

Hangzhou Hikvision Digital Technology Co., Ltd.

2018 Interim Report  
January to June 2018

***HIKVISION***

July 21<sup>st</sup> 2018

## Section I Important Notes, Contents and Definitions

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

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

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

The half year proposal of profit distribution and share distribution from capital reserve passed upon deliberation at the meeting of the Board of Directors (not applicable): The Company will not distribute cash dividend, distribute bonus share, or distribute shares from capital reserve during the current reporting period.

### **Note:**

This document is a translated version of the Chinese version 2018 Half Year Financial Report (“2018 年半年度报告”), and the published announcements in the Chinese version shall prevail. The complete published Chinese 2018 Half Year Financial Report may be obtained at [www.cninfo.com.cn](http://www.cninfo.com.cn).

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

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

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

## CONTENTS

Section I Important Notes, Contents and Definitions .....	1
Section II Corporate Profile & Key Financial Data .....	5
Section III Corporate Business Summary .....	10
Section IV Operation Discussion and Analysis .....	11
Section V Significant Events .....	26
Section VI Changes in Shares and Information about Shareholders.....	40
Section VII Information of Preferred Shares .....	48
Section VIII Information about Directors, Supervisors, Senior Management .....	49
Section IX Corporate Bonds .....	54
Section X Financial Report .....	55
Section XI Documents Available for Reference .....	159

## Definitions

Term	Definition
Reporting Period	From January 1 <sup>st</sup> 2018 to June 30 <sup>th</sup> 2018
Articles of Associations	<i>Articles of Associations for Hangzhou Hikvision Digital Technology Co., Ltd</i>
Hikvision, our Company, the Company	Hangzhou Hikvision Digital Technology Co., Ltd
CETHIK	CETHIK Group Co., Ltd. Controlling Shareholder of the Company
Security Industrial Base (Tonglu)	Located in Tonglu economic development area, Hangzhou, Zhejiang province, purposes for production factories, warehousing logistics center. Initially disclosed in <i>Announcement about the Company's Investment in Tonglu to Set up Wholly Owned Subsidiary and New Hikvision Security Industry Base (Tonglu) Project</i> (《关于在桐庐投资设立全资子公司及新建海康威视安防产业基地（桐庐）项目的公告》) (NO. 2014-044).
Chongqing Manufacture Base	Located in Chongqing, purposes for manufacturing facility, initially disclosed in <i>Announcement about Resolution of the 20<sup>th</sup> Meeting of the 3<sup>rd</sup> Session Board</i> (No: 2016-068)
Innovative Business	<p>A long investment cycle, business prospects uncertain, has the high risk and uncertainty, in need for direct or indirect investment in exploration, in order for the Company to timely enter into new areas of business. Initially disclosed in <i>Announcement about Management Measures for Core Staff Investment in Innovative Business</i> (《核心员工跟投创新业务管理办法》) (<a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a>)</p> <p>In this report, innovative business also refers to Ezviz, Hikvision Robotics, Hikvision Automotive Technology, Hikvision Weiyang, Hikvision Storage, and their related business or products.</p>
Euro Bond	The Company publicly issued the bond with nominal value amounting to Euro 400 million; and the bond was settled, listed and traded on the Irish Stock Exchange on February 18 <sup>th</sup> 2016. For details, please refer to <i>Announcement about Issuing Foreign Currency Bond</i> (《关于境外发行外币债券的进展公告》) (NO. 2016-004)

## Section II Corporate Profile & Key Financial Data

### I. Corporate Information

Stock abbreviation	HIKVISION	Stock code	002415
Stock exchange where the shares of the Company are listed	Shenzhen Stock Exchange		
Name of the Company in Chinese (if any)	杭州海康威视数字技术股份有限公司		
Abbr. of the Company name in Chinese	海康威视		
Name of the Company in English (if any)	HANGZHOU HIKVISION DIGITAL TECHNOLOGY CO., LTD		
Abbr. of the Company name in English (if any)	HIKVISION		
Legal representative	Chen Zongnian		

### II. Contacts and contact information

	Board Secretary	Securities Affairs Representative
Name	Huang Fanghong	Li Yi
Address	No. 518 WuLianWang Street, Binjiang District, Hangzhou	No. 518 WuLianWang Street, Binjiang District, Hangzhou
Tel.	0571-89710492	0571-89710492
Fax	0571-89986895	0571-89986895
E-mail	hikvision@hikvision.com	hikvision@hikvision.com

### III. Other Relevant Information

#### 1. Company's contact information

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

Applicable Inapplicable

Registered address	No. 555 Qianmo Road, Binjiang District, Hangzhou
Postal code of Registered address	310051
Business address	No. 518 WuLianWang Street, Binjiang District, Hangzhou
Postal code of Business address	310051
Company website	www.hikvision.com
E-mail	market@hikvision.com; ir@hikvision.com

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

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

Applicable  Inapplicable

The newspaper designated by the Company for information disclosure, website specified by CSRC for release of the half-year report, and the place where the half-year report is available for inspection have not changed during the reporting period, Please refer to 2017 Annual Report for details.

## IV. Key accounting data and Financial Indicators

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

Yes  No

Unit: RMB

	2018 First Half Year	2017 First Half year	YoY Change (%)
Operating income (RMB)	20,875,758,224.63	16,447,539,736.52	26.92%
Net profits attributable to shareholders of the Company (RMB)	4,147,395,535.86	3,291,546,056.70	26.00%
Net profits attributable to shareholders of the Company excluding non-recurring gains and losses (RMB)	4,009,270,961.25	3,189,866,218.86	25.69%
Net cash flows from operating activities (RMB)	-1,621,193,358.00	-1,942,800,802.42	16.55%
Basic earnings per share (RMB/share)	0.449	0.357	25.77%
Diluted earnings per share (RMB/share)	0.449	0.357	25.77%
Weighted average ROE	13.08%	12.98%	0.10%
	At June 30 <sup>th</sup> 2018	At December 31 <sup>st</sup> 2017	YoY Change (%)
Total assets (RMB)	50,019,711,616.85	51,570,963,466.61	-3.01%
Net assets attributable to shareholders of the Company (RMB)	30,013,518,648.59	30,358,072,874.22	-1.13%



