundation for our long-term sustainable development.

Develop our Internet-based video business and video content services business

As part of our consumer business strategy, we plan to continue to develop our "EZVIZ"-branded Internet video-based business, including Internet cameras, action cameras, cloud storage and wireless sensors products. We plan to seamlessly integrate such products with our "EZVIZ" cloud-based intelligent video service and mobile App. We plan to target under-served markets for SMBs, families and individual consumers by leveraging the "EZVIZ" ecosystem to provide a wide range of tailored applications for enterprise and household security and caring, sharing and entertainment purposes. On the basis of the above products and services, we plan to further accelerate growth of our user base, accumulate intelligence about our user base and improve users stickiness to form a content service-based revenue model. In addition, we will actively develop open platform of "EZVIZ" cloud and encourage third-parties to develop App and value-added services on our "EZVIZ" hardware and software ecosystem.

Maintain high profit margins and strong cash flow with prudent financial management policies

We have established a centralized financial information management system to ensure consistent financial policy and up-to-date, accurate financial information across subsidiaries at all levels. Our centralized fund management system is supported by comprehensive risk management through effective allocation of budget funds. As a result, we maintain a healthy capital structure by periodically evaluating the relevant financial ratios.

We are committed to maintaining a balance of net cash liquidity risks. We implement robust credit policy to secure quick recovery of accounts receivable, maintain a moderate inventory level and accelerate turnover to drive stable business growth.

We have also published foreign exchange risk management policies, under which foreign exchange hedging should be based on actual business needs and be conducted in a prudential manner with the aim to reduce foreign exchange risk, and speculative hedging is strictly forbidden.

We stick to our principles of investment management: centralized decision making, hierarchical management, clearly-defined responsibilities and well-regulated operations. Investments are focused on our core business and in line with our business layout and structural adjustment, as well as our growth strategy and planning. According to to our principles, no investment shall be made in non-core areas, no investment shall be made where no funds have already been secured and no investment shall be made with expected return lower than those achieved by domestic peers.

We arrange financing and fundraising in a centralized manner and maintains a reasonable, robust capital structure to effectively control financial risk. We have diversified financing channels, by virtue of our extensive cooperation with other financial insitutions. We believe that with our prudent financial management policies, we could maintain high profit margins and strong cash flow in the future.

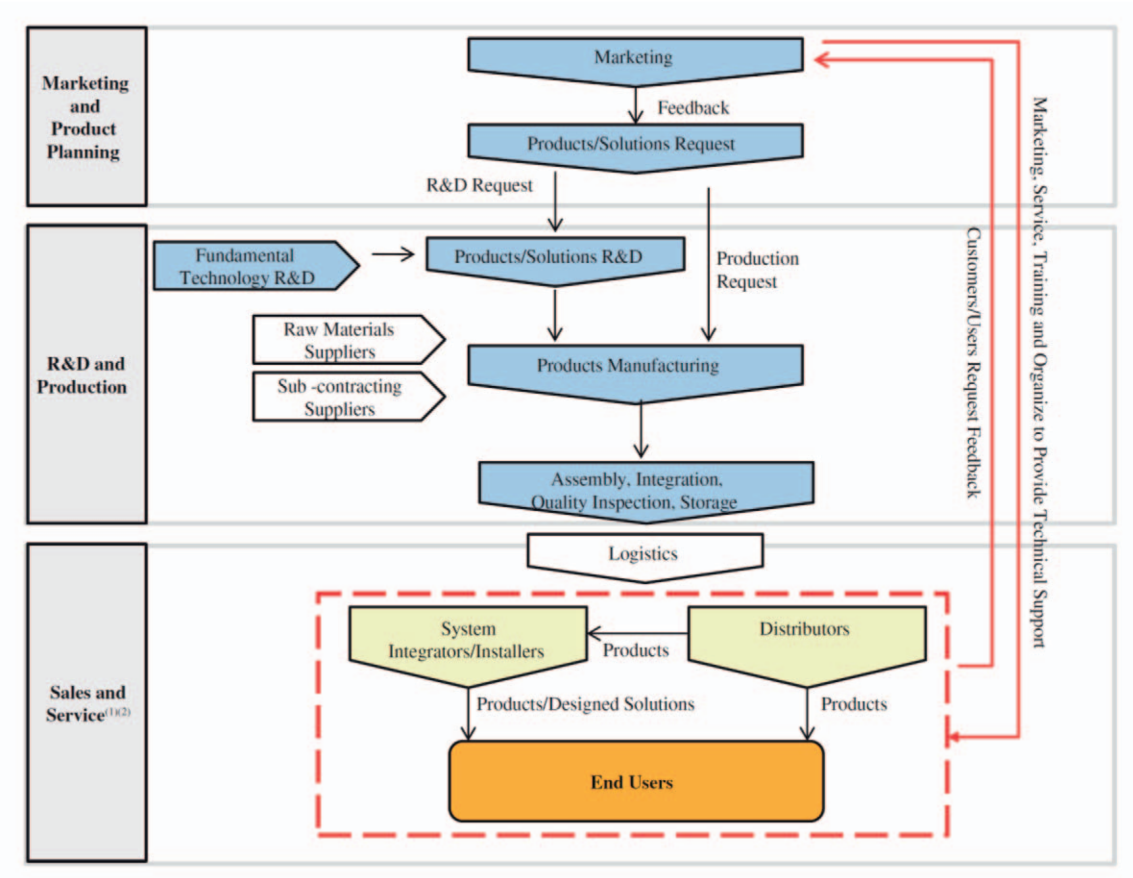
Maintain our cost advantages and optimize our supply chain by leveraging our economies of scale

One of our core competitive strengths is our capacity to deliver timely, customized and cost-effective solutions to our customers. We plan to leverage our leading market position and economies of scale to optimize our supply chain system and maintain cost advantages, while maintaining the high quality of our products. To manage the rapid expansion of our business, we intend to continuously optimize our operations and improve the flexibility and efficiency of our production by introducing more automated equipment and processes in our production facilities, warehousing and logistic systems. In addition, we also intend to continue to fine-tune our production techniques, including sharing operational and inventory information with suppliers and subcontractors to achieve JIT "Just-In-Time" production and improve inventory turnover and production efficiency.

Our Business Model

We focus on creating proprietary designs and technologies to develop, manufacture and sell video surveillance products as well as provide related solutions and services. To satisfy both mass production and specific demands from our customers, we offer base-line products and customized products, which are manufactured by ourselves or through subcontracting to external manufacturers. We provide industry-specific video surveillance solutions to end users in various industries directly or indirectly through system integrators or installers. While end users generally engage system integrators or installers to install and maintain our products, we provide construction project management services to end users directly for selected video surveillance projects.

The following chart illustrates the business model of our video surveillance business:



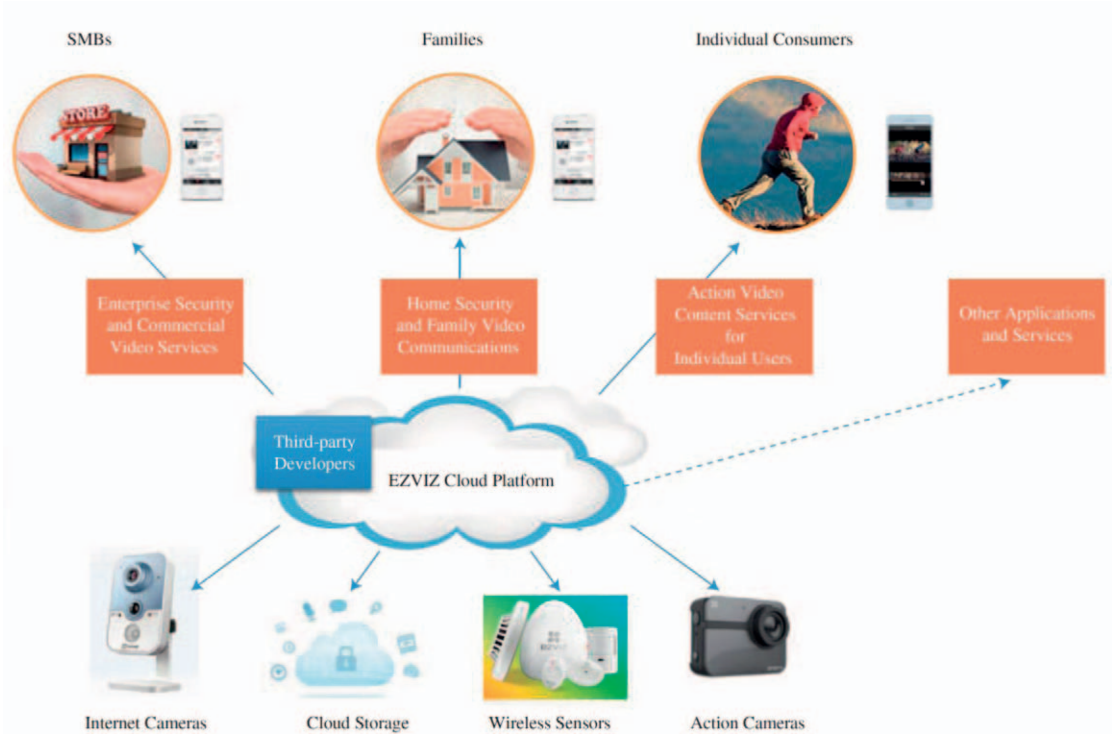
Notes:

(1) Including our construction project management services provided to end user customers.

(2) Including our sales of OEM products to overseas customers.

In 2013, we launched our Internet-based video business under the brand of "EZVIZ." Through our intelligent video products and other sensors connected to the "EZVIZ" cloud platform, we develop and provide video content services and applications developed by ourselves on the "EZVIZ" cloud platform to SMBs, families and individual consumers.

The following chart illustrates the business model of our Internet-based video business:



We manage our business via a matrix management structure, which has three distinct dimensions: industries, products and sales regions. Each of the industries, products and sales region-focused groups formulates and executes on an annual plan focusing on the development of its given area, though the three groups often collaborate to triangulate sales opportunities. Through the interaction of the three dimensions, we are able to quickly respond to customer demands by providing tailor-made products and solutions.

For example, our regional sales team focuses on collecting and understanding the needs of our end-users on an ever-more local level, which the group then passes on to the industry and product focused groups. Based on input from the regional sales groups, the industry-focused groups then develop and customize industry-specific solutions, while product-focused groups design the specific product and systems specifications.

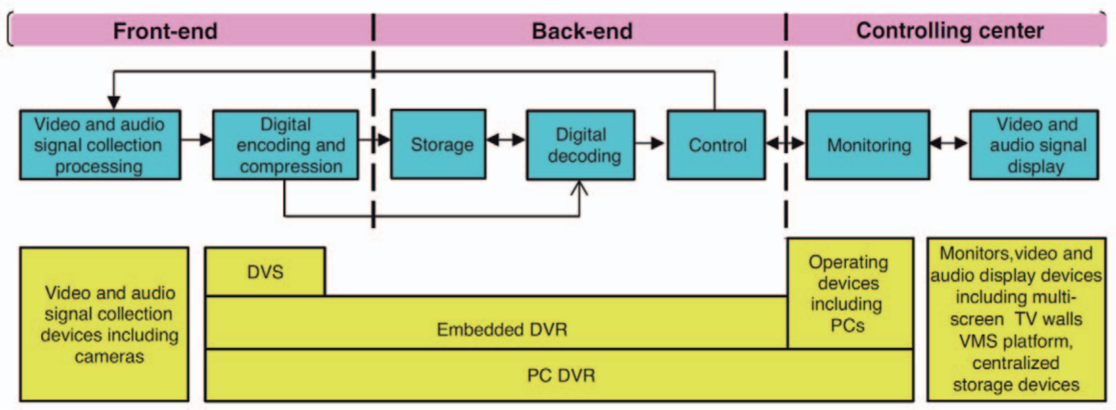
Video Surveillance Products, Solutions and Services

We design, manufacture and sell video surveillance products, including primarily cameras, digital video servers (DVSs), recorders, transmission devices, monitors, controllers, back-end management software and centralized storage devices and provide industry-specific video surveillance solutions to various public and private sectors. We also provide construction project management services for a few selected video surveillance projects.

Our Products

Video Surveillance Equipment

Our products consist of all major video surveillance system equipment, including the front-end collection equipment, back-end storage equipment, and controlling centre equipment. The front-end equipment for a typical video surveillance system primarily consists of cameras for collecting video and audio signals and DVSs for compressing and encoding video and audio signals. The back-end equipment for a typical video surveillance system primarily consists of recorders for recording and storing the video and audio signals. The controlling centre equipment for a typical video surveillance system primarily consists of transmission and control devices for the control, retrieval and display of video and audio signals, VMS software and centralized storage devices. The following chart shows the major equipment for and the major processing steps involved in a typical video surveillance system:



The following table sets forth our major product categories and representative products in each category:

Product Group	Product Category	Representative Products
Front-end products.	Cameras	Network Cameras (Smart Network Cameras, HD Network Cameras, Smart HD Network Dome Cameras, Network Dome Cameras, Network Integrated Cloud Platforms, Thermal-Imaging Network Cameras)
		Analog Cameras (Coaxial-HD Cameras, Ordinary Analog Cameras, Coaxial-HD Dome Cameras, Analog Smart Dome Cameras)
	DVS	Video Server
Back-end products	Recorders	NVR, DVR, Hybrid DVR, TVI-DVR, HD-DVR
Controlling centre equipment	Transmission devices	SD Video Optical Transmitters, HD Video Optical Transmitters, Optical Network Transmission Device, HD-SDI Video Optical Transmitter, Integrated Platform Video Optical Transmitter, Plug-in Video Optical Transmitter Chassis
	Monitors	Mosaic Screen LCD Display Unit, Mosaic Screen DLP Display Unit, Mosaic Screen PDP Display Unit, Monitor
	Controllers	Multi-Screen Controller, Matrix Switcher, Video Integrated Platform, Controller Keyboard
	VMS software	PC-based software, mobile-based software, centralized management software
	Centralized storage devices	CVR Network Storage, Cloud Storage, SAN/NAS Network Storage, Data NetworkStorage

The following table sets forth revenues from our video surveillance products by product group and as percentages of our total revenue from video surveillance products during the years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2015:

	Year ended 31 December						Six months ended 30 June 2015	
	2012		2013		2014			
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Front-end products	3,229,100	47.2	5,233,725	50.8	9,067,728	55.7	5,365,859	57.2
Back-end products	2,380,531	34.8	3,042,783	29.5	3,510,344	21.6	1,902,301	20.3
Controlling centre equipment	554,872	8.1	1,024,589	9.9	1,638,796	10.1	838,660	8.9
Others (1)	679,017	9.9	1,005,026	9.8	2,058,027	12.6	1,275,701	13.6
Total	6,843,520	100.0	10,306,123	100.0	16,274,895	100.0	9,382,521	100%

Note:

(1) Others primarily include hard disks purchased from third parties and other video surveillance accessories.

Front-end Products

Cameras

Network Cameras

Our network camera products primarily include Smart Network Cameras, HD Network Cameras, Smart HD Network Dome Cameras, Network Dome Cameras, Network Integrated Cloud Platforms and Thermal-Imaging Network Cameras. Network cameras are video signal collection and processing devices converting optical signals to digital video signals and then encode and compress such digital video signals. Non-Dome Network cameras are mainly used for non-panorama monitoring areas, like properties, corridors, alleys, streets, among others. Dome cameras typically have 360-degree panoramic monitoring capabilities with multi-angle tracking views and minimal blind spots and are mainly used in places like plazas, cross roads and exhibition halls where a large-scale and panoramic monitoring is required.

The table below sets forth the representative products of our network cameras:

Product	Photo	Function/Feature
Smart IPCs		• Various "micro intelligence" functions, such as regional/ cross-border intrusion detection, license plate recognition and human face detection
HD Network Cameras		• 3D noise reduction, dynamic range and backlight compensation • Low bandwidth requirement and storage costs
Smart HD Network Dome Cameras		• Practical intelligent technologies including border-crossing detection, regional intrusion, entering/leaving area • Mainly used in places where large-scale monitoring is required

Product	Photo	Function/Feature
Network Dome Cameras		• 360-degree panoramic monitoring • Mainly used in places where large-scale and panoramic monitoring is required
Network Integrated Cloud Platforms		• Super long-distance surveillance, 360-degree surveillance and controlled through cloud platform • Mainly used for high-altitude outlook and power transmission cables surveillance
Thermal Imaging Network Cameras		• Generate images by detecting and collecting thermal infrared radiation emitted by objects in the detected scene • Strong visual capability in rain and fog, capable of long-distance surveillance • Mainly used in the perimeter defense of sophisticated scenes, fire monitoring of gardens and water-surface monitoring and rescue

Analog Cameras

Our analog camera products primarily include Coaxial-HD Cameras, Ordinary Coaxial-HD Dome Cameras and Analog Smart Dome Cameras.

The table below sets forth the representative products of our analog cameras:

Product	Photo	Function/Feature
Coaxial-HD Cameras		• Equipped with mega-pixel image sensor and traditional coaxial video transmission system, capable of generating video images with a resolution of 720P or 1080P • High frame rate video signal collection at more than HD 25 frames/second • Enable clear display of images in various specific scenes and environments
Ordinary Analog Cameras		• High-performance image sensors with resolution ratio of up to 700TVL • Suitable for various ordinary surveillance scenes
Coaxial-HD Dome Cameras . . .		• Equipped with mega-pixel image sensor and traditional coaxial video transmission system, capable of generating video images with a resolution of 720P or 1080P • 360-degree surveillance, mainly used in places where large-scale monitoring is required
Analog Smart Dome Cameras . .		• High-performance image sensors with resolution ratio of up to 700TVL • 360-degree surveillance, mainly used in places where large-scale monitoring is required

We have achieved significant success in our camera products in recent years. Our major achievements include:

- Our multi-function network alarm camera won the Innovation Products Excellence Award in 2012 at the China International Public Security Exposition Digital Video Servers.

- We launched the first Smart IPC in the industry based on the idea of "Micro Intelligence, Big Wisdom" in August 2013.

- Our HD Infrared High Speed Dome Camera was awarded "China's Top Ten New Security Products" by China Public Security Magazine and China Public Security Website in 2013.

- Our DS-2CD4024F Day & Night Network Camera was named as an Annual Star Product awarded by A&S Magazine in 2013.

- We are the largest provider of video surveillance cameras in the world in terms of revenue in 2014.

- Our all-weather ultra-far infrared dim-light network camera was awarded the Special Prize at the China International Public Security Exposition for innovative products in 2014 by the China Security Products Industry Association.

- Our Video Alarm Host won the Special Prize at the China Public Security Exposition for innovative products in 2014 by the China Security Products Industry Association.

- We won the New Products Award/Most Popular New Products Award in the product exhibition contest of Megapixels HD IPC Products of the 2014 GDSF global digital security application forum.

- Our DS-2CD4065F-(A) 6 million pixels HD Network Camera was awarded as "A&S 2014 Annual Top 10 Innovative Security Product".

- Our DS-2DF7286 series Infrared High Speed Dome Network Camera was awarded as "2014 A&S Security Automation Star Products".

Digital Video Servers

A video server is a device that compresses and processes video and audio data. Video servers are used to provide network connectivity to the existing analog systems by converting analog video signals into digital video streams. One or more video sources can be attached to a DVS. With a DVS attached to an analog camera, the video from an existing analog surveillance system can be converted and connected into a new network surveillance system.

The table below sets forth the representative product of digital video servers:

Product	Photo	Function/Feature
Video server		• Network transmission device • Compresses and processes audio and video data

Back-end Products

Recorders

Our recorder products primarily include Network Video Recorders, or NVRs, Network Digital Video Recorders, or DVRs, Hybrid Digital Video Recorders, Coaxial High-Definition Digital Video Recorders, and High-Definition Digital Video Recorders, or HD-DVRs. Recorders are professional digital video/audio recording and storage devices which compress, store, decompress and playback video images by using their core internal digital signal processing, or DSP, system, which is embedded in the video recorder and controlled and managed by a built-in operating system.

The table below sets forth the representative products of our recorder products:

Product	Photo	Function/Feature
Network Video Recorder (NVRs).		• Receive digital video streams transmitted by network camera through Internet, and store, decompress and playback such streams
Network Digital Video Recorders (DVRs)		• Integrated structure using digital signal processing system (DSP) as the core element • Functions include image compression, storage, decompression and playback through the software embedded in a specialty storage chip
Hybrid Digital Video Recorders (Hybrid DVRs)		• Integrated structure using digital signal processing system (DSP) as the core element • Functions include image compression, storage, decompression and playback through the software embedded in a specialty storage chip
Coaxial-HD-Digital Video Recorders (TVI-DVRs) . .		• Used together with high-definition TVI camera for high-definition surveillance systems • Integrated structure using digital signal processing system (DSP) as the core element • Functions include image compression, storage, decompression and playback through the software embedded in a specialty storage chip
HD Digital Video Recorders (HD-DVRs) . .		• Used together with SDI cameras for high-definition surveillance systems • Integrated structure using digital signal processing system (DSP) as the core element • Functions include image compression, storage, decompression and playback through the software embedded in a specialty storage chip

We have achieved significant success in our recorder products in recent years. Our major achievements include:

- Our DS-9664N-XT NVR won the Golden Tripod Prize of the 14th China Public Security Expo in 2012.

- Our NVR won the Excellent Product Award for Innovative Production at the China Public Security Exposition in 2012.

- Our 64-channel network DVR was named as an Annual Star Product in 2013 by A&S Magazine.

- Our DS-6704HW Network Video Server was named as the Annual Star Product by A&S Magazine in 2013.

- Our DVR products were successfully selected for high-profile projects such as the Beijing Olympic Games in 2008, Shanghai Expo 2010 and the FIFA World Cup Brazil in 2014.

- We are the largest provider of DVR in the world in terms of revenue in 2014.

- We are the largest provider of NVR in the world in terms of revenue in 2014.

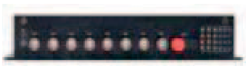
- Our DS-96256N-E24/H network DVR won the new and vigorous prize of NVR product exhibition contest in 2014.

Controlling Centre Equipment

Transmission Devices

Our transmission devices include optical transmitters and accessories. Optical transmitters transmit signals through optical fiber. The transmitter takes an electrical input and converts it into an optical output from a laser diode or a light emitting diode, or LED. The light from the transmitter is coupled into the fiber with a connector and is transmitted through the fiber optic cable. The light from the end of the fiber is coupled to a receiver where a detector converts the light into an electrical signal which is then conditioned properly for use by the receiving equipment.

The table below sets forth the representative products of our transmission devices:

Product	Photo	Function/Feature
SD Video Optical Transmitters.		• A professional standard-definition video optical transmission device, consists of a transmitter and a receiver • The transmitter is able to process A/D ordinary analog video signals after sampling digitally with signals such as audio and data, convert optical modules into optical signals and transmit such optical signals through optical fiber • The receiver reverts optical fiber signals to standard definition video signals and other data signals and outputs such signals to enable long-distance transmission of standard-definition video
HD Video Optical Transmitters.		• A professional high-definition video optical transmission device, consists of a transmitter and a receiver • The transmitter is able to process high-definition video signals after high-speed A/D sampling synthetically with signals such as video and data, convert optical modules into optical signals and transmit optical signals through the optical fiber • The receiver reverts optical fiber signals to standard definition video signals and other data signals and outputs such signals to enable long-distance transmission of high-definition video
Optical Network Transmission Device. . . .		• A professional network transmission device that transmits Megabyte or Gigabyte Ethernet signals mainly through single-mode fiber • Highly reliable, resistant to harsh environments, and capable of long-distance transmission
HD-SDI Video Optical Transmitter		• A professional HD-SDI video optical transmission device, consists of a transmitter and a receiver • The transmitter is able to process HD-SDI video signals after converting to standardized signals through a processing chip simultaneously with signals such as video and data, convert optical modules to optical signals and transmit optical signals through the optical fiber • The receiver reverts optical fiber signals to HD-SDI video signals and outputs such signals to enable long-distance transmission of HD-SDI video
Integrated Platform Video Optical Transmitter		• A professional video optical transmission device, used in conjunction with a comprehensive platform • Enables a direct connection and long-distance transmission of video signals
Plug-in Video Optical Transmitter Chassis		• Specifically for optical transmitter • Used with centralized power supply and has dual power redundancy backup

Monitors

Our monitor products primarily include screens and monitors.

The table below sets forth the representative products of our monitor products:

Product	Photo	Function/Feature
Multi-panel LCD Display Unit .		• High brightness, high resolution, good color reproduction, suitable for long duration operation
Multi-panel DLP Display Unit. .		• Multi-panel DLP display unit with features of small patchwork, good mosaic effect and wide color gamut
Multi-panel PDP Display Unit. .		• High resolution, large screen, ultra-thin, broad viewing angle and rich colors
Monitor		• Good color reproduction, high definition and stability, suitable for 7*24 operation • Support 1080p to 4K resolution

We have achieved significant success in our monitor products in recent years. Our major achievements include:

- Our large multi-panel products won the Top Ten Brand Award of Ten-Year Ovid Consulting in 2015.
- We won the annual Large Multi-panel Brand Award by the China Digital Video Industry Association and its Branch on China Large-Screen Projection Display Devices in 2014.
- We won the annual Fine Pitch LED Mosaic Screen Brand Award by the China Digital Video Industry Association and its Branch on China Large-Screen Projection Display Devices in 2014.
- We won the large Multi-panel Brand Award by the China Digital Video Industry Association and its Branch on China Large-Screen Projection Display Devices in 2013.

Controllers

Our controller products primarily include multi-screen controllers, matrix switchers, video integrated platforms and controller keyboards.

The table below sets forth the representative products of our controller products:

Product	Photo	Function/Feature
Multi-Screen Controller. .		• Adopts all-hardware-structure design, supports all kinds of signal sources and is able to achieve good quality images and real-time synchronization
Matrix Switcher		• Supports multi-switching of video and audio signals, zero-delay switching, and one-to-one and one-to-many input and output
Video Integrated Platform		• Specialized integrated device for processing video and audio • Adopts ATCA structure design • Able to support the matrix switching between analog and digital video and audio and intelligent analysis of video images
Controller Keyboard		• Capable of remote controlling and capturing • Generally used in controlling centre

We have achieved significant success in our controller products in recent years. Our major achievements include:

- Our DS-K2500 30 Network Control Host was named as an Annual Star Product by A&S Magazine in 2013.

- Our Video Integrated Platform won the National Key New Product Award in 2012.

- Our Video Integrated Platform won the Special Prize for innovative products at the China Public Security Exposition in 2010.

VMS Software

Our VMS software products primarily include PC-based software, mobile-based software and centralized management software. VMS software manages the overall video surveillance operation and process including recording, viewing and distribution. A good video management software can streamline and increase efficiency of the surveillance operation and assist operators and users in searching and analyzing vast amount of video data captured. The video management software can be installed on the same PC as the storage, or on a separate PC or a server.

The table below sets forth the representative products of our VMS software products:

Product	Diagrams	Function/Feature
PC-based software		• A PC-based software product used in conjunction with other security products • Enables customers' security management on PC

Product	Diagrams	Function/Feature
Mobile-based software		• A mobile-based software product used in conjunction with storage, collection and other security products • Enables the security management of real-time alarm, preview and playback of video on the mobile platform
Centralized Management Software		• Professional security industry platform software with access applications of a full range of security products, centralized management software • Able to provide users with integrated solutions for security management through open access of products and comprehensive intelligent analysis technology

We have achieved significant success in our VMS software in recent years. Our major achievements include:

- We are the third largest provider of VMS software in the world in terms of revenue in 2014.

- Our Matrix Comprehensive Video Surveillance System obtained a National Key New Product Certificate in 2012 from the Ministry of Science and Technology.

- Our Cloud-Based Video Solutions For Intelligent Safe City was named as the best cloud video surveillance solution by the Office of China Cloud Computing Applications Association in 2013.

- Our IS-305XVV/01 unlawful parking and reversing tracking system was named as an Annual Star Product by A&S Magazine in 2013.

- Our iVMS-8700 Intelligence Building Comprehensive Management Platform was named as an Annual Star Product by A&S Magazine in 2013.

Centralized Storage Devices

Our centralized storage devices primarily include CVR network storage, cloud storage, SAN/NAS network storage and data network storage devices.

The table below sets forth the representative products of our centralized storage equipment:

Product	Diagrams	Function/Feature
CVR Network Storage.		• Adopts the underlying security applications-oriented data stream management structure • High stability and superb performance
Cloud Storage.		• Cloud storage performs management functions of integrated capacity virtualization and cluster • Resource allocation, planning management, index management and load balancing scheduling • Data search, playback, download and locking functions • Unified storage of video
SAN/NAS Network Storage . . .		• Standard access ports for IPSAN, FCSAN and NAS applications • Supporting security applications of video and images and the embedded applications of third-party platform
Data Network Storage.		• Standard access ports for IPSAN, FCSAN and NAS applications, providing storage space for key data in addition to security videos

We have achieved significant success in our centralized storage devices in recent years. Our major achievement(s) include(s):

- Our storage products won the Special Prize for Innovative Product in 2012 and Excellence Award for Innovative Product in 2014 in Security Products Exposition.
- We participated in the research and development of "Active Object Mass Storage Systems and the Key Technology" which won the Second Prize of the National Technological Invention.

Base-line Products and Customized Products

We offer base-line products and customized products to satisfy the requirements of mass production and specific demands from our customers.

Base-line products are standard products that we produce to meet general customer demands. Our base-line products are developed based on our assessment of common customer demands, as well as our proprietary standardized hardware and product design architecture. Base-line products are highly standardized, which allow the company to achieve economies of scale in the R&D, procurement, manufacturing and distribution associated with such products. They are also technology-intensive products with standardized technologies and can be used as templates for further product development.

Customized products are specialized products that we design and manufacture to satisfy specific customer demands for hardware, software, product appearance and packaging. Examples of such products include automobile DVRs, which are specifically designed for use in automobiles or other mobile video surveillance situations, with GPS positioning, traffic information recording, alarm triggering, intelligent video analysis and advanced computer vision recognition capabilities. Another example is handheld terminal devices, with real-time video and audio transmission functions that are used for live forensics, remote command and emergency dispatch. The ability to design customized products enhances our competitive edge because we can rapidly respond to various specific demands from our customers.

Base-line products are the basis of customized products, and common features of customized products can be incorporated into the next generation of base-line products to optimize our products and technologies. Moreover, we cultivate long-term customer relationships by providing customized products, which gives us a first-mover advantage in designing and promoting upgraded base-line products.

Product Replacement Cycle

Our products generally have a replacement cycle of three to five years, while new products are generally introduced every 12 to 18 months which leads to a shorter replacement cycle. Different generations of our products also have a period of overlap in sales which further reduces the replacement cycle of our products.

Our Solutions

With our comprehensive video surveillance production as the foundation, we have combined our accumulated expertise in video surveillance technologies with our deep understanding of the needs of end users in various industries, to set up seven industry-focused groups, which include public security, intelligent properties, transportation, financial institutions, culture, education and healthcare, energy, as well as judiciary system and others. Our industry-focused groups design, develop and provide over 200 specific video surveillance solutions. Our video surveillance solutions primarily consist of a system design that is tailored to the customers' requirements, as well as the customized products corresponding to this system design and the VMS software designed specifically for the given industry end user.

Public Security

In order to make full use of security protection technology, improve public security response times, prevent and counter illegal and criminal activities, as well as further promote the implementation of public security and safety system, public places such as important roads, junctions and crowded places have become important areas to deploy city-level alarms and surveillance systems. We are dedicated to provide various types of video surveillance solutions to promote public safety and government buildings' security including the intelligent safe city programs, video investigation solutions, visualized dispatch control solutions, display and control solutions, controlling Centre, Internet police inspection system solutions and intelligent prison solutions. These solutions provide a platform for various professional functions, including visualized command Centres, intelligent information integration, dynamic surveillance data analysis, video surveillance systems sharing among multiple agencies, target tracing, dynamic patrol, video detection and public security control, among others.

Properties

With the continued growth of the economy and increases in household disposable income, the demand for video surveillance systems in commercial building and urban residential building is growing. Our video surveillance solutions primarily include comprehensive security solutions for residential communities and commercial buildings, as well as safety IOT solutions for construction projects and retail visualised management system solutions etc. The main functions of such solutions include video surveillance, access control, vehicle management, consumption monitoring, elevator control, intrusion alarm, time and attendance recording, and intelligent video analysis system.

Transportation

Traffic congestion is an increasingly important issue in many cities in China, especially large cities, which leads to higher demand for video surveillance applications. By making use of video processing and analysis technology, our traffic video surveillance solutions primarily include HD checkpoint application systems, HD electronic police application systems, traffic guidance systems, vehicle entry and exit control and parking guidance systems, as well as systems relating to video detection and collection of evidence of illegal activities. The main functions of these programs include recording vehicle traffic at checkpoint, detection of illegal activities, video surveillance, traffic data collection, license plate recognition, face recognition, parking detection, retrograde detection and congestion detection.

Financial Institutions

Video surveillance systems are critical for financial institutions. Bank vaults, cash-carrying trucks and business premises, among others, are important targets for criminals. As a result, the financial sector, especially the banking sector, has been an important market for security applications. The solutions we provided to financial institutions primarily include solutions for ATMs, bank premises, bank vaults, network financial security and surveillance systems, and HD solutions for the insurance industry. The main functions of these solutions include HD video surveillance, customers facial capture, intelligent identity check, headcount statistics, voice intercom checks, remote access control, and intelligent prevention.

Culture, Education and Healthcare

We provide video surveillance solutions to various industries, including education, healthcare, food and drug management, cultural media, tourist sites and exam training. Demand for video surveillance solutions in this segment is driven by rising public awareness of security issues. Our solutions in this area primarily include smart comprehensive video surveillance solutions for school campuses, hospitals, museums, tourist attractions, as well as network video surveillance systems solution for driving license exam. The main functions of these solutions include video surveillance, intrusion alarm, alarm management, entry and exit control, telecommunication transfer, remote visitation, remote consultation, face capture, lost belongings detection, and headcount statistics.

Energy

Oil, coal, power plants and other energy production enterprises play an important role in the national and local economies. The safety standards of these enterprises impose strict requirements on video surveillance technology, which we have a deep understanding of. Based on our customized software platforms and comprehensive product solutions, we provide professional visualized surveillance management solutions to enterprises in this industry, which primarily include smart auxiliary surveillance system solutions for transformer substations, smart electricity distribution networks, power supply solutions, oilfields, gas stations/refinery warehouse and coal mines. The main functions of these solutions include HD video surveillance, intelligent video surveillance, mobile video surveillance, environment monitoring, fire alarm, intelligent control, leakage alarm, access control, device status analysis and behavioral analysis.

Judicial System and Others

The general security of the judicial system, interrogation and personnel management, among others, each has specific requirements for video surveillance applications. Leveraging our cloud computing, cloud storage and networking technologies, we provide intelligent video surveillance management solutions for the judicial system and a safe, reliable, simple, convenient, and intelligent video recording management service to the Supreme People's Procuratorates's questioning work and for the trial practices in the people's courts. Our solutions provided to the judicial system primarily include solutions for integrated management systems for the security prevention of prison, synchronized audio and video recording system solutions for questioning and law enforcement, and solution for digitalized court trial system of people's courts. The main functions of these solutions include video surveillance, emergency alarms, access control, perimeter guarding, electronic patrol, intercom communications, radio positioning, three-dimensional maps, synchronized audio and video recording, remote command and communication, files information management, trial stenography, evidence display, online remote arraignment, video live broadcast and video-on-demand.

Our Construction Project Management Services

In order to meet the need for one-stop solutions by certain of our end user customers, we leverage our full range of video surveillance products and experience in industry-specific solutions to provide construction project management services for a few selected video surveillance projects.

Generally, our construction project management services involve certain steps, including bidding, system design, purchase of video surveillance products, installation, system software design, integration and testing. In a typical bidding process, our potential customer will send us and our competitors a request for a proposal that outlines the work to be performed and the specifications of the equipment to be installed. We then prepare and submit our bid whereupon the potential customer chooses the winning contractor from among the bids submitted. Upon winning a project, we provide the final project design plan for approval. We supply all the video surveillance products used in our projects though we procure non-video surveillance products from other manufacturers. We usually use subcontractors to perform installation work while we are in charge of the technical components of the project and manage the progress of each project. We design software for our customers' surveillance security and systems in accordance with our customers' specifications. We generally test the software on our own computer system before integrating it into our customers' computer system. We then assign our technicians to the site of each project to assist with the integration of the video surveillance system with our customers' computer system. Upon integration, our technicians will test and examine the system to ensure the proper functioning of the installed security and surveillance system.

For the years ended 31 December 2012, 2013, 2014 and the six months ended 30 June 2015, our revenue from construction project management services was RMB292.2 million, RMB324.7 million, RMB806.5 million and RMB343.1 million, respectively, representing 4.1%, 3.1%, 4.7% and 3.5% of our total revenue, respectively.

Chongqing Project

As of 9 October 2011, we entered into 42 construction contracts with Chongqing Municipal Public Security Bureau and its 41 branch offices in 41 counties and districts of Chongqing, respectively. Pursuant to these contracts, we will provide construction project management services, design and manufacture relevant products for the construction of a public video information management system which is a visualized urban management system. After its completion, the system will form a support to the public security management, city management, transportation management, and emergency command and at the same time also satisfy the demand for disaster and incident warnings, safety surveillance, environmental monitoring and protection.

In 2014, we reached an agreement with Chongqing People's Government to adjust the construction plan and split the Chongqing Project into two phases. The first phase involved 14 public security agencies at the county and district level and Chongqing Municipal Public Security Bureau. The total estimated consideration in the first phase was approximately RMB2.1 billion and should be paid to us based on the progress of the construction as opposed to build-transfer basis. These agreements also provided that in the event that the aggregate amount of overdue payments to us reaches certain percentage of the total value of the project or the overdue payments to us reaches a smaller percentage for a certain period of time, we will be entitled to terminate the agreement and receive a compensation amounting to certain percentage of the consideration. The construction of the first phase was carried out in 2014. The second phase of the Chongqing Project covered the remaining 27 counties and districts in Chongqing. The construction of the second phase commenced in 2015 and is expected to be completed in 2016. The total construction contracts for the two phases are worth RMB3.14 billion. The contracts procured from us for the two phases are worth RMB962 million.

Internet-Based Video Business

With the rise of mobile Internet, so has the market for video applications and services for SMBs, families and individuals. As a leader in the video surveillance industry, we are gradually expanding into the consumer market of video applications and services.

In 2013, we launched Internet-based video business under the brand of "EZVIZ". Our "EZVIZ" business provide Internet-based video applications and content services to SMBs, families and individuals primarily through intelligent video products and other sensors, cloud-based intelligent video service platform and mobile Apps. The business includes video surveillance and commercial video services based on "EZVIZ" cloud for SMBs, home security and video communications for families, and action cameras and outdoor video content services for individual consumers. Our "EZVIZ" business mainly focuses on video and we plan to extend this business to other intelligent hardware and services.

Products

Intelligent video products and other sensors are the hardware foundation of our Internet-based video services, and currently mainly include Internet cameras, cloud storage, wireless sensors and action cameras.

The table below sets forth the representative products used for our Internet-based video services:

Product	Photo	Function/Feature
Internet Cameras		• Single button configuration, easy self-installation • HD video coding, wireless transmission, automatic switch between day and night • Remote viewing through smart phone or PC • Intelligent detection, automatic push notification
Cloud Storage.		• Provide seven days or 30 days cycle storage plan • Financial-level security encryption • No installation and maintenance required for users • Simultaneous share over App and Web
Wireless Sensors		• Fully wireless sensors, no manual wiring • Very low power consumption • Sensor triggers automatic push notifications to smart phones • Interact with Internet cameras and pust images and videos
Action cameras		• Super high resolution, super wide angle, long video recording duration • Enable professional quality capture and exceptional versatility • Small size, lightweight, durable designs, easy to use even in highly challenging situations • Self-recording in action and produce videos and images with a unique visual angle

"EZVIZ" Cloud Platform

Our "EZVIZ" cloud platform is a cloud-based platform focusing on intelligent video services. The major functions performed by our "EZVIZ" cloud platform include equipment access, video storage and transcoding, real-time live video, history video review, intelligent video content analysis, events and news alerts, video publishing and sharing, customer services, instant messaging, content operations, e-commerce and other services. "EZVIZ" cloud platform establishes an operating environment for intelligent videos among users, their devices and the cloud.

In order to pool resources, jointly explore various internet related-business opportunities and provide various value-added services for customers, since 2014 we have entered into cooperative arrangements with leading Internet companies in China in the areas of cloud platform, video content services, applications and solutions, intelligent video products, video analysis technologies and sales and marketing.

EZVIZ cloud platform is an open platform allowing third-party developers to use API to develop different intelligent video applications. In this way, customers will not only have abundant applications to choose from, but "EZVIZ" products can also interact with the products of other manufacturers and jointly provide customers with better service.

Mobile APP

Our "EZVIZ" App allows customers to connect into the "EZVIZ" cloud platform, control their "EZVIZ" products and enjoy our video services remotely using a smart phone or tablet. Features include real-time video playing, archival play-back, alarm notifications, voice and video content preview, playback and sharing via video content and image-based social networks.

Applications

By leveraging our "EZVIZ" products and "EZVIZ" cloud platform, we provide intelligent video applications and content services for SMBs, families and individual consumers. As we build on our "EZVIZ" cloud platform by continuously expanding the underlying hardware and developing a variety of Apps, the corresponding Internet-based services on the cloud will also expand to meet people's demand on safety, business operation, and entertainment opportunities.

Applications for SMBs

Remote Monitoring: In the daytime, SMBs and management personnel can use our intelligent video products, "EZVIZ" cloud and the mobile App to monitor the status of their businesses and stores anytime and anywhere.

Security: In the evening, the intelligent video products can detect intruders and immediately send alarm notifications.

Interaction: Through the "EZVIZ" cloud platform, SMB operators can share videos relating to their businesses, and stores, or products to the community or with their customers to attract their customers to access and disseminate their products and brands.

Applications for Families

For children: Our Internet camera and cloud storage solution can perform long and continuous video recording and storage functions, and can be used to capture and record movements of children.

For the elderly: Our Internet camera and cloud storage solution can perform interactive video interphone and one-click emergency alarm functions and can be used to look after the elderly remotely.

For pets: Our Internet camera and audio interphone can be used to capture, monitor and record the movements of pets and interact with pets remotely.

Security: Intelligent video products and other sensors can detect dangers like intruders and smoke, and immediately deliver alarm notifications.

Applications for Individual Consumers

We provide individual consumers with action cameras as well as an online sharing community. We introduced our S1 Sports, an action camera, in November 2014. Our S1 Sports, with a protective waterproof housing, built-in Wi-Fi, motion and geography sensor, wrist-wearable remote control and other selective accessories, capture video and photos in a small, easy-to-use form and enable remote content viewing and sharing functionality with mobile App and devices.

Marketing and Business Development

We have specialized R&D, sales and marketing and customer service teams to support our Internet-based video surveillance platform, hardware and services. We have launched an "EZVIZ" website to facilitate SMBs, families and individual customers in using our "EZVIZ" cloud platform, hardware and services.

"EZVIZ" business belongs to the Internet business, and satisfies customer's demand for safety, business operation and entertainment through cloud services focusing on videos. We believe that compared with other Internet applications, the stickiness of "EZVIZ" App to our customers is significantly higher than that of our general business. Through our highly sticky enterprise safety and remote monitoring, we believe that our "EZVIZ" cloud for SMBs is likely to become an Internet portal for small business owners and managers for their enterprises, and further help small business owners strengthen their ability to serve customers, enhance their service capabilities, increase their users, and derive sales opportunity for a variety of products and value-added services. Our "EZVIZ" business can charge fees for certain services like cloud storage. Our "EZVIZ" family business, in addition to offering home security protection, can also look after the elderly, children and pets. Our "EZVIZ" business individuals not only provides hardware products to help customers to capture videos and images from unique angles during their outdoor activities, travel and daily life, but also provides smart phone Apps to allow users to share in the App community. We believe that when the number of users reaches a certain level, our "EZVIZ" will be able to generate revenue through various revenue streams.

In line with our business strategy to further develop our Internet-based video business, we are constructing an Internet Industrial Base located in Hangzhou with an aggregate floor area of approximately 250,000 sq. m., which is expected to be used primarily for R&D teams and activities and as a testing centre, display centre for products, applications and services, data centre and service centre. Construction of Internet Industrial Base is expected to be completed in 2018. Our estimated total expenditure for Internet Industrial Base amounts to approximately HK$2,018.7 million (equivalent of approximately RMB1,600.0 million). As of 30 June 2015, an amount of RMB50.8 million has been put in the construction of Internet Industrial Base.

RESEARCH AND DEVELOPMENT

We believe R&D is the cornerstone of our competitiveness, growth and development. We invest heavily in R&D including our R&D personnel. Our R&D activities are focused primarily on the development of high-performance, high-quality, reliable and cost-efficient technologies and know-how.

We strive to rapidly develop and introduce new products in order to anticipate and respond to continually evolving market and industry standards, technological change and shifting customer requirements. Our product development strategy includes surveillance management platform and equipment, smart video analysis, special chips, pre-video processing technology and distance identification.

In addition to our in-house R&D activities, we have established cooperative relationship with universities and research institutions in China. There are two types of cooperation between us and universities or research institutions: those involving the purchase of technologies and those without. For the cooperation that involves the purchase of technologies, we shall contribute funds for the R&D projects undertaken by universities and research institutions. Both universities or research institutions and us are entitled to the intellectual property rights of our R&D achievements. Either party has the right to utilize such intellectual property rights without paying royalties to the other party. However, a written consent is required from the other party when either party intends to transfer such intellectual property rights to a third party. Cooperation outside of the purchase of technologies may take many years. For instance, we financed a university to establish a designated laboratory which can be used both for its own educational purpose and improving our R&D capabilities. We also provide our products and technologies to universities and research institutions to facilitate their R&D activities in related areas and are entitled to have access to their latest research in these areas. We also cooperate with globally-leading technology companies to develop video surveillance products and systems.

We led or participated in the formulation of domestic industry standards for the video surveillance industry. As the State Certified Enterprise Technology Centre (國家認定企業技術中心), Post-doctoral Research Work Station of the Enterprises (企業博士後科研工作站), Zhejiang Provincial Engineering and Technology Research Centre (浙江省省級工程技術研究中心) and the Key Laboratory of Public Security Information Application Based on Big-data Architecture granted by the Ministry of Public Security (基於大數據架構的公安信息化應用公安部重點實驗室), we undertake or participate in numerous R&D projects initiated by these government entities. For the R&D projects that we undertake, we shall use our own funds for the R&D activities and we are entitled to obtain intellectual property rights in connection with the R&D achievements under applicable laws and regulations. For the R&D projects that we participate in, we may receive a certain proportion of the funds provided by government entities, and generally, we are entitled to the intellectual property rights in connection with the R&D achievements developed by us. We have been recognized as a high-tech enterprise (高新技術企業), key high-tech enterprise of State Torch Program (國家火炬計劃重點高新技術企業) and key software enterprise within the National Programming Layout (國家規劃佈局內重點軟體企業) and enjoy various tax incentives.

Our Technology Center and Research Institute in Hangzhou and four other R&D divisions are responsible for the formulation of R&D platforms, the R&D planning of products and technologies as well as the execution of R&D projects. In February 2015, aiming to further develop and enhance our R&D capability, we established a Research Institute to integrate our R&D resources and achievements in next-generation technologies and solutions. We plan to invest in next-generation R&D projects in potential areas with significant business opportunities to maintain our strong technological leadership position, which is critical to our long-term development. Our R&D personnel have broad experience in video surveillance, information technologies and Internet industries. As of 30 June 2015, our R&D team had approximately 6,000 employees, 4,057 with bachelor's degrees, 1,303 with master's degrees and 18 with doctoral degrees. Our R&D teams operate under a matrix management system, being divided into a number of product teams in charge of different product development plans and a number of resource teams in charge of different technologies, who will be selected to coordinate and execute on a specific R&D projects. According to Frost & Sullivan, our R&D expenses in 2014 was the highest among our main competitors in China and overseas. For the years ended 31 December 2012, 2013, 2014 and six months ended 30 June 2015, our R&D costs were RMB606.5 million, RMB921.9 million , RMB1,300.7 million and RMB815.6 million, representing 8.5%, 8.7%, 7.6% and 8.4% of our total revenue, respectively. Our R&D costs primarily include staff costs, costs of raw material and consumables used in R&D activities, and license fees paid in connection with the purchase of certain technical licenses and fees paid to third-party research organizations which we engage for certain R&D projects. Our management determined that the relevant R&D expenses incurred with respect to the development of our products did not meet all of the criteria for capitalization in accordance with International Accounting Standards (IAS) 38 Intangible Assets, and thus the R&D expenditure was recognized as an expense during the years ended 31 December 2012, 2013, and 2014 and six months ended 30 June 2015.

We expect to invest more R&D resources in the areas of smart analysis of video/audio data, cloud computing and cloud storage, processing platform of Big Data, and analytical technologies.

OUR TECHNOLOGIES

Through our innovative and productive R&D activities, we have developed the following core technologies used in our production process, which have contributed to the development of the video surveillance industry.

Video Image Processing Technology

We have applied the H.264 compression algorithm in surveillance products and we are dedicated to the development and application of the H.265 compression algorithm. Our video image processing technology includes (i) image signal processing ("**ISP**") technology and digital image signal processing ("**DISP**") technology, such as automatic exposure, automatic white balancing, autofocus, color correction, and gamma correction, which are designed to produce clearer and better quality images; (ii) image pre-processing technology, such as de-noising, enhancement, de-interleaving, anti-shake and other image processing to the original video data, which is designed to improve image quality and reduce compression distortions; and (iii) image post-processing technology, such as de-blocking, sharpening, enhancement and other image processing to the decoded videos, which is designed to produce clear, smooth, well-featured, vivid video displays and improve the visual effect. Some of the material patents we have obtained in video image processing technology include (i) a method and device to regulate exposure registered on 25 January 2012; (ii) a method and device to process image's white balance registered on 5 September 2012; and (iii) a method and device for image processing based on optical flow algorithm registered on 27 June 2012.

Video and Audio Codec Technology

We believe that our video and audio codec technology is advanced because (i) it contains audio and video compression technology applying the H.264 technology, which is designed to contribute to saving hard disk storage space and achieve efficient network transmission and provide a complete series of video and audio codec compression technology such as MPEG4/MPEG2/MJPEG/AVS and G7xx series and MPEG Audio series, that is able to meet various customized needs; (ii) it supports dynamic adjustment of the encoding parameters, which are applicable to resolution, bit rate, frame rate, image quality and other video parameters according to different application requirements and contributes to improving the network adaptation capability; and (iii) it supports digital watermarking and video encryption technology, allowing the key features such as the device serial numbers / recording time to be embedded in the stream, which contributes to preventing the falsification or tampering of the video data and improving the reliability and safety of the video information. Some of the material patents we have obtained in video and audio codec technology include (i) a method and device for coding mode selection in layered video coding registered on 30 May 2012; (ii) a method and device to generate interpolate frames registered on 17 July 2013; and (iii) a method and device to adjust coding rate registered on 15 May 2013.

Video Analysis and Pattern Recognition Technology

Our video analysis and pattern recognition technology includes (i) video analysis technology which is designed to distinguish various features of moving objects from videos through a variety of methods such as background modeling, target detection, target tracking and target classification, and carry out automatic detection and alarm in response to various unusual events in the videos, which contributes to enhancing active defense capability and efficiency of the monitoring system; and (ii) pattern recognition technology which is designed to extract the characterization data of a specific object from video images by feature extraction and matching technologies, and identify and describe the characterization data, which contributes to achieving data mining and usage from massive surveillance videos, such as license plate recognition and face recognition technology. Some of the material patents we have obtained in video analysis and pattern recognition technology include (i) a video surveillance method, system and respective device which attaches to virtual walls registered on 18 July 2012; (ii) a method and system for people counting at multi-angle application scenario registered on 9 April 2014; and (iii) a method and device for target classification of video image registered on 27 June 2012.

Streaming Media Network Transmission And Control Technology

Our streaming media network transmission and control technology supports (i) RTSP, RTP/RTCP standard protocols; (ii) device files and centrally stored files' Video-On-Demand; (iii) the live streams being forwarded and distributed, leading to effective bandwidth saving; (iv) priority-based bandwidth management; and (v) a single server supporting 200 lines of 4cif streams. Some of the material patents we have obtained in streaming media network transmission and control technology include (i) a method, system and device for data transmission and error detection registered on 18 December 2013; (ii) a method, monitoring system and device for control order and data transmission registered on 5 September 2012; and (iii) AV decoders, decoding on the wall system and AV monitoring system registered on 13 February 2013.

ASIC (Application-Specific Integrated Circuit) Application Technology

We have applied video processing technology to IC design to jointly develop ASIC, which has video and audio processing functionalities. We have also developed and applied ASIC that has codec functionality. Our R&D capabilities in DSP, SOC, ASIC and other ASIC have enabled us to produce a full range of surveillance products. Some of the material patents we have obtained in ASIC

(Application-Specific Integrated Circuit) application technology include (i) a method and device for developing multi-channel decoding and multi-channel intelligent video processing functions registered on 5 September 2012; and (ii) a method and device for DVR data decoding playback registered on 30 May 2012.

Video and Audio Data Storage Technology

Our video and audio data storage technology includes (i) file pre-allocation technology, which is designed to help avoid hard disk fragmentation due to video file deleting, improving the efficiency of hard disk reading and writing, and ensure the system's long-term stable operation; (ii) Fat32 technology, which is designed to apply to the file system, and is compatible with the Windows file system; (iii) the freeze protection technology, which is designed to apply to the hard disks' critical information area and contribute to ensuring the integrity of the file system; (iv) hard drive failure warning and alarm technology (S.M.A.R.T.), which is designed to enable timely detection of the hard disks' running status and real-time alarm to hard disks with problems and contribute to the effective protection of user data; and (v) advanced hard disk controller technology, such as multi-drives' delay on power technology and non-working hard drive hibernation, which is designed to contribute to effectively extending the life of the hard drive and energy savings. Some of the material patents we have obtained in video and audio data storage technology include (i) a method for digital video recorder file management to prevent file fragmentation registered on 16 January 2008; (ii) a method to protect hard disk key information area for embedded device registered on 1 October 2008; and (iii) a method and device to store and retrieve image data on a digital video recorder registered on 13 February 2013.

Embedded System Development Technology

We have intensively invested in R&D of BSP, RTOS (including DeviceDrivers, DeviceI/O, Networking Protocols, FileSystem), Application, etc. and have established a joint laboratory with an American electronics company that designs, produces and sells semiconductors. The major operating systems used in our embedded system development technology are Vxworks and embedded linux. Some of the material patents we have obtained in embedded system development technology include (i) a data storage system in video monitoring, and a method for data storage, preview and playback registered on 30 May 2012; and (ii) a method and system for data transmission between parallel systems registered on 5 November 2014.

Big Data and Cloud Computing Technology

We have applied cloud computing technology our the infrastructure platform to achieve the virtualization and dynamic expansion of recourses and services. The application of Big Data and cloud computing technology also enables the allocation of resources in accordance with the demand dynamics, which will improve functions and shorten response time. Some of the material patents we have obtained or applied in Big Data and cloud computing technology include (i) a cloud-based storage system, analysis method and system for huge amounts of video files registered on 26 March 2014; and (ii) a cloud-based intelligence analysis method and system for huge amounts of real-time video bit stream, applied on 19 March 2012 and is pending for registration.

PRODUCT DEVELOPMENT AND PRODUCTION

We strive to develop and introduce new products to respond to continually evolving market and industry standards, technological changes and shifting customer requirements. New product development involves various processes, including product design, production prototype, testing, the process of new product launching and manufacturing.

In-house Manufacturing and Subcontracting

Our base-line products and customized products are either manufactured by ourselves or through subcontracting to external manufacturers.

In-house Manufacturing

The production of base-line products primarily adopts the make-to-stock system based on middle- and short-term needs, and delivery is completed on time and in high quality to achieve response to demand and efficient inventory management.

We primarily adopt the make-to-order system for the production of customized products. The sales and marketing department and R&D management department will discuss the feasibility of meeting customers' demand, and conduct sufficient R&D activities and design verification. In the meantime, the R&D management department will discuss with the supply chain management department as to process design to ensure the timely manufacturing of the products.

For products manufacturing, complete technical data will be generated once the production design is confirmed or realized, and the information and data of production will be converted into products in the manufacturing department through an efficient production process to achieve the real-time response to customers.

Subcontracting

To optimize our production capacity and to meet the increasing market demand for our products, we engage subcontractors for part of the PCBA manufacturing processes and the assembling processes of final products for certain base-line products. As of 30 June 2015, we had nine subcontractors for PCBA manufacturing processes in cooperation with us for a period ranging from two years to more than ten years, six among which also provide the assembling processes of final products to us. None of our subcontractors is our connected person. Our subcontractors are electronic manufacturing services providers, who we believe possess reliable technology, stable quality of processing and good reputation. For the years ended 31 December 2012, 2013 and 2014, and six months ended 30 June 2015, our expenses for subcontracting were RMB124.2 million, RMB212.6 million, RMB480.9 million and RMB316.9 million, respectively.

We usually enter into subcontracting framework agreements with our subcontractors on an annual basis. Our purchases from subcontractors are made on the basis of individual orders specifying the type, unit price and quantity of products. We typically provide raw materials for our subcontractors. Ancillary materials can be prepared by our subcontractors with our consent. Generally, our subcontractors are responsible for the package and shipment of the products and shall deliver finished products on time. Delayed delivery is subject to penalty. In addition, we have entered into quality assurance agreement with every subcontractor. We are entitled to terminate the subcontracting agreement if subcontractors fail to comply with quality assurance agreement. In the process of implementing such agreements, both parties shall not infringe the intellectual property rights of any third party. We generally make payment to subcontractors on a monthly basis. The subcontracting agreements do not have an automatic renewal clause.

In order to control subcontracting costs, we use various pricing methodologies, primarily including (i) bidding, namely, we select from the pool of subcontractors that we cooperate with based on their bidding prices, and (ii) pricing negotiation based on value analysis, namely, we negotiate with individual subcontractors on prices based on our analysis of the cost and the value of their services.

Production Facilities and Production Capacity Expansion

Production Facilities

Our owned production facilities are located in Hangzhou, Zhejiang Province, with an aggregate floor area of approximately 104,000 sq. m. We also lease production facilities located in Chongqing with an aggregate floor area of approximately 13,000 sq. m. Our key production equipment generally has useful lives ranging from five years to ten years and such useful lives may be extended with appropriate repair and maintenance based on our experience. We believe that our product facilities are well maintained, in good operating condition and suitable for their current purposes. We have implemented a number of rules, procedures and guidelines for the operation, management and maintenance, according to different specifications, of the production facilities. We carry out regular inspections to assess their conditions and conduct regular repair and maintenance. During the years ended 31 December 2012, 2013, and 2014 and up to the date of this Offering Memorandum, we did not experience any unexpected stoppage of operations as a result of failure of our product facilities.

Production Capacity Expansion

In line with our business development strategy, we intend to expand our production capacity to meet market demand for our products. We are constructing Tonglu Production Base located in Hangzhou Tonglu Development Zone. The construction of Tonglu Production Base will be in two phases. The first phase has an floor area of approximately 307,079.2 sq. m. and is expected to be completed in 2015. After its completion, the expected production capacity will be approximately 50 million units per year.

Our estimated total expenditure for Tonglu Production Base amounts to approximately RMB2,200.0 million. As of 30 June 2015, an amount of RMB153.6 million has been put into the construction of Tonglu Production Base. See "*Risk Factors — We are exposed to certain risks in respect of the development and construction of Tonglu Production Base and Internet Industrial Base*".

RAW MATERIALS AND SUPPLY CHAIN MANAGEMENT

Manufacturing video surveillance products is a complex process and includes several manufacturing stages, such as procurement of raw materials, PCBA procedures and assembling of final products. We refer to these manufacturing stages, material requirements and logistics collectively as the "supply chain". Our ability to deliver products on a timely basis at the quality and quantity required is critical to satisfying our existing customers and securing new ones; therefore, such supply chain management is particularly crucial to us.

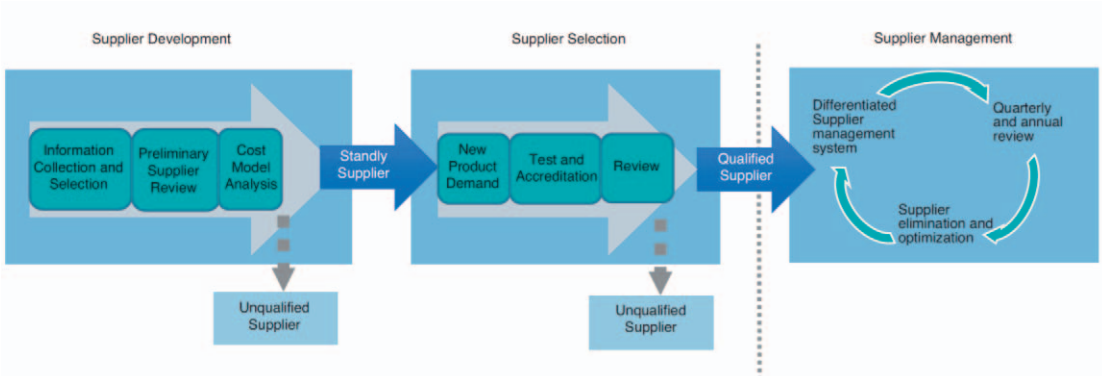
Raw Materials

We purchase raw materials from various suppliers located in China and overseas, including Hong Kong, Taiwan, the U.S., Japan and Korea. The major raw materials used in our products include electronic components and mechanical, structural and system parts. Our personnel of procurement department shall comply with the procedures set forth in our standard procurement criterion.

We use various pricing methodologies to get competitive procurement prices of raw materials, primarily including (i) pricing through bidding, namely, we select from the pool of the raw material suppliers that we cooperate with based on their bidding prices, and (ii) pricing negotiation based on value analysis, namely, we negotiate with individual raw material suppliers based on our analysis on their cost. The cost of our major raw materials as a whole remained stable in the past, while we experienced fluctuations in the prices of certain purchased raw materials. See "*Risk Factors — Risks Relating to Our Business and Industry — Significant increases in raw materials costs may materially and adversely affect our financial condition and results of operations*" in this Offering Memorandum. As we generally price our products to match the competition in the market, we may not be able to pass on significant increases in our raw materials costs to our customers. For increases in the prices of raw materials which we are usually unable to pass onto our customers, we endeavor to mitigate the adverse impact of such price increases by improving our purchasing efficiency through the optimization of our purchase channels and plannings.

Our Suppliers

In order to maintain stable production and control the costs of raw materials, we have a strict supplier selection and management process. The following chart illustrates our supplier selection process and management system.



For the same type of raw materials, we will select at least two to three suppliers to maintain an appropriate competition to reduce purchase costs, avoid over-reliance on a sole source supplier and secure a stable supply of high-quality raw materials. All suppliers are required to enter into a "quality assurance agreement" with us and those suppliers who breach the agreement and fail to perform the obligations set forth in the agreement will be warned by us, sanctioned economically by us or disqualified by us. The liabilities for product defects are allocated between our suppliers and us in accordance with the product testing standards and processing requirements that we formulate and provide to our suppliers. Our suppliers will be responsible for product defects caused by their failure to comply with such standards and requirements, while we will be responsible for product defects caused by our product design or other reasons.

We usually enter into supply contracts with our raw materials suppliers on an annual basis. We are not obliged to make procurement commitment under the supply contracts. Our purchases from raw material suppliers are made on the basis of individual orders specifying the unit price and quantity of raw materials. Generally, suppliers are responsible for the package and shipment of the products. The risks are transferred to us upon the raw materials are delivered to us. In the case of delayed delivery, we are entitled to charge certain amount of fine or terminate the contract under certain circumstances. We also typically require our suppliers to provide us their undertakings in terms of the quality of raw materials. Suppliers shall have effective ownership of their products which have to be free from any encumbrances and must not infringe any third-party's intellectual property rights or be involved in any unresolved intellectual property rights litigations or disputes. We generally make payment to subcontractors on a monthly basis. Our contracts with suppliers of raw materials can be automatically renewed for one year if either party does not inform the other party in writing to terminate such contract within certain period prior to the expiration of the contract.

SALES AND MARKETING

We have set up a domestic marketing centre and an international marketing centre to manage our sales and marketing activities in China and overseas markets, respectively.

PRC Market

Our domestic marketing centre, together with our marketing department and sales management department established under our domestic marketing centre and our 35 branches and over 200 sales offices, manage the sales and marketing of our products, solutions and services in the PRC. We have established a sales and marketing network composed of our branches and sales offices throughout China. We have at least one branch and several sales offices in every province, autonomous region and municipal city for managing the sales and marketing activities within that provincial region. For the provincial regions with greater market demands, we have established more than one branch to respond to the market. The following map (listing our headquarters and 35 branches) shows the coverage of our sales and marketing network in China:

In addition to enhancing the sales of our products to end users indirectly through distributors and system integrators/installers, we work closely with our end users and promote our solutions and value-added services to them.

We adopt a variety of business development and sales promotion measures in the PRC market. We hold a nationwide product tour annually and attend the national security industry exhibition to introduce and promote our new products, solutions and services. We provide training to distributors and system integrators/installers on our products and solutions. In addition, we seek to establish strategic relationships with end users such as government entities and large enterprises by supplying our products directly or indirectly through system integrators/installers. We classify and manage those end users by their industries to promote our industry-specific solutions and products. Furthermore, to expand our market share and increase our brand awareness over small-scale and individual end users, we offer bonuses to our distributors who settle our account receivables in time and provide rebates to our distributors who achieve certain sales targets.

Overseas Market

Our international marketing centre, together with the marketing department established under our international marketing centre and our subsidiaries in the United States, Canada, the Netherlands, Italy, France, Spain, Great Britain, Poland, Russia, India, Brazil, Singapore, Australia, Dubai, South Africa, South Korea and Hong Kong, manages the sales and marketing of our products, solutions and services in the overseas market. The following map (listing our headquarters and overseas subsidiaries) shows the coverage of our sales and marketing network in overseas markets:

For the majority of the countries in our overseas markets, we sell our products through several national-level distributors to system integrators/installers and then to end users. In very few countries, we sell our products through exclusive distributors. We also develop regional distributors and major system integrators/installers to build up our overseas distribution network. In addition to enhancing the sales of our products in the overseas market, we dedicate to build a closer connection with the customers of national-level distributors and end users to improve the efficiency of conveying information in our overseas distribution network and provide our customers with more and better solutions and value-added services.

We have adopted a variety of business-development and sales promotion measures in overseas market. We attend major international security exhibitions every year to promote our products, solutions and services and increase our influence in overseas markets. We provide training to international system integrators/installers on our products and solutions. Further, we win orders and expand our market share globally by establishing cooperative relationships with world-leading suppliers for chips and hard drives of the video surveillance system and world-leading VMS developers.

CUSTOMERS

Our customers mainly include distributors, system integrators/installers and end users and others. As of 30 June 2015, we sold our products and services to a diversified customers base comprising approximately 40,000 customers in China and approximately 8,000 customers in over 150 overseas markets.

SALES TO SANCTIONS TARGETS

We are subject to the laws and regulations of the various countries in which we do business, in addition to the laws of the PRC. We derive a small amount of revenue from sales to Sanctioned Countries and entities that are targets of sanctions administered by the U.S. and/or the E.U., including Iran, Syria, and Sudan. We currently do not derive, or expect to derive, a total of more than one (1) percent of our revenues and profits from business of or with any government, individual or entity that is the subject of Sanctions or in Sanctioned Countries. We have not been notified that any sanctions, penalties or designation will be imposed on us in relation to our current business activities.

We are committed to implementing measures reasonably designed to prevent any future violations of applicable sanctions and export control laws and regulations.

None of the proceeds from this offering will be used to fund transactions or activities which would, if undertaken by a U.S. person as defined in the U.S. economic sanctions programs or by a person required to comply with E.U. economic sanctions, be prohibited by U.S. or E.U. economic sanctions.

For more information, see "*Use of Proceeds*" and "*Risk Factors — Risks Relating to Our Business — A small amount of our revenue is derived from countries that are targets of sanctions imposed by the United States, the European Union and other government authorities*".

AWARDS AND RECOGNITION

We have been recognized as a leader in China's video surveillance industry, as indicated by various awards and recognition we have received. Our major awards and recognition include:

Award	Awarded by
No. 2 for Global Security Top 50 (2015)	A&S Magazine
No. 3 for Global Security Top 50 (2014)	A&S Magazine
No. 1 in China for Global Security Top 50 (2007-2014)	A&S Magazine
Top 10 National Brands (Video Surveillance) of China's Security Industry (2012 to 2014)	A&S Magazine
Top 10 National Brands (Video Surveillance) of China's Security Industry (2015)	A&S Magazine
Top 10 National Brands (EZVIZ-Consumption intelligent hardware) of China's Security Industry (2015)	A&S Magazine
Top 10 National Brands (Assess Control System) of China's Security Industry (2015)	A&S Magazine
National quality integrity benchmark typical enterprise (2015)	China Association for Quality Inspection
DS-7600NI-E1/A All-In-One Security Terminal wins CCTV Innovative Achievement in Detektor International Awards (2015)	Detektor International Awards
DS-7600NI-E1/A All-In-One Security Terminal wins the CPSE Golden Excellence Awards(2015)	The 15th China Public Security Exhibition Committee
Top 100 Enterprises in China Electronic Information Industry (2012 to 2014)	MIIT
Leading Brand of China's Security Industry (2014)	China International E-Commerce Association, amongothers
Top 10 Core Technology Brand in China's Security Industry (2014-2015)	100 Integrity Brand Security Products Supplier Review Committee
Top 10 Core Technology Brand in China's Security Industry (2015-2016)	100 Integrity Brand Security Products Supplier Review Committee
Thirteenth Session of China Top 100 Software Revenue Enterprises (2014)	MIIT Operation Monitoring and Coordination Bureau
30 Golden Integrity Security Product Suppliers (2014)	100 Integrity Brand Security Products Supplier Review Committee
Leading Enterprises Award (2014)	ITS China Annual Ceremony Organizing Committee

Award	Awarded by
Best Management Team of Listed Companies (2014) . . .	National Business Daily
Top 100 Future Chinese Enterprises (2014)	ACCA
No. 4 for Global Security Top 50 (2013)	A&S Magazine
China's Top 10 Influential Comprehensive Security . . . . Products Brand (2013)	China Public Security Magazine China Public Security Website
2013 Top 10 Among Top 50 Value of Listed Companies . on the SME Board in China (2014).	Securities Times
2013 Top 10 Management Team of China's Listed Companies on the SME Board (2014)	Securities Times
2013 Top 10 Most Growable Listed Companies on the SME Board in China (2014)	Securities Times
2013 Gold Bull Award - Top 100 Listed Companies (2014)	China Securities Journal
2013 Gold Bull Award - Company with Highest Efficiency (2014).	China Securities Journal
2013 Gold Bull Award - Best Growable Small and Medium-Sized Company (2014)	China Securities Journal
China Security Top 10 Customer Satisfaction Brand (2012-2013)	100 Integrity Brand Security Supplier Review Committee
No. 1 for IMS Global Video Surveillance Enterprises (2011-2013)	IMS Research
No. 5 for Global Security Top 50 (2012)	A&S Magazine

EMPLOYEES

As of 30 June 2015, we employed approximately 13,000 full-time employees. The following table sets forth the breakdown of our full-time employees by function as of 30 June 2015:

Function	Number of employees	Percentage of the total number of employees (%)
R&D	6,000	46.2%
Production.	3,400	26.2%
Sales and marketing	3,200	24.6%
Management and other administration	400	3.1%
Total	13,000	100.0%

The following table sets forth the breakdown of our full-time employees by geography as of 30 June 2015:

Function	Number of employees	Percentage of the total number of employees (%)
PRC	12,680	97.5%
Overseas	320	2.5%
Total	13,000	100.0%

We place significant emphasis on recruiting, staff training and development. We provide continuous education and training programs for our management personnel and other employees to constantly upgrading their skills and knowledge. Our staff training is conducted internally by our senior and mid-level management members and externally by third-party training providers. We provide multi-function training to our production personnel in order to equip them with multiple skill sets so they can switch among multiple positions. We also provide regular training programs to our sales and marketing and after-sales support and services personnel on sales and marketing skills, as well as operational and product knowledge. We host training programs regularly for our engineers covering topics on design methodology, design flow and technology. We also provide training to our field application engineers in promoting and servicing our products to provide coverage and support for our products at the engineering level.

We have maintained a good working relationship with our employees. Our employees are members of a labor union that covers our workforce in the PRC and abroad. We had not experienced any labor disputes that have materially affected our business, financial condition or results of operations as of the date of this Offering Memorandum.

We typically enter into standard confidentiality, non-competition and employment agreements with our employees. These contracts include a standard non-competition covenant that prohibits the employee from competing with us, directly or indirectly, for a period of less than two years after the termination of his or her employment, provided that we pay compensation in accordance with applicable laws and regulations.

In accordance with applicable PRC laws and regulations, we have made contributions to social security insurance funds (including pension plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance) and housing provident funds for our employees. We also provide medical care subsidies and personal accident insurance to our employees. We are required under PRC law to make contributions to employee benefit plans at specified percentages of the salaries, bonuses and certain allowances paid to our employees, up to a maximum amount specified by the local government from time to time.

Many of our employees are highly skilled, and we believe our continued growth and success will depend in part on our ability to attract and retain such employees. We use a variety of measures to maintain the stability of our employees, including fostering talent teams, establishing medium- and long-term incentives mechanisms, providing rewards such as special contribution awards, and paying share-based compensation granted pursuant to our Restricted A Share Incentive Scheme.

INTELLECTUAL PROPERTY

Intellectual property rights are important to our business and our future success greatly depends upon the strength of our intellectual property, including our patents, software copyrights, proprietary technologies, know-how and trade secrets, which have been developed through years of R&D. We seek to protect our intellectual property through a combination of patents, copyrights, trade secrets, trademarks and confidentiality agreements. We require our employees who have access to our confidential information to execute confidentiality and non-competition agreements and entitle us the rights to inventions made by them during the course of their employment. We also require confidentiality agreements when we disclose proprietary information to third parties such as customers and suppliers. For a discussion of the risks associated with protection of our intellectual property rights, please see "*Risk Factors — Risks Relating to Our Business and Industry — We may be unable to adequately protect our intellectual property rights, which could have a material adverse impact on our competitive advantage and business*".

As of 30 June 2015, we held 582 registered patents issued by the State Intellectual Property Office of the PRC, including 177 invention patents, 164 utility model patents and 241 design patents, and have 349 pending invention patent applications, 22 pending utility model patent applications and 57 pending design patents applications in China. As of 30 June 2015, we held 32 patents issued by overseas authorities. As of 30 June 2015, we had 401 software copyrights, 305 trademark registrations, 53 domain names, 6 pending software copyright applications and 108 pending trademark applications.

We also entered into intellectual property license agreements with several companies and institutions owning leading technologies in the video surveillance industry, under which we are licensed to use certain technologies in our products. Those license agreements are on non-exclusive basis. In most cases, we shall pay royalties annually with a fixed amount or an amount calculated based on the sales volume of the products using the licensed technologies annually to the extent of the significance to which we utilize the technologies. We are required to take necessary measures as to ensure the confidentiality of the technologies that we are licensed to use.

In addition, before commencing the development of a particular intellectual property, we will first conduct an intellectual property rights search in an effort to identify any existing intellectual property rights upon which the intellectual property rights we are considering for development may infringe. The research of existing intellectual properties will typically involve our internal intellectual property engineers as well as our external legal advisers. Moreover, we incorporated relevant terms and conditions in the subcontracting agreements with our subcontractors and the supply contracts with our raw materials suppliers, requiring that the products provided by them shall not infringe any third party's intellectual property rights and shall not be involved in any unresolved intellectual property rights disputes. For a discussion of the risks associated with intellectual property infringement claims, please refer to *"Risk Factors — Risks Relating to Our Business and Industry — We may face intellectual property infringement claims that could be time-consuming and costly to defend and, if successful, result in our loss of significant rights and ability to continue providing our existing and new products"* in this Offering Memorandum.

LICENSES AND PERMITS

Our Directors confirm that, during the years ended 31 December 2012, 2013, and 2014 and as of 30 June 2015, we have obtained all the material licenses, permits and approvals required for our operations. The table below sets forth the details of the licenses, permits and approvals we have obtained that are material to our operations.

Name of the licenses, permits and approvals	Granting authority	Issuance date	Expiration date
Computer Information System Integration Qualification II . . .	MIIT	9 December 2013	8 December 2016
Safety Production License	Housing and Urban Construction Department of Zhejiang Province, PRC	29 September 2012	29 September 2018
Intelligent Building Engineering Contractor level II	Housing and Urban Construction Department of Zhejiang Province, PRC	10 January 2014	9 January 2019
Sales Permits of Ministry of Public Security	Public Information Network Security Supervision Bureau of the Ministry of Public Security, PRC	15 November 2013	23 October 2017
Public Security & Protection Technology System Installation & Operation Qualification I . . .	Department of Public Security of Henan Province, PRC	30 June 2014	29 June 2020
Security and Guarding Service License	Department of Public Security of Henan Province, PRC	7 November 2011	31 May 2016

For more information about the laws and regulations to which we are subject, please see the section entitled "*Regulations*" in this Offering Memorandum.

LEGAL PROCEEDINGS

We may be involved in legal proceedings from time to time during the course of our business operations. As of 30 June 2015, we were involved in 28 unresolved litigations in the PRC, all of which arose from our ordinary course of business, including 22 account receivables disputes, four labor disputes, one right of reputation dispute and one administrative dispute. However, we are not aware of any litigation, arbitration or claim pending or threatened against us which would have a material adverse effect on the results of our operations or financial condition.

As of 30 June 2015, we are involved in three unresolved litigations overseas, among which two are trademark disputes and one is a patent dispute. With respect to the trademark litigations, we brought two lawsuits against a Turkish company in December 2012 and August 2014, respectively, requesting the court to revoke two trademarks resembling our trademarks which we believe were maliciously registered by the defendant Turkish company in Turkey. As of 30 June 2015, with respect to the lawsuit filed by us in December 2012, the court supported our claims and adjudicated to revoke the defendant's registration of the disputed trademark. The defendant appealed on 14 April 2015 and the appellate trial is currently in progress. With respect to the trademark suit filed by us in August 2014, the court supported our claims on 4 August 2015 and the defendant appealed on 12 August 2015. The appellate trial is currently in progress. With respect to the patent litigation, in December 2013, Hikvision USA Inc., our subsidiary, was sued in the United States by Trover Group Inc. and Security Centre Inc. for alleged patent infringement. The plaintiffs claimed that a number of our camera product infringed their patent entitled "Image Retention and Information Security System," in connection with a method of operation for a surveillance video security system. The plaintiff withdrew the case on 29 April 2015. On 17 August 2015, the court granted the withdrawal and directed the plaintiff to bear our costs with each party responsible for its attorney fees.

RISK MANAGEMENT

We have established comprehensive risk management and internal control systems through which we monitor, evaluate and manage financial, operational, compliance and legal risks that we are exposed to in our business activities. Our Board is ultimately responsible for the oversight of the risks involved in our business operations. The audit committee under the Board, acting on behalf of our Board, review and approve our risk management and internal control policies and strategies and adopt resolutions relating to major risks mitigation plans. Our senior management is responsible for implementing our risk management and internal control systems and reviewing our annual risk assessment results. Our risk management department is responsible for periodic risk management and internal control assessment and reporting to our management the risks identified.