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

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

Applicable  Inapplicable

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

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

Applicable  Inapplicable

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

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

Applicable  Inapplicable

Unit: RMB

Item	Amount
Profit or loss from disposal of non-current assets (including the write-off for the impairment of assets)	3,763,578.84
The government subsidies <sup>1</sup> included in the current profits and losses (excluding the government subsidy closely related to regular course of business of the Company and government subsidy based on standard quota or quantitative continuous application according to the state industrial policy.)	32,403,527.17
Held-to-maturity financial assets, profits and losses of fair value held-for-trading financial liabilities, and investment income in disposal of held-for-trading financial assets and liabilities and available-for sale financial assets excluding the effective hedging business related to the regular business operation of the Company.	69,626,477.45
Other non-operating income and expenditures except the items mentioned above	57,609,365.54
Less: Impact of income tax	24,177,242.28
The impact of the minority interests (after tax)	1,101,132.11
Total	138,124,574.61

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

<sup>1</sup> Please refer to Note (V) 46 for details about government subsidy, which is closely related to daily operations of the Company.

aforementioned note as a recurrent gain/loss item

Applicable  Inapplicable

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

## Section III Corporate Business Summary

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

There is no significant change for the principal business of the Company during the reporting period. Please refer to 2017 Annual Report for details.

### II. Significant changes in main assets

#### 1. Major Changes in Main Assets

Major assets	Explanation on Major Changes
Equity Assets	No significant changes
Fixed Assets	Increased by 34.76%, mainly due to the transfer of Internet Security Industry Base into fixed assets after completion.
Intangible Assets	Increased by 86.37%, mainly due to purchase of land for Chengdu Science and Technology Base project.
Construction in Progress	Decreased by 50.87%, mainly due to the transfer of Internet Security Industry Base into fixed assets after completion.

#### 2. Major Overseas Assets

Applicable  Inapplicable

### III. Core Competitiveness

There is no significant change for the core competitiveness of the Company during the reporting period. Please refer to 2017 Annual Report for details.

## Section IV Operation Discussion and Analysis

### I. Overview

During the first half year of 2018, facing geopolitical headwinds domestically and overseas, the Company focused on technology innovation, adhered to customer orientation, continued investment in research and development (R&D). Meanwhile, the Company continued to promote its core video businesses, enhance the Company's management ability and maintain a healthy balance between scale growth and profitability level, according to the middle-to-long term strategic plan. During the reporting period, the Company achieved total operating income of RMB 20.88 billion, representing a 26.92 percent increase compared to the first six months of 2017; and net profit attributable to shareholders of the listed company of RMB 4.15 billion, up 26.00 percent on a year-over-year basis.

#### 1. Continues to increase R&D investments, promote core video businesses

During the reporting period, with the rapid development of Artificial Intelligence (AI) technology, the Company devotes itself to continue its research and development of AI technology and applications. Under the AI Cloud framework of “edge perception, on-demand (data) convergence, multi-layered cognition, multi-tier application”, the Company cooperates with numerous partners from different markets to promote development of the Internet of Things (IoT) industry.

#### 2. Continue global market expansion, actively cope with trade protectionism

The Company continued to increase investments in overseas marketing, strengthened localized marketing and service capabilities, optimize the global marketing and sales network, and further expanded and developed the global market. While the risk of uncertainties in the international environment is ongoing, the Company seeks to maintain steady and healthy growth through adopting targeted regional strategies.

#### 3. Continue to optimize domestic sales and marketing network to support business expansion

In domestic market, in order to optimize the domestic sales and marketing network, the company facilitated the marketing strategy of delivering resource downward, allowing regional offices to well support their business as well as to improve business efficiency. In the channel market, the company strengthened sales supervision with regulation and standardization.

#### 4. Continue to promote management reform and optimize organizational capabilities

The Company continues to make effort on management reform, optimizing organizational capabilities, improving operational efficiency, and further enhance its capability to create value for customers. The Company is committed to promoting a strong corporate culture that promotes professional and business growth of both employees and the Company.

## II. Core business analysis

### 1. Overview

Whether consistent with the overview disclosure under Operation Discussion and Analysis

yes  no

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

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

Unit: RMB

	2018 First Half Year	2017 First Half Year	YoY Change (%)	Note of Change
Operating Income	20,875,758,224.63	16,447,539,736.52	26.92%	Operating Income increased with the steady increase of market demands.
Operating costs	11,586,298,826.07	9,420,695,024.84	22.99%	Increase with the operating income growth
Selling expenses	2,649,393,264.42	1,726,924,956.22	53.42%	Selling expenses increase with the Company's continuous increasing investments on domestic and overseas sales network
Administrative expenses	2,503,531,051.09	1,761,709,877.13	42.11%	The operation scale expands, and the R&D investment increases
Financial expense	-158,521,317.81	65,500,627.65	-342.01%	Affected by the increase in interest income and the fluctuation in foreign exchange rate, increase in foreign currency exchange gains
Income Tax Expenses	665,802,758.48	568,658,390.85	17.08%	Increase with the profit growth
R&D investments	1,912,682,599.24	1,454,783,663.94	31.48%	The Company continues to increase investments in R&D
Net Cash Flow from Operating Activities	-1,621,193,358.00	-1,942,800,802.42	16.55%	Increase in collection of accounts receivable for sales
Net Cash Flow from	986,123,427.08	3,188,919,897.38	-69.08%	Significant amount of collection of

	2018 First Half Year	2017 First Half Year	YoY Change (%)	Note of Change
Investment Activities				matured principal-guaranteed financial products in 2017 first half year (prior year same period).
Net Cash Flow from Financing Activities	-2,425,626,823.45	-2,109,983,475.35	-14.96%	Increase in distribution of dividends
Net increase in cash and cash equivalents	-3,062,665,051.63	-995,983,078.72	-207.50%	Significant amount of collection of matured principal-guaranteed financial products in 2017 first half year (prior year same period).

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

Applicable  Inapplicable

There is no such case during the reporting period.