Our audit committee and senior management monitor the implementation of our risk management policies across the Issuer on an ongoing basis to ensure that our internal control system is effective in identifying, managing and mitigating risks involved in our operations.

Based on the significance of the potential implications of the risks on our business operations, we specifically established and implemented the following risk management policies and procedures.

Information Risk Management

We have adopted measures to protect user data accumulated on our platform and prevent technical issues in our network infrastructure and information technology system. Our process and IT department is responsible for protecting user data and ensuring the stability of our network infrastructure and information technology system. We use various information management systems in our operations. To ensure information security, employee access to internal information is restricted and employees are not allowed to access certain internal information without authorization. We have adopted internal policies to ensure that authorization is tailored to employees' seniority and departmental function so that certain information can only be obtained on an as-needed basis.

We have adopted various policies on database operation to prevent information leakage and loss of data. Key information in the database such as user passwords is protected by robust encryption algorithms. We also keep records of all database operations. We also use monitoring systems to monitor the data operating status of the server and alert relevant departments to abnormal situations. In addition, our daily maintenance, fire protection measures, access control system and other measures help maintain the physical condition of our network infrastructure. We also have a data back-up system through which our data is stored on servers of different locations on a weekly basis to reduce the risk of data loss. Our information technology department conducts backup recovery tests semi-annually to examine the status of the back-up system. Further, most of our full-time employees are required to sign confidentiality and non-compete agreements, pursuant to which they undertake to keep confidential any user data and operational and financial information of the Issuer and our clients that they obtain by virtue of their employment with our company.

Financial Reporting Risk Management

We have adopted comprehensive accounting policies in connection with our financial reporting risk management. We provide ongoing training to our finance staff to ensure that these policies are well observed and effectively implemented.

As of 30 June 2015, our finance team, headed by our Chief Financial Officer, consisted of 229 employees with other senior members having extensive experience in finance and accounting.

Human Resource Risk Management

We have established internal control and compliance processes and policies covering various aspects of human resource ("HR") management such as recruiting, training, compensation and benefits, and employee relationships, and we have set up a full-function HR management system to meet the needs of an expanding business.

We have adopted high standards in recruitment with strict procedures to ensure the quality of new hiring. Moreover, we provide specialized training tailored to the needs of our employees in various departments. Our employee handbook and internal policies contain summaries of the relevant laws and regulations governing our business and industry, as well as guidelines regarding best commercial practices, work ethics and the prevention of fraud, negligence and corruption.

HEDGING

We import raw materials from overseas and sell products to overseas customers. Our business is exposed to foreign currency risk. In order to hedge against our exposure to such risk, we entered into foreign currency forward contracts during the year ended 31 December 2014 and the six months ended 30 June 2015 with commercial banks in Hong Kong and the PRC which enable us to enjoy a pre-agreed fixed exchange rate and mitigate the exposure of foreign exchange risk of our certain RUB against USD and USD against RMB. Such contracts are denominated in RMB and USD and have a term up to one year.

According to our hedging strategy, for the exposure to USD, we predict the status of receiving and paying foreign exchange for the next year, and then enters into foreign currency forward contracts with commercial banks with respect to 50% of the estimated net exposure after the natural hedging of receiving and paying foreign exchange to reduce foreign exchange risk. For the exposure to other currencies other than USD, such as Euro, RMB, we will lock estimated 100% of such exposure through commercial banks' foreign exchange forward products based on the time of entering into contracts with overseas customers and the transaction volume of such contracts. As such, we consider foreign exchange forward contracts as a tool for the purpose of reducing foreign exchange risk, rather than a speculative measure to gain benefits.

Before we enter into any foreign currency forward contracts, we consider the then- prevailing exchange rates between the relevant foreign currency and RMB, the RMB-equivalent cost of our purchases at a certain exchange rate and our expected income under a supply contract with our customers that may be realized if the purchase of raw materials is made at a certain exchange rate. Any hedging activities adopted by us shall be reviewed by our employees having accounting, financing, procurement or legal experience and expertise, who are able to assess the financial and legal risks associated with our hedging activities, the potential costs and benefits and our actual business needs for adopting any hedging activities.

As of 30 June 2015, the fair values of our foreign currency forward contracts recorded as derivative financial instrument net liability were approximately RMB7.0 million.

Bank borrowings

The following table sets forth our bank borrowings as of the dates indicated:

	As of 31 December			As of 30 June
	2012	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
Secured[1]	—	—	31,421	—
Unsecured	—	180,800	575,657	1,551,725
Total	—	180,800	607,078	1,551,725
Within 1 year	—	180,800	362,318	602,228
1-2 years	—	—	244,760	509,318
2-3 years	—	—	—	440,179
Total	—	180,800	607,078	1,551,725

Note:

(1) Our subsidiary, Hangzhou Hikvision System Technology Co., Ltd. (杭州海康威視系統技術有限公司) entered into a loan agreement with Bank of Guiyang on 9 June 2014 for a working capital loan of approximately RMB31.4 million due on 9 June 2015. This loan has been repaid.

As of 31 December 2012, 2013 and 2014, and 30 June 2015, we had outstanding bank borrowings of nil, RMB180.8 million, RMB607.1 million and RMB1,551.7 million respectively. Certain of our bank loans carried variable-rates at London Interbank Offered Rate ("**LIBOR**") plus 200 and 265 basis points as of 30 June 2015. The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on our bank loans and other borrowings are as follows:

	Year ended 31 December			Six months ended 30 June
	2012	2013	2014	2015
Effective interest rate:				
Fixed-rate	6.65%	2.00% to 6.65%	1.23% to 6.65%	1.08% to 6.65%
Variable-rate	—	—	6MLIBOR+200BP	6MLIBOR+200BP to 3MLIBOR+265BP

Other borrowings

As of 31 December 2012 and 2013, one of our subsidiaries, Fuyang Hikvision Bautec Security Technology Service Co., Ltd. (富陽海康保泰安防技術服務有限公司) had outstanding borrowings from its non-controlling shareholder of RMB3.0 million for working capital purposes due on 30 December 2014, which was subsequent extended to 31 December 2016. Such borrowings are not secured and carried interest at a fixed rate of 6.65% per annum. As of 30 June 2015, RMB3.0 million was outstanding.

We have incurred substantial indebtedness since 30 June 2015. As of 30 November 2015, we had approximately RMB1,527.5 million short-term bank loans, RMB676.9 million long-term bank loans and approximately RMB7.0 million of other borrowings outstanding. The decrease in long-term bank loans was partly because some long-term bank loans became short-term bank loans due to lapse of time.

Capital Commitments

We purchase property, plant and equipment under non-cancellable purchase agreements. Our future aggregate minimum payments under these non-cancellable equipment purchases were as follows:

	As of 31 December			Six months ended 30 June
	2012	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
(a) contracted for but not provided in respect of the acquisition of				
- property, plant and equipment	148,835	101,471	49,967	443,484
- prepaid lease payments for land use right . .	—	—	78,690	—
(b) authorised but not contracted for in respect of the acquisition of				
- property, plant and equipment	126,143	17,874	3,739,246	3,168,268
	274,978	119,345	3,867,903	3,611,752

DIRECTORS, SUPERVISORS AND MANAGEMENT OF THE ISSUER

Board of Directors

Our Board of Directors comprises eight Directors, of whom two are executive Directors, three are non-executive Directors and three are independent non-executive Directors. Our Directors serve a term of three years and may be re-elected. Our Board of Directors is responsible and has general powers for the management and conduct of our business. There are no potential conflicts of interests between any duties to the Issuer of the Directors and Senior Management and their private interests and or other duties.

The following table sets out information in respect of the Directors of the Issuer as of the date of this Offering Memorandum:

Name	Age	Position
HU Yangzhong (胡揚忠)	50	Executive Director
WU Weiqi (鄔偉琪)	51	Executive Director
CHEN Zongnian (陳宗年)	50	Non-Executive Director
GONG Hongjia (龔虹嘉)	50	Non-Executive Director
LIU Xiang (劉翔)	43	Non-Executive Director
CHENG Tien Chong (程天縱)	63	Independent Non-Executive Director
LU Jianzhong (陸建忠)	61	Independent Non-Executive Director
WANG Zhidong (王志東)	48	Independent Non-Executive Director

Executive Directors

HU Yangzhong (胡揚忠), aged 50, has been appointed as our Director and General Manager since 30 November 2001 and 28 December 2001 respectively. Prior to joining our Group, Mr. Hu served as an engineer of the 52nd Institute, one of our Controlling Shareholders, from June 1989 to December 2001. He also served as a director of Hikvision USA Inc., from March 2009 to April 2010 and a director of Prama Hikvision India Private Ltd., from February 2009 to July 2010, both of which are subsidiaries of the Issuer. Mr. Hu currently also serves as a director of CETHIK, one of our Controlling Shareholders, since January 2014. He also serves as a director of Hangzhou Hikvision Science and Technologies Co., Ltd. (杭州海康威視科技有限公司), since March 2009, a director of Hangzhou Hikvision Systems Technology Co., Ltd. (杭州海康威視系統技術有限公司), since March 2009, a director of Hangzhou Hikvision Securities Equipment Leasing Services Ltd. (杭州海康威視安防設備租賃服務有限公司), from August 2009 to December 2015, a director of Chongqing Hikvision Science and Technologies Co., Ltd (重慶海康威視科技有限公司), since March 2011, the chairman of Chongqing Hikvision System Technology Co., Ltd (重慶海康威視系統技術有限公司), since December 2010, all of which are subsidiaries of the Issuer. Mr. Hu obtained a bachelor's degree in engineering from Huazhong College of Engineering (華中工學院) in June 1986 and a master's degree in engineering from Huazhong University of Science and Technology (華中理工大學) in May 1989, both of which are currently known as Huazhong University of Science and Technology (華中科技大學).

WU Weiqi (鄔偉琪), aged 51, has been appointed as our Director and Standing Deputy General Manager since 25 October 2007 and 30 December 2005, respectively. Prior to joining our Group, Mr. Wu held various positions at the 52nd Institute, including technician, assistant engineer, engineer and senior engineer, from July 1986 to December 2001. Mr. Wu currently also serves as the executive partner of Xinjiang Pukang Investment Limited Partnership (新疆普康投資有限合夥企業), one of our substantial shareholders, since April 2011. He also serves as a director of Chongqing Hikvision Science and Technologies Co., Ltd (重慶海康威視科技有限公司), since March 2011, and a director and the general manager of Hangzhou Hikvision Science and Technologies Co., Ltd (杭州海康威視科技有限公司), since March 2009, a director of Hangzhou Hikvision Electronics Co., Ltd. (杭州海康威視電子有限公司), since October 2014, and an executive director of Hangzhou Hikvision Security

Equipment Leasing Service Ltd. (杭州海康威視安防設備租賃服務有限公司), all of which are subsidiaries of the Issuer. Mr. Wu obtained a bachelor's degree in radio engineering from Nanjing Institute of Technology (南京工學院) (currently known as Southeast Univeristy (東南大學)) in July 1986.

Non-Executive Directors

CHEN Zongnian (陳宗年), aged 50, has been appointed as our Chairman and Director since 15 June 2009 and 30 November 2001, respectively. Mr. Chen has over 29 years of experience in electronics and management. Mr. Chen currently serves as the chairman of 52nd Institute, one of our Controlling Shareholders, and the chairman of the board of CETHIK. Prior to joining our Group, he served as a deputy head and assistant to the head of the 52nd Institute, from August 1986 to May 2009, a deputy general manager of Shenzhen Gold Corolla Electronics Co., Ltd. (深圳高科潤電子有限公司), from March 1995 to August 1997, a director and the general manager of Haikang Information, one of our founders which was deregistered on 2 July 2012, from June 2001 to July 2012, an executive director of HDT International Limited (HDT國際有限公司), one of our subsidiaries, from June 2009 to June 2010, the head and general manager of Hangzhou Sikang Intelligent Facilities Factory (杭州四康智能設備廠), from January 2001 to June 2002, and a director and the general manager of Zhejiang HIK Group Co., Ltd. (浙江海康集團有限公司), from June 2002 to November 2013.

Mr. Chen also served as a director of Shanghai Fuel Cell Vehicle Powertrain Co., Ltd. (上海燃料電池汽車動力系統有限公司), from August 2013 to February 2015, and the chairman of Zhejiang Haikang Science & Technology Co., Ltd. (浙江海康科技有限公司), from September 2009 to June 2012, both of which are subsidiaries of Zhejiang HIK Group Co., Ltd. (浙江海康集團有限公司). Mr. Chen also served as a director of Zhejiang Aisino Information Technology Co,. Ltd. (浙江愛信諾航天信息有限公司), from July 2009 to July 2014, and the chairman of Hangzhou HIKLP Electronics Co., Ltd. (杭州海康意博電器有限公司), from August 2009 to March 2012, both of which are subsidiaries of the 52nd Institute.

Mr. Chen currently also serves as the head of the 52nd Institute, since May 2009, the chairman of Zhejiang HIK Group Co., Ltd. (浙江海康集團有限公司), since November 2013, a director of CETC Finance Co., Ltd. (中國電子科技財務有限公司), a subsidiary of one of our Controlling Shareholders, CETC, since Deecmber 2012. He also serves as the director of Hangzhou Hikvision System Technology Co., Ltd. (杭州海康威視系統技術有限公司), since June 2009, the chairman of Hangzhou Hikvision Security Equipment Leasing Services Ltd. (杭州海康威視安防設備租賃服務有限公司), from August 2009 to December 2015, and a chairman of Hangzhou Hikvision Science and Technologies Ltd. (杭州海康威視科技有限公司), from June 2009 to December 2015, all of which are subsidiaries of the Issuer. Mr. Chen obtained a diploma and bachelor's degree in engineering from Huazhong College of Engineering (華中工學院) in July 1986 and a doctoral degree in management from the Zhejiang Unviersity (浙江大學) in March 2006.

GONG Hongjia (龔虹嘉), aged 50, has been appointed as our Vice Chairman of Board of Directors and Director since 19 June 2008 and 30 November 2001, respectively. Mr. Gong is one of our founders and is one of our substantial shareholders. Prior to joining our Group, Mr. Gong served as the chairman of Zhejiang Dekang Communication Technology Co., Ltd. (浙江德康通信技術有限公司) (now known as Zhejiang Asiainfo Telecommunication Technology Co., Ltd. (浙江亞信德康通信技術有限公司)), from October 1996 to May 1999.

Mr. Gong currently also serves as the chairman and chief executive officer of Guangzhou Funian Electronic Technology Co., Ltd. (廣州富年電子科技有限公司), since July 2002, the chairman and president of FunVio Co., Ltd. (杭州富信掌景科技有限公司), since February 2004, a director of Shanghai Fullhan Microelectronics Co., Ltd. (上海富瀚微電子股份有限公司), since April 2013, a director of Guangdong Tecsun Technology Group Co., Ltd. (廣州德生科技有限公司), since May 1998, the chairman of Beijing Funian Technology Co., Ltd. (北京富年科技有限公司), since November 2011, and a director of Hangzhou Hikvision Security Equipment Leasing Services Ltd. (杭州海康威

視安防設備租賃服務有限公司), a subsidiary of the Issuer, from August 2009 to December 2015, a director of Fuce Holdings Co., Ltd. (富策控股有限公司), since October 2014, a director of Chuangjia Chuangtou Co., Ltd (創嘉創投有限公司), since October 2014, the chairman of Fortune Time Technology Limited (廣州市富年電子科技有限公司), since October 2007, a director of Pan Asia Information Services Limited (亞州資訊股務有限公司), since July 1994, a director of Cyberview Technology Limited (富榮科技有限公司), since October 1999, a director of Shanghai Pukun Information Technology Co., Ltd (上海普坤信息科技有限公司), since September 2014, a director of Shenzhen Innovative Valley Investment Management Co., Ltd (深圳創新穀投資管理有限公司), since July 2014, a general manager of Shenzhen Jiadao Valley Investment Management Co., Ltd. (深圳嘉道穀投資管理有限公司), since October 2014, a director of Beijing Zhongjian Yikang Technology Co., Ltd. (北京中健逸康科技有限責任公司), since November 2014. Mr. Gong obtained a bachelor's degree in computer engineering from the Huazhong University of Science and Technology (華中科技大學) in June 1986.

LIU Xiang (劉翔), aged 43, has been appointed as our Director since 24 May 2014. Mr. Liu joined our Group in June 2007 and held various positions of the Issuer including Chief Financial Officer, Secretary of the Board and Deputy General Manager, from June 2007 to January 2014. He has extensive experience in the finance industry. Prior to joining our Group, Mr. Liu served as a project manager of the investment banking division of Kinghing Trust and Investment Co., Ltd. (金信信託投資股份有限公司), from January 1998 to February 1999, a manager of investment consulting division of Shanghai Air Sea Investment Co., Ltd. (上海邦聯投資有限公司), from February 1999 to February 2000, a vice president and secretary of the board of Hundsun Technologies Inc. (恒生電子股份有限公司), a Issuer listed on the Shanghai Stock Exchange (Stock Code: 600570), from February 2002 to December 2006, and a director of HDT International Limited (HDT 國際有限公司), from June 2010 to January 2015. Mr. Liu currently also serves as a director of Hangzhou Hikvision Security Equipment Leasing Services Ltd. (杭州海康威視安防設備租賃服務有限公司), from August 2009 to December 2015, a supervisor of Beijing Brainaire Storage Technology Co., Ltd. (北京邦諾存儲科技有限公司), since April 2011, a director of Beijing Hikvision Security Technology Services Co., Ltd. (北京海康威視安全防範技術服務有限公司), since December 2011, a director of Henan Hua'an Intelligence Development Co., Ltd. (河南華安保全智能發展有限公司), since July 2012, a director of Hikvision Singapore PTE. LTD. (海康威視新加坡有限公司), from August 2011 to December 2015, and a director of Hikvision Italy S.R.L. (海康威視義大利有限責任公司), from February 2012 to December 2015, all of which are subsidiaries of the Issuer. Mr. Liu also serves as a deputy general manager of Zhejiang HIK Group Co., Ltd. (浙江海康集團有限公司), since January 2014, and the executive partner of Xinjiang Weixun Investment Management Limited Partnership (新疆威訊投資管理有限合夥企業), one of our substantial shareholders, since April 2011. Mr. Liu obtained a bachelor's degree in economics from Xidian University (西安電子科技大學) in July 1995, and a master's degree in engineering management from Zhejiang University (浙江大學) in February 1998.

Independent Non-Executive Directors

CHENG Tien Chong (程天縱), aged 63, has been appointed as our Independent Non-executive Director since 6 March 2015. Prior to joining our Group, Mr. Cheng held various positions at Hewlett-Packard Development Company, L.P., a corporation listed on the New York Stock Exchange (Ticker: HPQ), including a vice president of the Taiwan branch and the president and the director of the PRC branch, from March 1979 to October 1997. Mr. Cheng also served as the president of the Asia branch of Texas Instruments Incorporated, a company listed on NASDAQ (Ticker: TXN), from November 1997 to June 2007, the vice-president of Foxconn Technology Group, a company listed on the Taiwan Stock Exchange (Stock Code: 2317), the Over-The-Counter Bulletin Board (Ticker: HNHPF) and an electronic product manufacturer listed in the London Stock Exchange (Ticker: HHPD), from July 2007 to June 2012, a director of Foxconn Communication Technology Corp., from November 2010 to July 2012, the executive director and chief executive officer of FIH Mobile Limited, a Issuer listed on the Hong Kong Stock Exchange (Stock Code: 2038), from 1 January 2012 to 26 July 2012. Mr. Cheng obtained a bachelor's degree in electronic engineering from National Chiao Tung University, Taiwan (國立交通大學) in June 1974, and a Master of Business Administration degree from Santa Clara University, the United States in January 1992.

LU Jianzhong (陸建忠), aged 61, has been appointed as our Independent Non-executive Director since 6 March 2015. Mr. Lu has previously been responsible for auditing numerous companies listed on the stock exchange in the PRC and Hong Kong. Prior to joining our Group, Mr. Lu worked as a staff at Shanghai Household Metalwares Industrial Co., Ltd (上海市日用五金工業公司), from January 1983 to August 1986, served as a lecturer and an associate professor of finance and accounting at the Shanghai Maritime University (上海海事大學), from September 1986 to September 1997, a partner and a chartered accountant of the auditing department of PricewaterhouseCoopers, from October 1997 to June 2012, a director of market development and a chartered accountant of Shanghai De'an Certified Public Accountants LLP (上海德安會計師事務所), from July 2012 to July 2013, and a chartered accountant of the Shanghai branch of PKF Daxin Certified Public Accountants LLP (大信會計師事務所(特殊普通合夥), from August 2013 to July 2014.

Mr. Lu currently also serves as a chartered accountant and partner of Zhongxinhua Certfied Public Accountants LLP (中興華會計師事務所), since August 2014, and a business mentor at the Antai Management School of Shanghai Jiaotong University (上海交通大學安泰管理學院), since July 2007. Mr. Lu has been a registered certified accountant in the PRC since December 1995. Mr. Lu obtained a bachelor's degree in economics from the Shanghai University of Finance and Economics (上海財經大學) in January 1983.

WANG Zhidong (王志東), aged 48, has been appointed as our Independent Non-executive Director since 6 March 2015. Prior to joining our Group, Mr. Wang served as a technical officer of Northern Dairy Factory of Beijing Agricultural Bureau (北京市農場局北郊乳製品廠), from July 1988 to May 1989, served as a software engineer of the Institute of Computer Technology of Peking University (北京大學新技術公司) (currently known as Peking University Founder Group Co., Ltd (北大方正集團有限公司)), from May 1989 to October 1991, founded and served as a deputy general manager and chief engineer of Suntendy Electronic Technology and Research Institute (新天地電子信息技術研究所), from April 1992 to August 1993. Mr. Wang was also one of the founders and served as the general manager, director and chief executive officer of SINA Corporation (新浪網), a company listed on NASDAQ (Ticker: SINA), from December 1993 to June 2001. Mr. Wang also founded and served as the chairman and chief executive officer of Beijing Dianji Technology Ltd. (北京點擊科技有限公司), from December 2001 to December 2013. Mr. Wang currently also serves as the chairman and chief executive officer of Beijing Yilian Yisheng Technology Co., Ltd. (北京易連憶生科技有限公司), since October 2013. Mr. Wang obtained a bachelor's degree in radio electronics from the Department of Radio Electronics of Peking University (北京大學無線電電子學系) in July 1988.

Supervisory Committee

Name	Age	Position
CHENG Huifang (程惠芳)	62	Supervisor
WANG Qiuchao (王秋潮)	64	Supervisor
CHEN Junke (陳軍科)	44	Supervisor

CHENG Huifang (程惠芳), aged 62, has been appointed as our Supervisor since 6 March 2015. Prior to joining our Group, Ms. Cheng served as a technical officer of Zhejiang Dongyang Chemcial Factory Co., Ltd (浙江省東陽化工廠), from August 1977 to December 1978, as a lecturer and associate professor of Zhejiang Chemical Engineering College (浙江化工學院) and Zhejiang Engineering College (浙江工學院), from January 1979 to December 1992. Ms. Cheng also held various positions at the College of Business of Zhejiang University of Technology (浙江工業大學經貿管理學院), including assistant to the principal, associate professor, professor, standing deputy principal and prinicipal, from April 1993 to June 2009. Ms. Cheng also served as an independent non-executive director of Zhejiang Jiuli Stainless Steel Pipes Co., Ltd. (浙江久立不銹鋼管股份有限公司), from September 2008 to September 2011, an independent non-executive director of Hangzhou Iron & Steel Co., Ltd. (杭州鋼鐵股份有限公司), a company listed on the Shanghai Stock Exchange (Stock Code: 600126), from February 2007 to April 2013, and an Independent Non-executive Director of the Issuer from June 2008 to February 2015. Ms. Cheng currently also serves as the principal and professor of the Zhejiang Institute of Innovation Management of Zhejiang University of Technology (浙江工業大學浙商創新管理研究院), since March 2010, a deputy head of the Zhejiang Technology Development Strategy Research Institute (浙江省科技發展戰略研究院), since January 2012, a committee member of Zhejiang People's Government Consultation Committee (浙江省人民政府諮詢委員會), since August 2013, an independent non-executive director of Zhejiang Furun Company Limited (浙江富潤股份有限公司), since March 2014, an independent non-executive director of (杭州杭氧股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002430), since January 2015, and the principal of Yangtze Delta Region Institute of Tsinghua University (浙江長三角創新管理研究院), since October 2012. Ms. Cheng obtained a doctoral degree in economics from Fudan University (復旦大學) in January 1999.

WANG Qiuchao (王秋潮), aged 64, has been appointed as our Supervisor since March 6, 2015. Prior to joining our Group, Mr. Wang served as a legal consultant at Hangzhou City Office of Legal Counsel (杭州市法律顧問處), from August 1982 to April 1986. He also served as the chairman of Zhejiang Lawyers Society (浙江省律師協會), from June 2005 to May 2008, and a vice-president of the Zhejiang Law Society (浙江省法學會) from June 2004 to June 2009, and an executive council member, member of the Business Rules Committee and member of the Foreign Affairs Committee of the All China Lawyers Association (中華全國律師協會), since August 2006 to August 2009. He is one of the founders of and served various positions at Hangzhou Foreign Economic Law Firm (杭州市對外經濟律師事務所) (currently known as Zhejiang T&C Law Firm (浙江天冊律師事務所), including legal manager and partner, since May 1986. Mr. Wang currently also serves as an arbitrator of the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會), since September 1994, an arbitrator of Shanghai International Arbitration Centre (上海國際仲裁中心), since September 1994, an arbitrator of South China International Economic and Trade Arbitration Commission (華南國際仲裁中心仲裁員), since September 1994, and a committee member of the Hangzhou People's Congress Legislative Advisory Committee (杭州市人大常委 會立法諮詢委員會), since 2000. Mr. Wang was also admitted as a PRC lawyer in September 1994 practising securities law. Mr. Wang also serves as an independent non-executive director of Sanbian Science & Technology Co., Ltd. (三變科技股份有限公司), a company listed on the Shenzhen Stock Exchange (Stock Code: 002112), since September 2008. Mr. Wang obtained a bachelors' degree in history from Jiangxi Normal University (江西師範大學) in August 1982.

CHEN Junke (陳軍科), aged 44, has been appointed as our Supervisor since 19 June 2008, our technical director of the Digital Video Recorder (DVR) Division of our Technology Management Centre, since 30 September 2014 and our general manager of the Supply Chain Centre, since 18 March 2009. Mr. Chen joined our Group in November 2001. Prior to joining our Group, Mr. Chen served as a software engineer of Hangzhou Kangyin Electronics Systems Engineering Associates (杭州康銀電子系統工程聯營公司), from August 1994 to February 2000, a software engineer of Haikang Information, from February 2000 to November 2001. Mr. Chen obtained a bachelor's degree in electronics automation from University of Science and Technology (中國科學技術大學) in July 1994.

Senior Management

Name	Age	Position
HU Yangzhong (胡揚忠)	50	Director General Manager
WU Weiqi (鄔偉琪)	51	Director Standing Deputy General Manager
ZHENG Yibo (鄭一波)	53	Secretary of the Board
JIN Yan (金艷)	36	Chief Financial Officer
CAI Dingguo (蔡定國)	48	Deputy General Manager
JIANG Yufeng (蔣玉峰)	44	Deputy General Manager
JIANG Haiqing (蔣海青)	46	Deputy General Manager
XU Lirong (徐禮榮)	51	Deputy General Manager
HE Hongli (何虹麗)	43	Deputy General Manager
Zhou Zhiping (周治平)	50	Deputy General Manager
FU Baijun (傅柏軍)	43	Deputy General Manager
JIN Duo (金鐸)	50	Deputy General Manager
JIA Yonghua (賈永華)	38	Deputy General Manager
LI Pan (禮攀)	37	Deputy General Manager

HU Yangzhong (胡揚忠), a Director and the General Manager of the Issuer. Please refer to "— Board of Directors" in this section for his profile.

WU Weiqi (鄔偉琪), a Director and the Standing Deputy General Manager of the Issuer. Please refer to "— Board of Directors" in this section for his profile.

ZHENG Yibo (鄭一波), aged 53, has been appointed as Secretary of the Board, and our Deputy General Manager of the Issuer since 27 January 2014 and 8 January 2014 respectively. Mr. Zheng joined our Group in June 2004. Prior to joining our Group, Mr. Zheng held various positions at the 52nd Institute including engineer, senior engineer, and head of research from July 1984 to February 1996. He also served as a deputy general manager of Hangzhou Bairui Computer Technology Co., Ltd. (杭州百瑞計算機技術公司), from March 1996 to February 1998, a deputy general manager of Hangzhou Lanyin Computer Co., Ltd. (杭州藍銀計算機系統集成有限公司), from March 1998 to April 2001, a deputy general manager of Zhejiang HIK Group Co., Ltd. (浙江海康集團有限公司), from May 2001 to June 2004. Mr. Zheng currently also serves as a director of Hangzhou Hikvision Security Equipment Leasing Services Ltd. (杭州海康威視安防設備租賃服務有限公司), since August 2009, and a director of HDT International Limited (HDT國際有限公司), since January 2015, a director of Hikvision Korea Limited since May 2015 (海康威視韓國有限責任公司) and a director of Hikvision Italy S.R.L. (海康威視義大利有限責任公司), all of which are subsidiaries of the Issuer. Mr. Zheng obtained a bachelor's degree in computer science from the Xidian University (西安電子科技大學) in July 1984, and a doctoral degree in business administration from the Zhejiang University (浙江大學) in March 2003.

Ms. JIN Yan (金艷), aged 36, has been appointed as the Chief Financial Officer since 22 July 2015. Ms. Jin is a PRC nationality and has no overseas residence. Ms. Jin joined the Issuer since 2004 and served as cashier, accountant, financial manager and currently is the general manager of the financial management center of the Issuer. She also served as supervisor of HangZhou YingShi Network Co., Limited (杭州螢石網絡有限公司) and supervisor of Hangzhou Hikvision Electronic Co., Ltd. (杭州海康威視電子有限公司) since October 2014. Ms. Jin obtained a Master of Management degree from Harbin Institute of Technology and is a certified accountant with the certification issued by Zhejiang Provincial Department of Finance in 2004.

CAI Dingguo (蔡定國), aged 48, has been appointed as our Deputy General Manager since 30 December 2005. Mr. Cai joined our Group in May 2002. He has over ten years of experience in the video surveillance camera manufacturing industry. Prior to joining our Group, Mr. Cai served as an assistant to manager of Zhejiang Fuel Co., Ltd (浙江省燃料總公司), from July 1989 to December 1998, a system engineer of Asiainfo Technology (China) Co., Ltd. (亞信科技(中國)有限公司), from December 1998 to December 2000, a sales expert of IBM (China) Company Limited (IBM (中國)有限公司), from December 2000 to May 2002. Mr. Cai currently also serves as a director of Prama Hikvision India Private Limited (帕拉瑪海康威視印度有限責任公司), since February 2009, a director of Hikvision Europe B.V. (海康威視歐洲公司), from September 2009 to August 2015, a director of Hikvision FZE (海康威視迪拜公司), from May 2010 to September 2015, a director of Hikvision USA, Inc. (海康威視美國公司), from April 2010 to July 2015, the chairman of Hikvision Italy S.R.L (海康威視義大利有限責任公司), from February 2012 to December 2015, a director of Hikvision International Co., Limited (海康威視香港有限公司), since June 2013, a director of Hikvision Australia PTY. LTD. (海康威視澳大利亞有限公司), from September 2013 to May 2015, the chairman of Hikvision France SAS (海康威視法國有限公司), since October 2013, all of which are subsidiaries of the Issuer. Mr. Cai obtained a bachelor's degree in computer softwares from Huazhong University of Science and Technology (華中科技大學) in July 1989 and a Master of Business Administration degree from Zhejiang University (浙江大學) in December 2005.

JIANG Yufeng (蔣玉峰), aged 44, has been appointed as our Deputy General Manager since 14 January 2008. Mr. Jiang joined our Group in August 2004 and held various positions in our Beijing branch, including assistant to the general manager, director of marketing, deputy general manager and general manager. Prior to joining our Group, Mr. Jiang worked as a staff at Hangzhou City First Chemical Fiber Plant (杭州市第一化纖廠), from July 1993 to March 1995, and served as a general manager of Beijing Kang Silver Trading Centre (北京康銀商貿中心), from March 1995 to August 2004. Mr. Jiang currently also serves as a director and the general manager of Chongqing Hikvision System Technology Co., Ltd. (重慶海康威視系統技術有限公司), a subsidiary of the Issuer, since January 2011. Mr. Jiang obtained a bachelor's degree in computer applications from Zhejiang Sci-Tech University (浙江理工大學) in July 1993.

JIANG Haiqing (蔣海青), aged 46, has been appointed as our Deputy General Manager since 1 March 2003. Mr. Jiang joined our Group in November 2001 as an assistant to the general manager. Prior to joining our Group, Mr. Jiang served as an engineer of the 52nd Institute, from August 1993 to May 1996, an engineer of Hangzhou Luopu Electronics Co., Ltd. (杭州洛普電子有限公司), a public information display systems and electronic traffic information system research and development company, from November 1994 to May 1996, an engineer of Hangzhou Kangyin Electronics Systems Engineering Associates (杭州康銀電子系統工程聯營公司), an information technology development company and a subsidiary of the 52nd Institute, from May 1996 to January 2000, a deputy manager of the R&D Centre of Haikang Information, from February 2000 to November 2001, and a general manager of Hangzhou Hikvision System Technology Co., Ltd. (杭州海康威視系統技術有限公司), from March 2009 to July 2012. Mr. Jiang currently also serves as the chairman of Henan Huaan Intelligence Development Co., Ltd. (河南華安保全智能發展有限公司), a subsidiary of the Issuer, since April 2012. Mr. Jiang obtained a bachelor's degree in automation of electronics from Xidian University (西安電子科技大學) in July 1993.

XU Lirong (徐禮榮), aged 51, has been appointed as our Deputy General Manager since 1 March 2007. Mr. Xu joined our Group in November 2001 and held various positions of the Issuer including manager of the R&D Centre and the Secretary of the Board. Prior to joining our Group, Mr. Xu served as an engineer and project manager of Hangzhou Kangyin Electronics Systems Engineering Associates (杭州康銀電子系統工程聯營公司), from March 1990 to December 1999, and a senior engineer at Haikang Information, from January 2000 to November 2001. Mr. Xu currently also serves as the chairman and the general manager of Hangzhou Hikvision Electronics Co., Ltd. (杭州海康威視電子有限公司), since October 2014, a supervisor of Hangzhou Hikvision System Technology Co., Ltd. (杭州海康威視系統技術有限公司), since March 2009, a supervisor of Hangzhou Hikvision Security Equipment Leasing Services Ltd. (杭州海康威視安防設備租賃服務有限公司), since August 2009, a supervisor of Shanghai Goldway Intelligent Traffic System Co., Ltd. (上海高德威智能交通系統有限公司), since November 2009, a supervisor of Fuyang Hikvision Baotai Security Technology Services Co., Ltd. (富陽海康保泰安防技術服務有限公司), since July 2011, a supervisor of Chongqing Hikvision System Technology Co., Ltd. (重慶海康威視系統技術有限公司), since December 2010, a supervisor of Chongqing Hikvision Technologies Co., Ltd. (重慶海康威視科技有限公司), since March 2011, a supervisor of Beijing Hikvision Security Technology Services Co., Ltd. (北京海康威視安全防範技術服務有限公司), since December 2011, a supervisor of Wuhan Hikvision System Technologies Co., Ltd. (武漢海康威視系統技術有限公司), since February 2012, a supervisor of Hundure Technology (Shanghai) Co., Ltd. (漢軍智能系統(上海)有限公司), since January 2013, all of which are subsidiaries of the Issuer, and a supervisor of Zhejiang HIK Group Co., Ltd. (浙江海康集團有限公司), since December 2013. Mr. Xu obtained a bachelor's degree in engineering from National University of Defense Technology (國防科學技術大學) in July 1987, master's degree in electronic materials and components from the Information Storage Research Centre of Shanghai Jiaotong University (上海交通大學資訊存儲研究中心) in January 1990.

HE Hongli (何虹麗), aged 43, has been appointed as our Deputy General Manager since 30 December 2005. Ms. He joined our Group in January 2003 and held various positions of the Issuer including manager of the Human Resources Division and assistant to the general manager. Prior to joining our Group, Ms. He served as an internal auditor for Nanchang Wuhu Industry Co., Ltd (南昌五湖實業有限公司), from October 1995 to March 1996, an assistant to the general manager of the Hangzhou branch of Asiainfo Technologies (China) Co., Ltd. (亞信科技(中國)有限公司杭洲分公司), a communication and network software development Issuer, from April 1997 to October 2000, the chief representative of the Hangzhou office of Beijing Saidi Shidai Information Technology Co., Ltd. (北京賽迪時代信息產業科技有限公司杭洲辦事處), from January 2001 to December 2002. Ms. He currently also serves as a supervisor of Hangzhou Hikvision Technologies Co., Ltd. (杭州海康威視科技有限公司), a subsidiary of the Issuer, since March 2009. Ms. He has also served as a director of Hangzhou Hikvision Electronic Co. (杭州海康威視電子有限公司) since September 2015, a director of Hikvision Europe B.V. (海康威視歐洲公司) since August 2015, a director of Hikvision USA, Inc. (海康威視美國公司) since July 2015, a director of Hikvision Singapore PTE LTD (海康威視新加坡公司) since November 2015, chairman of Hikvision Italy S.R.L (海康威視義大利有限責任公司) since December 2015, a director of Hikvision UK Limited (海康威視英國公司) since May 2015 and a director of Hikvision Australia PTY. LTD. (海康威視澳大利亞有限公司) since December 2015. Ms. He obtained a Master of Business Administration degree from University of South Australia, Australia in April 2004.

ZHOU Zhiping (周治平), aged 50, has been appointed as our Deputy General Manager since 14 January 2008. Mr. Zhou joined our Group in November 2001 as the chief technology officer. Prior to joining our Group, Mr. Zhou served as a software engineer of the 52nd Institute from September 1990 to May 1996, a software engineer of Hangzhou Kangyin Electronics Systems Engineering Associates (杭州康銀電子系統工程聯營公司), from June 1996 to June 2001, a deputy chief supervisor of technologies of Haikang Information, from July 2001 to October 2001. Mr. Zhou currently also serves as the general manager of Hangzhou Hikvision Security Equipment Leasing Services Ltd. (杭州海康威視安防設備租賃服務有限公司), since August 2010. Mr. Zhou obtained a bachelor's degree in computer software from Zhejiang University (浙江大學) in July 1987 and a master degree in engineering from Zhejiang University (浙江大學) in June 1990.

FU Baijun (傅柏軍), aged 43, has been appointed as our Deputy General Manager since 20 January 2009. Mr. Fu joined our Group in January 2009. Prior to joining our Group, Mr. Fu served as a deputy general manager of Haikang Information, from January 2001 to November 2008. Mr. Fu currently also serves as the chairman and the general manager of Hangzhou Hikvision System Technology Co. Ltd. (杭州海康威視系統技術有限公司), since December 2012, the chairman of Chongqing Hikvision System Technology Co., Ltd. (重慶海康威視系統技術有限公司), since December 2010, and a director of Hundure Technology (Shanghai) Co., Ltd. (漢軍智能系統(上海)有限公司), since January 2013, all of which are subsidiaries of the Issuer. Mr. Fu is a PRC certified public accountant accredited by The Chinese Institutes of Certified Public Accountants (中國註冊會計師協會) in April 2004. Mr. Fu obtained a bachelor's degree in accounting from the Hangzhou Business School of Zhejiang Gongshang University (浙江工商大學杭州商學院) in July 1996.

JIN Duo (金鐸), aged 50, has been appointed as the Deputy General Manager of the Issuer since 12 March 2015. Mr. Jin joined our Group in July 2004. Prior to joining our Group, Mr. Jin held various positions at the 52nd Institute including technical officer, assistant to engineer, engineer, and senior engineer, from July 1986 to June 2004. He also served as the general manager of the Hangzhou branch of the Issuer, from August 2004 to December 2013. Mr. Jin obtained a bachelor's degree in engineering from South China University of Technology (華南理工大學) in June 1986.

JIA Yonghua (賈永華), aged 38, has been appointed as the Deputy General Manager of the Issuer. Mr. JIA is a PRC nationality, no overseas residence, obtained a Bachelor of Engineering degree and is a senior engineer. He joined the Issuer since January 2002 and served as the director of research and development center of image processing and analysis, the director of strategy and marketing department, deputy general manager of supply chain management center and currently is the director of research and development department of the Issuer.

LI Pan (禮攀), aged 37, has been appointed as the Deputy General Manager of the Issuer. Mr. LI Pan is of PRC nationality, no overseas residence, and obtained a Bachelor of Engineering degree and is a senior engineer. From August 2000 to December 2001, he served as the engineer of the 52nd institute of CETC. He joined the Issuer since December 2001 and served as the engineer, product manager, manager of research and development, general manager of transportation department, general manager of Hangzhou Branch of the Issuer and currently is the director of the investment department of the Issuer.

Laws and Regulations of the PRC

Competent Authorities for the Security and Preventive Industry and Autonomous Organizations

The Issuer engages in the principal business of research and development, production and sales of video surveillance products, which belongs to the security and preventive industry.

The competent administrative authorities for the security and prevention industry are the Ministry of Public Security and the various provincial and municipal public security authorities. All provincial and municipal public security authorities have established security technology and preventive management authorities one after the other. The Information Technology Bureau of the Ministry of Public Security (公安部科技信息化局) performs administrative management of the security and preventive industry.

AQSIQ (質檢總局), a department under the State Council, is responsible for the supervision and administration of product quality nationwide. Meanwhile, since video surveillance system product is a category of electronic information products, the MIIT and its subordinate authorities are also competent authorities for this industry, which are mainly responsible for filing and registration of corporate standards for products and the formulation of various principles, policies and overall planning. The Ministry of Public Security, under the guidance of AQSIQ, performs industrial supervision and management on the quality of security and prevention products across the nation. The security technology and preventive management department of public security authorities in various regions, under the guidance of the local technical supervision department, are responsible for the industrial supervision and management on the quality of security and prevention products in the local area.

China Security and Protection Industry Association (中國安全防範產品行業協會) is a corporate association at national level registered with the Ministry of Civil Affairs of the People's Republic of China (中華人民共和國民政部) and an industry body at national level with its business under the guidance of the Ministry of Public Security, local associations of the security and prevention industry have also been set up in various provinces and municipalities. The Issuer is of the vice chairman unit of the China Security and Protection Industry Association (中國安全防範產品行業協會).

Regulating the Security and Prevention Industry and Product Certification

On supervision and administration of the industry, a market access system has been established for security and prevention products in the PRC. According to Administrative Measures for Security Technology and Protection (安全技術防範產品管理辦法), a production permit system and a safety certification system for industrial products are implemented, respectively, in managing security technology and preventive products. For security technology and preventive products which are not managed under the production permit system or the safety certification system of industrial products, a production registration system is adopted. For management of the same category of security technology and preventive products, the above three systems will not be applied with duplication. (i) The management of security technology and preventive products under the production permit system of industrial products will be enforced in accordance with the state provisions of the relevant production permit system for industrial products; and if security technology and preventive products managed under the production permit system for industrial products fail to obtain the production permit for industrial products, their production and sales are prohibited. (ii) The management of security technology and preventive products under the safety certification system will be enforced in accordance with the state provisions of the relevant safety certification system; and if security technology and preventive products under mandatory supervision and administration of safety certification fail to obtain safety certification, their sales and use will be prohibited. (iii) For security technology and preventive products managed under the production registration system, if their production registration has not been approved by the public security authority, their production and sales will be prohibited.

In the structure of regulatory authorities, China Certification Centre for Security and Protection (中國安全技術防範認證中心) is a certification operating entity for qualification assessment established under the approval of the Certification and Accreditation Administration and the Ministry of Public Security. The Ministry of Public Security has established a quality inspection Centre for security and police electronics products of the Ministry of Public Security, and a quality supervision and inspection Centre for security and prevention alarm system products in Shanghai. Security and prevention management departments of the public security bureaux in many provinces and municipalities have also established or designated their corresponding inspection institutions to conduct inspection and supervision on the quality of security and prevention products. The Standardization Technic Committee for Security and Protection Alarm System of China (全國安全防範報警系統標準化技術委員會) (SAC/TC100) organized by the Ministry of Public Security is responsible for the formulation and publication national and industry standards for security and prevention products.

With respect to product certification, pursuant to the provisions of the "Administrative Measures for Security Techlology Products" (《安全技術防範產品管理辦法》), "Certification and Accreditation Regulations" (《認證認可條例》), the "Administrative Measures for the Regulation of Certification Technology" (《認證技術規範管理辦法》), the "Compulsory Product Certification Management System" (《強制性產品認證管理規定》) and the "Description and Definition Schedule for Catalogue on Compulsory Certification Products" (《強制性認證產品目錄描述與界定表》), security and prevention products must obtain the production registration approval permit from the public security authority of the provincial people's government before production and sales may be conducted. For those listed in the National Catalogue on Compulsory Product Certification, authentication under China Compulsory Certification (i.e. "CCC Authentication") must be obtained before production and sales may be conducted. The basic criteria for compulsory product certification are formulated and published by AQSIQ and the Certification and Accreditation Administration, while the rules for compulsory product certification are formulated and published by the Certification and Accreditation Administration. Among the products of the Issuer, hard disk video recorder, video server with storage function and network storage equipment are required to obtain compulsory safety certification.

Sales of Products through the Internet

The Issuer sold part of its products through the internet due to business development needs. The commodity transactions and provision of services conducted by the Issuer are required to comply with the requirements under the Administrative Measures for Internet Transactions (《網絡交易管理辦法》) promulgated on 26 January 2014.

All acts of conducting commodity transactions and providing services (including the provision of profit-making services for Internet commodity transactions, such as third party trading platform, publicity and promotions, creditworthiness assessment, payment and settlement, logistics, courier delivery, Internet access, server custody, leasing of virtual space, website and webpage design and production) through the Internet within China are governed by the Administrative Measures for Internet Transactions (《網絡交易管理辦法》). According to the Administrative Measures for Internet Transactions (《網絡交易管理辦法》), in conducting commodity transactions and provision of services through the Internet, the authentic identity of the natural person or legal person must be provided. When Internet commodity operators sell commodities or provide services to consumers, they should provide consumers with information including the address of their place of business, contact method, quantity and quality of commodity or services, prices or fees, performance period and method, payment method, method for return of goods, points to note on safety and risk warning, after-sales service and civil liabilities, adopt safety and protective measures to ensure the safety and reliability of the transactions and provide the commodities or services according to commitments. For commodities sold by an Internet commodity operator, the consumers are entitled to return the commodities within 7 days from the date of receiving the commodities without giving any reasons.

Protection of Personal Information

In China, protection of personal information and materials is scattered in various specific legal requirements, in addition to personal rights and reputation rights which are protected by law under the Constitution (《憲法》), protection of personal privacy information is also provided in the General Principles of the Civil Law (《民法通則》), Telecommunications Law (《電信法》), Postal Law (《郵政法》) and Tort Law (《侵權責任法》). At the same time, the Criminal Law (《刑法》) stipulates that if any employee of a State authority or financial, telecommunications, traffic and transport, education and medical unit who has violated any national requirement by selling or illegally providing to others any personal information of citizens obtained in the process of performing duties or providing services for his unit, shall be liable for criminal offence in serious cases and subject to criminal punishment.

Pursuant to the requirements of the Administrative Measures for Internet Transactions (《網絡交易管理辦法》), Internet commodity operators who will obtain personal information and materials during the process of Internet transactions must make prior disclosure of the purpose, method and scope of use for collecting such information. Internet commodity operators must keep the personal information collected from consumers and the data and information of commercial secrets from operators strictly confidential, and adopt necessary technical measures to ensure the safety of information and prevent the leakage and loss of information. If incidents of information leakage or loss occur or may possibly occur, rectification measures shall be taken immediately. Without the consent or request from consumers, or if consumers have expressly refused, Internet commodity operators are prohibited from sending commercial electronic information to them.

Production Safety and Product Quality

The Safe Production Law (《安全生產法》), which was promulgated on 29 June 2002 and amended on 31 August 2014, regulates the safe production of entities engaged in production operation activities in China. Entities which do not satisfy safe production conditions are prohibited from engaging in production operation activities. The design, manufacturing, installation, utilization, inspection, maintenance, modification and scrapping of safety equipment shall comply with the national standards or industry standards.

The Product Quality Law (《產品質量法》), which was promulgated on 22 February 1993 and amended on 8 July 2000 and on 27 August 2009, regulates subjects engaged in production and sales activities of products in China. For industrial products which may be hazardous to human health and human body or safety of properties, they must comply with the national and industrial standards protecting human health, human body and safety of properties. In the absence of national or industrial standards, they must comply with the requirements for protecting human health and safety of personal body and properties. The quality of products produced by the manufacturers: (i) shall not contain unreasonable hazards endangering the safety of human body or property, and if national or industrial standards for protecting human health and human body or property safety are available, shall comply with such standards; (ii) shall have performance compatible with the description of the product, except declaration has been made on performance defect existing in the product; (iii) shall comply with the product standards adopted and specified on the product or its packing materials, and comply with the quality condition as expressed in the form of product specification or physical sample.

The Issuer, being a producer, shall establish a sound internal management system for product quality and strictly implement quality standard, responsibility for quality and the corresponding appraisal method for job positions, and undertake product quality liability according to requirements of the law.

Any violation of the Product Quality Law will be punished by the government's quality supervision authorities according to specific circumstances, and penalties include rectification within a prescribed period, suspension of business for rectification, confiscation of illegal gains and fines may be imposed. Serious breach of the law will result in revocation of the business licence and may be sued for criminal liabilities. Enterprises and individuals that are directly held responsible for criminal offences will be subject to criminal liabilities.

Industrial Technical Standards

Pursuant to the requirements of the Standardization Law (《標準化法》), the Issuer requires a uniform technical standard for the products, it shall compile the standards: (i) the requirements in type, specification, quality, grading or safety and health for industrial products; (ii) the design, production, inspection, packaging, storage, transportation, method of use for industrial products and the requirements for safety and health in the process of production, storage and transportation; and (iii) other technical requirements that require the compilation of standards. Meanwhile, if uniform technical standards across the nation are required, then national standards must be compiled. Compilation of national standards shall be responsible by the standardization administration department under the State Council. For specific industrial technical requirement which needs to be unified across the nation but in the absence of a national standard, an industry standard may be compiled. For safety and health requirements in industrial products which are needed to be unified within a province, an autonomous region or municipality directly under the central government but in the absence of national and industrial standards, a local standard may be compiled. If there is no applicable national standard and industrial standard for products produced by an enterprise, then an enterprise standard shall be compiled for use as the production standard in such entity. The relevant enterprise standard of the product of the enterprise must be reported to the local authority of standardization supervision and the relevant administration authority for filing. National standards and industrial standards may be classified into compulsory standards or recommended standards. The standards or legal provisions protecting human health or human body and safety of property, and the enforcement standards provided in administrative regulations, are compulsory standards, any other standards are recommended standards.

Intellectual Property Rights

The Issuer is a "high and new technology enterprise", its products are involved in the laws protecting intellectual property rights of patents, trademarks and computer software.

Patent Law: Pursuant to the Patent Law (《專利法》) promulgated on 12 March 1984 and amended three times on 4 September 1992, 25 August 2000 and 27 December 2008, and the Detailed Rules for the Implementation of the Patent Law (《專利法實施細則》) promulgated on 15 June 2001 and amended twice on 28 December 2002 and 9 January 2010, the State Intellectual Property Office of the PRC (國家知識產權局) is responsible for the management of patents across the nation, and the patent administration authority of each province, autonomous region or municipality directly under the central government is responsible for the management of patents in their respective jurisdiction. The patent system in the PRC adopts the principle of "first applicant", that is, when two or more applicants have made patent applications for the same invention, the patent will be granted to the earliest applicant that submits an application. Patents are classified into three types, namely, invention, utility model and design patents. Patents granted by the State Intellectual Property Office require that invention or utility model must fulfill three criteria: novelty, creativity and practicality. The invention patent has a valid term of 20 years, utility model and design patents have a valid term of 10 years. Any third party using the patents must obtain permission or appropriate authorization from the patent holder before such patents may be used, otherwise a patent infringement conduct will arise.

Trademark Law: Pursuant to the Trademark Law (《商標法》) promulgated on 23 August 1982 and amended three times on 22 February 1993, 27 October 2001 and 30 August 2013, and the Implementation Regulations of the Trademark Law (《商標法實施條例》) promulgated on 3 August 2002 and amended on 29 April 2014, the Trademark Office of the State Administration for Industry and Commerce (國家工商行政管理總局商標局) is responsible for registration of trademarks and the trademark right of the registered trademark valid for a term of 10 years will be granted to the trademark applicant, and the trademark holder may request for a renewal of 10 years upon expiry of the trademark term. The trademark holder may allow other parties to use his registered trademark by entering into trademark licensing agreements. The trademark licensing agreement should be submitted to the Trademark Bureau for filing and announcement purpose. In the absence of a filing, the right cannot be asserted against a bona fide third party. Similar to patents, the PRC authority adopts the principle of "first applicant" in trademark registration. If the trademark being applied for registration is the same as or very similar to another trademark which has been registered or approved on preliminary basis for use in the same type or similar commodities provided by others, the application will be refused by the Trademark Office and no announcement will be made. Any person must not infringe against the existing priority right of another person.

Copyright Law: Pursuant to the provisions of the Copyright Law (《著作權法》) promulgated on 7 September 1990 and amended twice on 27 October 2001 and 26 February 2010, and the Implementation Regulations of the Copyright Law (《著作權法實施條例》) promulgated on 2 August 2002 and amended twice on 8 January 2011 and 30 January 2013, a national citizen, legal person or other organization in the PRC shall be entitled to the copyright of its works, including literature, arts, natural science, social science, engineering technology and computer software works, whether published or not. The copyright holder is entitled to a number of rights, including personal rights and property rights such as the right of publication, the right of authorship and the right of reproduction. Meanwhile, the National Copyright Administration (國家版權局) oversees the registration and management of software copyright across the nation, and issues "Software Copyright Registration Certificate" (《軟件著作權登記證書》) to computer software copyright applicants in compliance with the provisions of the Computer Software Protection Regulations (《計算機軟件保護條例》) and the Computer Software Copyright Registration Measures.

Domain Names: The MIIT is responsible for the management of Internet domain names in the PRC. Pursuant to the requirements of the Administrative Measures for Internet Domain Names in the PRC (《中國互聯網絡域名管理辦法》) promulgated on 5 November 2004, the domain name service also follows the principle of "first applicant". The applicant for registration of domain name must provide true, accurate and complete information about the domain name being applied for registration to the relevant domain name registration service agency and shall enter into a user registration agreement with the agency. After completion of the registration procedure, the applicant will become the holder of the relevant domain name.

Tender and Bidding Requirements

Some security and prevention products of the Issuer are sold by way of tender. Pursuant to the Bid Invitation and Bidding Law (《招標投標法》), Implementation Regulations for Bid Invitation and Bidding Law (《招標投標法實施條例》), Bid Invitation and Bidding Measures for Survey and Design of Construction Projects (《工程建設項目勘察設計招標投標辦法》) and Provisions on the Scope and Scale Standards for Construction Projects (《工程建設項目招標範圍和規模標準規定》), construction projects satisfying certain standards in the PRC, including project survey, design, construction, supervision of the project and procurement of important equipment and materials related to the construction of the project, must be conducted by tender. Any unit or individual shall be prohibited from splitting up the project that is required to be conducted by tender under the law or otherwise avoiding the tender procedure. The tender offeror may conduct a one-off overall tender for survey and design, depending on the different characteristics of the project, or may put up for tender in stages or in sub-divided items as required, provided the completeness and continuity of the project are guaranteed.

Anti-Unfair Competition

The Anti-Unfair Competition Law (《反不正當競爭法》) regulates unfair competition which refers to the behavior of an operator in breach of the requirements of this law causing harm to the legal right and interest of other operating properties and causing disruption to social and economic order. The specific details are as follows: (1) infringement on the trademark, trading name, goodwill and signage, etc. of others; (2) public enterprises or other operators acquiring exclusive status legally restrict others to purchase commodities from operators designated by them in order to preclude fair competition from other operators; (3) operators use properties or other means for bribery in order to sell or purchase commodities; (4) operators use advertising or other means to make misleading and false promotions on the quality, production ingredients, performance, use, manufacturer, validity period, place of origin, etc.; (5) operators adopt improper means to encroach on the commercial secrets of others; (6) operators sell commodities at prices below costs in order to eliminate opponents; (7) operators sell commodities bundled with the sale of commodities or attached with other unreasonable conditions against the will of the purchaser; (8) operators falsify or distribute untrue facts causing harm to the business goodwill or commodity reputation of the competitors; (9) bidders collude in a tender to raise or lower the bidding price; (10) bidder and tender offeror collude to preclude fair competition from the competitor; (11) the abuse of administrative rights to restrict competition by the government and its subordinate authorities.

Operators who have violated the requirements of the Anti-Unfair Competition Law (《反不正當競爭法》) causing harm to the operator being infringed upon, shall be liable to compensation in damages, if it is impracticable to calculate the loss of the infringed operator, then the compensation amount shall be the profit obtained by infringement during the violation period, together with the reasonable costs paid for the investigation of the unfair competition acts of infringement against the legal right and interest of the operator. If the legal right and interest of an infringed operator have been harmed by unfair competition acts, he may commence a legal action against the violator in the People's Court. For unfair competition acts of a serious nature, the violator shall be subject to administrative punishment and criminal liabilities.

Anti-monopoly

Anti-monopoly Law (《反壟斷法》) promulgated on 30 August 2007 stipulates that anti-monopoly acts of operators include: (1) a monopoly agreement has been entered into by operators; (2) operators abuse their market dominance position; (3) a concentration of operators that have or may have the effect of precluding or restricting competition. The Anti-monopoly Commission of the State Council is responsible for organizing, coordinating and directing anti-monopoly work.

If operators enter into and implement monopoly agreements and abuse their market dominance position in violation of the requirements of the Anti-monopoly Law, the anti-monopoly enforcement agency will order to cease the violation acts, forfeit unlawful gains and impose a fine ranging from 1% to 10% of the sales amount in the prior year. For operators who violate against the requirements of concentration under the Anti-monopoly Law, the anti-monopoly enforcement agency of the State Council will order to cease the concentration and require the disposal of shares or assets within a limited period, transfer of the business operations within a limited period and adopt other necessary measures to reinstate the position before the concentration, a fine not exceeding RMB500,000 may be imposed. Operators who implement monopolies and causing damage to others are subject to civil liabilities under the law.

After the promulgation of the Anti-monopoly Law, the State Council and the anti-monopoly enforcement agency have promulgated departmental rules successively, including the Provisions of the State Council on Thresholds for Prior Notification of Concentration of Business Operators (《國務院關於經營者集中申報標準的規定》), Guidelines of Defining the Relevant Market by the Anti-Monopoly Committee of the State Council (《國務院反壟斷委員會關於相關市場界定的指南》), Requirements of Administrative Enforcement Procedures of Anti-monopoly against Price Monopoly (《反價格壟斷行政執法程式規定》), Requirements of Anti-monopoly against Price Monopoly (《反價

格壟斷規定》), Measures for Concentration Reporting by Operators (《經營者集中申報辦法》), Measures for Concentration Review by Operators (《經營者集中審查辦法》), Requirements of the Procedures to Cease Abuse of Administrative Power to Preclude or Restrict Competition Acts by the Administrative and Management Authorities for Industry and Commerce (《工商行政管理機關制止濫用行政權力排除、限制競爭行為程式規定》), Requirements of Prohibiting Monopoly Agreement Acts by the Administrative and Management Authorities for Industry and Commerce (《工商行政管理機關禁止壟斷協議行為的規定》), Provisional Requirements on Applicable Summary Procedures for Examining Cases on Concentration of Operators (《關於經營者集中簡易案件適用標準的暫行規定》) and Additional Restrictive Requirements for Concentration of Operators (《關於經營者集中附加限制性條件的規定》). The above departmental rules, together with the laws and judicial interpretations, constitute the protection against anti-monopoly incidents and enhance the enforceability of anti-monopoly provisions.

Properties

The Property Law (《物權法》) promulgated on 16 March 2007, the General Principles of the Civil Law (《民法通則》), the Urban Real Estate Administration Law (《城市房地產管理法》), the Land Administration Law (《土地管理法》) and the Provisional Regulations concerning the Assignment and Transfer of the Right to Use State-owned Land in the Urban Areas (《城鎮國有土地使用權出讓和轉讓暫行條例》) have made specific requirements on properties. The major contents involve: (1) the implementation of the registration system for real properties, such as real estate, the creation, variation, transfer and extinguishment of property rights of real properties, legitimate rights and interests subject to registration shall be effective upon registration on the real property register. Ownership certificates of real properties are evidence of real property rights entitled by the owners of such properties. Matters recorded on the ownership certificates of real properties shall be consistent with entries on the real property register, if discrepancy exists, except manifest error on the real property register is supported by evidence, the record on the real property register shall prevail; (2) The State implements the land use right system of State-owned land for consideration value and limited period in accordance with the laws. State-owned land may be transferred by land grant contract to user for use and the user shall pay a land premium of a certain amount to the state. The land use right period of State-owned land is different depending on different uses, residential land has a maximum usage period of not exceeding 70 years, industrial land has a maximum usage period of 50 years and commercial land has a maximum usage period of not exceeding 40 years. Transfer of land use right by the state shall be conducted by way of auction, tender, etc.; (3) Apart from usage by owners, any legally owned properties may be transferred, mortgaged or leased by entering into contract in accordance with the laws; (4) land use right will terminate upon expiry of the usage period according to the contractual requirements of the land use right transfer contract and reasons such as early surrender and destruction or loss of land; (5) upon expiry of the land use right period, the land use right and the ownership of buildings thereof and other attached structures on the land will return to the state at nil consideration. The land use right owner should return the land use right certificate and cancel the registration according to requirements. Upon expiry of the land use right period, the land user may apply for renewal. If renewal is required, a new contract shall be entered into according to relevant requirements, and transfer consideration for the land use right shall be paid and shall be duly registered.

Environmental Protection Law

Although the industry in which the Issuer operates is not a key pollution industry determined by national standards, however, the production and operation processes of the Issuer are still required to comply with the provisions of the Environmental Protection Law (《環境保護法》), Law on Prevention and Control of Water Pollution (《水污染防治法》), Law on Prevention and Control of Environmental Pollution by Solid Wastes (《固體廢物污染環境防治法》), Law on Prevention and Control of Atmospheric Pollution (《大氣污染防治法》) and Law on Prevention and Control of Environmental Noise Pollution (《環境噪聲污染防治法》).

Pursuant to the requirements of the Law on Environmental Impact Appraisal (《環境影響評價法》) promulgated on 28 October 2002, environmental impact appraisals for construction investment projects are required by the PRC government. The construction enterprise must submit the environmental impact report to the relevant environmental protection authority for approval. Without approval from the relevant environmental protection authority on the environmental impact appraisal, the project must not commence construction.

According to the requirements of the Energy Conservation Law (《節約能源法》) promulgated on 1 November 1997 and amended on 28 October 2007, energy conservation appraisal and review systems are implemented on fixed asset investment projects in China. If a project fails to comply with the compulsory energy conservation standards, construction work must not be commenced by the construction unit, and if construction work has been completed, it is forbidden to commence production or use.

According to the requirements of the Regulations for the Administration of Environment Protection for Construction Projects (《建設項目環境保護管理條例》) promulgated on 29 November 1998, ancillary environmental protection facilities are required to be built under construction projects, and must be designed, constructed and commence operation at the same time with the main construction work. The ancillary environmental protection facilities required to be built under the construction project need to pass acceptance inspection before such construction project may commence operation or use officially.

Labour Protection

Labour laws and regulations of the PRC mainly include Labour Law (《勞動法》), promulgated on 5 July 1994 and Labour Contract Law (《勞動合同法》), promulgated on 29 June 2007 and amended on 28 December 2012 and the Regulations for the Implementation of Labour Contract Law (《勞動合同法實施條例》) promulgated on 18 September 2008. The above laws and regulations regulate the labour relationship established between the employer and employees, the formation, performance, termination and amendments of labour contracts, confirm the rights and obligations of both parties to the labour contract and protect the legal interest of the employees.

Pursuant to the Social Insurance Law (《社會保險法》) promulgated on 28 October 2010, enterprises should enter into labour contracts with employees and maintain employees' social insurance in compliance with the law, including basic retirement insurance, basic medical insurance, occupational injury insurance, unemployment insurance and maternity insurance.

According to the requirements of the Regulations for Administration of Housing Provident Fund (《住房公積金管理條例》) promulgated on 3 April 1999 and amended on 24 March 2002, enterprises should make Housing Provident Fund contributions for their employees timely with sufficient amounts, and the contribution ratio must not be lower than 5% of the average monthly salaries of the employees in the previous year.

Taxation

Enterprise Income Tax

According to the Enterprise Income Tax Law (《企業所得稅法》) promulgated on 16 March 2007 and Regulations for the Implementation of Enterprise Income Tax Law (《企業所得稅法實施條例》) promulgated on 6 December 2007, the tax rate of enterprise income tax is 25%. In the case of a non-resident enterprise which has not established any premise in the PRC, or if it has established such premise, the income derived has no substantive connection with such established entity or premise, then the income derived from PRC sources (including gains on disposal of shares of PRC enterprises) shall be subject to a unified tax rate of 10% for the levy of enterprise income tax which the payer may be required to withhold it source. Such tax amounts may be exempted or reduced according to the special arrangement or relevant terms agreed between China and the jurisdiction where the non-resident enterprise is located.

The general enterprise income tax rate of 25% may be reduced to 15%, 10% or 0% in certain circumstances.

Value-added Tax

According to the Provisional Regulations of Value-added Tax (《增值稅暫行條例》) promulgated on 13 December 1993 and amended on 10 November 2008, all units or individuals that are engaged in selling goods, providing labour services for processing, repair and replacement or importing goods must be subject to value-added tax. The amount of value-added tax payable shall be calculated by the tax amounts between the outgoing items and the incoming items. For the purpose of selling or importing goods or provision of labour services for processing, repair and replacement by the taxpayer, the value-added tax rate is 17%. For the purpose of selling or importing specific goods listed under the Provisional Regulations of Value-added Tax (《增值稅暫行條例》), the value-added tax rate is 13%, subject to the categories of the products.

Import and Export Trade Regulations

Pursuant to the requirements of the Foreign Trade Law (《對外貿易法》) promulgated on 12 May 1994 and amended on 6 April 2004, except goods and technologies restricted or prohibited from being imported and exported under the requirements of laws and administrative regulations, goods and technologies are permitted by the government of the PRC to be imported and exported liberally. External trade operators engaging in the import and export of goods or technologies shall complete the filing procedure for registration with the competent authority of external trade or its agency.

Pursuant to the requirements of the Customs Law (《海關法》) promulgated on 22 January 1987 and amended three times on 8 July 2000, 29 June 2013 and 28 December 2013, transportation vehicles, goods and materials being imported into or exported from China must enter or exit the border at the place with customs check points and complete the customs declaration procedures.

Pursuant to the requirements of the Law on Import and Export Commodity Inspection (《進出口商品檢驗法》) promulgated on 21 February 1989 and amended twice on 28 April 2002 and 29 June 2013, commodities listed on the inspection catalogue of import and export commodities shall be inspected by the commodity inspection authority before they can be imported or exported, other commodities shall be inspected by random checking conducted by the commodity inspection authority.

DIFFERENCE BETWEEN PRC GAAP AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group's quarterly consolidated financial information as at and for the nine months ended 30 September 2014 and 2015 have been prepared in accordance with PRC GAAP.

PRC GAAP substantially converge to IFRS, except for certain modifications still exist between PRC GAAP and IFRS which are effective at the reporting date and might be relevant to the financial statements of the Group. The following is a general summary of certain major differences between PRC GAAP and IFRS on recognition and presentation as applicable to the financial statements of the Group. The Group is responsible for preparing the summary below. Since the summary is not meant to be exhaustive, there is no assurance regarding the completeness of the financial information and related footnote disclosure between PRC GAAP and IFRS and no attempt has been made to quantify such differences.

Had any such quantification or reconciliation been undertaken by the Group, other potentially significant accounting and disclosure differences may have been required that are not identified below. Additionally, no attempt has been made to identify possible future differences between PRC GAAP and IFRS as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate PRC GAAP and IFRS have significant ongoing projects that could affect future comparisons or events that may occur in the future.

Accordingly, no assurance is provided that the following summary of differences between PRC GAAP and IFRS is complete. In making an investment decision, each investor must rely upon its own examination of the Group, the terms of the offering and other disclosure contained herein. Each investor should consult its own professional advisors for an understanding the differences between PRC GAAP and IFRS and/or between PRC GAAP and other generally accepted accounting principles, and how those differences might affect the financial information contained herein.

Reversal of an impairment loss

Under PRC GAAP, once an impairment loss is recognised for a long term asset (including fixed assets, intangible assets and goodwill, etc.), it shall not be reversed in any subsequent period. Under IFRS, an impairment loss recognised in prior periods for an asset other than goodwill shall be reversed, if and only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

Related party disclosures

Under PRC GAAP, government-related entities are not treated as related parties. Under IFRS, government-related entities are still treated as related parties.

EXCHANGE RATES

PRC

The PBOC sets and publishes daily a base exchange rate with reference primarily to the supply and demand of Renminbi against a basket of currencies in the markets during the prior day. The PBOC also takes into account other factors such as the general conditions existing in the international foreign exchange market. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. From 1994 to 20 July 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to that of the U.S. dollar, to allow the value of the Renminbi to fluctuate within a narrow and managed band based on market supply and demand and by reference to a basket of currencies. This change in policy has resulted in a significant appreciation of the Renminbi against the U.S. dollar.

The PRC government has made further adjustments to the exchange rate system. The PBOC authorised the China Foreign Exchange Trading Centre, effective since 4 January 2006, to announce the central parity exchange rate of certain foreign currencies against the Renminbi at 9:15 a.m. each business day. This rate is set as the central parity for the trading against the Renminbi in the inter-bank foreign exchange spot market and the over the counter exchange rate for that business day. On 18 May 2007, the PBOC enlarged, effective on 21 May 2007, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On 12 April 2012, the PBOC announced that effective on 16 April 2012, the floating band for the trading prices in the inter-bank spot exchange market of Renminbi against the U.S. dollar is enlarged from 0.5% to 1.0% around the central parity rate, which allows the Renminbi to fluctuate against the U.S. dollar by up to 1.0% above or below the central parity rate published by the PBOC. The PBOC announced on 15 March 2014 that, since 17 March 2014, the floating band of inter-bank spot foreign exchange market trading price of RMB against U.S. dollar was further widened from 1% to 2%. On 11 August 2015, the PBOC adjusted the mechanism for market makers to form the central parity rate by requiring them to consider the closing exchange rate of the last trading date, the supply and demand of foreign exchange and the rate change at primary international currencies. On 11 December 2015, the China Foreign Exchange Trade System, a sub-institutional organization of the PBOC, published the CFETS Renminbi exchange rate index for the first time which weighs the Renminbi based on 13 currencies, to guide the market in order to measure the Renminbi exchange rate from a new perspective. The PRC government may in the future make further adjustments to the exchange rate system.

Although the PRC governmental policies have been introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign currency for capital items, such as foreign direct investment, loans or security, requires the approval of the SAFE and other relevant authorities.

The following table sets forth for the periods indicated, certain information concerning the exchange rates between Renminbi and US dollars. The exchange rates reflect the exchange rates as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States.

	Exchange Rate			
Period	**Period End**	**Average(1)**	**High**	**Low**
	(RMB per US$1.00)			
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.2221	6.3879
2013	6.0537	6.1412	6.0537	6.2438
2014	6.2046	6.1704	6.0402	6.2591
2015				
January	6.2495	6.2181	6.2535	6.187
February	6.2695	6.2518	6.2399	6.2695
March	6.1990	6.2386	6.1955	6.2741
April	6.2018	6.2010	6.1927	6.2185
May	6.1980	6.2035	6.1958	6.2086
June	6.2000	6.2056	6.1976	6.2086
July	6.2097	6.2085	6.2097	6.2008
August	6.3760	6.3383	6.4122	6.2086
September	6.3556	6.3676	6.3836	6.3544
October	6.3180	6.3505	6.3591	6.3180
November	6.3883	6.3640	6.3945	6.3180
December	6.4778	6.4491	6.4896	6.3883

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which were determined by averaging the daily rates for such month or part thereof.

The following table sets forth, for each of the period indicated, certain information concerning the exchange rates between euro and U.S. dollar. The exchange rates reflect the exchange rate as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System of the United States.

	Exchange Rate			
Period	**Period End**	**Average(1)**	**High**	**Low**
	(US$ per EURO1.00)			
2010	1.3269	1.3216	1.4536	1.2926
2011	1.2973	1.4002	1.4875	1.2926
2012	1.3186	1.2909	1.3463	1.2062
2013	1.3779	1.3303	1.3816	1.2774
2014	1.2101	1.3215	1.3927	1.2101
2015				
January	1.1290	1.1627	1.2015	1.1279
February	1.1197	1.1350	1.1462	1.1197
March	1.0741	1.0846	1.1212	1.0524
April	1.1162	1.0845	1.1174	1.0582
May	1.0994	1.1183	1.1428	1.0876
June	1.1154	1.1247	1.1404	1.0913
July	1.1028	1.0997	1.115	1.0848
August	1.1194	1.1136	1.1580	1.0868
September	1.1162	1.1229	1.1358	1.1104
October	1.1042	1.1228	1.1437	1.0963
November	1.0562	1.0727	1.1026	1.0562
December	1.0859	1.0889	1.1025	1.0573

(1) Determined by monthly averaging the rates on the last business day of each month during the relevant year, except for the average rates, which were determined by averaging the daily rates for such month or part thereof.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect at the date of this Offering Memorandum, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Memorandum are to be regarded as advice on the tax position of any Noteholder or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

PRC

The following summary describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes. These beneficial owners are referred to as non-PRC Noteholders in this "*Taxation — PRC*" section. In considering whether to invest in the Notes, investors should consult their individual tax advisors with regard to the application of PRC tax laws to their particular circumstances as well as any tax consequences arising under the laws of any other tax jurisdiction.

The Issuer is a PRC tax resident enterprise for the purpose of the EIT Law and subject to PRC enterprise income tax at the rate of 25% on its taxable income. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise without an establishment within the PRC or whose income has no connection to its establishment inside the PRC must pay enterprise income tax on income sourced within the PRC, and such income tax must be withheld at source by the PRC payer acting as a withholding agent. Accordingly, the Issuer will be required to withhold income tax from the payments of interest in respect of the Notes to any non-PRC Noteholder. The Issuer has agreed to pay additional amounts to Noteholders, subject to certain exceptions, for any PRC taxes withheld by the Issuer from a payment of interest or if applicable, principal on the Notes so that they would receive the full amount of the scheduled interest payment, as further set out in the Terms and Conditions of the Notes. Gain from the disposition of the Notes will generally be subject to PRC tax in the case of a non-PRC Noteholder. Such gain may be subject to PRC tax in the case of a non-PRC individual Noteholder if the gain is treated as PRC-source. The tax rate is generally 10% for non-PRC enterprise Noteholders and 20% in the case of non-PRC individual Noteholders. Any PRC tax liability may be reduced under applicable tax treaties or arrangements.

The proposed financial transactions tax ("FTT")

The European Commission has published a proposal (the "**Commission's proposal**") for a Directive for a common FTT in Belgium, Germany, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). The Commission's proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt. Under the Commission's proposal, FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealing is issued in a participating Member State. However, the FTT proposal remains subject to negotiation between the participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Issuer has entered into a subscription agreement with the Joint Lead Managers with effect from 3 February 2016 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Issuer has undertaken, among other things, that the Notes will be issued on 18 February 2016 (the "**Closing Date**"), and the Joint Lead Managers have severally and not jointly agreed with the Issuer to subscribe and pay for, or procure subscribers to subscribe and pay for, the Notes at an issue price of 99.959 per cent. of their principal amount in the amount set forth below:

	Principal Amount of Notes
	(euro)
ABCI Capital Limited	5,000,000
Agricultural Bank of China Limited Hong Kong Branch	5,000,000
Bank of China Limited	10,000,000
China Construction Bank (Asia) Corporation Limited	10,000,000
China International Capital Corporation Hong Kong Securities Limited	10,000,000
Citigroup Global Markets Limited	96,668,000
Deutsche Bank AG, London Branch	96,666,000
The Hongkong and Shanghai Banking Corporation Limited	10,000,000
Industrial and Commercial Bank of China (Asia) Limited	10,000,000
Merrill Lynch International	10,000,000
Morgan Stanley & Co. International plc	96,666,000
Shanghai Pudong Development Bank Co., Ltd., Hong Kong Branch	10,000,000
SMBC Nikko Capital Markets Limited	10,000,000
Standard Chartered Bank	10,000,000
UBS AG, Hong Kong Branch	10,000,000
Total	400,000,000

The Subscription Agreement provides that the Issuer has agreed to pay the Joint Lead Managers certain fees and commissions, to reimburse the Joint Lead Managers for certain of their expenses in connection with the initial sale and distribution of the Notes, and the Issuer will jointly and severally indemnify the Joint Lead Managers against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent, and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment being made to the Issuer on the Issue Date.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Joint Lead Manager or any of its affiliates is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or its affiliate on behalf of the Issuer in such jurisdiction.

The Joint Lead Managers, and their respective subsidiaries and affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers and certain of their respective subsidiaries and affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for, and entered into certain commercial banking transactions with, the Issuer and/or the Group for which they have received or will receive customary fees and expenses.

The Joint Lead Managers and their respective affiliates may purchase the Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the offering contemplated herein. Accordingly, references herein to the Notes being "offered" should be read as including any offering of the Notes to the Joint Lead Managers and/or their respective affiliates for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained. The Issuer and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Notes are a new issue of securities with no established market. No assurance can be given as to the liquidaty of any trading market for the Notes.

The distribution of this Offering Memorandum, or any offering material, and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Memorandum, or any offering material, are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Memorandum may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

Accordingly, the Notes should not be offered or sold, directly or indirectly, and neither this Offering Memorandum nor any other offering material, circular, prospectus, form of application or advertisement in connection with the Notes should be distributed or published in or from any jurisdiction, except in circumstances which will result in compliance with any applicable laws and regulations and will not, save as disclosed in this Offering Memorandum, impose any obligations on the Issuer or the Joint Lead Managers.

GENERAL

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Notes, or possession or distribution of this Offering Memorandum or any amendment or supplement thereto or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. The Group will have no responsibility for, and each Joint Lead Manager will obtain any consent, approval or permission required by it for, the acquisition, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in or from which it makes any acquisition, offer, sale or delivery. None of the Joint Lead Managers is authorised to make any representation or use any information in connection with the issue, subscription and sale of the Notes, other than as contained in this Offering Memorandum, any amendment or supplement thereto, or any other material approved by the Issuer.