## Operating income structure

Unit: RMB

	2018 First Half Year		2017 First Half Year		YoY Change (%)
	Amount	Proportion to operating income	Amount	Proportion to operating income	
Total operating income	20,875,758,224.63	100.00%	16,447,539,736.52	100.00%	26.92%
Classified by industry					
Video products and video services	20,875,758,224.63	100.00%	16,447,539,736.52	100.00%	26.92%
Classified by product					
Front-end equipment	10,285,314,406.66	49.27%	8,471,727,239.99	51.51%	21.41%
Back-end equipment	2,994,583,467.04	14.34%	2,581,996,973.35	15.70%	15.98%
Central control equipment	2,798,476,654.30	13.41%	1,893,438,540.55	11.51%	47.80%
Constructions	1,077,104,977.68	5.16%	428,858,036.85	2.61%	151.16%
Others	2,613,813,622.58	12.52%	2,457,693,523.55	14.94%	6.35%
<b>Subtotal</b>	19,769,293,128.26	94.70%	15,833,714,314.29	96.27%	24.86%
Smart home business	725,865,396.10	3.48%	459,861,958.09	2.80%	57.84%
Other innovative businesses	380,599,700.27	1.82%	153,963,464.14	0.93%	147.20%
<b>Subtotal</b>	1,106,465,096.37	5.30%	613,825,422.23	3.73%	80.26%

	2018 First Half Year		2017 First Half Year		YoY Change (%)
	Amount	Proportion to operating income	Amount	Proportion to operating income	
Classified by region					
Domestic	14,580,485,895.05	69.84%	11,478,885,424.15	69.79%	27.02%
Overseas	6,295,272,329.58	30.16%	4,968,654,312.37	30.21%	26.70%

Note: "Other innovative businesses" includes corresponding business products of innovative business subsidiaries - Hikvision Robotics, and Hikvision Automotive Technology, Hikvision Weiyang, Hikvision Storage, and Similar hereinafter.

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

√ Applicable □ Inapplicable

Unit: RMB

	Operating income	Operating cost	Gross margin	YoY Change (%) of operating income	YoY Change (%) of operating cost	YoY Change (%) of gross margin
Classified by industry						
Video products and video services	20,875,758,224.63	11,586,298,826.07	44.50%	26.92%	22.99%	1.78%
Classified by product						
Front-end equipment	10,285,314,406.66	5,171,808,124.76	49.72%	21.41%	19.42%	0.84%
Back-end equipment	2,994,583,467.04	1,618,843,751.15	45.94%	15.98%	22.81%	-3.01%
Central control equipment	2,798,476,654.30	1,314,431,389.49	53.03%	47.80%	26.89%	7.74%
Constructions	1,077,104,977.68	921,303,977.95	14.46%	151.16%	137.65%	4.86%
Others	2,613,813,622.58	1,863,871,939.74	28.69%	6.35%	-3.69%	7.43%
<b>Subtotal</b>	19,769,293,128.26	10,890,259,183.09	44.91%	24.86%	20.90%	1.80%
Smart home business	725,865,396.10	462,125,654.34	36.33%	57.84%	49.07%	3.75%
Other innovative businesses	380,599,700.27	233,913,988.64	38.54%	147.20%	127.20%	5.41%
<b>Subtotal</b>	1,106,465,096.37	696,039,642.98	37.09%	80.26%	68.55%	4.37%
Classified by region						
Domestic	14,580,485,895.05	8,054,514,491.59	44.76%	27.02%	16.42%	5.03%
Overseas	6,295,272,329.58	3,531,784,334.48	43.90%	26.70%	41.14%	-5.74%

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

Applicable  Inapplicable

### Explanations on relevant data changed for more than 30% on a year-over-year base

Applicable  Inapplicable

	YoY Change (%) of operating income	YoY Change (%) of operating cost	Note on YoY change (%) above 30%
Classified by product			
Central control equipment	47.80%	28.69%	In the category of central control equipment, the income of data center products and software increases
Constructions	151.16%	137.65%	As the number of system integration projects increases, the income and cost of project construction increase synchronously
Smart home business	57.84%	49.07%	The smart home business is developing rapidly, with revenue and cost increasing simultaneously
Other innovative businesses	147.20%	127.20%	Other innovative businesses are growing rapidly
Classified by region			
Overseas	26.70%	41.14%	Exchange rate fluctuation and overseas product structure change lead to the growth rate of overseas operating costs higher than the overseas income growth rate.

### III. Non-Core Business Analysis

Applicable  Inapplicable



#### IV. Analysis of assets and liabilities

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

Unit: RMB

	June 30 <sup>th</sup> 2018		December 31 <sup>st</sup> 2017		YoY Change (%)	Note of significant change
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Cash and bank balances	13,751,564,452.20	27.49%	16,468,430,702.64	31.93%	-4.44%	No significant change
Accounts receivable	16,949,626,312.71	33.89%	14,705,210,072.81	28.51%	5.38%	Increase with the increase in sales revenue
Inventory	5,507,182,528.93	11.01%	4,940,332,311.65	9.58%	1.43%	No significant change
Long-term equity investment	160,012,824.27	0.32%	130,474,733.58	0.25%	0.07%	No significant change
Fixed assets	4,075,143,444.28	8.15%	3,024,025,496.31	5.86%	2.29%	Mainly due to the transfer of Internet Security Industry Base into fixed assets after completion.
Construction in process	705,731,687.16	1.41%	1,436,319,118.30	2.79%	-1.38%	
Short-term loans	3,396,803,881.03	6.79%	97,114,655.91	0.19%	6.60%	Increased Short-term borrowing used for temporary capital turnover
Long-term loans	190,000,000.00	0.38%	490,000,000.00	0.95%	-0.57%	Long-term loans were repaid at maturity

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

Applicable  Inapplicable

Unit: RMB

Item	Opening balance	Profit or loss from change in fair value during the period	Difference on translation of financial statements dominated in foreign currency	Provision for decline in value during the current period	Purchase during the period	Sales during the period	Closing balance
<b>Financial assets</b>							
1. Financial assets at fair value through profits and losses(exclude derivative financial assets)	4,100,657.54	16,449,323.23					20,549,980.77
<b>Financial Liabilities</b>	15,946,836.46	-22,551,871.25	2,630.29				38,501,338.00