If a jurisdiction requires that the offering of the Notes be made by a licensed broker or dealer and a Joint Lead Manager or any affiliate of that Joint Lead Managers a is a licensed broker or dealer in that jurisdiction, the offering of the Notes shall be deemed to be made by that Joint Lead Manager or its affiliate on behalf of the Issuer in such jurisdiction.

UNITED STATES

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and undertaken to the Issuer that it has not offered or sold, and will not offer or sell, any Notes constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that neither it nor any of its affiliates (including any person acting on behalf of the Joint Lead Manager or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes.

Terms used in the paragraph above have the meanings given to them by Regulation S under the Securities Act.

UNITED KINGDOM

Each Joint Lead Manager has represented, warranted and undertaken that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**")) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

HONG KONG

Each Joint Lead Manager has represented, warranted and undertaken that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under that Ordinance.

THE PEOPLE'S REPUBLIC OF CHINA

Each of the Joint Lead Managers has represented, warranted and undertaken that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

SINGAPORE

Each Joint Lead Manager has acknowledged that this Offering Memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not offered or sold any Notes or caused such Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell such Notes or cause such Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor or to a relevant person defined in Section 274(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) as specified in Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offer of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

JAPAN

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Joint Lead Manager has represented, warranted and undertaken that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

ITALIAN REPUBLIC

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, and no copies of the Offering Memorandum and any other document relating to the Notes may be distributed in the Republic of Italy except:

(i) to "**qualified investors**", as referred to in Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended ("**Decree No. 58**"), and defined in article 34-ter, paragraph 1, letter (b) of CONSOB Regulation no. 11971 of 14 May 1999, as amended ("**Regulation No. 11971**");

(ii) that Notes may be offered, sold or delivered or copies of any prospectus relating to such Notes may be distributed in an offer to the public in the period commencing on the date of publication of such prospectus, provided that such prospectus has been approved in another Relevant Member State and notified to CONSOB, all in accordance with the Prospectus Directive and the 2010 PD Amending Directive, as implemented in Italy under Decree No. 58 and Regulation No. 11971, and ending on the date which is 12 months after the date of approval of such prospectus; and

(iii) in any other circumstances where an express exemption from compliance with the solicitation restrictions applies, as provided under Decree No. 58 or Regulation No. 11971.

EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Joint Lead Manager has represented, warranted and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **"Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Offering Memorandum to the public in that Relevant Member State other than:

(i) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(ii) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Lead Manager nominated by the Issuer for any such offer; or

(iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes shall require the Issuer or such Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

GENERAL INFORMATION

1. **Clearing Systems**: The Notes have been accepted for clearance through Euroclear and Clearstream with a Common Code 134135824 and an ISIN XS1341358247.

2. **Authorisations**: The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of its obligations under the Notes, the Trust Deed, the Agency Agreement. The issue of the Notes and the entry into the transaction documents in connection with the Notes were authorised by resolutions of the Board of Directors of the Issuer on 22 December 2015 and by resolutions of the shareholders of the Issuer on 8 January 2016.

3. **No Material Adverse Change**: Save as disclosed on page 122 in this Offering Memorandum, there has been no material adverse change in the financial or trading position or prospects of the Issuer and the Group since 31 December 2014. Save as disclosed on page 122 in this Offering Memorandum, there have been no significant change in the financial or trading position of the Issuer or the Group which has occurred since 30 June 2015.

4. **Litigation**: None of the Issuer or any other member of the Group is involved in any legal, governmental or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Offering Memorandum, a significant effect on the financial position or profitability of the Issuer or the Group.

5. **Available Documents**: Copies of the Issuer's audited consolidated financial statements as at and for the years ended 31 December 2012, 2013, 2014, the Issuer's unaudited and reviewed condensed consolidated financial statements as at and for the six months ended 30 June 2015, and the unaudited and unreviewed consolidated quarterly financial information as at and for the nine months ended 30 September 2014 and 2015, the Trust Deed and the Agency Agreement relating to the Notes and the Articles of Association of the Issuer will be available for inspection in physical form from the Issue Date at the Issuer's principal office at 2/F, Tower A, 555 Qianmo Road, Binjiang District, Hangzhou, 310051 during normal business hours, so long as any of the Notes is outstanding.

6. **Financial Statements**: The audited consolidated financial statements of the Issuer as at and for the years ended 31 December 2012, 2013, and 2014 have been audited by DTT, as stated in its reports appearing herein. The condensed consolidated financial statements of the Issuer as at and for the six months ended 30 June 2014 and 2015 have been reviewed by DTT, as stated in its report appearing herein. The consolidated financial statements of the Issuer as at and for the three years ended 31 December 2012, 2013 and 2014 and as at and for the six months ended 30 June 2014 and 2015 are prepared in accordance with IFRS. The consolidated quarterly financial information of the Issuer as at and for the nine months ended 30 September 2014 and 2015 were prepared and presented in accordance with PRC GAAP and have not been audited or reviewed by DTT or any other independent auditor. The Group has prepared English translations of its financial information as at and for the nine months ended 30 September 2014 and 2015 as set out elsewhere in this Offering Memorandum. None of the Joint Lead Managers, the Trustee or the Agents have independently verified or checked the accuracy of the English translations and can give any assurance that the information contained in such English translations of the Group's financial statements is accurate, truthful or complete. These consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions.

7. **Listing**: Application has been made to the ISE for the Notes to be admitted to the Official List and trading on its Main Securities Market. It is expected that admission of the Notes to the Official List and trading on the Main Securities Market will be granted on or about 18 February 2016, subject only to the issue of the Notes.

8. **Irish Listing Agent**: Maples and Calder is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the ISE or to trading on the Main Securities Market for the purpose of the Prospectus Directive. The estimated total expense in relation to the admission of the Notes on the Main Securities Market are €8,000 (excluding disbursement).

9. **Notice to the Issuer:** Any notice and inquiry to the Issuer should be sent to: Hangzhou Hikvision Digital Technology Co., Ltd., attention Ms. JIN Yan, phone number +86 571 8807 5998 ext. 8101, fax +86 571 8993 5635.

INDEX TO FINANCIAL STATEMENTS

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To THE BOARD OF DIRECTORS OF HANGZHOU HIKVISION DIGITAL TECHNOLOGY CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Hangzhou Hikvision Digital Technology Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages F-3 to F-25, which comprise the condensed consolidated statement of financial position as of June 30, 2015 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with International Accounting Standard 34 (IAS 34) Interim Financial Reporting issued by the International Accounting Standards Board. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu Certified Public Accountants LLP
February 4, 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED JUNE 30, 2015

	NOTES	Six months ended June 30, 2015	Six months ended June 30, 2014
		RMB'000 (unaudited)	RMB'000 (unaudited)
Revenue	4	9,725,663	5,953,866
Cost of sales and service		(5,628,068)	(3,190,264)
Gross profit		4,097,595	2,763,602
Other income	5	611,979	373,037
Other gains and losses	6	(152,779)	(81,018)
Distribution and selling expenses		(900,032)	(633,453)
Administrative expenses		(192,942)	(148,832)
Research and development expenses		(815,574)	(549,115)
Finance costs		(30,254)	(15,691)
Share of profit of a joint venture		—	(353)
Profit before taxation	7	2,617,993	1,708,177
Taxation	8	(399,903)	(178,940)
Profit for the period		2,218,090	1,529,237
Profit attributable to:			
Owners of the Company		2,206,521	1,519,600
Non-controlling interests		11,569	9,637
		2,218,090	1,529,237
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		(11,096)	(8,439)
Profit and total comprehensive income for the period		2,206,994	1,520,798
Profits and total comprehensive income attributable to:			
Owners of the Company		2,197,203	1,511,035
Non-controlling interests		9,791	9,763
		2,206,994	1,520,798
		RMB cents	RMB cents
Earnings per share	10		
Basic		55	38
Diluted		55	38

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT JUNE 30, 2015

	NOTES	30/06/2015	31/12/2014
		RMB'000	RMB'000
		(unaudited)	(audited)
Non-current assets			
Property, plant and equipment	11	1,975,661	1,597,712
Deposits paid for acquisition of property, plant and equipment	11	213,861	190,201
Prepaid lease payments	12	154,562	27,570
Deposits paid for acquisition of prepaid lease payments	12	18,000	64,640
Goodwill		117,860	117,860
Deferred tax assets	13	134,620	96,083
Finance lease receivables		30,754	31,238
Available-for-sale investments		604	604
Total non-current assets		2,645,922	2,125,908
Current assets			
Inventories		2,801,065	2,291,935
Trade and bill receivables	14	7,991,248	6,131,853
Amounts due from customers for contract work		27,000	36,000
Other receivables and prepayments	14	736,815	597,964
Finance lease receivables		9,858	20,083
Prepaid lease payments		3,206	641
Derivative financial assets	16	5,831	3,033
Other financial assets	17	970,000	2,750,000
Structured deposits	17	854,000	108,000
Amounts due from related parties	15	49,293	25,443
Restricted bank deposits		66,855	88,404
Bank balances and cash		6,256,894	7,111,255
Total current assets		19,772,065	19,164,611
Total assets		22,417,987	21,290,519
Capital and reserves			
Share capital	20	4,069,128	4,069,128
Reserves		11,425,901	10,773,115
Equity attributable to owners of the Company		15,495,029	14,842,243
Non-controlling interests		44,378	36,913
Total equity		15,539,407	14,879,156
Non-current liabilities			
Long-term bank loans	19	949,497	244,760
Other borrowings	19	3,000	—
Deferred income		19,073	14,812
Provisions		41,155	36,661
Total non-current liabilities		1,012,725	296,233

	NOTES	30/06/2015	31/12/2014
		RMB'000	**RMB'000**
		(unaudited)	**(audited)**
Current liabilities			
Trade and bill payables	18	3,038,870	3,548,121
Other payables and accruals	18	1,813,621	1,926,669
Dividend payables		28,678	4,402
Short-term bank loans	19	602,228	362,318
Amounts due to related parties	15	62,875	49,381
Derivative financial liabilities	16	13,746	—
Other borrowings	19	—	3,000
Income tax payable		305,837	221,239
Total current liabilities		5,865,855	6,115,130
Total liabilities		6,878,580	6,411,363
Total equity and liabilities		22,417,987	21,290,519

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED JUNE 30, 2015

	Attributable to owners of the Company										
	Share capital	Share premium	Treasury stock reserve	Share-based compensation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Retained profit	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at January 1, 2014 (audited)	4,017,223	893,726	(91,714)	75,836	950	891,846	1,920	5,296,852	11,086,639	26,050	11,112,689
Profit for the period	—	—	—	—	—	—	—	1,519,600	1,519,600	9,637	1,529,237
Other comprehensive expense for the period	—	—	—	—	—	—	(8,565)	—	(8,565)	126	(8,439)
Total comprehensive income for the period	—	—	—	—	—	—	(8,565)	1,519,600	1,511,035	9,763	1,520,798
Recognition of equity-settled share-based compensation	—	—	—	24,064	—	—	—	—	24,064	—	24,064
Dividends recognised as distribution	—	—	—	—	—		—	(1,004,306)	(1,004,306)	—	(1,004,306)
At June 30, 2014 (unaudited)	4,017,223	893,726	(91,714)	99,900	950	891,846	(6,645)	5,812,146	11,617,432	35,813	11,653,245
Balance at January 1, 2015 (audited)	4,069,128	1,373,844	(547,853)	102,926	3,276	1,339,598	(8,837)	8,510,161	14,842,243	36,913	14,879,156
Profit for the period	—	—	—	—	—	—	—	2,206,521	2,206,521	11,569	2,218,090
Other comprehensive expense for the period	—	—	—	—	—	—	(9,318)	—	(9,318)	(1,778)	(11,096)
Total comprehensive income for the period	—	—	—	—	—	—	(9,318)	2,206,521	2,197,203	9,791	2,206,994
Recognition of equity-settled share-based compensation	—	—	—	80,907	—	—	—	—	80,907	—	80,907
Acquisition of Non-controlling Interest of a subsidiary	—	—	—	—	2,326	—	—	—	2,326	(2,326)	—
Dividends recognised as distribution	—	—	—	—	—	—	—	(1,627,650)	(1,627,650)	—	(1,627,650)
At June 30, 2015 (unaudited)	4,069,128	1,373,844	(547,853)	183,833	5,602	1,339,598	(18,155)	9,089,032	15,495,029	44,378	15,539,407

Note:

Statutory surplus reserve

In accordance with the relevant laws and regulations in the PRC, the Company and PRC subsidiaries are required to transfer 10% of their profit after taxation reported in their financial statements prepared under the generally accepted accounting principles in the PRC to the statutory surplus reserve. Allocation shall be approved by the shareholders. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the relevant companies' registered capital.

The Company and PRC subsidiaries may, upon the approval by a resolution, convert their surplus reserves into capital in proportion to their then existing shareholdings. However, when converting the statutory surplus reserve fund into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2015

	Six months ended June 30,	
	2015	**2014**
	RMB'000	**RMB'000**
	(unaudited)	**(unaudited)**
OPERATING ACTIVITIES		
Profit before taxation	2,617,993	1,708,177
Adjustments for:		
Depreciation of property, plant and equipment	70,194	41,557
Release of prepaid lease payments	558	321
Impairment losses recognised in respect of trade receivables	132,935	70,594
Impairment losses recognised in respect of other receivables	6,676	8,613
Impairment losses (reversal of impairment losses) recognised in respect of amounts due from related parties	1,891	(258)
Allowance for inventories	25,074	31,002
Share-based payments expenses	80,907	24,064
Income from other financial assets and structured deposits	(77,865)	(62,133)
Loss on disposals of property, plant and equipment	236	103
Change in fair value of derivative financial instruments	9,649	3,737
Finance costs	30,253	15,691
Share of results of a joint venture	—	353
Unrealised exchange losses	(3,836)	(7,727)
Operating cash flows before movements in working capital	2,894,665	1,834,094
Increase in inventories	(534,204)	(630,687)
Decrease (increase) in finance lease receivables	10,709	(11,840)
Increase in other receivables and prepayments	(145,527)	(236,614)
Increase in trade and bills receivables	(1,988,494)	(1,339,278)
Decrease in amounts due from customers for contract work	9,000	9,000
Decrease in other payables and accruals	(113,048)	(150,036)
Increase in provisions	4,494	5,195
Increase (decrease) in trade and bills payables	(509,251)	396,365
Decrease (increase) in amounts due from related parties	(25,741)	5,163
Increase (decrease) in amounts due to related parties	13,494	(9,978)
Cash used in operations	(383,903)	(128,616)
Income tax paid	(353,842)	(141,884)
Interest paid	—	(8,208)
Net cash used in operating activities	(737,745)	(278,708)

	Six months ended June 30,	
	2015	2014
	RMB'000 (unaudited)	RMB'000 (unaudited)
INVESTING ACTIVITIES		
Income receipt from other financial assets and structure deposits	77,865	62,133
Proceeds from disposal of property, plant and equipment	2,224	929
Receipt of assets-related government grants	4,261	—
Proceeds from redemption of structured deposits	238,000	2,017,300
Proceeds from redemption of other financial assets	1,780,000	830,000
Proceeds from settlement of derivative financial instruments	884,327	—
Withdrawal of restricted cash	88,404	8,474
Investments in other financial assets	—	(930,000)
Investments in structured deposits	(984,000)	(2,524,410)
Payment for acquisition of property, plant and equipment	(474,263)	(343,268)
Placement of restricted bank deposits	(66,855)	(103,758)
Payment for settlement of derivative financial instruments	(883,028)	—
Payment for acquisition of prepaid lease payments	(83,475)	—
Net cash from (used in) investing activities	583,460	(982,600)
FINANCING ACTIVITIES		
Interest expense paid	(30,253)	(7,483)
Repayment of bank loans	(1,014,559)	(1,012,331)
Dividend paid to the owners of the Company	(1,603,374)	—
New bank loans raised	1,959,206	1,695,448
Net cash from financing activities	(688,980)	675,634
Decrease in cash and cash equivalents	(843,265)	(585,674)
Cash and cash equivalents at beginning of the period	7,111,255	4,584,133
Effect of foreign exchange rate changes	(11,096)	(8,439)
Cash and cash equivalents at end of the period, represented by bank balances and cash	6,256,894	3,990,020

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2015

1. GENERAL

The Company was established by the 52nd Research Institute at China Electronics Technology Group Corporation (中國電子科技集團公司第五十二所 as 52nd Institute) and Mr. Gong Hongjia ("Mr. Gong") as a foreign investment joint venture company with limited liability on November 30, 2001. The Directors of the Company are of the opinion that the ultimate controlling shareholder is China Electronics Technology Group Corporation (中國電子科技集團公司) (the "Parent Company") which is a state-owned enterprise under the control and supervision of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會, as "SASAC"). On June 25, 2008, as approved by the government, the Company converted to a joint stock limited company. On May 28, 2010, with the approval of Chinese Securities Regulatory Committee ("CSRC"), the Company completed its initial public offering and listing of 50,000,000 shares on the Shenzhen Stock Exchange of China. On January 26, 2014, as part of the restructuring of state-owned assets, the 52nd Institute allocated its shares representing 40.42% interest in the Company to China Electronics Technology HIK Group Co., Ltd. (中電海康集團有限公司), the wholly-owned subsidiary of China Electronics Technology Group Corporation.

The Group is mainly engaged in the design, manufacture and distribute video surveillance products, and provide industry specific video surveillance solutions and related value-added services, including construction project management. In addition, the Group provides internet-based video content services and applications.

The condensed consolidated financial statements is presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 (IAS 34) Interim Financial Reporting issued by the International Accounting Standards Board.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2015 are the same as followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2014.

In the current interim period, the Group has applied, for the first time, the following new or revised IFRSs" issued by the International Accounting Standards Board (IASB) that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle

The application of the above new or revised IFRSs in the current interim period has had no material effect on the amounts reported and disclosures set out in these condensed consolidated financial statements.

4. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable and operating segment:

For the period ended June 30, 2015

	Sales of Goods					Construction Project Management Service	Total
	Front-end products	Back-end products	Controlling Center end	Other products	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	5,365,859	1,902,301	838,660	1,275,701	9,382,521	343,142	9,725,663
Segment cost	2,691,828	1,009,998	402,401	1,205,588	5,309,815	318,253	5,628,068
Segment results	**2,674,031**	**892,303**	**436,259**	**70,113**	**4,072,706**	**24,889**	**4,097,595**
General and administration expenses							(192,942)
Selling expenses							(900,032)
Research and development expenses							(815,574)
Other gains and losses							(152,779)
Other income							611,979
Finance costs							(30,254)
Profit before tax							**2,617,993**
Income tax expenses							(399,903)
Profit for the *period*							**2,218,090**

For the period ended June 30, 2014

	Sales of Goods					Construction Project Management Service	Total
	Front-end products	Back-end products	Controlling Center end	Other products	Subtotal		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	3,258,708	1,503,216	535,851	557,768	5,855,543	98,323	5,953,866
Segment cost	1,615,904	716,935	246,619	531,807	3,111,265	78,999	3,190,264
Segment results	**1,642,804**	**786,281**	**289,232**	**25,961**	**2,744,278**	**19,324**	**2,763,602**
General and administration expenses							(148,832)
Selling expenses							(633,453)
Research and development expenses							(549,115)
Other gains and losses							(81,371)
Other income							373,037
Finance costs							(15,691)
Profit before tax							**1,708,177**
Income tax expenses							(178,940)
Profit for the *period*							**1,529,237**

Geographical information

The Group's operations are located in the respective countries of domicile of the Group's subsidiaries and the Company. The principal operations of the Group are the PRC and certain foreign countries during the periods presented.

Information about the Group's revenue from external customers is presented based on the countries of domicile of the customers.

	Six months ended June 30,	
	2015	2014
	RMB'000 (unaudited)	RMB'000 (unaudited)
The PRC	7,159,220	4,337,041
Overseas countries (mainly Europe, North America, Central and South America)	2,566,443	1,616,825
	9,725,663	5,953,866

5. OTHER INCOME

	Six months ended June 30,	
	2015	2014
	RMB'000 (unaudited)	RMB'000 (unaudited)
Bank interest income	73,292	43,959
Government grants (Note)	440,595	261,900
Income receipt from other financial assets and structured deposits	77,865	62,133
Others	20,227	5,045
	611,979	373,037

Note: The government grants for the period ended June 30, 2015 and 2014 mainly represented the amounts received by the Company and relevant group entities for refund of value-added taxes in relation to software industry and various subsidies granted to group entities by the PRC local government as incentives for involvement in the encouraged business and production development. The Company and relevant group entities fulfilled all the conditions attached to the grants when they are entitled to be granted.

6. OTHER GAINS AND LOSSES

	Six months ended June 30,	
	2015	2014
	RMB'000 (unaudited)	RMB'000 (unaudited)
Net foreign exchange gain	3,836	7,727
Loss on fair value change in derivative financial instruments	(9,649)	(3,737)
Loss on disposal of property, plant and equipment	(236)	(103)
Impairment losses recognised in respect of trade receivables	(132,935)	(70,594)
Impairment losses recognised in respect of other receivables	(6,676)	(8,613)
(Impairment losses) reversal of impairment losses recognised in respect of amounts due from related parties	(1,891)	258
Others	(5,228)	(5,956)
	(152,779)	(81,018)

7. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Six months ended June 30,	
	2015	2014
	RMB'000 (unaudited)	RMB'000 (unaudited)
Directors' remuneration (including supervisory committee members)	2,314	1,701
Other staff costs	856,418	501,455
Other staff's retirement benefits scheme contributions	52,370	31,510
Performance related bonus	311,000	212,000
Share-based compensation expenses	80,907	24,064
Total staff costs	1,303,009	770,730
Auditor's remuneration	1,275	650
Cost of inventories recognised as an expense (note)	5,410,546	3,016,832
Depreciation of property, plant and equipment	70,194	41,557
Release of prepaid lease payments	558	321

Note: Included in the amounts were write-down of inventories of approximately RMB25,074,000 and RMB31,002,000, respectively, during the period ended June 30, 2015 and 2014.

8. INCOME TAX EXPENSE

	Six months ended June 30,	
	2015	2014
	RMB'000 (unaudited)	RMB'000 (unaudited)
Current tax:		
PRC enterprise income tax ("EIT")		
- Current year	419,913	189,583
- (Over) under provision in respect of prior years	10,486	3,824
	430,399	193,407
Hong Kong Profits Tax	—	—
Other jurisdictions	7,282	3,550
	437,681	196,957
Deferred tax (Note 13):		
- Current year	(37,778)	(18,017)
Total income tax expense	399,903	178,940

No Hong Kong Profits Tax was provided for the period ended June 30, 2015 and 2014 as the group entities had no relevant assessable profits.

PRC income tax is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the entities incorporated in PRC is 25%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), certain of the group entities located in the PRC have been entitled to the following tax concession under the EIT Law:

(1) Those entities which are located in specific provinces of western China and engaged in specific encouraged industries enjoy a preferential tax rate of 15% under EIT Law.

(2) Those entities which are qualified as "Hi-New Tech Enterprises" would enjoy a preferential tax rate of 15% under EIT Law and subject to every 3-year renewal.

(3) Those entities which are qualified as "Entity Engaged In Software Industry" would be exempted from EIT for two years starting from its profit-making year, followed by a 50% reduction for the next three years.

The Company was qualified to enjoy preferential enterprise income tax rate of 10% in 2014 due to its qualification as a key software enterprise within the PRC government plan according to the Measures of Administration of Accredication of the Key Software Enterprise within the National Plan ("國家規劃佈局內重點軟件企業認定管理辦法").

In 2015, the Company has not obtained the approval from relevant PRC governmental bureaus. The Company is qualified as new high-technology enterprises, so it enjoyed preferential EIT rates of 15%.

The deferred tax balance has already reflected the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

9. DIVIDENDS

During the current interim period, a final cash dividend of RMB0.4 (2013: RMB0.25) per ordinary share in respect of the year ended December 31, 2014 was declared to the owners of the Company. The aggregate of the final dividend declared in the interim period amounted to RMB1,627,650,000, among which, RMB1,603,374,000 was paid to the owners of the Company in the current period.

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the periods ended June 30, 2015 and 2014 is based on the following data:

	Six months ended June 30,	
	2015	**2014**
	RMB'000 (unaudited)	**RMB'000 (unaudited)**
Earnings		
Profit for the period attributable to owners of the Company for the purposes of basic earnings per share	2,206,521	1,519,600
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,005,244,231	4,000,000,000
Effect of dilutive potential ordinary share:		
Shares granted under the Share Incentive Scheme (defined in Note 21)	34,801,771	9,620,981
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	4,040,046,002	4,009,620,981

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group spent approximately RMB474,263,000 (six months ended June 30, 2014: RMB343,268,000) on acquisition of buildings, machinery, motor vehicles and fixtures and equipment in the PRC.

During the current interim period, the Group disposed of certain plant and machinery with an aggregate carrying amount of RMB2,460,000 (six months ended June 30, 2014: RMB1,032,000).

As at June 30, 2015, the certificates of certain buildings with carrying amount of approximately RMB886,746,000 (December 31, 2014: RMB694,887,000) were not granted. The Group is in the process of obtaining such certificates and the Directors do not anticipate any legal impediments and involvement of significant costs or time in obtaining those titles.

12. PREPAID LEASE PAYMENTS

During the current interim period, the Group spent approximately RMB83,475,000 (six months ended June 30, 2014: Nil) on acquisition of land use right in the PRC.

13. DEFERRED TAXATION

The following are the major deferred taxation assets (liabilities) recognised and movements thereon during the current and prior periods:

	Allowance for doubtful debts	Payroll payable	Warranty	Derivative financial instruments	Share-based compensation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2014 (audited)	65,790	11,103	5,499	(758)	14,449	96,083
(Charge) credit to profit or loss	23,681	—	674	2,046	12,136	38,537
At June 30, 2015 (unaudited)	**89,471**	**11,103**	**6,173**	**1,288**	**26,585**	**134,620**
At January 1, 2014 (audited)	35,415	12,432	4,697	—	11,131	63,675
(Charge) credit to profit or loss	13,628	—	779	—	3,610	18,017
At June 30, 2014 (unaudited)	**49,043**	**12,432**	**5,476**	**—**	**14,741**	**81,692**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	30/06/2015	31/12/2014
	RMB'000 (unaudited)	RMB'000 (audited)
Deferred tax assets	134,620	96,083

The Group did not recognise deferred tax assets in relation to unused tax losses which amounted to approximately RMB227 million as at the current period end (December 31, 2014: RMB208 million), due to unpredictability of future profit streams. Except for the amounts of approximately RMB24 million as at the current period end (December 31, 2014: RMB22 million), that will be expired from year 2017 to 2020 (December 31, 2014: year 2017 to 2019), the remaining tax losses can be carried forward indefinitely.

14. TRADE AND BILLS RECEIVABLE/OTHER RECEIVABLES AND PREPAYMENTS

	30/06/2015	31/12/2014
	RMB'000 (unaudited)	RMB'000 (audited)
Trade receivables	6,870,316	4,564,276
Less: Allowance for doubtful debts	(441,066)	(308,192)
Net trade receivables	6,429,250	4,256,084
Bills receivables	1,561,998	1,875,769
Net trade and bills receivables	**7,991,248**	**6,131,853**
Value-added-taxes recoverables and receivables	312,861	330,366
Guarantee deposits	43,250	37,104
Advance to suppliers	134,322	65,306
Others	277,791	189,921
Allowance for doubtful debts	(31,409)	(24,733)
Net other receivables and payments	**736,815**	**597,964**

Note: Others represent loan to staff, advance to staff and other receivables.

Regarding to sales of goods, the Group request cash-on-delivery from certain customers and generally also grants credit to customers with period ranging from 30 days to 270 days based on the credit rating of the customers and the relationship with the customers. Credit period could be extended on a case-by-case basis. In certain case, the Group also offer credit period up to five years by instalments. Regarding to provision of construction project management service, the Group have retention receivable of 5% to 10% which will be settled by customers one year after the expiry of quality guarantee period.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the revenue recognition date at the end of each reporting period:

	30/06/2015	31/12/2014
	RMB'000 (unaudited)	RMB'000 (audited)
Age		
Within 1 year	5,565,148	3,730,244
1 to 2 years	742,065	395,096
2 to 3 years	109,768	117,287
3 to 4 years	10,560	12,602
4 to 5 years	1,709	855
	6,429,250	4,256,084

In determining the recoverability of the trade and bills receivables, the Group and the reassess any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the Directors believe that no further allowance is required.

The following is an aged analysis of bills receivables presented based on the respective maturity dates at the end of each reporting period:

	30/06/2015	31/12/2014
	RMB'000	**RMB'000**
	(unaudited)	**(audited)**
Age		
0-90 days	648,469	530,359
91-180 days	824,258	1,322,233
181-360 days	89,271	23,177
	1,561,998	1,875,769

The Group pledged its bills receivables of approximately RMB8,429,000 at the current period end to a bank to secure banking facilities granted to the Group.

Transfer of Financial Assets

During the current period, the Group factorised or endorsed certain bills receivables with full recourse. In the opinion of the Directors, the risk of the default in payment of the factorised or endorsed bills receivables is remote because all these bills receivables are issued and guaranteed by reputable banks in the PRC. As a result, these bills receivables have been derecognised.

Substantial portion of these endorsed and factorised bills receivables have a maturity of six months, and the total undiscounted cash flows of these bills receivables, representing the Group's maximum loss if the issuing banks fail to honour their bills and guarantees, amounted to approximately RMB1,422 million as of June 30, 2015 (December 31, 2014: RMB1,017 million).

15. AMOUNTS DUE FROM/TO RELATED PARTIES

As at the end of the reporting period, the Group has outstanding balances with related parties as follows:

(a) Amounts due from related parties

	30/06/2015	31/12/2014
	RMB'000	**RMB'000**
	(unaudited)	**(audited)**
Trade in nature		
Subsidiaries of the Parent Company not forming part of the Group	52,493	26,752
Less: Allowance for doubtful debts	(3,200)	(1,309)
	49,293	25,443

The following is an aged analysis of amounts due from related parties, net of allowance for doubtful debts, presented based on the revenue recognition date for amounts outstanding as at the end of each reporting period.

	30/06/2015	31/12/2014
	RMB'000	**RMB'000**
	(unaudited)	**(audited)**
Within 1 year	38,937	25,443
1 to 2 years	10,356	—
	49,293	25,443

The Group grants credit to related parties with period up to a year or two years, based on credit quality of and relationship between the Group and the Company and these counterparties.

(b) Amounts due to related parties

	30/06/2015	31/12/2014
	RMB'000 (unaudited)	RMB'000 (audited)
Trade in nature		
Subsidiaries of the Parent Company not forming part of the Group	49,989	39,466
Shanghai Fuhan Co., Ltd (上海富瀚微電子股份有限公司)* (note)	6,098	4,442
Beijing Woqi Co., Ltd (北京握奇數據系統有限公司)* (note)	98	281
	56,185	44,189
Non-trade in nature		
Subsidiaries of the Parent Company not forming part of the Group	6440	5,092
Shanghai Fuhan Co., Ltd (上海富瀚微電子股份有限公司)* (note)	100	100
Beijing Woqi Co., Ltd (北京握奇數據系統有限公司)* (note)	150	—
	6,690	5,192
Total	62,875	49,381

** English name is for identification purpose only.*

Note: Mr. Gong, who is a director and shareholder of the Company, was a director of the entity and he/his spouse had equity interests in the entity during the reporting period.

The following is an aged analysis of amounts due to related parties, which are trade in nature, presented based on the receipt date for amounts outstanding as at the end of each reporting period.

	30/06/2015	31/12/2014
	RMB'000 (unaudited)	RMB'000 (audited)
Within 1 year	56,185	44,189

All of the balances which are trading in nature, are unsecured, interest-free and repayable based on the granted credit period on purchase of goods ranged from 30 days to 90 days. All of the balances which are non-trading in nature, are unsecured, interest-free and repayable on demand.

16. DERIVATIVE FINANCIAL ASSETS/DERIVATIVE FINANCIAL LIABILITIES

	30/06/2015	31/12/2014
	RMB'000 (unaudited)	RMB'000 (audited)
Derivative financial assets		
Foreign exchange forward contracts (note a)	755	3,033
Swap derivative contracts (note b)	5,076	—
	5,831	3,033
Derivative financial liabilities		
Foreign exchange forward contracts (note a)	7,744	—
Swap derivative contracts (note b)	1,972	—
Interest rate swap contracts (note c)	4,030	—
	13,746	—

Notes:

a. *Foreign exchange forward contracts*

At June 30, 2015, the Group had a number of outstanding foreign exchange forward contracts, major terms of which are as follows:

Notional amount	Maturity dates	Exchange rates
Buy USD4,000,000	July 15, 2015	USD/RUB 62.4800
Buy USD6,000,000	August 14, 2015	USD/RUB 63.2500
Sell USD5,000,000 monthly	July 10, 2015 to December 10, 2015	USD/CNH 6.2200
Sell USD2,000,000 monthly	July 27, 2015 to December 25, 2015	USD/CNH 6.3005

As at June 30, 2015, derivative financial assets of RMB755,000 (December 31, 2014: RMB3,033,000) and derivative financial liabilities of RMB7,744,000 (December 31, 2014: nil) have been recognised in accordance with the fair value of the above foreign exchange forward contracts, respectively.

b. *Swap derivative contracts*

At June 30, 2015, the Group has a number of outstanding swap derivative contacts, major terms of which are as follows:

Notional amount	Maturity date	Exchange rate 0	Spread	Exchange rate 1	Exchange rate 2	Other terms
USD1,000,000	Monthly maturity dates from July 6, 2015 to June 5, 2017	Not applicable	Not applicable	USD/CNH 6.3500 EUR/USD 1.1930	USD/CNH 6.4500 EUR/USD 1.2930	Note (1)
USD1,000,000	Monthly maturity dates from July 23, 2015 to June 22, 2017	Not applicable	Not applicable	USD/CNH 6.3500 EUR/USD 1.1950	USD/CNH 6.4500 EUR/USD 1.2950	Note (1)
USD7,500,000	31 December, 2015	Not applicable	Not applicable	USD/CNH 6.0000	USD/CNH 6.3500	
USD10,000,000. . . .	31 December, 2015	Not applicable	Not applicable	USD/CNH 6.0000	USD/CNH 6.3500	
USD2,000,000	Monthly maturity dates from February 25, 2015 to January 25, 2017	USD/CNH 6.0000	0.03	USD/CNH 6.3100	USD/CNH 6.4060	
USD3,000,000	Monthly maturity dates from February 27, 2015 to January 29, 2017	USD/CNH 6.1300	0.17	USD/CNH 6.3000	USD/CNH 6.4000	
USD3,000,000	Monthly maturity dates from February 16, 2015 to January 21, 2017	USD/CNH 6.1300	0.2	USD/CNH 6.3300	USD/CNH 6.4150	
USD3,000,000	Monthly maturity dates from March 10, 2015 to February 16, 2017	USD/CNH 6.5050	0.04	N/A	N/A	Note (2)
EUR1,000,000 at 1-3 and 13-24 maturity dates; and EUR500,000 at 4-12 maturity dates	Monthly maturity dates from April 16, 2015 to March 16, 2017	Not applicable	Not applicable	EUR/USD 1.1300	EUR/USD 1.1800	Note (3)

Notional amount	Maturity date	Exchange rate 0	Spread	Exchange rate 1	Exchange rate 2	Other terms
EUR1,000,000 at 1-3 and 15-21 maturity dates; and EUR500,000 at 4-14 maturity dates; and EUR2,000,000 at 22-23 maturity dates	Monthly maturity dates from July 30, 2015 to May 04, 2017	Not applicable	Not applicable	EUR/USD 1.1300	EUR/USD 1.1800	Note (3)
EUR1,000,000 at 1 and 4-7 maturity dates; and EUR2,000,000 at 2-3 maturity dates	Monthly maturity dates from October 30, 2015 to June 30, 2016	Not applicable	Not applicable	Not applicable	Not applicable	Note (4)
EUR1,000,000 at 1-3 and 13-24 maturity dates; and EUR500,000 at 4-12 maturity dates.	Monthly maturity dates from July 10, 2015 to June 10, 2017	Not applicable	Not applicable	EUR/USD 1.2060	EUR/USD 1.2600	Note (3)
EUR4,000,000 at 22-24 maturity dates	Monthly maturity dates from November 26, 2014 to October 27, 2016	Not applicable	Not applicable	USD/CNH 6.2000	USD/CNH 6.3050	Note (5)

On each monthly maturity date:

(i) if the exchange rate of defined currencies is less than or equal to exchange rate 0, the Company has to sell notional amount at actual exchange rate plus spread;

(ii) if the exchange rate of defined currencies is (greater than exchange rate 0 and) less than or equal to exchange rate 1, the Company has to sell notional amount at exchange rate 1, except for batch 13, under which, the Company will receive a coupon payment of USD25,000 from the bank;

(iii) if the exchange rate of defined currencies is greater than exchange rate 1 and less than or equal to exchange rate 2, there would be no settlements;

(iv) if the exchange rate of defined currencies is greater than exchange rate 2, the Company has to sell notional amount at the rate of exchange rate 2.

Note (1): The contract would be terminated if the scenario (i) occurs 6 times.

Note (2): If the exchange rate is higher than 6.5050, the Company has to sell notional amount at USD/CNH 6.5450.

Note (3): The contract would be terminated if the accumulated instinct value, which is calculated at exchange rate 1 minus maturity date's exchange rate if maturity date's exchange rate is lower than exchange rate 1, reaches 0.15. And when the contract terminated, the Company has to sell notional amount at exchange rate1.

Note (4): The contract would be terminated if the exchange rate is less than or equal to 0.97, before that, on each maturity date, the Company has to sell notional amount at EUR/USD 1.1205.

Note (5): On 1-21 maturity dates, the Company will received a coupon payment of USD25,000 from the bank if the exchange rate is less than or equal to exchange rate 1 and no settlement if exchange rate is greater than exchange rate 1. The contract would be terminated after the Company received the 4th coupon payment of USD25,000.

As at June 30, 2015, derivative financial assets of RMB5,076,000 (December 31, 2014: nil) and derivative financial liabilities of RMB1,972,000 (December 31, 2014: nil) have been recognised.

c. *Interest rate swap contracts*

At June 30, 2015, the Group has a number of outstanding interest rate swap contacts, major terms of which are as follows:

Notional amount	Maturity date	Interest rate
Receive - USD20,000,000.00 Pay - EUR18,501,387.60.	Quarterly maturity dates from June 30, 2015 to September 30, 2016, and final settlement on November 25, 2016	Receive - USD 3 month LIBOR+2% Pay - 1.85%
Receive - USD20,000,000.00 Pay - The lessor of EUR18,458,698.66 or 20,000,000 multiple exchange rate at final settlement date plus 0.08	Quarterly maturity dates from September 20, 2015 to September 20, 2016, and final settlement on October 25, 2016	Receive - USD 6 month LIBOR+2% Pay - EUR 3 month EURIBOR+0.9%
USD120,000,000.	Quarterly maturity dates from August 11, 2015 to February 5, 2016	Receive - USD 3 month LIBOR+2.65% Pay - 3.6375%
USD114,000,000.	Quarterly maturity dates from May 5, 2016 to August 10, 2016	
USD96,000,000	Quarterly maturity dates from November 10, 2016 to February 10, 2017	
USD72,000,000	Quarterly maturity dates from May 10, 2017 to August 10, 2017	
USD36,000,000	Quarterly maturity dates from November 10, 2017 to February 10, 2018	

As at June 30, 2015, derivative financial liabilities of RMB4,030,000 (December 31, 2014: nil) have been recognised in accordance with the fair value of the above interest rate swaps.

17. OTHER FINANCIAL ASSETS/STRUCTURE DEPOSITS

(a) Other financial assets

During the current interim period, the Group purchased investment of other financial assets of RMB Nil (six months ended June 30, 2014: RMB930,000,000) and received RMB1,780,000,000 (six months ended June 30, 2014: RMB830,000,000) for the redemption of other financial assets.