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

Yes  No

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

None

**V. Analysis of Investments**

**1. Overview**

Applicable  Inapplicable

Investment during 2018 First Half Year (RMB)	Investment during 2017 First Half Year (RMB)	Fluctuation (%)
945,650,502.12	809,644,383.18	16.80%

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

Applicable  Inapplicable

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

Applicable  Inapplicable

Unit: RMB

Project name	Invest method	Fixed assets investment or not	Project industry	Investment during the current reporting period	Cumulative amount of investment by the end of reporting period	Source of funds	Project schedule
Security Industrial Base (Tonglu) phase 2	Self-built	YES	Video product and video service	70,144,256.02	370,833,169.98	Bond	69.00%
Chongqing Manufacture Base	Self-built	YES	Video product and video service	81,633,434.51	171,027,046.32	Self-fund	67.00%
Total	--	--	--	151,777,690.53	541,860,216.30	--	--

### 4. Financial assets measured at fair values

Applicable  Inapplicable

Unit: RMB

Category	Initial investment cost	Current profits or losses on the changes in fair value	Purchase during the reporting period	Cumulative investment income	Closing balance	Source of funds
Derivative instruments	1,400,293,692.23	-6,102,548.02	6,763,085,343.78	-2,018,145.43	2,372,393,794.45	Company's own funds
Total	1,400,293,692.23	-6,102,548.02	6,763,085,343.78	-2,018,145.43	2,372,393,794.45	--

### 5. Securities Investments

Applicable  Inapplicable

No such case in the reporting period.

### 6. Derivatives Investments

Applicable  Inapplicable

No such case in the reporting period.

**7. Use of raised funds**

Applicable  Inapplicable

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

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

Applicable  Inapplicable

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

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

Applicable  Inapplicable

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

**2. Sale of significant equity:**

Applicable  Inapplicable

## VII. Analysis of major subsidiaries and investees

√ Applicable □ Inapplicable

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

Unit: RMB

Company name	Company type	Principal business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Hangzhou Hikvision System Technology Co., Ltd.	Subsidiary	<u>Manufacturing</u> : video surveillance system; <u>Technology development and service</u> : computer system integration, electronic product, communication product; <u>service</u> : the installation of electric security engineering, the design, construction and maintenance of intelligent system; selling its self-produced products, import and export its own products and technology.	600 million	4,156,311,514.88	1,217,816,653.36	1,641,898,662.44	73,734,226.54	62,412,604.43
Hangzhou Hikvision Science and Technology Co. Ltd.	Subsidiary	<u>Manufacturing</u> : security electronic product, intelligent hardware electronic products, explosion-proof electric products., IC card and IC card RW device, mobile phone, cordless phone, handheld wireless police terminal, hand held mobile police terminal; <u>technology development, technology consulting, results transferring</u> : computer software, electronic product, communication product, digital security product; <u>wholesale</u> : security electronic product and its auxiliary equipment, intelligent hardware electronic product, explosion-proof electrics, security electronic product and its auxiliary equipment, intelligent hardware electronic product, explosion-proof electrics, IC card and IC card RW device, mobile phone, cordless phone, handheld wireless police terminal, hand held mobile police terminal;; import and export business	1000 million	26,881,127,646.92	2,193,176,674.65	19,102,322,131.27	113,451,802.21	199,136,942.96

Information about obtaining and disposal of subsidiaries during the reporting period

Applicable  Inapplicable

Company name	Equity acquisition and disposal method during the reporting period	Impact on overall production results
Xi'an Hikvision Digital Technology Ltd.	Cash contribution	Business development
Wuhan Hikvision Science and Technology Ltd.	Cash contribution	Business development
Wuhan Hikvision Technology Ltd.	Cash contribution	Business development
Xi'an Hikvision System Technology Ltd.	Cash contribution	Business development
Hangzhou Huiying Technology Ltd.	Cash contribution	Business development
Yu Tian Hai Shi Mei Tian Electronic Technology Ltd.	Cash contribution	Business development
Luo Pu District Hai Shi Ding Xin Electronic Technology Ltd.	Cash contribution	Business development
Beijing Hikvision Security and Protection Technology Service Ltd.	Liquidation and Cancellation	Adjustments of organizational framework

### VIII. Structural entities controlled by the Company

Applicable  Inapplicable

### IX. Guidance on the Company's operational result from January 1<sup>st</sup> 2018 to September 30<sup>th</sup> 2018

Guidance on the Company's operational performance during January 1<sup>st</sup>, 2018 to September 30<sup>th</sup>, 2018: Net profits attributable to shareholders of the Company are positive, and situation of turning losses into gains is not applicable.

Estimated YoY change (%) of net profits attributable to shareholders of the Company from January 1 <sup>st</sup> , 2018 to September 30 <sup>th</sup> , 2018	15.00%	to	35.00%
Estimated variation interval of net profits attributable to shareholders of the Company from January 1 <sup>st</sup> , 2018 to September 30 <sup>th</sup> , 2018 (0,000 RMB)	707,573.63	to	830,629.92
Net profits attributable to shareholders of the Company from January 1 <sup>st</sup> , 2017 to September 30 <sup>th</sup> , 2017 (0,000 RMB)	615,281.42		
Note of change in operational results	The Company's operating performance continues to have a steady and healthy growth.		

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

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

(1) **Risk of technology upgrade:** Through continuous R&D investments, the Company investigates frontier

technologies and keeps its competitiveness in core technology. Through steady and reliable R&D management, the Company has developed an efficient R&D system that addresses market needs, can rapidly respond to market demand for products and technologies, and achieve sustainable development.

**(2) Risk of cyber-security:** The Company has always been dedicated to enhancing the security of its product and system. The Company built a professional cybersecurity team and established a cybersecurity department, and it has instituted a complete product security assurance system. To ensure continuous improvement to product and system security, and provide more secured product and solutions to customers using the Internet/IoT applications, the Company has built cybersecurity demand, cybersecurity design, cybersecurity development, and cybersecurity testing into its product development procedure.

**(3) Risk of foreign exchange fluctuation:** The Company pays attention to risk management of foreign exchange risk, and manages foreign exchange risk by means of centralized management of foreign currency funds, purchase and payment on hedging products. For foreign exchange risk exposure, the Company actively applies financial hedging tools, not for the purpose of speculation, to realize reasonable risk management.

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

**(5) Risk of global market expansion:** The Company continues to increase investments in global market localization, and strengthen the capability of localized sales and marketing. Meanwhile, the Company actively studies and researches regional laws and regulations and major changes in regional policies in various countries around the world, so as to formulate countermeasures in advance and reduce various trade compliance risks that might occur.

**(6) Risk of local debt:** In the process of signing and implementing PPP (Public-Private Partnership) and other types of local government finance projects, the Company endeavors to reduce risks through prudent evaluation and reasonable control.

**(7) Risk of intellectual property (IP) rights:** The Company has established a full-time IP rights team to conduct daily management and protection of IP rights, such as trademarks and patents. Through various legal means, such as administrative investigation, court proceedings and so on, the company will accurately combat acts that violate the company's IP rights.

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

√ Applicable □ Inapplicable

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

Time of reception	Method of reception	Type of reception object	Basic situation of the research
From January 1 <sup>st</sup> 2018 to February 2 <sup>nd</sup> 2018	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From January 1<sup>st</sup> 2018 to February 2<sup>nd</sup> 2018</i>
From February 5 <sup>th</sup> 2018 to March 2 <sup>nd</sup> 2018	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From February 5<sup>th</sup> 2018 to March 2<sup>nd</sup> 2018</i>
From March 5 <sup>th</sup> 2018 to March 16 <sup>th</sup> 2018	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From March 5<sup>th</sup> 2018 to March 16<sup>th</sup> 2018</i>
April 23 <sup>rd</sup> 2018	Annual performance result Conference Call	Institutional and individual investors	CNINF, <i>Investor Relations Activity Record: April 23<sup>rd</sup> 2018</i>
May 11 <sup>th</sup> 2018	Investor Reception Day	Institutional and individual investors	CNINF, <i>Investor Relations Activity Record: May 11<sup>th</sup> 2018</i>
From May 14 <sup>th</sup> 2018 to May 25 <sup>th</sup> 2018	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From May 14<sup>th</sup> 2018 to May 25<sup>th</sup> 2018</i>
From May 28 <sup>th</sup> 2018 to June 8 <sup>th</sup> 2018	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From May 28<sup>th</sup> 2018 to June 8<sup>th</sup> 2018</i>
From June 11 <sup>th</sup> 2018 to June 22 <sup>nd</sup> 2018	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From June 11<sup>th</sup> 2018 to June 22<sup>nd</sup> 2018</i>



**(2) Participation of conferences for investor relationship activities during the reporting period.**

Time of conference	Location	Conference Name	Type of reception object	Method of reception
January 2018	Shanghai	Ever-Bright Securities 2018 Investment Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2018	Las Vegas	Nomura@CES 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2018	Beijing	Morgan Stanley China TMT Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2018	Beijing	16th Annual DBAccess China Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2018	New York	Bank of America Merrill Lynch 2018 A-share Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2018	New York-Boston	US NDR- via Bank of America Merrill Lynch	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2018	Hong Kong	CICC TMT Forum 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
March 2018	Taipei	Bank of America Merrill Lynch APAC TMT Conference 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2018	Hangzhou	Haitong Securities 2018 Spring Corporate Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Los Angeles	Jefferies Technology conference 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	NYC-SFO	US NDR- via Jefferies	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Beijing	JP Morgan Global China Summit	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Shenzhen	CICC Industrial Internet Forum	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Hong Kong	BNP 2018 TMT Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Hong Kong	Macquarie Greater China Conference 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Shenzhen	HSBC 5th Annual China Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Hangzhou	23 <sup>rd</sup> CLSA China Forum	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Hongkong	Goldman Sachs TechNet Conference 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Beijing	Morgan Stanley 4th Annual China Summit	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2018	Chengdu	Essence Securities 2018 Mid-Year Investment Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2018	Beijing	Huatai Securities Mid-Year Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.

Time of conference	Location	Conference Name	Type of reception object	Method of reception
June 2018	London-Paris- Geneva-Zurich	Europe NDR-via CLSA	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.

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

Number of daily research received (Site and telephone conference, times)	156
Number of institutional investors received (ppl)	1593
Number of individual investors received (ppl)	47
Number of investor relations conference participated	22

## Section V Significant Events

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

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

Meeting	Nature	Proportion of participating investors	Convened Date	Disclosure Date	Disclosure Index
2018 First Extraordinary General Meeting	Extraordinary General Meeting	70.80%	March 7 <sup>th</sup> 2018	March 8 <sup>th</sup> 2018	No. 2018-011; www.cninfo.com.cn
2017 Annual General Meeting	Annual General Meeting	73.66%	May 11 <sup>th</sup> 2018	May 12 <sup>th</sup> 2018	No. 2018-032; www.cninfo.com.cn

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

Applicable  Inapplicable

### II. Profit distribution of ordinary shares and capitalization of capital reserves plan or proposal for the reporting period

Applicable  Inapplicable

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

### III. Performance of commitments

#### 1. Complete and incomplete commitments of the Company and its actual controller, shareholders, related parties, acquirers, and other related parties for the commitments by the end of the reporting period.