(b) Structured deposits

During the current interim period, the Group purchased investment of structure deposits of RMB984,000,000 (six months ended June 30, 2014: RMB2,524,410,000) and received RMB238,000,000 (six months ended June 30, 2014: RMB2,017,300,000) for the redemption of structure deposits.

18. TRADE AND OTHER PAYABLES

	30/06/2015	31/12/2014
	RMB'000	**RMB'000**
	(unaudited)	**(audited)**
Trade payables	2,666,870	3,274,121
Bills payables	372,000	274,000
	3,038,870	**3,548,121**
Advance from customers	507,163	503,067
Payroll payables	479,019	656,095
Others	279,586	219,654
Repurchase consideration under Share Incentive Scheme (defined in Note 21)	547,853	547,853
	1,813,621	1,926,669
	4,852,491	5,474,790

The following is an aged analysis of trade payables presented based on the receipt date at the end of the reporting period:

	30/06/2015	31/12/2014
	RMB'000	**RMB'000**
	(unaudited)	**(audited)**
Age		
Within one year	2,656,936	3,265,927
1-2 years	5,759	5,662
2-3 years	2,476	993
3-4 years	546	452
4-5 years	73	10
More than 5 years	1,080	1,077
	2,666,870	3,274,121

19. BORROWINGS

(a) Bank loan

	30/06/2015	31/12/2014
	RMB'000	**RMB'000**
	(unaudited)	**(audited)**
Secured	—	31,421
Unsecured	1,551,725	575,657
	1,551,725	607,078

	30/06/2015	31/12/2014
	RMB'000	**RMB'000**
	(unaudited)	**(audited)**
Within 1 year	602,228	362,318
1-2 years	509,318	244,760
2-3 years	440,179	—
	1,551,725	607,078
Less: Amounts shown as current liabilities	(602,228)	(362,318)
Amounts shown as non-current liabilities	949,497	244,760

During the current interim period, the Group obtained new borrowings amounting to RMB1,959,206,000 (six months ended June 30, 2014: RMB1,695,448,000). The loans bear interest at fixed rate or variable market rates and are repayable within three years. Repayments of bank loans amounting to RMB1,014,559,000 (six months ended June 30, 2014: RMB1,012,331,000) were made during the current interim period in line with the relevant repayment terms. The proceeds were used to provide additional working capital for the Group.

(b) **Other borrowings**

As at December 31, 2014, the Group had outstanding borrowings from a non-controlling shareholder of a group entity of RMB3,000,000 with original maturity date of December 20, 2014. In the current period, the Group and the non-controlling shareholder of the group entity mutually agreed to extend the maturity of the borrowings to December 2016.

20. SHARE CAPITAL

	Number of shares	Share capital
	'000	**RMB'000**
Authorised		
At December 31, 2013 and June 30, 2014		
Ordinary Shares of RMB 1 each	4,017,223	4,017,223
At December 31, 2014 and June 30, 2015		
Ordinary Shares of RMB 1 each	4,069,128	4,069,128

	Number of shares	Share capital
	'000	**RMB'000**
Issued and fully paid		
At January 1, 2014 and June 30, 2014	4,017,223	4,017,223
At January 1, 2015 and June 30, 2015	4,069,128	4,069,128

21. SHARE-BASED PAYMENT TRANSACTIONS

The Company has adopted a share incentive scheme (the "Share Incentive Scheme") on August 13, 2012. The purpose of the Share Incentive Scheme is to motivate eligible persons (the "Eligible Persons") to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The term of the Schemes was 10 years.

Pursuant to shareholders' resolution on August 23, 2012 and October 21, 2014, the Company granted respective 8,611,611 shares and 52,910,082 shares to certain employees of the Group under the Share Incentive Scheme. The detail conditions and terms of Share Incentive Scheme in 2012 and 2014 are set out in the announcements made by the Company on Shenzhen Stock Exchange of China dated August 23, 2012 and October 21, 2014, respectively.

The Company's outstanding shares granted under the Share Incentive Scheme is 69,128,000 at the beginning and end of the current period (17,223,000 as at January 1 and June 30, 2014), as no grant, forfeit, expire or exercise of shares during the current and comparative period.

The Group recognised the total expenses of RMB80,907,000 for the six months ended June 30, 2015 (six months ended June 30, 2014: RMB24,064,000) in relation to share options granted by the Company.

Furthermore, other financial liabilities of approximately RMB547,853,000 have been recognised as at June 30, 2015 (December 31, 2014: RMB547,853,000) according to the repurchase consideration to be paid under Share Incentive Scheme if the granted shares become unvested.

22. CAPITAL COMMITMENTS

	30/06/2015	31/12/2014
	RMB'000 (unaudited)	RMB'000 (audited)
Capital expenditure in respect of the consolidated financial statements		
(a) Contracted for but not provided in respect of the acquisition of		
- Property, plant and equipment	443,484	49,967
- Prepaid lease payments for land use right	—	78,690
(b) Authorised but not contracted for in respect of the acquisition of		
- Property, plant and equipment	3,168,268	3,739,246
	3,611,752	3,867,903

23. RELATED PARTY TRANSACTIONS

(1) During the period, the Group entered into the following transactions with related parties:

	Six months ended June 30,	
	2015	2014
	RMB'000 (unaudited)	RMB'000 (unaudited)
Purchases and provision of services from related parties		
- Subsidiaries of the Parent Company not forming part of the Group	100,272	15,878
- Shanghai Fuhan Co., Ltd (上海富瀚微電子股份有限公司)	212	1,069
- Beijing Woqi Co., Ltd (北京握奇數據系統有限公司)	11,218	21,501
	111,702	38,448
Sales to related parties		
- Subsidiaries of the Parent Company not forming part of the Group	39,761	28,785
Rent from a related party		
- Subsidiaries of the Parent Company not forming part of the Group	—	4

(2) **Guaranteed by the Parent Company**

In August 2011, the Parent Company (as guarantor) and the wholly-owned subsidiary of the Company, Chongqing Hikvision System Technology Co., Ltd. (重慶海康威視系統技術有限公司) (as contractor) entered into a principal contractor agreement (the "Chongqing Framework Agreement") with Chongqing Municipal Public Security Bureau in respect of the projects carried out in that location (the "Chongqing Project"). Pursuant to the Chongqing Framework Agreement, the Parent Company provided joint liability guarantee for the total responsibilities and obligations of the contractor under the Chongqing Principal Contractor Agreement. The Company, therefore, provided counter-guarantee to the Parent Company for the before mentioned guarantee. Chongqing Hikvision System Technology Co., Ltd. has subsequently entered into construction agreements and supplemental agreements (together with the Chongqing Principal Contractor Agreement, the "Chongqing Detailed Project Agreements") with Chongqing Municipal Public Security Bureau and its branch offices respectively in respect of the Chongqing Project. As at the date of this report, all agreements, in respect of the phase currently carried out of the Chongqing Project have been entered into with total contract amount of approximately RMB3.629 billion. During the period ended June 30, 2015 the relevant revenue recognised by the Group under the Chongqing Project were approximately RMB210 million.

Apart from the significant transactions with related entities set out above, during the reporting period, the Group's transactions with other PRC government related entities are collectively significant as a portion of its sales of goods and purchases of materials. In addition, the Group transacted with banks owned/controlled by the PRC government during the reporting period by placing most of bank deposits, structured deposits and other financial assets, withdrawing bank loans and arranging other general banking facilities. These transactions resulted in with relevant interest income earned and expenses incurred during the reporting period.

In the opinion of the Directors, the transactions with PRC government related entities are activities in the ordinary course of the Group's business and entered into under normal commercial terms and conditions, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established its approval process for sales of goods and purchases of materials and its financing policy for loans, such approval process and financing policy do not depend on whether the counterparties are government related entities or not.

(3) Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the period were as follows:

	Six months ended June 30,	
	2015	**2014**
	RMB'000 **(unaudited)**	**RMB'000** **(unaudited)**
Basic salaries and allowances	6,589	4,795
Retirement benefits scheme contributions	471	449
Share-based compensation expenses	—	—
	7,060	5,244

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

24. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

	The Group Fair value as at			
Financial assets/ Financial liabilities	**30/06/2015**	**31/12/2014**	**Fair value hierarchy**	**Valuation technique(s) and key input(s)**
	RMB'000	**RMB'000**		
Foreign exchange forward contracts classified as derivative financial assets and liabilities	Assets - 755	Assets- 3,033	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of each reporting period) and contracted forward rates, discounted at rates that reflects the credit risk of various counterparties.
	Liabilities - 7,744	—		
Swap derivative contracts classified as derivative financial assets and liabilities	Assets - 5,076	—	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of each reporting period) and contracted forward exchange rates under pre-determined condition of actual exchange rate on each maturity date, discounted at a rate that reflects the credit risk of various counterparties.
	Liabilities - 1,972	—		
Cross currency swaps	Liabilities - 4,030	—	Level 2	Discounted cash flows. Future cash flows are estimated based on applicable yield curves derived from quoted interest rates, forward exchange rates (from observable forward exchange rates at the end of each reporting period) and contracted forward exchange rates, discounted at a rate that reflects the credit risk of various counterparties.

INDEPENDENT AUDITOR'S REPORT

TO THE DIRECTORS OF HANGZHOU HIKVISION DIGITAL TECHNOLOGY CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated financial statements of Hangzhou Hikvision Digital Technology Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages F-28 to F-94, which comprise the consolidated statements of financial position as at December 31, 2012, 2013 and 2014, and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the three years ended December 31, 2014, and a summary of significant accounting policies and other explanatory information. These consolidated financial statements have been prepared solely for the purpose set out in note 2 to the consolidated financial statements. Accordingly, the comparative figures for the year ended 31 December 2011 as required by International Financial Reporting Standards issued by International Accounting Standards Board ("IASB") have not been presented.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and fair presentation of these consolidated financial statements on the basis set out in note 2 to the consolidated financial statements and in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements, in all material respects, give a true and fair view of the financial position of the Group as at December 31, 2012, 2013 and 2014 and the financial performance and cash flows for the years then ended in accordance with the basis of preparation as disclosed in note 2 to the consolidated financial statements.

Deloitte Touche Tohmatsu Certified Public Accountants LLP
February 4, 2016

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended December 31, 2012	2013	2014
		RMB'000	**RMB'000**	**RMB'000**
Revenue	7	7,135,722	10,630,798	17,081,420
Cost of sales and services		(3,684,472)	(5,689,336)	(9,646,149)
Gross profit		3,451,250	4,941,462	7,435,271
Other income	8	408,890	608,765	1,161,142
Other gains and losses	9	(49,069)	(149,706)	(156,321)
Distribution and selling expenses		(718,722)	(902,436)	(1,507,701)
Administrative expenses		(171,782)	(187,698)	(369,995)
Research and development expenses		(606,467)	(921,877)	(1,300,704)
Finance costs	10	(200)	(2,102)	(54,947)
Share of profit of a joint venture		(295)	(454)	(404)
Profit before taxation	11	2,313,605	3,385,954	5,206,341
Taxation	12	(173,179)	(308,901)	(525,641)
Profit for the year		2,140,426	3,077,053	4,680,700
Profit attributable to:				
Owners of the Company		2,136,873	3,066,649	4,665,367
Non-controlling interests		3,553	10,404	15,333
		2,140,426	3,077,053	4,680,700
Other comprehensive (expense) income				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences arising on translation		(667)	(805)	(11,660)
Profit and total comprehensive income for the year		2,139,759	3,076,248	4,669,040
Profits and total comprehensive income attributable to:				
Owners of the Company		2,136,377	3,067,354	4,654,610
Non-controlling interests		3,382	8,894	14,430
		2,139,759	3,076,248	4,669,040
		RMB cents	**RMB cents**	**RMB cents**
Earnings per share	14			
- Basic		53	77	117
- Diluted		53	77	116

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	At December 31, 2012	2013	2014
		RMB'000	RMB'000	RMB'000
Non-current assets				
Property, plant and equipment	15	825,419	1,054,747	1,597,712
Deposits paid for acquisition of property, plant and equipment		260,932	301,801	190,201
Prepaid lease payments	16	28,852	28,211	27,570
Deposits paid for acquisition of prepaid lease payments		20,000	20,000	64,640
Goodwill	17	131,016	117,860	117,860
Interests in a joint venture	19	858	404	—
Deferred tax assets	20	37,763	63,675	96,083
Finance lease receivables	18	5,221	39,244	31,238
Available-for-sale investments		604	604	604
Other financial assets	23(A)	—	700,000	—
Total non-current assets		1,310,665	2,326,546	2,125,908
Current assets				
Inventories	21	1,017,937	1,428,668	2,291,935
Trade and bill receivables	22	1,910,441	3,637,848	6,131,853
Amounts due from customers for contract work	24	160,587	45,000	36,000
Other receivables and prepayments	22	246,333	454,177	597,964
Finance lease receivables	18	4,893	7,795	20,083
Prepaid lease payments	16	641	641	641
Derivative financial instruments	29	—	—	3,033
Other financial assets	23(A)	300,000	400,000	2,750,000
Structured deposits	23(C)	—	1,152,950	108,000
Amounts due from related parties	25(a)	4,502	25,295	25,443
Prepaid income tax		98,726	—	—
Restricted bank deposits	23(B)	1,097	8,474	88,404
Bank balances and cash	23(B)	5,533,663	4,584,133	7,111,255
Total current assets		9,278,820	11,744,981	19,164,611
Total assets		10,589,485	14,071,527	21,290,519

	NOTES	At December 31, 2012	2013	2014
		RMB'000	RMB'000	RMB'000
Capital and reserves				
Share capital	30	2,008,612	4,017,223	4,069,128
Reserves		6,556,379	7,069,416	10,773,115
Equity attributable to owners of the Company		8,564,991	11,086,639	14,842,243
Non-controlling interests		14,706	26,050	36,913
Total equity		8,579,697	11,112,689	14,879,156
Non-current liabilities				
Long-term bank loans	27(a)	—	—	244,760
Other borrowings	27(b)	3,000	—	—
Deferred income		—	12,770	14,812
Provisions	28	20,008	31,311	36,661
Total non-current liabilities		23,008	44,081	296,233
Current liabilities				
Trade and bill payables	26(A)	1,053,953	1,582,634	3,548,121
Other payables and accruals	26(B)	897,028	1,056,404	1,926,669
Dividend payables		—	2,239	4,402
Short-term bank loans	27(a)	—	180,800	362,318
Amounts due to related parties	25(b)	24,838	29,328	49,381
Other borrowings	27(b)	—	3,000	3,000
Income tax payable		10,961	60,352	221,239
Total current liabilities		1,986,780	2,914,757	6,115,130
Total liabilities		2,009,788	2,958,838	6,411,363
Total equity and liabilities		10,589,485	14,071,527	21,290,519

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company										
	Share capital	Share premium	Treasury stock reserve	Share-based compensation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2012	1,000,000	2,814,929	—		950	386,185	1,711	2,605,880	6,809,655	4,454	6,814,109
Profit for the year	—	—		—	—	—	—	2,136,873	2,136,873	3,553	2,140,426
Other comprehensive expense for the year	—	—	—		—	—	(496)	—	(496)	(171)	(667)
Total comprehensive income for the year	—	—	—	—	—	—	(496)	2,136,873	2,136,377	3,382	2,139,759
Capitalisation issue (Note 30)	1,000,000	(1,000,000)	—	—	—	—	—	—	—	—	—
Issue of shares under Share Incentive Scheme (defined in Note 31)	8,612	83,102	(91,714)	—	—	—	—	—	—	—	—
Recognition of equity-settled share-based compensation	—	—	—	18,959	—	—	—	—	18,959	—	18,959
Acquisition of a subsidiary (Note 32(a))	—	—	—	—	—	—	—	—	—	6,870	6,870
Transfer	—	—	—	—	—	210,743	—	(210,743)	—	—	—
Dividends recognised as distribution (Note 13)	—	—	—	—	—	—	—	(400,000)	(400,000)	—	(400,000)
At December 31, 2012	2,008,612	1,898,031	(91,714)	18,959	950	596,928	1,215	4,132,010	8,564,991	14,706	8,579,697
Profit for the year	—	—	—	—	—	—	—	3,066,649	3,066,649	10,404	3,077,053
Other comprehensive income (expense) for the year	—	—	—	—	—	—	705	—	705	(1,510)	(805)
Total comprehensive income for the year	—	—	—	—	—	—	705	3,066,649	3,067,354	8,894	3,076,248
Recognition of equity-settled share-based compensation	—	—	—	56,877	—	—	—	—	56,877	—	56,877
Capital contribution from non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	2,450	2,450
Capitalisation issue (Note 30)	1,004,305	(1,004,305)	—	—	—	—	—	—	—	—	—
Transfer	—	—	—	—	—	294,918	—	(294,918)	—	—	—
Dividends recognised as distribution (Note 13)	1,004,306	—	—	—	—	—	—	(1,606,889)	(602,583)	—	(602,583)
At December 31, 2013	4,017,223	893,726	(91,714)	75,836	950	891,846	1,920	5,296,852	11,086,639	26,050	11,112,689
Profit for the year	—	—	—	—	—	—	—	4,665,367	4,665,367	15,333	4,680,700
Other comprehensive expense for the year	—	—	—	—	—	—	(10,757)	—	(10,757)	(903)	(11,660)
Total comprehensive income for the year	—	—	—	—	—	—	(10,757)	4,665,367	4,654,610	14,430	4,669,040
Issue of shares under Share Incentive Scheme (defined in Note 31)	52,910	436,508	(489,418)	—	—	—	—	—	—	—	—
Exercise of shares under Share Incentive Scheme (defined in Note 31)	—	47,958	27,926	(47,958)	—	—	—	—	27,926	—	27,926

	Attributable to owners of the Company										
	Share capital	Share premium	Treasury stock reserve	Share-based compensation reserve	Other reserve	Statutory surplus reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (note)	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Repurchase and cancellation of shares (Note 30)	(1,005)	(4,348)	5,353	—	—	—	—	—	—	—	—
Recognition of equity-settled share-based compensation	—	—	—	75,048	—	—	—	—	75,048	—	75,048
Dividends recognised as distribution (Note 13)	—	—	—	—	—	—	—	(1,004,306)	(1,004,306)	—	(1,004,306)
Dividends paid to non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(1,241)	(1,241)
Acquisition of non-controlling interests of a subsidiary	—	—	—	—	2,326	—	—	—	2,326	(2,326)	—
Transfer	—	—	—	—	—	447,752	—	(447,752)	—	—	—
At December 31, 2014	4,069,128	1,373,844	(547,853)	102,926	3,276	1,339,598	(8,837)	8,510,161	14,842,243	36,913	14,879,156

Note:

Statutory surplus reserve

In accordance with the relevant laws and regulations in the PRC, the Company and PRC subsidiaries are required to transfer 10% of their profit after taxation reported in their financial statements prepared under the generally accepted accounting principles in the PRC to the statutory surplus reserve. Allocation shall be approved by the shareholders. The appropriation to statutory surplus reserve may cease if the balance of the statutory surplus reserve has reached 50% of the Company and the PRC subsidiaries' registered capital.

The Company and PRC subsidiaries may, upon the approval by a resolution, convert their surplus reserves into capital in proportion to their then existing shareholdings. However, when converting the statutory surplus reserve fund into capital, the balance of such reserve remaining unconverted must not be less than 25% of the registered capital.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Operating activities			
Profit before taxation	2,313,605	3,385,954	5,206,341
Adjustments for:			
Depreciation of property, plant and equipment	61,570	71,872	108,736
Release of prepaid lease payments	641	641	641
Impairment losses recognised in respect of trade receivables	39,296	85,964	133,943
Impairment losses recognised in respect of other receivables	5,074	8,630	6,654
Impairment losses (reversal of impairment losses) recognised in respect of amounts due from related parties	169	1,095	(23)
Allowance for inventories	6,399	35,507	42,332
Impairment losses recognised in respect of goodwill	—	26,930	—
Share-based payments expenses	18,959	56,877	75,048
Income from other financial assets and structured deposits	—	(39,129)	(152,351)
Loss on disposals of property, plant and equipment	98	206	467
Change in fair value of derivative financial instruments	—	—	(3,033)
Finance costs	200	2,102	54,947
Share of results of a joint venture	295	454	404
Release of deferred income	—	—	(6,468)
Unrealised exchange losses	1,751	22,969	8,256
Operating cash flows before movements in working capital	2,448,057	3,660,072	5,475,894
Increase in inventories	(252,848)	(422,097)	(905,599)
Increase in finance lease receivables	(10,114)	(36,925)	(4,282)
Increase in other receivables and prepayments	(115,026)	(214,853)	(150,441)
Increase in trade and bills receivables	(691,019)	(1,816,856)	(2,636,204)
(Increase) decrease in amounts due from customers for contract work	(52,228)	115,587	9,000
Increase in other payables and accruals	117,080	140,510	417,143
Increase in provisions	1,631	11,303	5,350
Increase in trade and bills payables	365,582	515,325	1,965,487
Increase in amounts due from related parties	(3,379)	(21,888)	(125)
Increase in amounts due to related parties	11,930	4,490	20,053
Cash generated from operations	1,819,666	1,934,668	4,196,276
Income tax paid	(347,196)	(187,201)	(397,162)
Interest paid	—	—	(28,706)
Net cash inflows from operating activities	1,472,470	1,747,467	3,770,408

	Note	Year ended December 31, 2012 RMB'000	2013 RMB'000	2014 RMB'000
Investing activities				
Income receipt from other financial assets and structure deposits		—	39,129	152,351
Proceeds from disposals of property, plant and equipment		762	1,284	5,879
Proceeds from redemption of other financial assets		—	300,000	1,293,000
Receipt of assets-related government grants		—	12,770	8,510
Proceeds of redemption of structured deposits		—	—	3,100,500
Withdrawal of restricted cash		348	1,097	23,828
Investments in other financial assets		(300,000)	(1,100,000)	(2,943,000)
Investments in structured deposits		—	(1,152,950)	(2,055,550)
Payment for acquisition of property, plant and equipment		(491,635)	(342,933)	(546,447)
Placement of restricted bank deposits		(1,097)	(8,474)	(103,758)
Acquisition of subsidiaries	32	(62,174)	(26,919)	(3,017)
Deposits paid for acquisition of prepaid lease payments		(20,000)	—	(44,640)
Net cash used in investing activities		(873,796)	(2,276,996)	(1,112,344)
Financing activities				
Interest expense paid		(200)	(2,102)	(26,241)
Repayment of bank loans		—	(414,091)	(2,948,806)
Dividend paid to the owners of the Company		(400,000)	(600,344)	(1,002,143)
Dividend paid to non-controlling shareholders		—	—	(1,241)
Capital contribution from non-controlling shareholders		—	2,450	—
New bank loans raised		—	594,891	3,375,084
Repurchase and cancellation of shares		—	—	(5,353)
Proceeds from issue of shares upon share-based compensation scheme		91,714	—	489,418
Net cash used in financing activities		(308,486)	(419,196)	(119,282)
Increase (decrease) in cash and cash equivalents		290,188	(948,725)	2,538,782
Cash and cash equivalents at beginning of the year		5,244,142	5,533,663	4,584,133
Effect of foreign exchange rate changes		(667)	(805)	(11,660)
Cash and cash equivalents at end of the year, represented by bank balances and cash		5,533,663	4,584,133	7,111,255

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company was established by the 52nd Research Institute at China Electronics Technology Group Corporation (中國電子科技集團公司第五十二所 as 52nd Institute) and Mr. Gong Hongjia ("Mr. Gong") as a foreign investment joint venture company with limited liability on November 30, 2001. The Directors of the Company are of the opinion that the ultimate controlling shareholder is China Electronics Technology Group Corporation (中國電子科技集團公司) (the "Parent Company") which is a state-owned enterprise under the control and supervision of State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會, as "SASAC"). On June 25, 2008, as approved by the government, the Company converted to a joint stock limited company. On May 28, 2010, with the approval of Chinese Securities Regulatory Committee ("CSRC"), the Company completed its initial public offering and listing of 50,000,000 shares on the Shenzhen Stock Exchange of China. On January 26, 2014, as part of the restructuring of state-owned asstets, the 52nd Institute allocated its shares representing 40.42% interest in the Company to China Electronics Technology HIK Group Co., Ltd. (中電海康集團有限公司), the wholly-owned subsidiary of China Electronics Technology Group Corporation.

The Group is mainly engaged in the design, manufacture and distribute video surveillance products, and provide industry specific video surveillance solutions and related value-added services, including construction project management. In addition, the Group provides internet-based video content services and applications. The detailed principal activities of its subsidiaries are set out in note 37.

The respective addresses of the registered office and the principal place of business of the Company are 555 Qianmo Road, Binjiang District, Hangzhou, Zhejiang, China.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are presented in Renminbi ("RMB"), the functional currency of the Company.

The consolidated financial statements have been prepared solely for the purpose of their inclusion in the financial information of the Group to be incorporated in the offering memorandum of the Company dated February 4, 2016. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards issued by IASB ("IFRSs"), except for the comparative figures for the year ended December 31, 2011 have not been presented.

3. APPLICATION OF NEW AND REVISED IFRSS

For the purpose of preparing and presenting the consolidated financial statements for the reporting periods, the Group has adopted all the IFRSs which are effective for the Group's financial period beginning on January 1, 2014 throughout the reporting periods.

At the date of this report, the Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 14	Regulatory Deferral Accounts[2]
IFRS 15	Revenue from Contracts with Customers[1]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[5]
Amendments to IAS 1	Disclosure Initative[5]
Amendments to IAS 16 and IAS 38	Classification of Acceptable methods of Depreciation and Amortisation[5]

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012[6]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[4]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[5]
Amendments to IAS 27	Equity Method in Separate Financial Statements[5]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to IFRS 10, IFRS12 and IAS 28	Investment Entities: Applying the Consolidation Exception[5]

1 Effective for annual periods beginning on or after January 1, 2018
2 Effective for first annual IFRS financial statements beginning on or after January 1, 2016
3 Effective for annual periods beginning on or after January 1, 2017
4 Effective for annual periods beginning on or after July 1, 2014
5 Effective for annual periods beginning on or after January 1, 2016
6 Effective for annual periods beginning on or after July 1, 2014, with limited exceptions

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets; and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that the adoption of IFRS 9 in the future may have a significant impact on the amounts reported in respect of the Group's and the Company's financial assets and financial liabilities. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer

- Step 2: Identify the performance obligations in the contract

- Step 3: Determine the transaction price

- Step 4: Allocate the transaction price to the performance obligations in the contract

- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Group anticipates that the application of IFRS 15 in the future may have an impact on the amounts reported and disclosures. However, it is not practicable to provide a reasonable estimate of the financial effect until the Group performs a detailed review.

Other than discussed above, the Directors do not anticipate that the application of the new and amendments to IFRSs will have any significant impact on the Group's financial results and financial position.

4. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the following accounting policies which conform to IFRSs issued by IASB.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements are determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based* payment, leasing transactions that are within the scope of IAS 17 *Lease,* and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company, which is the subsidiary. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquire is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of each reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Changes in the Group's ownership interests in existing subsidiary

Changes in the Group's ownership interests in existing subsidiary that do not result in the Group losing control over the subsidiary are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Interests in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in the consolidated financial statements using the equity method of accounting. The financial statements of a joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statements of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be a joint venture, or when the investment (or a portion thereof) is classified as held for sale. When the Group retains an interest in the former joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the joint venture is included in the determination of the gain or loss on disposal of the joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that joint venture on the same basis as would be required if that joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

When the Group reduces its ownership interest in a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with a joint venture of the Group (such as a sale or contribution of assets), profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and is reduced for sales related tax and sales rebates.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group's policy for the recognition of revenue from project management and engineering services is described in the accounting policy for construction contracts below.

Dividend income from investments is recognised when the group entities' rights to receive payments have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliable).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Construction contracts

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or for administrative purpose (other than properties under construction as described below) are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees, and for qualifying asset, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for intended use.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Prepaid lease payments

Upfront prepayments made for the land use rights and leasehold land are initially recognised in the consolidated statements of financial position as lease payments and are expensed in the consolidated statements of profit or loss and other comprehensive income on a straight-line basis over the periods of the respective lease.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group would purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currency) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rates of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during the period, in which case, the exchange rates prevailing at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the year in which they are incurred.

Employee benefits

(a) **Retirement benefit costs and termination benefits**

Payments to defined contribution benefit plans and state-managed retirement benefit schemes are recognised as expenses when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

(b) **Short-term and other long-term employee benefits**

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before taxation" as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities. Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Impairment losses

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated cost of completion and costs necessary to make the sale.

Research and development expenditure

Expenditure on research and development activities which are not qualified for capitalisation is recognised as an expense in the period in which it is incurred.

Warranties

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation and constructive obligations are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or where appropriate, a shorter period to the net carrying amount on initial recognition. Income is recognised on an effective interest basis for debt instruments.

Financial assets at fair value through profit or loss

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL. The Group designated its equity investments as available-for-sale financial assets on initial recognition of those items.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, other financial assets, amounts due from related parties, amounts due from subsidiaries, restricted cash and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those fair values through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one of more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets, with exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreased and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruemtns.

Financial liabilities

Financial liabilities are classified as other financial liabilities.

Other financial liabilities, including trade payables, other payables, amounts due to related parties, amounts due to subsidiaries, other borrowings and bank loans are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Share-based payment arrangements

Equity-settled share-based payment transactions

Share-based payment transactions of the Company

For grants of shares that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of shares granted at the date of grant and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share-based compensation reserve).

When the shares are vested, the amount previously recognised in share-based compensation reserve will be transferred to share premium.

Subject to conditions as set out in Note 31, the Group will repurchase unvested shares previously granted. The Group recorded amounts paid or payable by the grantees upon issue of shares (which form part of repurchase consideration) as other financial liabilities, with corresponding decrease in reserve (treasury stock reserve). The other financial liabilities will remain until the end of the vesting period of respective shares granted, at which time it will be reclassified to equity provided that the grantees are still employed by the Group.

In addition, the Group will estimate the number of shares expected to vest periodically and the Group will adjust over the requisite service period to the extent that actual number of shares expected to nest differ from the estimates ones, from such original estimates. Changes in estimated number of shares expected to nest will be recognised through a cumulative catch-up adjustment in the period of change.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment of property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. When there is an objective evidence of impairment loss, such as changes of technological advancement, changes of regulatory policies for relevant industry that the group entities are engaged in, or economic performance of the plants is, or will be, worse than expected, etc, the Group takes into consideration the estimation of future cash flows. The amount of the impairment is measured as the difference between the asset's carrying amount and the recoverable amount, which is the higher of the asset's fair value less costs of disposal and its value in use.

The aggregate carrying amounts of the Group's property, plant and equipment as at December 31, 2012, 2013 and 2014 are approximately RMB825,419,000, RMB1,054,747,000 and RMB1,597,712,000, respectively.

(b) Useful lives and residual value of property, plant and equipment

The Group's management determines the residual values, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions and may vary significantly as a result of technical innovations and keen competitions from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

(c) Impairment of trade receivables and amounts due from subsidiaries

When there is an objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). In the event the expected actual future cash flows are less than the amount owed, an impairment loss may arise.

The carrying amounts of the Group's trade receivables as at December 31, 2012, 2013 and 2014 was approximately RMB1,592,223,000, RMB2,853,346,000 and RMB4,256,084,000, respectively. The Group recognised impairment losses of approximately RMB39,296,000, RMB85,964,000 and RMB133,943,000, respectively, during the year ended December 31, 2012, 2013 and 2014.

(d) **Outcome of revenue based on the percentage of completion and assessment of the outcome of contracts in relation to construction project management services provision**

For contracts related to construction project management services provision, revenue is recognised using the percentage of completion method as construction progresses. The percentage of completion is made by reference to the stage of completion of projects and contracts determined based on the proportion of contract costs incurred to date and the estimated costs to complete.

Significant judgement is required in determining the stage of completion, the extent of the contract costs incurred, the estimated total contract revenue and contract cost and the recoverability of the contract costs. In making the judgement, the Group evaluates total estimated contract costs by relying on past experience and the work of the project management team. Revenue from project management and engineering is recognised in accordance with policy disclosed in Note 3.

The stage of completion of each contract is assessed on a cumulative basis in each accounting period. Changes in estimates of contract revenue or contract costs, or changes in the estimated outcome of a contract could impact the amounts of revenue and expenses recognised in the consolidated statements of profit or loss in the period in which the change is made and in subsequent periods. This impact could potentially be significant.

(e) **Provision for product warranty liabilities**

Provision for product warranty made by the Group is based on estimated future costs to be incurred in exchange or repair the products of the Group. There are significant estimates which include trends of claims, historical defective rates, industry practice for warranty, etc. During the years ended December 31, 2012, 2013 and 2014, provision of product warranty are approximately RMB13,151,000, RMB24,988,000, and RMB25,550,000, respectively. As at December 31, 2012, 2013 and 2014, carrying values of product warranty were RMB20,008,000, RMB31,311,000 and RMB36,661,000, respectively.

(f) **Write downs of inventories**

Inventories are valued at the lower of cost and net realisable value. The Group regularly inspects and reviews its inventories to identify slow-moving and obsolete inventories since the Group is engaged in industry with keen competitions from the competitors and business environments with advanced technological improvements. When the Group identifies items of inventories which have a net realisable value that is lower than its carrying amount or are slow-moving or obsolete, the Group would write down of inventories in that year. As at December 31, 2012, 2013 and 2014, the Group's carrying values of inventories were RMB1,017,937,000, RMB1,428,668,000 and RMB2,291,935,000, respectively. During each of the three years ended December 31, 2014, write-down of inventories to net realisable value of approximately RMB6,399,000, RMB35,507,000 and RMB42,332,000, respectively.

(g) **Deferred taxation**

Deferred tax assets relating to certain deductible temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and income tax in the periods in which such estimate is changed. As at December 31, 2012, 2013 and 2014, the Group's carrying values of deferred tax assets were RMB37,763,000, RMB63,675,000 and RMB96,083,000, respectively. The Group did not recognise deferred tax assets in relation to unused tax losses which amounted to approximately RMB187 million, RMB194 million and RMB208 million, as at December 31, 2012, 2013 and 2014, respectively, due to unpredictability of future profit streams.

(h) **Estimation on cash generating unit, containing goodwill, acquired in business combination**

Determining whether goodwill acquired through business combinations are impaired requires an estimation of the value in use of the cash generating units to which the relevant goodwill have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units using suitable discount rates in order to calculate their present values. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2012, 2013 and 2014, the carrying amount of goodwill of the Group was approximately RMB131,016,000, RMB117,860,000 and RMB117,860,000, respectively. During the year ended December 31, 2013, impairment in relation to goodwill of approximately RMB26,930,000 was provided. Details of the recoverable amount calculations are disclosed in Note 17.

6. FINANCIAL INSTRUMENTS

The Group's and the Company's major financial instruments include available-for-sale investments, derivative financial instruments, other financial assets, trade and bills receivables, other receivables, dividend receivables, amounts due from (to) related parties, amounts due from (to) subsidiaries, structured deposits, restricted cash, bank balances and cash, trade payables, other payables, bank loans and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments

The carrying amounts of financial assets and financial liabilities are as follows:

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Financial assets			
Trade and bills receivables	1,910,441	3,637,848	6,131,853
Other receivables	135,009	194,981	190,377
Amounts due from related parties	4,502	25,295	25,443
Amounts due from subsidiaries	—	—	—
Restricted cash	1,097	8,474	88,404
Bank balances and cash	5,533,663	4,584,133	7,111,255
Other financial assets	300,000	1,100,000	2,750,000
Structured deposits	—	1,152,950	108,000
Total loans and receivables	7,884,712	10,703,681	16,405,332
Available-for-sale investments	604	604	604
Derivative financial instruments —			
Fair value through profit or loss	—	—	3,033
Financial liabilities			
Trade and bill payables	1,053,953	1,582,634	3,548,121
Other payables	196,644	261,569	767,507
Amounts due to related parties	24,838	29,328	49,381
Amounts due to subsidiaries	—	—	—
Short-term bank loans	—	180,800	362,318
Long-term bank loans	—	—	244,760
Other borrowings	3,000	3,000	3,000
Total liabilities measured at amortised cost	1,278,435	2,057,331	4,975,087

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to certain bank loans and other borrowings and other financial assets as the instruments have fixed interest rates. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and certain bank loans. The Group currently do not have any hedging policy or entered into any interest rate swap to hedge against their exposure to the interest rate risk. The management monitors interest rate exposures and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for interest-bearing bank balances and bank loans at the end of each reporting period and the stipulated changes taking place at the beginning of the financial year and held constant throughout the reporting periods.

A 10 basis point increase or decrease in interest rates on variable-rate bank balances is used when reporting interest rate risk internally to key management personnel and represents managements' assessment of the reasonably possible change in interest rates.

If interest rates on bank balances had been 10 basis points higher and all other variables were held constant, a positive number below indicates an increase in post-tax profit for the year.

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Increase in post-tax profit for the year.	5,120	4,166	6,393

The post-tax profit for the year would be decreased by an equal and opposite amount if interest rates on bank balances had been 10 basis points lower and all other variables were held constant.

A 30 basis points increase or decrease in interest rate on variable-rate bank loans is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates on variable-rate bank loans had been 30 basis points higher and all other variables were held constant, a negative number below indicates a decrease in post-tax profit for the year.

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Decrease in post-tax profit for the year	—	—	(890)

The post-tax profit for the year would be increased by an equal and opposite amount if interest rates on variable-rate bank loans had been 30 basis points lower and all other variable were held constant.

Credit risk

The Group's principal financial assets are other financial assets, trade and bills receivables, other receivables, finance lease receivables, amounts due from related parties/subsidiaries, structured deposits, restricted bank deposits and bank balances and cash. The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the statements of financial position.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost, using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulty, high probability of bankruptcy or a financial reorganization and default of the customers and borrowers and customer's or a borrower's inability to meet its financial obligations to the Group are considered indicators that the trade receivable is impaired. The Group also conduct credit evaluations of the Group's customers and borrowers and analyse the payment history of customer accounts, including recent customer purchases.

The Group assess for impairment of significant receivables balance on individual basis. Those which are assessed not to be impaired individually are, in addition, assessed for impairment on collective basis in accordance with the Group's past default experience of collection payments, an increase in the number of delayed payment in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables.

The credit risk on bills receivables is not material since over 90% of the counterparties of bills receivables at the end of each reporting period are banks in the PRC with good reputation.

There is no concentration of credit risk on bank balances and the credit risk on liquid funds is limited because the majority of the counterparties are banks in the PRC with good reputation.

There is a concentration of credit risk on other financial assets and structured deposits. As at December 31, 2012, 2013 and 2014, there are one, three and six financial institutions from which the Group purchased other financial assets. All of these other financial assets are principal-guaranteed by financial institutions which are either state-owned enterprises with high credit ratings or third parties with strong financial position. As at December 31, 2013 and 2014, the Group placed structured deposits in mainly four and four counterparties which are banks in the PRC with good reputations. In this regard, the Directors consider that the Group did not have much credit risk on these assets.

Currency risk

The primary economic environment in which most of the group entities and the Company operate is the PRC and their functional currency is RMB. However, the Group had balances of trade receivables and trade payables denominated in USD, Euro and GBP at the end of each reporting period since the group entities trade with overseas customers and suppliers and the Company trades with its overseas subsidiaries in USD, Euro and GBP. The Group also had bank loans denominated in USD. During the year ended December 31, 2014, the Group entered into certain foreign exchange forward contracts to mitigate their exposure to the foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows.

	Liabilities			**Assets**		
	At Decmber 31,					
	2012	**2013**	**2014**	**2012**	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
USD	198,857	424,592	1,033,327	637,498	1,061,301	1,056,784
EUR	—	20,515	—	2,579	35,368	60,067
GBP	—	—	19	247	2,290	3,994

Sensitivity analysis

5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding GBP, USD and Euro denominated monetary items and adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates. When the foreign currencies in respect to the group entities and the Company strengthen against RMB by 5%, there is an increase (decrease) in post-tax profit for the year.

	At December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
USD			
Increase in post-tax profit for the year.	20,290	28,931	1,054
Euro			
Increase (decrease) in post-tax profit for the year	119	675	2,700
GBP			
Increase in post-tax profit for the year.	11	104	179

When the foreign currencies in respect to the group entities and the Company weaken against RMB by 5%, post-tax profit for the year will be decreased (increased) with the same amount as specified above.

Liquidity risk management

The Directors have adopted an appropriate liquidity risk management framework for the management of the Group's funding and liquidity management requirements. The Group manages liquidity risk by closely and continuously monitoring the financial positions of the Company and the Group. The Directors maintain the sufficiency of cashflows with availability of unutilised banking facilities and internally generated funds. The Directors also review the forecasted cashflows on an ongoing basis to ensure that the Group will be able to meet their financial obligations falling due and have sufficient capital for operation and expansion.

The following tables detail the Group's remaining contractual maturity for their non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows on financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the discounted amount is derived from interest rate curve at the end of each reporting period:

	Weighted average effective interest rate	On demand or Less than 1 year	1 to 2 years	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000
At December 31, 2012					
Non-interest bearing instruments	—	1,275,435	—	1,275,435	1,275,435
Fixed interest bearing instruments	6.65	3,103	—	3,103	3,000
		1,278,538	—	1,278,538	1,278,435
At December 31, 2013					
Non-interest bearing instruments	—	1,873,531	—	1,873,531	1,873,531
Fixed interest bearing instruments	2.27	187,519	—	187,519	183,800
		2,061,050	—	2,061,050	2,057,331
At December 31, 2014					
Non-interest bearing instruments	—	4,365,009	—	4,365,009	4,365,009
Fixed interest bearing instruments	2.96	525,818	—	525,818	365,318
Variable interest bearing instruments	2.36	—	256,463	256,463	244,760
		4,890,827	256,463	5,147,290	4,975,087

No liquidity analysis for derivative financial instruments as at December 31, 2014 of the Group was presented due to the fact that the relevant foreign exchange forward contract as at the end of each reporting period is accounted for a financial asset.

Fair value measurements

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets	Fair value as at December 31, 2014	Fair value hierarchy	Valuation technique(s) and key input(s)
	RMB'000		
Foreign exchange forward contracts in the consolidated statements of financial position. . .	3,033	Level 2	Discounted cash flows. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of each reporting period), discounted at rates that reflected the credit risk of various counterparties.

The Directors consider that the carrying amounts of financial assets and financial liabilities of the Group recorded at amortised cost in the consolidated financial statements approximate their fair values.

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged during the reporting periods.

The capital structure of the Group consists of net debt (bank loans and other borrowings offset by cash and bank balances) and equity of the Group (comprising share capital and reserves).

The management of the Group reviews the capital structure regularly. The Group consider the cost of capital and the risks associated with each class of capital, and will balance their overall capital structure through the payment of dividends, issuance of new shares as well as raising of bank loans, if necessary.

7. SEGMENT INFORMATION

Information reported to the Board of Directors, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on the Group's revenue and profit for the year. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under IFRS 8 are (A) sales of goods and (B) provision of construction project management services.

The Group sells products, generally comprised of the following constituent parts:

1. the front-end products consisting of cameras, encoders and sensors to collect video and other data;

2. the back-end products consisting of recorders for the storage of video and audio data; and

3. the controlling center equipment consisting of transmission devices, centralised storage devices, display and controllers, as well as video management systems platforms.

4. Other products mainly represented hard disks purchased from third parties and certain video surveillance solutions accessories.

The Group provides construction project management services for selected video surveillance projects. The services involve certain steps, including bidding, system design, purchase of video surveillance products, installation, system software design, integration and testing.

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment.

	Sales of goods						
	Front-end products	**Back-end products**	**Controlling center equipment**	**Other products**	**Subtotal**	**Construction project management services**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
For the year ended December 31, 2012							
Segment revenue	3,229,100	2,380,531	554,872	679,017	6,843,520	292,202	7,135,722
Segment cost of sales and services	(1,595,891)	(1,043,129)	(235,794)	(563,511)	(3,438,325)	(246,147)	(3,684,472)
Segment results	1,633,209	1,337,402	319,078	115,506	3,405,195	46,055	3,451,250
Other income							408,890
Other gains and losses							(49,364)
Distribution and selling expenses							(718,722)
Administrative expenses							(171,782)
Research and development expenses							(606,467)
Finance costs							(200)
Profit before taxation							2,313,605
Taxation							(173,179)
Profit for the year							2,140,426

	Sales of goods						
	Front-end products	**Back-end products**	**Controlling center equipment**	**Other products**	**Subtotal**	**Construction project management services**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
For the year ended December 31, 2013							
Segment revenue	5,233,725	3,042,783	1,024,589	1,005,026	10,306,123	324,675	10,630,798
Segment cost of sales and services	(2,633,599)	(1,438,336)	(426,871)	(936,946)	(5,435,752)	(253,584)	(5,689,336)
Segment results	2,600,126	1,604,447	597,718	68,080	4,870,371	71,091	4,941,462
Other income							608,765
Other gain and losses							(150,160)
Distribution and selling expenses							(902,436)
Administration expenses							(187,698)
Research and development expenses							(921,877)
Finance costs							(2,102)
Profit before taxation							3,385,954
Taxation							(308,901)
Profit for the year							3,077,053

	Sales of goods						
	Front-end products	Back-end products	Controlling center equipment	Other products	Subtotal	Construction project management services	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended December 31, 2014							
Segment revenue	9,067,728	3,510,344	1,638,796	2,058,027	16,274,895	806,525	17,081,420
Segment cost of sales and services	(4,597,058)	(1,760,827)	(709,875)	(1,835,156)	(8,902,916)	(743,233)	(9,646,149)
Segment results	4,470,670	1,749,517	928,921	222,871	7,371,979	63,292	7,435,271
Other income							1,161,142
Other gain and losses . . .							(156,725)
Distribution and selling expenses							(1,507,701)
Administrative expenses. .							(369,995)
Research and development expenses							(1,300,704)
Finance costs							(54,947)
Profit before taxation . . .							5,206,341
Taxation							(525,641)
Profit for the year							4,680,700

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for the reporting periods.

The accounting policies of the reportable and operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents gross profit from each segment.

Entity-wide disclosures

During reporting periods, no single customer contributed to more than 10% of the total revenue of the Group.

Geographical information

The Group's operations are located in the respective countries of domicile of the Group's subsidiaries and the Company. The principal operations of the Group are the PRC and certain foreign countries.

Information about the Group's revenue from external customers is presented based on the countries of domicile of the customers.

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
The PRC.	5,971,829	8,212,036	12,851,503
Overseas countries/regions (mainly Europe, North America, Central and South America)	1,163,893	2,418,762	4,229,917
	7,135,722	10,630,798	17,081,420

The Group's non-current assets are substantially located in the PRC at the end of each reporting period.

8. OTHER INCOME

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Government grants (note)	315,959	429,980	838,059
Release of deferred income in relation to assets-related government grants	—	—	6,468
Income receipt from other financial assets and structured deposits	—	39,129	152,351
Bank interest income	76,967	116,553	154,426
Others	15,964	23,103	9,838
Total	408,890	608,765	1,161,142

Note: The government grants for the years ended December 31, 2012, 2013 and 2014 mainly represented the amounts received by the Company for refund of value-added taxes in relation to software industry and various subsidies granted to group entities by the PRC local government as incentives for involvement in the encouraged business and production development. The Company and relevant group entities fulfilled all the conditions attached to the grants when they are entitled to be granted.

9. OTHER GAINS AND LOSSES

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Net foreign exchange loss	(1,751)	(22,969)	(8,256)
Gain on fair value change in derivative financial instruments	—	—	3,033
Loss on disposals of property, plant and equipment	(98)	(206)	(467)
Impairment losses recognised in respect of trade receivables	(39,296)	(85,964)	(133,943)
Impairment losses recognised in respect of other receivables	(5,074)	(8,630)	(6,654)
(Impairment losses) reversal of impairment losses recognised in respect of amounts due from related parties	(169)	(1,095)	23
Impairment losses recognised in respect of goodwill (Note 17)	—	(26,930)	—
Other losses	(2,681)	(3,912)	(10,057)
	(49,069)	(149,706)	(156,321)

10. FINANCE COSTS

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Interest expenses in relation to			
- bank loans wholly-repayable within five years	200	2,102	26,241
- factorised bills receivables	—	—	28,706
	200	2,102	54,947

11. PROFIT BEFORE TAXATION

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:			
Directors' remuneration (including supervisory committee members)	6,036	7,071	8,900
Other staff costs	564,074	765,380	1,483,439
Other staff's retirement benefits scheme contributions	42,509	58,651	79,442
Performance related bonus	280,481	343,522	446,512
Share-based compensation expenses	18,959	56,877	74,802
Total staff costs	912,059	1,231,501	2,093,095
Auditor's remuneration	1,000	1,200	1,300
Cost of inventories recognised as an expense (note)	3,438,325	5,435,752	8,902,916
Depreciation of property, plant and equipment	61,570	71,872	108,736
Release of prepaid lease payments	641	641	641

Note: Included in the amounts were write-down of inventories of approximately RMB6,399,000, RMB35,507,000 and RMB42,332,000, respectively, during the years ended December 31, 2012, 2013 and 2014.

12. TAXATION

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Current tax:			
PRC Enterprise Income Tax ("EIT")			
- Current year	220,636	328,624	542,487
- (Over)underprovision in prior years (note)	(64,561)	(689)	3,824
	156,075	327,935	546,311
Hong Kong Profits Tax	—	—	—
Other jurisdictions	2,685	6,668	11,738
	2,685	6,668	11,738
Total current tax	158,760	334,603	558,049
Deferred tax (note 20):			
- Current year	14,419	(25,702)	(32,408)
	173,179	308,901	525,641

Note: The overprovision for the year ended December 31, 2012 mainly represented the overprovision made by the Company. The Company estimated its tax expense for 2011 based on its relevant prevailing EIT rate of 15% since the Company was qualified as new high-technology enterprise. Subsequently during the year ended December 31, 2012, the Company was approved by the relevant authority to enjoy preferential EIT of 10% as it was further qualified as a key software enterprise within the PRC government plan which was effective since 2011. As a result, the overprovided EIT in 2011 based on the differential tax rate of 5% has been reversed.

No Hong Kong Profits Tax was provided for the years ended December 31, 2012, 2013 and 2014 as the group entities had no relevant assessable profits.

PRC income tax is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the entities incorporated in PRC is 25%.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Pursuant to approvals obtained from relevant PRC governmental bureaus, the Company is qualified to enjoy preferential enterprise income tax rate of 10% from the year ended December 31, 2011 to December 31, 2014 due to its qualification as a key software enterprise within the PRC government plan according to the Measures of Administration of Accredication of the Key Software Enterprise within the National Plan ("國家規劃布局內重點軟件企業認定管理辦法").

Pursuant to certain approvals granted by relevant PRC government bureaus, Shanghai Goldway Intelligent Traffic Systems Co., Ltd. (上海高德威智能交通系統有限公司) is qualified as new high-technology enterprise and enjoys preferential EIT rate of 15% from the year ended December 31, 2012 to the year ending December 31, 2016.

Pursuant to the relevant laws and regulations in the PRC, Chongqing Hikvision Science and Technology Co., Ltd. (重慶海康威視科技有限公司) and Chongqing Hikvision System Technology Co., Ltd. (重慶海康威視系統技術有限公司) are qualified to enjoy preferential EIT rate of 15% from the year ended December 31, 2011 to year ending December 31, 2020 due to their location in western China as supported by the "Go West" policy in China.

Pursuant to the relevant laws and regulations in the PRC, Beijing Brainaire Software Technology Co., Ltd. (北京邦諾軟件技術有限公司) is exempted from EIT for two years starting from its profit-making year, followed by a 50% reduction for the next three years due to its qualification of entity engaged in software industry. As a result, Beijing Brainaire Software Technology Co., Ltd. (北京邦諾軟件技術有限公司) was entitled the preferential EIT rate of 12.5% during the year ended December 31, 2012 as the last year for 50% reduction.

Pursuant to the relevant laws and regulations in the PRC, Beijing Brainaire Storage Technology Co., Ltd. (北京邦諾存儲科技有限公司) and Beijing Master Security Technology Development Co., Ltd. (北京邁特安技術發展有限公司) are qualified as new high-technology enterprises and enjoyed preferential EIT rates of 15% for the year ended December 31, 2012 and December 31, 2013. The EIT rate for these two group entities for the year ended December 31, 2014 and onwards is 25%.

Pursuant to the relevant laws and regulations in the PRC, Hundure Technology (Shanghai) Co.,Ltd. (漢軍智能系統(上海)有限公司) is qualified as new high-technology enterprise during the year ended December 31, 2013 and enjoyed preferential EIT rate of 15% from the year ended December 31, 2014 to year ending December 31, 2016.

Pursuant to the relevant laws and regulations in the PRC, Hangzhou Hikvision System Technology Co., Ltd. (杭州海康威視系統技術有限公司) is exempted from EIT for two years starting from its first profit-making year, followed by a 50% reduction for the next three years due to its qualification engaged in software industry. Hangzhou Hikvision Science and Technologies Co., Ltd. (杭州海康威視系統技術有限公司) enjoyed the tax exemption for the year ended December 31, 2012 and December 31, 2013 and 50% reduction for three years thereafter from year ended December 31, 2014 to year ending December 31, 2016.

The deferred tax balance has already reflected the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

The taxation for the years ended December 31, 2012, 2013 and 2014 is reconciled to profit before taxation in consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Profit before taxation	2,313,605	3,385,954	5,206,341
Tax at domestic income tax rate (10%) (note i)	231,361	338,595	520,634
Tax effect of expenses not deductible for tax purpose	2,816	4,695	3,775
Tax effect of deemed deductible expenses for tax purpose (note ii)	(12,463)	(40,899)	(57,024)
Tax effect of different tax rates	15,709	9,697	28,401
(Over)underprovision in prior years	(64,561)	(689)	3,824
Tax effect of tax holidays	(640)	(18,204)	—
Others (note iii)	957	15,706	26,031
Taxation for the year	173,179	308,901	525,641

Notes:

i. The domestic income tax rate of 10% for the reporting periods represents the applicable income tax rate of the Company which the Group's operations are substantially based in.

ii. The amount represented additional tax credit in relation to qualified research and development expenses deducted by the Company and PRC subsidiaries specified by relevant rules and regulations prevailing in the PRC.

iii. Others mainly represented utilisation of tax losses previously not recognised, tax effect of tax losses and temporary differences not recognised as deferred tax and tax impact of taxable profits arose from realised intergroup transactions.

13. DIVIDENDS

On May 18, 2012, a final cash dividend for the year of 2011 of RMB0.40 per ordinary share, or a total of approximately RMB400,000,000, was declared to the shareholders.

On August 23, 2013, a final cash dividend for 2012 of RMB0.30 per ordinary share, or a total of approximately RMB602,583,800, was declared to the shareholders. Concurrently, the Company declared shares distribution to shareholders on two-by-one basis and 1,004,305,806 shares were issued.

On July 1, 2014, a final cash dividend for 2013 of RMB0.25 per ordinary share, or a total of approximately RMB1,004,306,000, was declared to the shareholders.

On March 12, 2015, a final cash dividend for 2014 of RMB0.4 per ordinary share, or a total of approximately RMB1,627,651,000, have been proposed by the board of directors and is subject to approval by the shareholders in the annual general meeting to be held on April 2, 2015.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the years ended December 31, 2012, December 31, 2013 and December 31, 2014 is based on the following data:

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Earnings			
Profit for the year attributable to owners of the Company for the purposes of basic earnings per share	2,136,873	3,066,649	4,665,367
Number of shares			
Weighted average number of ordinary shares for the purpose of basic earnings per share	4,000,000,000	4,000,000,000	4,001,422,408
Effect of dilutive potential ordinary shares:			
Shares granted under the Share Incentive Scheme (defined in Note 31)	1,149,161	8,592,877	10,954,566
Weighted average number of ordinary shares for the purpose of dilutive earnings per share	4,001,149,161	4,008,592,877	4,012,376,974

The weighted average number of shares for the purpose of calculating basic earnings per share for the reporting periods has been retrospectively adjusted for the capitalisation issue and share spilt relating to disclosure in Notes 13 and 30, respectively.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST							
At January 1, 2012	516,590	58,769	40,506	41,062	47,012	26,207	730,146
Additions	41,293	21,121	10,862	7,728	136,447	13,252	230,703
Transfers	23,846	8,113	2,969	—	(34,928)	—	—
Acquisition of a subsidiary (Note 32(a))	—	313	439	1,695	65	—	2,512
Disposals	—	(135)	(1,757)	(781)	(446)	—	(3,119)
At December 31, 2012	581,729	88,181	53,019	49,704	148,150	39,459	960,242
Additions	82,883	27,707	9,052	8,431	172,597	1,213	301,883
Transfers	19,059	7,055	—	—	(26,114)	—	—
Acquisition of a subsidiary (Note 32(b))	—	—	807	—	—	—	807
Disposals	—	(455)	(2,375)	(1,547)	—	—	(4,377)
At December 31, 2013	683,671	122,488	60,503	56,588	294,633	40,672	1,258,555
Additions	359,983	53,479	27,700	7,652	149,803	59,430	658,047
Transfers	409,388	6,091	—	—	(415,479)	—	—
Disposals	—	(21,309)	(5,407)	(3,006)	—	(3,871)	(33,593)
At December 31, 2014	1,453,042	160,749	82,796	61,234	28,957	96,231	1,883,009
DEPRECIATION							
At January 1, 2012	(29,385)	(9,063)	(14,079)	(15,826)	—	(7,159)	(75,512)
Provided for the year	(23,441)	(16,617)	(9,134)	(8,067)	—	(4,311)	(61,570)
Eliminated on disposals	—	109	1,478	672	—	—	2,259
At December 31, 2012	(52,826)	(25,571)	(21,735)	(23,221)	—	(11,470)	(134,823)
Provided for the year	(26,779)	(21,004)	(10,015)	(9,273)	—	(4,801)	(71,872)
Eliminated on disposals	—	312	1,709	866	—	—	2,887
At December 31, 2013	(79,605)	(46,263)	(30,041)	(31,628)	—	(16,271)	(203,808)
Provided for the year	(45,874)	(29,821)	(12,044)	(8,865)	—	(12,132)	(108,736)
Eliminated on disposals	—	21,309	3,546	1,881	—	511	27,247
At December 31, 2014	(125,479)	(54,775)	(38,539)	(38,612)	—	(27,892)	(285,297)
CARRYING VALUES							
At December 31, 2014	1,327,563	105,974	44,257	22,622	28,957	68,339	1,597,712
At December 31, 2013	604,066	76,225	30,462	24,960	294,633	24,401	1,054,747
At December 31, 2012	528,903	62,610	31,284	26,483	148,150	27,989	825,419

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis over their estimated useful lives and after taking into account of their estimated residual values of 10%, at the following rates per annum.

Buildings	4.5%
Plant and machinery	18% to 30%
Furniture, fixtures and equipment	18% to 30%
Motor vehicles	18%
Others	9% to 18%

The Group's buildings are located on land in the PRC which are under lease term of 50 years.

As at December 31, 2012, 2013 and 2014, the certificates of certain buildings with carrying amount of approximately RMB244,318,000, RMB72,864,000 and RMB694,887,000, respectively, were not granted. The Group is in the process of obtaining such certificates and the Directors do not anticipate any legal impediments and involvement of significant costs or time in obtaining those titles.

16. PREPAID LEASE PAYMENTS

	At December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Carrying values			
At beginning of the year	30,134	29,493	28,852
Released to profit or loss	(641)	(641)	(641)
At end of the year	29,493	28,852	28,211
Less: Amount to be amortised within one year	641	641	641
Non-current portion	28,852	28,211	27,570

The lease payments represent the land use rights situated in the PRC under lease term of 50 years.

As at December 31, 2012, 2013 and 2014, the certificate of a land lease with carrying amount of approximately RMB9,983,000, RMB9,777,000 and RMB9,571,000, respectively, was not granted. The Group was in the process of obtaining the certificate and did not anticipate any legal impediments in obtaining the title.

17. GOODWILL

	Amount
	RMB'000
COST	
At January 1, 2012	69,693
Arising on acquisition of subsidiaries (Note 32)	61,323
At December 31, 2012	131,016
Arising on acquisition of a subsidiary (Note 32)	13,774
At December 31, 2013 and December 31, 2014	144,790
IMPAIRMENT	
At January 1, 2012, December 31, 2012 and January 1, 2013	—
Impairment loss recognised during the year	26,930
At December 31, 2013 and December 31, 2014	26,930
CARRYING VALUES	
At December 31, 2014	117,860
At December 31, 2013	117,860
At December 31, 2012	131,016

The amounts represents the goodwill arose from the acquisiton of Henan HuaAn Intelligence Development Co., Ltd. (河南華安保全智能發展有限公司) and Hundure Technology (Shanghai) Co.,Ltd. (漢軍智能系統(上海)有限公司).

Impairment testing on goodwill

For the purpose of impairment testing, goodwill has been allocated to individual cash generating units ("CGU") which represented each subsidiary engaged in manufacturing network-based video surveillance systems and equipment for domestic security market.

Key assumptions used in the value in use calculation

The following describes the key assumptions of the cash flow projections:

The recoverable amounts of the CGUs have been determined on the basis of values in use calculations. Their recoverable amounts are based on certain similar key assumptions. The values in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rates of 21.6%, 26.1% and 23.2% and 24.5% and 21.8% for the year ended December 31, 2012, 2013 and 2014, respectively. The sets of cash flows beyond the 5-year period are projected using zero steady growth rate. 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. Cash flow projections during the budget period for this business line is also based on the budgeted net sales and expected cost of revenue during the budget period and the operating expenses inflation during the budget period. Expected cash inflows/outflows, which include budgeted net sales, cost of revenue and operating expenses have been determined based on past performance and management's expectations for the market development.

The Group's annual impairment test was performed for its CGUs as at the end of each reporting period. During the year ended December 31, 2013, the Group recognised an impairment loss in respect of goodwill approximately RMB26,930,000 due to reduction of the Group's allocation of resources in that particular CGU in accordance with changes of the Group's business strategy. There were no impairment losses recognised during the years ended December 31, 2012 and 2014.

18. FINANCE LEASE RECEIVABLES

Certain products of the Group are leased out under finance leases. All interest rates inherent in the leases are fixed at the contract dates over the lease terms.

	Present value of minimum lease payments			Minimum lease payments		
	At December 31,			At December 31,		
	2012	2013	2014	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Finance lease receivables comprise:						
Not later than one year	4,893	7,795	20,083	5,584	8,728	21,176
Later than one year and not later than five years	5,221	32,017	28,108	5,560	32,674	29,962
In more than five years	—	7,227	3,130	—	7,385	3,165
	10,114	47,039	51,321	11,144	48,787	54,303
Less: Unearned finance income	N/A	N/A	N/A	(1,030)	(1,748)	(2,982)
Present value of minimum lease payment receivables	10,114	47,039	51,321	10,114	47,039	51,321

Effective interest rates of the above finance leases range from 2.08% to 5.25% and 15.59%, 1.04% to 5.25% and 15.59% and 2.08% to 5.25% per annum for the years ended December 31, 2012, 2013 and 2014, respectively.

19. INTERESTS IN A JOINT VENTURE

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Cost of unlisted investment in a joint venture	2,000	2,000	2,000
Share of post-acquisition profits (losses)	(1,142)	(1,596)	(2,000)
	858	404	—

As at December 31, 2012, 2013 and 2014, the Group had interests in the following joint venture:

Name of entity	Country of establishment and principal place of operation	Attributable equity interest of the Group At December 31, 2012	2013	2014	Paid-in Capital	Principal activities
Henan Jindun Huaan Security Technology Co., Ltd.* (金盾華安有限公司)	the PRC	50%	50%	50%	RMB4,000,000	Trading of network-based video surveillance systems and equipment

* English name is for identification only.

Summarised financial statements in respect of the Group's joint venture is set out below. The summarised financial statements below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

The joint venture is accounted for using the equity method in the financial statements.

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Current assets	3,210	2,964	2,062
Non-current assets	1,069	382	146
Current liabilities	2,562	2,538	2,598
Non-current liabiltiies	—	—	—

	Year ended December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Revenue	1,010	1,618	2,161
Loss for the year	(590)	(908)	(1,183)
Share of results for the year	(295)	(454)	(404)

During the year ended December 31, 2014, the Group did not recognise share of loss of the joint venture of approximately RMB188,000.

20. DEFERRED TAX

The following is the deferred taxes recognised by the Group and movements thereon during the reporting periods.

	Allowance for doubtful debts	Other payables and accruals	Warranty	Tax losses carrying forward	Derivative financial instruments	Share-based compensation	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At January 1, 2012	10,900	26,316	2,757	12,108	—	—	52,081
Acquisition of a subsidiary	—	101	—	—	—	—	101
Credit (charge) to profit or loss	6,757	(13,218)	244	(10,985)	—	2,783	(14,419)
At December 31, 2012	17,657	13,199	3,001	1,123	—	2,783	37,763
Acquisition of a subsidiary	—	210	—	—	—	—	210
Credit (charge) to profit or loss	17,758	(977)	1,696	(1,123)	—	8,348	25,702
At December 31, 2013	35,415	12,432	4,697	—	—	11,131	63,675
Credit (charge) to profit or loss	30,375	(1,329)	802	—	(758)	3,318	32,408
At December 31, 2014	65,790	11,103	5,499	—	(758)	14,449	96,083

The following is the analysis of the deferred tax balance for financial report presentation purpose.

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Deferred tax assets	37,763	63,675	96,083

The Group did not recognise deferred tax assets in relation to unused tax losses which amounted to approximately RMB187 million, RMB194 million and RMB208 million, as at December 31, 2012, 2013 and 2014, respectively, due to unpredictability of future profit streams. Except for the amounts of approximately RMB51 million, RMB28 million and RMB22 million as at December 31, 2012, 2013 and 2014, respectively, that will be expired in the year ending December 31, 2017 to December 31, 2019, the remaining tax losses can be carried forward indefinitely.

21. INVENTORIES

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Raw materials	360,652	436,269	584,280
Work in progress	33,898	88,640	156,626
Finished goods	623,387	903,759	1,551,029
	1,017,937	1,428,668	2,291,935

22. TRADE AND BILLS RECEIVABLE/OTHER RECEIVABLES AND PREPAYMENTS

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade receivables	1,685,938	3,031,704	4,564,276
Allowance for doubtful debts	(93,715)	(178,358)	(308,192)
Net trade receivables	1,592,223	2,853,346	4,256,084
Bills receivables	318,218	784,502	1,875,769
Net trade and bills receivables	1,910,441	3,637,848	6,131,853
Value-added-taxes recoverables and receivables	32,519	173,004	330,366
Guarantee deposits	62,818	49,836	37,104
Advance to suppliers	82,871	95,476	65,306
Others	77,579	153,945	189,921
Allowance for doubtful debts	(9,454)	(18,084)	(24,733)
Net other receivables and payments	**246,333**	**454,177**	**597,964**

Note: Others represent loan to staff, advance to staff and other receivables.

Regarding sales of goods, the Group request cash-on-delivery from certain customers and generally also grants credit to customers with period ranging from 30 days to 270 days based on the credit rating of the customers and the relationship with the customers. Credit period could be extended on a case-by-case basis. In certain case, the Group also offer credit period up to five years by instalments. Regarding provision of construction project management service, the Group have retention receivable of 5 to 10% which will be settled by customers one year after the expiry of quality guarantee period.

The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the revenue recognition date at the end of each reporting period:

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 1 year	1,514,041	2,587,993	3,730,244
1 to 2 years	68,531	237,985	395,096
2 to 3 years	8,650	24,262	117,287
3 to 4 years	713	2,962	12,602
4 to 5 years	288	144	855
	1,592,223	2,853,346	4,256,084

In determining the recoverability of the trade and bills receivables, the Group reassess any change in the credit quality of the trade receivables since the credit was granted and up to the reporting date. After reassessment, the Directors believe that no further allowance is required.

The following is an aged analysis of bills receivables presented based on the respective maturity dates at the end of each reporting period:

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Age			
0-90 days	87,056	135,106	527,057
91-180 days	231,162	630,967	1,342,260
181-360 days	—	18,429	6,452
	318,218	784,502	1,875,769

No interest is charged on the trade receivables and bills receivables. Trade receivables and bills receivables are provided for based on estimated irrecoverable amounts from the sales of products and provision of service. The Directors assess for impairment of significant trade receivables balance on individual basis. Those are assessed not to be impaired individually are, in addition, assessed for impairment on collective basis in accordance with the Group's past default experience of collection payments, an increase in the number of delayed payment in the portfolio, observable changes in national or local economic conditions that correlate with default on receivables.

Movements in the allowance for trade receivables and other receivables and prepayments:

	Trade receivables	Other receivables and prepayments
	RMB'000	RMB'000
Balance at January 1, 2012	56,758	4,380
Impairment losses recognised in profit or loss	39,296	5,074
Written-off	(2,339)	—
Balance at December 31, 2012	93,715	9,454
Impairment losses recognised in profit or loss	85,964	8,630
Written-off	(1,321)	—
Balance at December 31, 2013	178,358	18,084
Impairment losses recognised in profit or loss	133,943	6,654
Written-off	(4,109)	(5)
Balance at December 31, 2014	308,192	24,733

The Group did not hold and collateral over the balances as at the end of each reporting period.

The Group pledged its trade receivables with carrying amounts of approximately RMB31,421,000 and bills receivables of approximately RMB67,879,000 at December 31, 2014 to a bank to secure banking facilities granted to the Group.

The Group's trade receivables and other receivables that are denominated in USD, Euro and GBP, foreign currencies of the Company and relevant group entities, were re-translated into RMB and stated for financial reporting purposes as:

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
USD	518,216	927,358	785,261
Euro	1,478	331	—
GBP	—	1,223	861

Transfer of Financial Assets

During the year ended December 31, 2014, the Group factorised or endorsed certain bills receivables with full recourse. In the opinion of the Directors, the risk of the default in payment of the factorised or endorsed bills receivables is remote because all these bills receivables are issued and guaranteed by reputable banks in the PRC. As a result, these bills receivables have been derecognised.

Substantial portion of these endorsed and factorised bills receivables have a maturity of six months, and the total undiscounted cash flows of these bills receivables, representing the Group's maximum loss if the issuing banks fail to honour their bills and guarantees, amounted to approximately RMB1,017 million as at December 31, 2014.

23. OTHER FINANCIAL ASSETS/BANK BALANCES AND CASH/STRUCTURED DEPOSITS

	At Decmber 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Other financial assets	300,000	1,100,000	2,750,000
Bank balances and cash	5,533,663	4,584,133	7,111,255
Restricted bank deposits	1,097	8,474	88,404
Structured deposits	—	1,152,950	108,000

(A) *Other financial assets*

Other financial assets as at December 31, 2012, 2013 and 2014 represented debt instruments purchased by the Group from certain financial institutions unrelated to the Group of approximately RMB300,000,000, RMB1,100,000,000 and RMB2,750,000,000, respectively. Such instruments issued by the counterparty financial institutions, were principal-guaranteed by financial institutions which were either state-owned enterprises with high credit ratings or third parties with strong financial position and carry fixed interest ranging from 6.80% to 8.80% per annum. The amounts as at December 31, 2012 were redeemed during the year ended December 31, 2013. Included in the amounts as at December 31, 2013 represented RMB400,000,000 that was matured in the year ended December 31, 2014 and it was classified as current assets. The remaining portion of other financial assets as at December 31, 2013 and those as at December 31, 2014 would be matured in the year ending December 31, 2015. The Group accounted for the balances as loans and receivables at the end of each reporting period.

(B) *Bank balances and cash/Restricted bank deposits*

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less which carry interest at market at 0.35% per annum, 0.35% per annum and 0.35% per annum at December 31, 2012, 2013 and 2014, respectively.

The Group's bank balances and cash that are denominated in USD, Euro and GBP, foreign currencies of the Company and relevant group entities, were re-translated into RMB and stated for financial reporting purposes as:

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
USD	119,281	133,943	271,523
Euro	1,101	14,545	60,067
GBP	247	1,067	3,133

Restricted bank deposits represented deposits pledged to banks to secure banking facilities granted to the Group for issue of letter of credits or bill acceptance.

Certain restricted bank deposits and bank balances and cash of the Group of aggregate carrying amount of approximately RMB5,379,598,000, RMB4,390,268,000 and RMB6,819,903,000 at December 31, 2012, 2013 and 2014, respectively were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

(C) ***Structured deposits***

	At December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Principal-protected deposits	—	1,152,950	108,000

During the years ended December 31, 2013 and 2014, the Group had several contracts of principal-protected deposits with banks for a period of one year. In accordance with the relevant terms of the agreements, the yield rates linked with yield rates of certain debt investments, bank deposits and foreign exchange rates such as between Euro or USD against RMB, during the contractual periods. The deposits were denominated in RMB.

Certain deposits contained embedded derivatives and were stated at fair values derived from discounted cash flow analysis based on the terms of the deposits and relevant market inputs, mainly forward and spot exchange rates of USD or Euro and RMB and interest rates on December 31, 2013 and 2014. In the opinion of the Directors, the fair values of the embedded derivatives are insignificant for the year ended and as at December 31, 2013 and 2014.

24. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	At December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Contracts in progress at end of reporting periods:			
Contract costs incurred	368,269	621,853	1,365,086
Recognised profits less recognised losses	48,509	119,601	182,892
	416,778	741,454	1,547,978
Less: Progress bills	(256,191)	(696,454)	(1,511,978)
Amounts due from customers for contract work	160,587	45,000	36,000

25. AMOUNTS DUE FROM (TO) RELATED PARTIES/SUBSIDIARIES

(a) Amounts due from related parties

	At December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Trade in nature			
Subsidiaries of the Parent Company not forming part of the Group	4,739	26,627	26,752
Less: Allowance for doubtful debts	(237)	(1,332)	(1,309)
	4,502	25,295	25,443

The following is an aged analysis of amounts due from related parties, net of allowance for doubtful debts, presented based on the revenue recognition date for amounts outstanding as at the end of each reporting period:

	At December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Within 1 year	3,084	25,065	25,443
1 to 2 years	1,418	230	—
	4,502	25,295	25,443

The Group grants credit to related parties with period up to a year or two years, based on credit quality of and relationship between the Group and these counterparties.

The Group did not have significant balances which are past due at the end of each reporting period. Movement in the allowance for bad debts are as follows:

	At December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
At beginning of the year	68	237	1,332
Allowance recognised (reversal of allowance) for the year	169	1,095	(23)
At end of the year	237	1,332	1,309

The amounts are unsecured and interest-free. The Group did not hold collateral against the balances.

(b) **Amounts due to related parties**

	At December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Trade in nature			
Subsidiaries of the Parent Company not forming part of the Group	17,791	24,346	39,466
Shanghai Fuhan Co., Ltd. (上海富瀚微電子股份有限公司)* (note)	539	1,467	4,442
Beijing Woqi Co., Ltd. (北京握奇數據系統有限公司)* (note)	2,739	240	281
	21,069	26,053	44,189
Non-trade in nature			
Subsidiaries of the Parent Company not forming part of the Group	3,669	3,275	5,092
Shanghai Fuhan Co., Ltd. (上海富瀚微電子股份有限公司)* (note)	100	—	100
	3,769	3,275	5,192
Total	24,838	29,328	49,381

* *English name is for identification purpose only.*

Note: Mr. Gong, who is a director and shareholder of the Company, was a director of the entity and he/his spouse had equity interests in the entity during the reporting periods.

The following is an aged analysis of amounts due to related parties, which are trade in nature, presented based on the invoice date for amount outstanding as at the end of each reporting period.

	At December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Within 1 year	10,569	26,053	44,189
1 to 2 years	10,500	—	—
	21,069	26,053	44,189

All of the balances which are trading in nature, are unsecured, interest-free and repayable based on the granted credit period on purchase of goods ranged from 30 days to 90 days. All of the balances which are non-trading in nature, are unsecured, interest-free and repayable on demand.

26. TRADE AND BILLS PAYABLES/OTHER PAYABLES AND ACCRUALS

(A) Trade and bills payables

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade payables	1,053,953	1,582,634	3,274,121
Bills payables	—	—	274,000
	1,053,953	1,582,634	3,548,121

The following is an aged analysis of trade payables presented based on the invoice date at the end of each reporting period:

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within one year	1,036,087	1,561,886	3,265,927
1-2 years	10,836	11,000	5,662
2-3 years	4,579	3,250	993
3-4 years	1,374	4,496	452
4-5 years	1,077	925	10
More than 5 years	—	1,077	1,077
	1,053,953	1,582,634	3,274,121

The credit period on purchases of goods ranged from 30 days to 90 days.

The Group's bills payables as at December 31, 2014 will be matured in 90 days.

The Group's trade payables as at the end of the reporting period that are denominated in USD, the foreign currencies of the Company and relevant group entities, were re-translated into RMB and stated for financial reporting purpose as:

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
USD	198,857	243,792	457,670

(B) Other payables and accruals

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Advance from customers	268,404	289,065	503,067
Payroll payables	431,980	505,770	656,095
Others	104,930	169,855	219,654
Repurchase consideration under Share Incentive Scheme (defined in Note 31)	91,714	91,714	547,853
Total	897,028	1,056,404	1,926,669

27. BANK LOANS/OTHER BORROWINGS

(a) Bank loans

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Secured	—	—	31,421
Unsecured	—	180,800	575,657
	—	180,800	607,078

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within 1 year	—	180,800	362,318
1-2 years	—	—	244,760
	—	180,800	607,078
Less: Amounts shown as current liabilities	—	(180,800)	(362,318)
Amounts shown as non-current liabilities	—	—	244,760

The Group's bank loans that are denominated in USD, the foreign currencies of the Company and relevant group entities, were re-translated into RMB and stated for financial reporting purposes as:

	RMB'000
At December 31, 2014	575,657
At December 31, 2013	180,800

(b) Other borrowings

As at December 31, 2012 and 2013, the Group had outstanding borrowings from a non-controlling shareholder of a group entity of RMB3,000,000 with original maturity date of December 20, 2014. Such borrowings are unsecured and carried interest at a fixed rate of 6.65% per annum. As at December 31, 2014, the borrowings were still outstanding. Subsequently, the Group and the non-controlling shareholder of the group entity mutually agreed to extend the maturity of the borrowings to December 2016.

Certain of the bank loans of the Group carried variable-rate at London Interbank Offered Rate ("LIBOR") plus 200 basis points as at December 31, 2014. The ranges of effective interest rates per annum (which are also equal to contracted interest rates) on the Group's and the Company's bank loans and other borrowings are as follows:

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Effective interest rate:			
Fixed-rate	6.65%	2.00% to 6.65%	1.23% to 6.65%
Variable-rate	—	—	6MLIBOR + 200BP

28. PROVISIONS

The balances represents warranty provision based on management's best estimation of the Group's liability under general policy with period ranging from 1 to 2 year granted on the products of the Group, based on the prior experience and industry average for defective products. In certain cases, warranty period can be extended on case-by-case basis.

Movements of provision during the reporting periods is as follows:

	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
At beginning of the year	18,377	20,008	31,311
Provided for the year	13,151	24,988	25,550
Utilised for the year	(11,520)	(13,685)	(20,200)
At end of the year	20,008	31,311	36,661

The Group classified the balances as non-current because the Group estimated effect of current portion of provision is not material.

29. DERIVATIVE FINANCIAL INSTRUMENTS

Foreign exchange forward contracts

During the year ended December 31, 2014, the Group entered into arrangements with commercial banks in Hong Kong and the PRC to mitigate the exposure of foreign exchange risk of the Group's certain RUB against USD and USD against RMB.