√ Applicable □ Inapplicable

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

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

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		<p>operations which is independent from that of CETHIK.</p> <p>3.5 Commitment to business Independence of the listed Company</p> <p>(1) The Company has the asset, personnel, aptitude and management capability for independent and complete business operation. The Company has the ability to operate independently in the market.</p> <p>(2) Commitment in independence in both business and operations</p> <p>4. Regarding plans for the development and relevant commitment for the listed Company, Haikang Group has committed as below for the subsequent development of Hikvision according to the Securities Acts and relevant laws and rules,</p> <p>4.1 Currently the Company has no plan to change or make significant adjustments for principal business in the next 12 months;</p> <p>4.2 Currently the Company has no plan to sell, merge or operate with another Company for the assets and business of the listed Company or its subsidiaries in the next 12 months.</p> <p>4.3 Currently the Company has no plan to alter the Board of the Directors and senior management and no agreement with other shareholders about the appointment and removal of the directors or senior management. The team of Board of Directors and senior management will remain unchanged for the foreseeable future.</p> <p>4.4 Currently the Company has no plan to make significant changes to the Articles of Association for the listed Company.</p> <p>4.5 Currently the Company has no plan to make significant changes to the</p>			

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		<p>existing employee recruitment for the listed Company.</p> <p>4.6 Currently the Company has no plan to make significant changes for the dividend distribution plan for the listed Company.</p> <p>4.7 Currently the Company has no plan to make significant changes for business and organizational structure for the listed Company.</p>			
Commitments in Initial Public Offering or re-financing	Hangzhou Weixun Investment Management Limited Partnership (later renamed as Xinjiang Weixun Investment Management Limited Partnership)	During Hu Yangzhong, Wu Weiqi, Jiang Haiqing, Zhou Zhiping, Xu Lirong, Cai Dingguo, He Hongli, Zheng Yibo, Hu Dan, Jiang Yufeng, Liu Xiang, Wang Ruihong, Chen Junke's tenure of the Company's board of directors, supervisors and senior management personnel, the annual transfer of Hikvision's total shares should not exceed 25% of total number of shares held under Weixun; within 6 months after abovementioned personnel's dimission, should not transfer Hikvision's shares held under Weixun.	May 17 <sup>th</sup> 2010	Long term	Strict performance
	Hangzhou Pukang Investment Limited Partnership (later renamed as Xinjiang Pukang Investment Limited Partnership)	During Hu Yangzhong, Wu Weiqi, Gong Hongjia's tenure of the Company's board of directors, supervisors and senior management personne, the annual transfer of Hikvision's total shares should not exceed 25% of total number of shares held under Pukang; whithin 6 months after abovementioned personnel's dimission, should not transfer Hikvision's shares held under Pukang.	May 17 <sup>th</sup> 2010	Long term	Strict performance
	The Company's directors, supervisors and executive: Hu Yangzhong, Wu Weiqi, Jiang Haiqing, Zhou Zhiping, Xu Lirong, Cai	During their tenure of the Company's board of directors, supervisors and senior management personnel, the annual shares transfer should not exceed 25% of total number of shares held	May 17 <sup>th</sup> 2010	Long term	Strict performance

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



Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
Whether the undertaking is fulfilled in time		Yes			

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

Whether the half year report was audited

Yes  No

The Company’s half year report was not audited.

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

Applicable  Inapplicable

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

Applicable  Inapplicable

**VII. Bankruptcy and restructuring**

Applicable  Inapplicable

No such case in the reporting period.

**VIII. Material litigation and arbitration**

Material litigation and arbitration

Applicable  Inapplicable

No such case in the reporting period.

Other litigations

Applicable  Inapplicable

**IX. Media queries**

Applicable  Inapplicable

There was no prevalent media query during the reporting period.

**X. Punishments and rectifications**

Applicable  Inapplicable

No such case in the reporting period.

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

Applicable  Inapplicable

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

Applicable  Inapplicable

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

On December 15<sup>th</sup> 2017, *Resolution for the fulfillment of the unlocking conditions of the Second unlock period for the 2014 Restricted Share Incentive Schemes* and the *Resolution for the Second repurchase and cancelation of the locked shares that already granted for 2014 Restricted Share Incentive Schemes* were approved by the 26<sup>th</sup> meeting of the third Board. Authorized by the first extraordinary general meeting for 2014, a total of 33,803,907 restricted shares of 1068 grantees were vested and circulated on January 8<sup>th</sup> 2018. Meanwhile, 1,594,641 restricted shares held by a portion of grantees not fulfilling the incentive conditions were repurchased and cancelled. On March 27<sup>th</sup> 2018, repurchase and cancelation process of the restricted shares was complete. Thereafter, there are 1072 grantees left for 2014 Restricted Share Incentive Schemes, granted and locked shares leftover are 33,932,161 shares.

For details, please refer to in the *Indicative Notice of Listing the Unlocked Shares during the Second Unlocking Period of 2014 Restricted Share Incentive Schemes* (No. 2018-002) and the *Notice of the Completion of Second Repurchase and Cancelation of Locked Shares that Already Granted for 2014 Restricted Share Incentive Schemes* (No. 2018-017) issued on January 5<sup>th</sup> 2018 and March 29<sup>th</sup> 2018 respectively.

By the end of the reporting period, the Company has a total of 112,422,448 granted and restricted shares, accounts for 1.22% of the Company's total share capital.

### XIII. Significant related-party transaction

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

√ Applicable □ Inapplicable

Related party	Relationship	Type of related transaction	Content of related transaction	Valuation	Trading Amount (0'000 RMB)	Proportion to the amount of similar transactions.	Approved trading quota (0'000 RMB)	Whether above approved quota	Settlement method	Disclosure date	Disclosure reference
Subsidiaries of CETC	Under the common control of the Company's actual controller.	Procurement	Purchase materials, receiving services	Reference market price; Agreed on price	15,349.53	1.24%	50,000	No	Payment on delivery	April 21 <sup>st</sup> 2018	Announcement on projections on 2018 related transactions (No: 2018-024)
Shanghai Fullhan Micro	The Company's director or his/her relative is the director of the related party	Procurement	Purchase materials, receiving services	Reference market price; Agreed on price	12,043.28	0.97%	40,000	No	Payment on delivery		
Maxio Technology and its subsidiaries	A joint venture affiliated business held by the Group	Procurement	Purchase materials, receiving services	Reference market price; Agreed on price	4,420.87	0.36%	8,000	No	Payment on delivery		
Wuhu Sensor Technology	A joint venture affiliated business held by the Group	Procurement	Purchase materials, receiving services	Reference market price; Agreed on price	1,948.62	0.16%	4,000	No	Payment on delivery		
Subsidiaries of CETC	Under the common control of the Company's actual	Sales	Selling goods and providing	Reference market price;	23,716.53	1.14%	120,000	No	Payment on delivery		