Major terms of the outstanding net settled foreign currency forward contracts as at December 31, 2014 were as follows:

Notional amounts	Maturity date	Forward exchange rate
RUB 842,381,000	from January 20, 2015 to June 19, 2015	Buy USD/Sell RUB at exchange rates ranging from 54.8300 to 58.0600
USD 87,000,000	from January 12, 2015 to December 25, 2015	Buy RMB/Sell USD at exchange rates ranging from 6.2200 to 6.3060

The contracts will all be settled net upon maturity during the year ending December 31, 2015.

The contracts were stated at fair values measured in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

During the year ended December 31, 2014, gain on fair value change of these forward contracts approximating to RMB3,033,000 was recognised as other gains and losses in the consolidated statement of profit or loss and other comprehensive income, and derivative financial assets have been recognised as at December 31, 2014 in the consolidated statement of financial position accordingly.

30. SHARE CAPITAL

During the reporting periods, the movements of share capital of the Company is as follows:

Issued and fully paid:	Number of shares	Amount
		RMB'000
Ordinary shares		
Ordinary shares of RMB 1 each at January 1, 2012	1,000,000,000	1,000,000
Capitalisation issue (note a)	1,000,000,000	1,000,000
Issue of new shares under share-based compensation scheme (Note 31)	8,611,611	8,612
Ordinary shares of RMB 1 each at December 31, 2012	2,008,611,611	2,008,612
Capitalisation issue (note b)	1,004,305,806	1,004,305
Bonus issue (note c)	1,004,305,805	1,004,306
Ordinary shares of RMB 1 each at December 31, 2013	4,017,223,222	4,017,223
Issue of new shares under share-based compensation scheme (Note 31)	52,910,082	52,910
Repurchase and cancellation of shares (note d)	(1,005,278)	(1,005)
Ordinary shares of RMB 1 each at December 31, 2014	4,069,128,026	4,069,128

All the shares issued by the Company during the reporting periods ranked pari passu with the then existing shares in all respects.

Notes:

a. Pursuant to a shareholders' resolution dated on May 18, 2012, 1,000,000,000 shares were issued to the existing shareholders by way of capitalisation of share premium at RMB1,000,000,000.

b. Pursuant to a shareholders' resolution dated on August 23, 2013, 1,004,305,806 shares were issued to the existing shareholders by way of capitalisation of share premium at approximately RMB1,004,305,000.

c. Concurrent to capitalisation issue on August 23, 2013, the Company declared share distribution to shareholders on two-by-one basis. As a result, 1,004,305,806 shares were issued and retained profits was debited by approximately by RMB1,004,306,000.

d. During the year ended December 31, 2014, the Company repurchased 1,005,278 shares, with consideration of RMB5.325 per share, from grantees of the share-based compensation scheme due to their failure to fulfil vesting conditions attached.

31. SHARE-BASED COMPENSATION TRANSACTION

The Company has adopted a share incentive scheme (the "Share Incentive Scheme") on August 13, 2012. The purpose of the Share Incentive Scheme is to motivate eligible persons (the "Eligible Persons") to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

The total number of shares issued and to be issued pursuant to the Share Incentive Scheme to an Eligible Person shall not exceed 10% of the number of shares in issue cumulatively and each grantee should not be entitled grant of more than 1% of the number of shares in issue unless approved by shareholders in general meeting.

Shares granted must be taken up within 30 days from the date of grant, upon payment in accordance with terms specified in the grant letters. The effective period for the Share Incentive Scheme is 10 years. The subscription price of a share granted under the Share Incentive Scheme will be determined by the board of directors provided that it is the highest among : (i) 50% of the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange of Shenzhen on the date of grant, and (ii) 50% of the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange of Shenzhen for the 20 business days immediately preceding the date of grant, and (iii) 50% of the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange of Shenzhen for the 30 business days immediately preceding the date of grant, and (iv) 50% of the nominal value of each share.

In accordance to terms of the Share Incentive Scheme, the Shares granted to the Eligible Persons are subject to certain lock-up periods and there are specific performance conditions to be fulfilled during the lock-up period, which includes performance of the Group's return on equity, the Group's compound annual growth rate of revenue and the profit for the year attributable to owners of the Company, as well as certain market condition to be fulfilled after lock-up period, where applicable. The unvested shares granted will be repurchased and cancelled by the Company at the repurchase consideration defined in the Share Incentive Scheme, when (1) the grantees are demoted due to failure to fulfil the performance assessment; (2) the grantees leave the Group during the lock-up period; (3) the grantees are laid off by the Group during the lock-up period; or (4) other situations in which the grantees are not able to or not allowed to hold the interest in the Company's shares.

Pursuant to a shareholders' resolution on August 23, 2012, the Company granted 8,611,611 shares to certain employees of the Group under the Share Incentive Scheme. Set out below were details of the outstanding shares granted under the Share Incentive Scheme in 2012:

(1) All shares granted were at an exercise price of RMB10.65 per share.

(2) All holders of shares might only exercise their shares in the following manner:

   (i) One-third of the shares vested and exercisable after the 24 months since the grant date;

   (ii) One-third of the shares vested and exercisable after the 36 months since the grant date; and

   (iii) The remaining of the shares vested and exercisable after 48 months since the grant date.

Pursuant to a shareholders' resolution on October 21, 2014, the Company granted 52,910,082 shares to certain senior management and employees of the Group under the Share Incentive Scheme. Set out below were details of the outstanding shares granted under the Share Incentive Scheme in 2014:

(1) All shares granted were at an exercise price of RMB9.25 per share.

(2) All holders of shares might only exercise their shares in the following manner:

   (i) 40% of the shares vested and exercisable after the 24 months since the grant date;

   (ii) 30% of the shares vested and exercisable after the 36 months since the grant date; and

   (iii) The remaining of the shares vested and exercisable after 48 months since the grant date.

The detail conditions and terms of Share Incentive Scheme in 2012 and 2014 are set out in the announcements made by the Company on Shenzhen Stock Exchange of China dated August 23, 2012 and October 21, 2014, respectively.

The estimated fair values of shares granted on August 23, 2012 and October 21, 2014 were determined using Black Scholes Pricing model with adjustments to account for the effect of restrictions exist during the vesting period and that in nature of market conditions after vesting period, if any. The fair values of shares granted amounted to approximately RMB249.2 million and RMB1,027 million, respectively.

The following is the movement of shares granted under the Share Incentive Scheme during the reporting periods:

Granted on August 23, 2012

	Number of shares				
	Outstanding as at January 1, 2012	**Issue during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding as at December 31, 2012**
Employees	—	8,611,611	—	—	8,611,611
Weighted average exercise price (RMB)	N/A	10.65	—	—	10.65

	Number of shares				
	Outstanding as at January 1, 2013	**Issue during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding as at December 31, 2013**
Employees	8,611,611	8,611,611*	—	—	17,223,222
Weighted average exercise price (RMB)	10.65	5.33	—	—	5.33

* Pursuant to a shareholders' resolution dated on August 23, 2013, shares were split on two-by-one basis and share distribution on two-by-one basis. Details are set out in Note 30. The exercise price of the shares granted under the Share Incentive Scheme was adjusted by division into two.

	Number of shares				
	Outstanding as at January 1, 2014	**Issue during the year**	**Exercised during the year**	**Forfeited during the year**	**Outstanding as at December 31, 2014**
Employees	17,223,222	—	5,244,231	(1,005,278)	16,217,944
Weighted average exercise price (RMB)	5.33	—	—	5.33	5.33

Granted on October 21, 2014

	Number of Shares				
	Outstanding as at January 1, 2014	Issue during the year	Exercised during the year	Forfeited during the year	Outstanding as at December 31, 2014
Directors:					
Mr. Hu	—	130,000	—	—	130,000
Mr. Wu	—	116,000	—	—	116,000
Employees	—	52,664,082	—	—	52,664,082
	—	52,910,082	—	—	52,910,082
Weighted average exercise price (RMB)	—	9.25	—	—	9.25

At December 31, 2012, 2013 and 2014, the number of shares granted under the Share Incentive Scheme was 8,611,611, 17,223,222 and 69,128,026, representing 0.43%, 0.43% and 1.70% of the shares of the Company in issue at that date, respectively. During the year ended December 31, 2014, 1,005,278 shares have been repurchased from grantees under Share Incentive Scheme in 2012 and cancelled due to their failure to fulfil vesting conditions attached.

The Group recognised the total expense of approximately RMB18,959,000, RMB56,877,000 and RMB75,048,000 for the year ended December 31, 2012, 2013 and 2014, respectively, in relation to shares granted by the Company under the Share Incentive Scheme.

Furthermore, financial liabilities of approximately RMB91,714000, RMB 91,714,000 and RMB547,853,000 have been recognised respectively at each of the reporting period according to the repurchase consideration to be paid under Share Incentive Scheme if the granted shares become unvested.

32. ACQUISITION OF SUBSIDIARIES

(a) On April 9, 2012, the Company entered into a share purchase agreement with several individual independent third parties to acquire 51% equity interests of Henan HuaAn Intelligence Development Co., Ltd. (河南華安保全智能發展有限公司) for a cash consideration of approximately RMB67.5 million. The acquiree is principally engaged in design, manufacturing and marketing network based video surveillance systems and equipment for financial service industry. The Group entered into this transaction for the purpose to penetrate the security sector in Henan province. The acquisition has been accounted for using the acquisition method. The transaction was completed on April 30, 2012.

Net cash outflow on acquisition

	RMB'000
Cash consideration paid	67,475
Less: Cash and cash equivalents acquired	(5,301)
	62,174

Assets acquired and liabilities recognised at the acquisition date are as follows:

	RMB'000
Cash and bank balance	5,301
Trade receivables	5,566
Other receivables	5,014
Inventories	2,390
Interests in a joint venture	1,153
Property, plant and equipment	2,512
Deferred tax assets	101
Trade payables	(2,922)
Other payables and accruals	(6,093)
	13,022

The fair value of trade receivables and other receivables at the date of acquisition represented gross contractual amounts of those trade receivables and other receivables acquired amounted to approximately RMB5,566,000 and RMB5,014,000, respectively, at the date of acquisition.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	67,475
Plus: Non-controlling interests (49% in acquired subsidiaries)	6,870
Less: Net assets acquired	(13,022)
Goodwill arising on acquisition	61,323

Non-controlling interests acquired were calculated based on the portion of carrying amounts of the net assets acquired at the date of acquisition.

Goodwill arose in the acquisition of the acquiree because the cost of the combination included a control premium. In addition, the consideration paid included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquiree. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

Acquisition related cost incurred was not material.

Had the acquisition been completed on January 1, 2012, total Group's revenue for the year ended would have been approximately RMB7,147,248,000 and profit for the year would have been RMB2,141,028,000. The pro forma information is for illustrative purpose only and is not necessary an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2012, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the acquiree been acquired at the beginning of year 2012, the directors have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

Included in the revenue and profit for the year ended December 31, 2012 is RMB50,643,000 and RMB2,232,000, respectively, generated by the acquiree.

(b) On January 23, 2013, the Company entered into a share purchase agreement with Hundure Technology Co., Ltd., an independent third party, to acquire the entire equity interests of Hundure Technology (Shanghai) Co., Ltd. (漢軍智慧系統(上海)有限公司) for a cash consideration of approximately RMB37.1 million. The acquiree is principally engaged in design, manufacturing and marketing network based video surveillance systems and equipment. The Group entered into this transaction for the purpose to acquire the assembled workforce of the acquiree. The acquisition has been accounted for using the acquisition method. The transaction was completed on January 31, 2013.

	RMB'000
Net cash outflow on acquisition	
Cash consideration paid (note)	34,050
Less: Cash and cash equivalents acquired	(7,131)
	26,919

Note: Amount of approximately RMB3,017,000 was paid during the year ended December 31, 2014.

Assets acquired and liabilities recognised at the acquisition date are as follows:

	RMB'000
Cash and bank balance	7,131
Trade and bills receivables	19,484
Other receivables	906
Inventories	24,141
Property, plant and equipment	807
Deferred tax assets	210
Trade payables	(13,356)
Other payables and accruals	(16,030)
	23,293

The fair value of trade receivables and other receivables at the date of acquisition represented gross contractual amounts of those trade receivables and other receivables acquired amounted to approximately RMB19,484,000 and RMB906,000, respectively, at the date of acquisition.

Goodwill arising on acquisition:

	RMB'000
Consideration transferred	37,067
Less: Net assets acquired	(23,293)
Goodwill arising on acquisition	13,774

Goodwill arose in the acquisition of the acquiree because the cost of the combination included a control premium. In addition, the consideration paid included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the acquiree. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

Acquisition related cost incurred was not material.

Had the acquisition been completed on January 1, 2013, total Group's revenue for the year ended would have been approximately RMB10,633,749,000 and profit for the year would have been RMB3,077,093,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2013, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had the acquiree been acquired at the beginning of year 2013, the directors have calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements.

Included in the profit and revenue for the year ended December 31, 2013 is RMB72,216,000 and RMB14,706,000, respectively, generated by the acquiree.

33. CAPITAL COMMITMENTS

	The Group		
	At December 31,		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of the consolidated financial statements			
(a) Contracted for but not provided in respect of the acquisition of			
- Property, plant and equipment	148,835	101,471	49,967
- Prepaid lease payments for land use right	—	—	78,690
(b) Authorised but not contracted for in respect of the acquisition of			
- Property, plant and equipment	126,143	17,874	3,739,246
	274,978	119,345	3,867,903

34. RETIREMENT BENEFITS SCHEMES

During the reporting periods, the employees of the Company and PRC subsidiaries are members of the state-managed retirement benefits scheme operated by the PRC government. The Company and PRC subsidiaries are required to contribute 20% to 22% of basic salaries of the employees to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The Group has no other material obligation for the payment of pension benefits beyond the contributions described above.

35. RELATED PARTY TRANSACTIONS

As explained in Note 1, in the opinion of the Directors, the parent of the Company is ultimately under the control of SASAC and the Group is subject to the control of the PRC government. In accordance with IAS 24, entities that are controlled, jointly controlled or significantly influenced by the PRC government ("PRC government related entities") are regarded as related parties of the Group. Due to the complex ownership structure, the PRC government may hold indirect interests in many companies. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests which may not be known to the Group. Nevertheless, the Group represented that the following captures the material related parties taking into account the exemption under IAS 24.

(a) **Transactions with related parties**

Details of the balances with related parties as at December 31, 2012, 2013 and 2014 are set out in Note 25.

Other than the balances with related parties as disclosed elsewhere in the consolidated financial statements, during the reporting periods, the Group entered into the following significant transactions with related parties:

(i) *Purchases and provision of services from related parties*

	At December 31,		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Subsidiaries of the Parent Company not forming part of the Group	36,372	70,637	207,590
Shanghai Fuhan Co., Ltd (上海富瀚微電子股份有限公司)	16,259	13,298	33,431
Beijing Woqi Co., Ltd (北京握奇數據系統有限公司)	5,236	6,307	1,506

(ii) *Sales to related parties*

	At December 31,		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
Subsidiaries of the Parent Company not forming part of the Group	13,344	52,173	61,049

(iii) *Rent from a related party*

	At December 31,		
	2012	2013	2014
	RMB’000	RMB’000	RMB’000
A subsidiary of the Parent Company not forming part of the Group	—	993	579

(iv) *Guaranteed by the Parent Company*

In August 2011, the Parent Company (as guarantor) and the wholly-owned subsidiary of the Company, Chongqing Hikvision System Technology Co., Ltd. (重慶海康威視系統技術有限公司) (as contractor) entered into a principal contractor agreement (the “Chongqing Framework Agreement”) with Chongqing Municipal Public Security Bureau in respect of the projects carried out in that location (the “Chongqing Project”). Pursuant to the Chongqing Framework Agreement, the Parent Company provided joint liability guarantee for the total responsibilities and obligations of the contractor under the Chongqing Principal Contractor Agreement. The Company, therefore, provided counter-guarantee to the Parent Company for the before mentioned guarantee. Chongqing Hikvision System Technology Co., Ltd. has subsequently entered into construction agreements and supplemental agreements (together with the Chongqing Principal Contractor Agreement, the "Chongqing Detailed Project Agreements") with Chongqing Municipal Public Security Bureau and its branch offices respectively in respect of the Chongqing Project. As at the date of this report, all agreements, in respect of the phase currently carried out of the Chongqing Project have been entered into with total contract amount of approximately RMB3.629 billion. During the years ended December 31, 2012, 2013 and 2014, the relevant revenue recognised by the Group under the Chongqing Project were approximately RMB71million, RMB88million and RMB515million, respectively.

Apart from the significant transactions with related entities set out above, during the reporting periods, the Group's transactions with other PRC government related entities are collectively significant as a portion of its sales of goods and purchases of materials. In addition, the Group transacted with banks owned/controlled by the PRC government during the reporting periods by placing most of bank deposits, structured deposits and other financial assets, withdrawing bank loans and arranging other general banking facilities. These transactions resulted in with relevant interest income earned and expenses incurred during the reporting periods.

In the opinion of the Directors, the transactions with PRC government related entities are activities in the ordinary course of the Group's business and entered into under normal commercial terms and conditions, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and those entities are government related. The Group has also established its approval process for sales of goods and purchases of materials and its financing policy for loans, such approval process and financing policy do not depend on whether the counterparties are government related entities or not.

(b) **Compensation of key management personnel**

The remuneration of directors and other members of key management during the reporting periods are as follows:

	Year ended December 31,		
	2012	**2013**	**2014**
	RMB'000	**RMB'000**	**RMB'000**
Basic salaries and allowances	20,031	22,232	25,585
Retirement benefits scheme contributions	934	929	901
Share-based compensation expenses	—	—	616
	20,965	23,161	27,102

The remuneration of key management is determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

36. SUBSIDIARIES

Details of the Company's subsidiaries as at December 31, 2012, 2013 and 2014 are as follows:

Name of subsidiary	Place and date of incorporation	Issued and fully paid registered capital/share capital at the date of this report	Equity interest attributable to the Group			Principal activity
			As at December 31,			
			2012	2013	2014	
Hangzhou Hikvision System Technology Co., Ltd. 杭州海康威視系統技術有限公司*#	the PRC March 5, 2009	Renminbi ("RMB")150,000,000	100.00%	100.00%	100.00%	Technology development, computer systems integration, electronic security engineering, production of video surveillance system
Hangzhou Hikvision Science and Technologies Co., Ltd. (杭州海康威視科技有限公司)*# (previously known as 杭州海康威視軟體有限公司)	the PRC March 6, 2009	RMB100,000,000	100.00%	100.00%	100.00%	Technology development, production and wholesale of electronic security and communication products
Hangzhou Hikvision Security Equipment Leasing Services Ltd. 杭州海康威視安防設備租賃服務有限公司*#	the PRC August 26, 2009	RMB200,000,000	100.00%	100.00%	100.00%	Provision of finance lease services
Chongqing Hikvision System Technology Co., Ltd. 重慶海康威視系統技術有限公司*#	the PRC December 10, 2010	RMB200,000,000	100.00%	100.00%	100.00%	Technology development, computer systems integration, electronic security engineering, production of video surveillance system
Hikvision USA, Inc.#	United States of America (the "USA") March 3, 2009	United States dollars ("USD") 200,000	100.00%	100.00%	100.00%	Production of electronic security software and related hardware, design, sale and installation of computer systems
HDT International Limited#	Hong Kong ("HK") April 15, 2008	Hong Kong dollars ("HKD") 100,000	100.00%	100.00%	100.00%	Sales, services, repairing, import and export of digital security products
Prama Hikvision India Private Ltd.#	Republic of India February 3, 2009	USD2,000,000	58.00%	58.00%	58.00%	Production of electronic security software and related hardware, design, sale and installation of computer systems
Hikvsion Europe B.V.#	Kingdom of the Netherlands September 29, 2009	European dollars ("Euro") 500,000	100.00%	100.00%	100.00%	Sales, services, repairing, import and export of digital security products
Hikvision FZE#	United Arab Emirates May 16, 2010	USD274,000	100.00%	100.00%	100.00%	Sales, services, research and development, import and export of digital security products

Name of subsidiary	Place and date of incorporation	Issued and fully paid registered capital/share capital at the date of this report	Equity interest attributable to the Group			Principal activity
			As at December 31,			
			2012	2013	2014	
Hikivision Singapore PTE. LTD.#	Republic of Singapore August 26, 2011	USD300,000	100.00%	100.00%	100.00%	Production of electronic security software and related hardware, design, sale and installation of computer systems
Chongqing Hikvision Science and Technology Co., Ltd. 重慶海康威視科技有限公司*#	the PRC March 15, 2011	RMB100,000,000	100.00%	100.00%	100.00%	Technology development, computer systems integration, electronic security engineering, production of video surveillance system
Beijing Hikvision Security Technology Service Co., Ltd. 北京海康威視安全防範技術服務有限公司*#	the PRC December 9, 2011	RMB10,000,000	100.00%	100.00%	100.00%	Sales, services, repairing, import and export of digital security products
Fuyang Hikvision Bao Tai Security Technology Service Co., Ltd. 富陽海康保泰安防技術服務有限公司*	the PRC July 29, 2011	RMB10,000,000	51.00%	51.00%	51.00%	Technology development, computer systems integration, electronic security engineering, production of video surveillance system
Hikvision South Africa (Pty) Ltd.#	Republic of South Africa February 24, 2012	USD400,000	100.00%	100.00%	100.00%	Sales, services, repairing, import and export of digital security products
Hikvision do Brazil Comercio de Equipamento de Segurauca Ltd.#	Federative Republic of Brazil February 27, 2012	USD780,000	100.00%	100.00%	100.00%	Sales, services, repairing, import and export of digital security products
Hikvision Italy S. R. L.	Republic of Italy February 29, 2012	Euro100,000	100.00%	100.00%	100.00%	Sales, services, repairing, import and export of digital security products
Hikvision Australia PTY Ltd.#	Commonwealth of Australia July 5, 2013	Australia dollars 500,000	N/A	100.00% (note iii)	100.00%	Sales, services, repairing, import and export of digital security products
Hikvision International Co., Limited#	HK June 18, 2013	HKD100,000	N/A	100.00% (note iii)	100.00%	Sales, services, repairing, import and export of digital security products
Hikvision France SAS	the Republic of France October 15, 2013	Euro100,000	N/A	100.00% (note iii)	100.00%	Sales, services, repairing, import and export of digital security products
Hikvision Spain, S.L.	Kingdom of Spain October 22, 2013	Euro100,000	N/A	100.00% (note iii)	100.00%	Sales, services, repairing, import and export of digital security products
Shanghai Goldway Intelligent Traffic Systems Co., Ltd. 上海高德威智能交通系統有限公司*#	the PRC May 23, 2001	RMB10,500,000	100.00%	100.00%	100.00%	Sales, services, repairing, import and export of digital security products

Name of subsidiary	Place and date of incorporation	Issued and fully paid registered capital/share capital at the date of this report	Equity interest attributable to the Group			Principal activity
			As at December 31,			
			2012	2013	2014	
ZAO Hikvision	Federative Republic of Russia October 21, 2009	Russian Ruble ("RUB") 10,000	74.80%	74.80%	87.40% (note vi)	Sales, services, repairing, import and export of digital security products
Hundure Technology (Shanghai) Co., Ltd. 漢軍智能系統(上海)有限公司*#	the PRC May 17, 2001	RMB20,000,000	N/A	100% (note ii)	100.00%	Production of electronic security software and related hardware, design, sale and installation of computer systems
Beijing Brainaire Storage Technology Co., Ltd. 北京邦諾存儲科技有限公司*#	the PRC May 27, 2004	RMB14,705,900	100.00%	100.00%	100.00%	Sales, services, repairing, import and export of digital security products
Wuhan Hivision Systems Technologies Co., Ltd. 武漢海康威視系統技術有限公司*#	the PRC September 8, 2010	RMB10,000,000	100.00%	100.00%	100.00%	Sales, services, repairing, import and export of digital security products
Beijing Brainaire Software Technology Co., Ltd. 北京邦諾軟件技術有限公司*	the PRC March 27, 2008	RMB5,000,000	100.00%	N/A (note i)	N/A	Sales, services, repairing, import and export of digital security products
Beijing Jiedian Xunjie Development Co., Ltd. 北京節點迅捷技術發展有限公司*#	the PRC February 26, 1999	RMB3,000,000	100.00%	100.00%	N/A (note v)	Sales, services, repairing, import and export of digital security products
Beijing Master Security Technology Development Co., Ltd. 北京邁特安技術發展有限公司*#	the PRC June 11, 2002	RMB1,500,000	100.00%	100.00%	N/A (note v)	Sales, services, repairing, import and export of digital security products
Shanghai Jiechuang Digital Technology Co., Ltd. 上海節創信息科技有限公司*	the PRC June 11, 2010	RMB5,000,000	100.00%	N/A (note i)	N/A	Sales, services, repairing, import and export of digital security products
Henan HuaAn Intelligence Development Co., Ltd. 河南華安保全智能發展有限公司*#	the PRC January 24, 2008	RMB10,000,000	51.00%	51.00%	51.00%	Design, construction and maintenance of financial services security systems, computer software development, sales of electronic products
Henan HuaAn Security Service Co., Ltd. 河南華安保安服務有限公司*	the PRC December 15, 2011	RMB1,000,000	90.00%	90.00%	90.00%	Sales, services, repairing, import and export of digital security products
Hikvision Poland Spólka z Organiczona Odpowiedzialnoscia.	Republic of Poland June 16, 2014	Euro 100,000	N/A	N/A	100.00% (note iv)	Sales, services, repairing, import and export of digital security products
Hikvision UK Ltd.	United Kingdom April 10, 2014	Pounds ("GBP") 100,000	N/A	N/A	100.00% (note iv)	Sales, services, repairing, import and export of digital security products
Hangzhou Hikvision Electronics Co. Ltd. 杭州海康威視電子有限公司*#	the PRC October 15, 2014	RMB100,000,000	N/A	N/A	100.00% (note iv)	Sales, services, repairing, import and export of digital security products
Hikvision Canada Inc.#	Canada December 19, 2014	Canadian dollars ("CAD") 200,000	N/A	N/A	100.00% (note iv)	Sales, services, repairing, import and export of digital security products

Name of subsidiary	Place and date of incorporation	Issued and fully paid registered capital/share capital at the date of this report	Equity interest attributable to the Group			Principal activity
			As at December 31,			
			2012	2013	2014	
Cooperative Hikvision Europe U.A.#	Kingdom of the Netherlands December 12, 2014	Euro10,000	N/A	N/A	100% (note iv)	Investment holding
HIKVISION LLC#	Federative Republic of Russia February 10, 2015	RUB6,000,000	N/A	N/A	N/A	Sales, services, repairing, import and export of digital security products

* English name is for identification purpose only.

\# Directly owned subsidiary of the Company

Notes:

i. The entity was deregistered during the year ended December 31, 2013.

ii. The entity was acquired during the year ended December 31, 2013 and details are set out in Note 32.

iii. The entity was established during the year ended December 31, 2013.

iv. The entity was established during the year ended December 31, 2014.

v. The entity was deregistered during the year ended December 31, 2014.

vi. The entity became wholly-owned subsidiary of the Group since the Group acquired the remaining non-controlling interests in the entity in 2015.

1 **Consolidated Balance Sheet**
(Prepared in accordance with PRC GAAP)

Unit: RMB

ITEM	September 30, 2015	December 31, 2014
Current Assets:		
Cash and bank balances	6,901,448,146.75	7,199,658,946.19
Balances with clearing agencies		
Placements with banks and other financial institutions		
Financial assets at fair value through profit or loss		3,032,932.74
Derivative financial assets		
Notes receivable	2,224,833,665.33	1,875,769,464.99
Accounts receivable	8,340,770,862.55	4,281,526,957.05
Prepayments	74,703,082.05	65,305,741.00
Premiums receivable		
Amounts receivable under reinsurance contracts		
Reinsurer's share of insurance contract reserves		
Interest receivable		
Dividends receivable		
Other receivables	366,442,720.80	255,289,608.70
Financial assets purchased under resale agreements		
Inventories	2,610,347,737.21	2,291,934,275.76
Assets classified as held for sale		
Non-current assets due within one year		
Other current assets	1,882,600,242.55	3,135,369,069.66
Total Current Assets	22,401,146,457.24	19,107,886,996.09
Non-current Assets:		
Loans and advances to customers		
Available-for-sale financial assets	604,313.00	604,313.00
Held-to-maturity investments		
Long-term receivables	64,409,309.10	87,321,837.17
Long-term equity investments		
Investment properties		
Fixed assets	1,696,801,463.40	1,500,415,628.08
Construction in progress	473,205,035.17	28,956,418.82
Materials for construction of fixed assets		
Disposal of fixed assets		
Bearer biological assets		
Oil and gas assets		
Intangible assets	252,637,691.23	96,550,166.58
Development expenditure		
Goodwill	117,860,200.59	117,860,200.59
Long-term prepaid expenses		
Deferred tax assets	134,739,133.13	96,083,495.82
Other non-current assets	312,821,179.80	254,841,255.14
Total Non-current Assets	3,053,078,325.42	2,182,633,315.20
TOTAL ASSETS	25,454,224,782.66	21,290,520,311.29
Current Liabilities:		
Short-term borrowings	934,021,416.18	362,317,989.11
Loans from the central bank		
Customer deposits and deposits from banks and other financial institutions		
Taking from banks and other financial institutions		
Financial liabilities at fair value through profit or loss	12,956,910.89	
Derivative financial liabilities		

ITEM	September 30, 2015	December 31, 2014
Notes payable	372,000,000.00	274,000,000.00
Accounts payable	3,374,064,111.34	3,318,309,615.91
Receipts in advance	406,112,031.34	503,067,411.07
Financial assets sold under repurchase agreements		
Fees and commissions payable		
Employee benefits payable	649,265,144.46	656,094,975.85
Taxes payable	701,115,113.49	394,514,782.17
Interest payable		
Dividends payable	28,678,121.08	4,402,278.98
Other payables	55,284,492.15	51,569,365.92
Amounts payable under reinsurance contracts		
Insurance contract reserves		
Funds from securities trading agency		
Funds from underwriting securities agency		
Liabilities classified as held for sale		
Non-current liabilities due within one year		
Other current liabilities	547,853,280.23	547,853,280.23
Total Current Liabilities	7,081,350,621.16	6,112,129,699.24
Non-current Liabilities:		
Long-term borrowings	1,185,167,759.77	244,760,000.00
Bonds payable		
Including: preference share		
Perpetual debt		
Long-term payables	7,000,000.00	3,000,000.00
Long-term employee benefits payable		
Special payables		
Provisions	44,562,972.02	36,661,164.79
Deferred income		14,812,900.00
Deferred tax liabilities		
Other non-current liabilities		
Total Non-current Liabilities	1,236,730,731.79	299,234,064.79
TOTAL LIABILITIES	8,318,081,352.95	6,411,363,764.03
OWNERS' EQUITY		
Share capital	4,069,128,026.00	4,069,128,026.00
Other equity instruments		
Including: preference share		
Perpetual debt		
Capital reserve	1,598,822,832.70	1,480,046,325.41
Less: Treasury shares	547,853,280.23	547,853,280.23
Other comprehensive income	-21,509,492.17	-8,837,417.46
Special reserve		
Surplus reserve	1,339,597,584.02	1,339,597,584.02
General risk reserve		
Retained profits	10,652,498,019.36	8,510,162,428.31
Total owners' equity attributable to owner of the Issuer	17,090,683,689.68	14,842,243,666.05
Minority interests	45,459,740.03	36,912,881.21
TOTAL OWNERS' EQUITY	17,136,143,429.71	14,879,156,547.26
TOTAL LIABILITIES AND OWNERS' EQUITY	25,454,224,782.66	21,290,520,311.29

Legal Representative: CHEN ZONGNIAN   Person in Charge of the Accounting Body: JIN YAN   Chief Accountant: JIN YAN

5 **Consolidated Income Statement for the period ended September 30, 2015 (Prepared in accordance with PRC GAAP)**

Unit: RMB

ITEM	Nine months ended September 30, 2015	Nine months ended September 30, 2014
I. Total operating income	16,677,638,479.40	10,669,807,845.58
Including: Operating income	16,677,638,479.40	10,669,807,845.58
Interest income		
Premiums earned		
Fee and commission income		
II. Total operating costs	12,999,008,672.07	8,094,277,976.98
Including: Operating costs	9,726,052,589.99	5,677,915,233.64
Interest expenses		
Fee and commission expenses		
Surrenders		
Claims and policyholder benefits (net of amounts recoverable from reinsurers)		
Changes in insurance contract reserves (net of reinsurers' share)		
Insurance policyholder dividends		
Expenses for reinsurance accepted		
Business taxes and levies	119,875,085.67	100,473,866.06
Selling expenses	1,446,377,402.12	1,046,928,112.37
Administrative expenses	1,599,941,807.85	1,181,965,027.46
Financial expenses	-96,964,328.21	-57,449,365.17
Impairment losses of assets	203,726,114.65	144,445,102.62
Add: Gains from changes in fair values (Losses are indicated by "-")	-15,659,210.50	-1,078,610.00
Investment income (Loss is indicated by "-")	93,188,502.30	97,105,528.05
Including: Income from investments in associates and joint ventures		-352,661.41
Foreign exchange gains (Losses are indicated by "-")		
III. Operating profit (Loss is indicated by "-")	3,756,159,099.13	2,671,556,786.65
Add: Non-operating income	705,543,766.23	440,096,128.05
Including: Gains from disposal of non-current assets	104,375.91	331,364.11
Less: Non-operating expenses	24,630,853.06	18,513,483.29
Including: Losses from disposal of non-current assets	402,346.08	471,454.13
IV. Total profit (Total loss is indicated by "-")	4,437,072,012.30	3,093,139,431.41
Less: Income tax expenses	654,171,637.72	371,922,648.92
V. Net profit (Net loss is indicated by "-")	3,782,900,374.58	2,721,216,782.49
Net profit attributable to owners of the Issuer	3,769,986,801.45	2,709,720,516.36
Profit or loss attributable to minority interests	12,913,573.13	11,496,266.13
VI. Other comprehensive income, net of tax	-14,712,623.90	-9,878,384.66
Other comprehensive income attributable to owners of the Issuer, net of tax	-12,672,074.71	-9,461,442.75
(1) Other comprehensive income that will not be reclassified subsequently to profit or loss		
1. Changes as a result of remeasurement of the net defined benefit plan liability or asset		
2. Share of other comprehensive income of the investee under the equity method that will not be reclassified to profit or loss		

ITEM	Nine months ended September 30, 2015	Nine months ended September 30, 2014
(2) Other comprehensive income that will be reclassified subsequently to profit or loss	-12,672,074.71	-9,461,442.75
1. Share of other comprehensive income of the investee under the equity method that will be reclassified subsequently to profit or loss		
2. Gains or losses arising on changes in fair value of available-for-sale financial assets		
3. Gains or losses arising on reclassification of held-to-maturity investments to available-for-sale financial assets		
4. Effective hedging portion of gains or losses on cash flow hedges		
5. Translation differences arising on translation of financial statements denominated in foreign currencies	-12,672,074.71	-9,461,442.75
6. Other		
Other comprehensive income attributable to minority interests, net of tax	-2,040,549.19	-416,941.91
VII. Total comprehensive income	3,768,187,750.68	2,711,338,397.83
Total comprehensive income attributable to owners of the Issuer	3,757,314,726.74	2,700,259,073.61
Total comprehensive income attributable to minority interests	10,873,023.94	11,079,324.22
VIII. Earnings per share		
(I) Basic earnings per share	0.94	0.68
(II) Diluted earnings per share	0.93	0.68

Legal Representative: CHEN ZONGNIAN

Person in Charge of the Accounting Body: JIN YAN

Chief Accountant: JIN YAN

6 Consolidated Cash Flow Statement for the period ended September 30, 2015 (Prepared in accordance with PRC GAAP)

Unit: RMB

ITEM	Nine months ended September 30, 2015	Nine months ended September 30, 2014
I. Cash Flows from Operating Activities:		
Cash receipts from the sale of goods and the rendering of services	14,081,333,470.81	10,042,780,829.65
Net increase in customer deposits and deposits from banks and other financial institutions		
Net increase in loans from the central bank		
Net increase in taking from banks and other financial institutions		
Cash receipts from premiums under direct insurance contracts		
Net cash receipts from reinsurance business		
Net cash receipts from policyholders' deposits and investment contract liabilities		
Net cash receipts from disposal of financial assets at fair value through profit or loss		
Cash receipts from interest, fees and commissions		
Net increase in taking from banks		
Net increase in financial assets sold under repurchase arrangements		
Receipts of tax refunds	1,216,688,191.17	746,608,273.90
Other cash receipts relating to operating activities	228,167,148.84	119,214,350.87
Sub-total of cash inflows from operating activities	15,526,188,810.82	10,908,603,454.42
Cash payments for goods purchased and services received	11,469,469,061.58	6,980,383,083.80
Net increase in loans and advances to customers		
Net increase in balance with the central bank and due from banks and other financial institutions		
Cash payments for claims and policyholders' benefits under direct insurance contracts		
Cash payments for interest, fees and commissions		
Cash payments for insurance policyholder dividends		
Cash payments to and on behalf of employees	1,790,022,855.48	1,324,745,225.55
Payments of various types of taxes	1,573,890,555.10	1,198,830,135.31
Other cash payments relating to operating activities	1,377,991,803.08	1,072,584,558.94
Sub-total of cash outflows from operating activities	16,211,374,275.24	10,576,543,003.60
Net Cash Flow from Operating Activities	-685,185,464.42	332,060,450.82
II. Cash Flows from Investing Activities:		
Cash receipts from disposals and recovery of investments	3,033,000,000.00	4,230,550,000.00
Cash receipts from investment income	91,192,970.31	97,458,189.46
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets	3,438,516.44	1,377,510.14
Net cash receipts from disposals of subsidiaries and other business units		
Other cash receipts relating to investing activities	9,000,000.00	
Sub-total of cash inflows from investing activities	3,136,631,486.75	4,329,385,699.60
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets	955,163,382.78	455,391,362.51
Cash payments to acquire investments	1,719,000,000.00	4,949,411,111.11
Net increase in pledged loans receivables		
Net cash payments for acquisitions of subsidiaries and other business units		
Other cash payments relating to investing activities		
Sub-total of cash outflows from investing activities	2,674,163,382.78	5,404,802,473.62
Net Cash Flow from Investing Activities	462,468,103.97	-1,075,416,774.02

ITEM	Nine months ended September 30, 2015	Nine months ended September 30, 2014
III. Cash Flows from Financing Activities:		
Cash receipts from capital contributions		
Including: cash receipts from capital contributions from minority owners of subsidiaries		
Cash receipts from borrowings	3,413,681,126.05	2,606,171,006.00
Cash receipts from issue of bonds		
Other cash receipts relating to financing activities.	175,468,647.56	120,612,853.33
Sub-total of cash inflows from financing activities	3,589,149,773.61	2,726,783,859.33
Cash repayments of borrowings	1,762,089,129.73	1,926,155,594.59
Cash payments for distribution of dividends or profits or settlement of interest expenses	1,624,279,986.22	1,022,557,030.32
Including: payments for distribution of dividends or profits to minority owners of subsidiaries		
Other cash payments relating to financing activities.	146,402,374.95	106,658,685.81
Sub-total of cash outflows from financing activities.	3,532,771,490.90	3,055,371,310.72
Net Cash Flow from Financing Activities	56,378,282.71	-328,587,451.39
IV. Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents.	32,675,360.39	-4,362,689.12
V. Net Increase in Cash and Cash Equivalents	-133,663,717.35	-1,076,306,463.71
Add: Opening balance of Cash and Cash Equivalents	7,111,254,725.60	4,584,132,819.21
VI. Closing Balance of Cash and Cash Equivalents	6,977,591,008.25	3,507,826,355.50

ISSUER

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