Related party	Relationship	Type of related transaction	Content of related transaction	Valuation	Trading Amount (0'000 RMB)	Proportion to the amount of similar transactions.	Approved trading quota (0'000 RMB)	Whether above approved quota	Settlement method	Disclosure date	Disclosure reference
	controller.		services	Agreed on price							
Zhejiang Tuxun	The Company's director or his/her relative is the director of the related party	Sales	Selling goods and providing services	Reference market price; Agreed on price	96.46	0.01%	500	No	Payment on delivery		
Hangzhou Comfirmware	The Company's director or his/her relative is the director of the related party	Sales	Selling goods and providing services	Reference market price; Agreed on price	52.46	0.00%	100	No	Payment on delivery		
Maxio Technology and its subsidiaries	A joint venture affiliated business held by the Group	Sales	Selling goods and providing services	Reference market price; Agreed on price	3.91	0.00%	100	No	Payment on delivery		
Wuhu Sensor Technology	A joint venture affiliated business held by the Group	Sales	Selling goods and providing services	Reference market price; Agreed on price	3.64	0.00%	500	No	Payment on delivery		
Total				--	57,635.3	--	223,200	--	--	--	--
Details on significant sales return				None							
Total amount of related transactions projected based on different categories, actual performance during the current reporting period (if any)				Routine related transaction amount between the Company and the related parties is within the range of the total disclosed amount of related party transactions projected based on different categories.							
Reasons on significant difference between trading price and market referencing price (if applicable)				Not applicable							

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

Applicable Inapplicable

No such case in the reporting period.

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

Applicable Inapplicable

No such case in the reporting period.

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

Applicable Inapplicable

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

**5. Other significant related party transactions**

Applicable Inapplicable

No such case in the reporting period.

**XIV. Significant contracts and their execution****1. Trusteeship, contracting and leasing****(1) Trusteeship**

Applicable Inapplicable

No such case in the reporting period.

**(2) Contracting**

Applicable Inapplicable

No such case in the reporting period.

**(3) Leasing**

Applicable Inapplicable

No significant leasing during the reporting period.

**2. Significant guarantees**

Applicable Inapplicable

## (1) Details of guarantees

Unit: RMB'0000

Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosure date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date (date of signing agreement)	Actual guaranteed amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Hangzhou Hikvision Science and Technology Ltd.	May 12 <sup>th</sup> 2018	670,000	December 6 <sup>th</sup> 2016	443,282.95	Joint guarantee	2016.12.06-2020.12.31	No	Yes
Hangzhou Hikvision System Technology Ltd	May 12 <sup>th</sup> 2018	80,000	October 10 <sup>th</sup> 2017	10,105.48	Joint guarantee	2017.10.10-2020.12.31	No	Yes
HIKVISION INTERNATIONAL CO., LTD.	May 12 <sup>th</sup> 2018	350,000	December 27 <sup>th</sup> 2017	25,446.22	Joint guarantee	2017.12.27-2018.09.20	No	Yes
Hangzhou Hikvision Electronics Ltd.	May 12 <sup>th</sup> 2018	370,000	Not happened during the reporting period					
Chongqing Hikvision Science and Technologies Ltd.	May 12 <sup>th</sup> 2018	110,000	Not happened during the reporting period					
Chongqing Hikvision System Technology Ltd.	May 12 <sup>th</sup> 2018	50,000	Not happened during the reporting period					
Chengdu Hikvision Digital Technology Ltd.	May 12 <sup>th</sup> 2018	80,000	Not happened during the reporting period					
Hangzhou Haikang Zhicheng Investment and Development Ltd.	May 12 <sup>th</sup> 2018	10,000	Not happened during the reporting period					
Urumchi HaiShi Xin'An Electronic Technology Ltd.	May 12 <sup>th</sup> 2018	50,000	Not happened during the reporting period					
Mo Yu Hai Shi Electronic Technology Ltd.	May 12 <sup>th</sup> 2018	30,000	Not happened during the reporting period					
Pi Shan Hai Shi Yong An Electronic Technology Ltd.	May 12 <sup>th</sup> 2018	35,000	Not happened during the reporting period					
Luo Pu District Hai Shi Ding Xin Electronic Technology Ltd.	May 12 <sup>th</sup> 2018	30,000	Not happened during the reporting period					
Yu Tian Hai Shi Mei Tian Electronic Technology Ltd.	May 12 <sup>th</sup> 2018	30,000	Not happened during the reporting period					
Wuhan Hikvision Technology Ltd.	May 12 <sup>th</sup> 2018	120,000	Not happened during the reporting period					
Wuhan Hikvision Science and Technology Ltd.	May 12 <sup>th</sup> 2018	120,000	Not happened during the reporting period					
Xi'An System Technology Ltd.	May 12 <sup>th</sup> 2018	60,000	Not happened during the reporting period					

Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosure date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date (date of signing agreement)	Actual guaranteed amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Xi'An Hikvision Digital Technology Ltd.	May 12 <sup>th</sup> 2018	50,000	Not happened during the reporting period					
Total guarantee cap for subsidiaries approved during the reporting period(B1)		2,245,000	Total actual guarantee amount for subsidiaries during the reporting period(B2)				601,495.35	
Total approved guarantee cap for subsidiaries at the end of the reporting period(B3)		2,245,000	Total actual guarantee balance for subsidiaries at the end of the reporting period(B4)				478,834.65	
Total guarantee amount provided by the Company (total of the above-mentioned kinds of guarantees) (During the reporting period, there was no such case as guarantee provided for external parties, or guarantees between subsidiaries, therefore, there is only item B, item A or C is nil)								
Total guarantee cap approved during the reporting period (A1+B1+C1)		2,245,000	Total actual guarantee amount during the reporting period (A2+B2+C2)		601,495.35			
Total approved guarantee cap at the end of reporting period (A3+B3+C3)		2,245,000	Total actual guarantee balance at the end of the reporting period (A4+B4+C4)		478,834.65			
Portion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company			15.95%					
Of which								
The balance of guarantee for shareholders, actual controllers and their affiliates. (D)					0			
Amount of debt guarantees provided directly or indirectly for entities with a liability-to-asset ratio over 70% (E)					478,834.65			
Total amount of guarantee exceeding 50% of net assets (F)					0			
Total guarantee amount of the above-mentioned 3 kinds of guarantees (D+E+F)					478,834.65			

#### Illustration of compound method guarantee

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

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

Applicable  Inapplicable

No such case in the reporting period.

**3. Other significant contracts**

Applicable  Inapplicable

No such case in the reporting period.

**XV. Social responsibility****1. Significant environmental problems**

Whether the Company or the Company's subsidiaries are critical pollutant enterprises disclosed by national environmental protection department

No

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

Applicable  Inapplicable

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

**XVI. Other significant events**

Applicable  Inapplicable

No such case in the reporting period.

**XVII. Significant events of the Company's subsidiaries**

Applicable  Inapplicable



## Section VI Changes in Shares and Information about Shareholders

### I. Changes in Share Capital

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

Unit: Share

	Before the change		Changes in the period (+, -)					After the change	
	Shares	Ratio	New Shares Issued	Bonus share	Share transferred from capital reserve	Others	Sub-total	Shares	Ratio
1. Shares subject to conditional restriction(s)	1,971,217,850	21.36%				-651,012,744	-651,012,744	1,320,205,106	14.31%
3) Other domestic shares	852,337,550	9.24%				-570,992,769	-570,992,769	281,344,781	3.05%
Including: held by domestic enterprises	582,492,655	6.31%				-582,492,655	-582,492,655	0	0.00%
held by domestic natural person	269,844,895	2.92%				11,499,886	11,499,886	281,344,781	3.05%
4) Foreign shares	1,118,880,300	12.12%				-80,019,975	-80,019,975	1,038,860,325	11.26%
held by overseas natural person	1,118,880,300	12.12%				-80,019,975	-80,019,975	1,038,860,325	11.26%
2. Shares without restriction	7,257,647,264	78.64%				649,418,103	649,418,103	7,907,065,367	85.69%
1) RMB ordinary shares	7,257,647,264	78.64%				649,418,103	649,418,103	7,907,065,367	85.69%
3. Total	9,228,865,114	100.00%				-1,594,641	-1,594,641	9,227,270,473	100.00%

#### Reason for the changes in share capital

 Applicable  Inapplicable

**The second time repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme:** On December 15<sup>th</sup> 2017, Resolution for the Second repurchase and cancelation of the locked shares that already granted for 2014 Restricted Share Incentive Schemes were approved by the 26<sup>th</sup> meeting of the third Board. Authorized by the first extraordinary general meeting for 2014, a total of 1,594,641 restricted shares held by a

portion of grantees not fulfilling the incentive conditions were repurchased and cancelled. On March 27<sup>th</sup> 2018, repurchase and cancelation process of the restricted shares was complete. The Company's total share capital decreased from 9,228,865,114 shares to 9,227,270,473 shares by 1,594,641 shares.

### Approval for changes in share capital

Applicable  Inapplicable

On December 15<sup>th</sup> 2017, *Resolution for the Second repurchase and cancelation of the locked shares that already granted for 2014 Restricted Share Incentive Schemes* were approved by the 26<sup>th</sup> meeting of the third Board. Authorized by the first extraordinary general meeting for 2014, the board of directors agreed to repurchase and cancel 1,594,641 restricted shares held by a portion of grantees not fulfilling the incentive conditions.

### Transfer for changes in share capital

Applicable  Inapplicable

On March 27<sup>th</sup> 2018, the process of the second time repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme was complete. The Company's total share capital decreased from 9,228,865,114 shares to 9,227,270,473 shares by 1,594,641 shares.

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

Applicable  Inapplicable

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

Applicable  Inapplicable

## 2. Changes in restricted shares

Applicable  Inapplicable

Unit: Share

Name of shareholder	Opening restricted shares	Vested in current period	Increased in current period	Closing restricted shares	Note for restricted shares	Date of unlocking
Gong Hongjia	1,118,812,500	80,019,975	-	1,038,792,525	Executives locked shares	According to the relevant provisions of executives shares management
Xinjiang Weixun Investment Management	438,232,500	438,232,500	-	0	Institution restricted share before IPO	March 19 <sup>th</sup> 2018

Name of shareholder	Opening restricted shares	Vested in current period	Increased in current period	Closing restricted shares	Note for restricted shares	Date of unlocking
Limited Partnership						
Xinjiang Pukang Investment Limited Partnership	144,260,155	144,260,155	-	0	Institution restricted share before IPO	March 19 <sup>th</sup> 2018
Grantees of restricted share incentive plan (consolidated)	147,820,996	33,803,907	-	112,422,448	Restricted incentive equity shares	January 8 <sup>th</sup> 2018
Hu Yangzhong	91,793,982	-	44,597,626	136,391,608	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	According to the relevant provisions of executives shares management
Wu Weiqi	8,260,566	-	41,176	8,301,742	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Jiang Haiqing	8,255,911	-	36,750	8,292,661	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Jia Yonghua	4,118,807	-	1	4,118,808	Executives locked shares	
Li Pan	4,042,926	27,375	-	4,015,551	Executives locked shares	
Huang Fanghong	70,875	-	74,250	145,125	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Jiang Yufeng	30,375	-	30,000	60,375	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
He Hongli	29,025	-	23,550	52,575	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Fu Baijun	29,025	-	8,925	37,950	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Xu Lirong	29,025	-	30,675	59,700	Partial of the unlocked restricted shares turning into executives locked shares	
Wang Qiuchao	15,000	-	-	15,000	Executives locked shares	
Qu Liyang	-	-	11,812	11,812	As taking the Company's Director position, partial of the shares held were turning into executives locked	

Name of shareholder	Opening restricted shares	Vested in current period	Increased in current period	Closing restricted shares	Note for restricted shares	Date of unlocking
					shares.	
Zhou Zhiping	5,355,432	-	1,881,894	7,237,326	Partial of the unlocked restricted shares turning into executives locked shares +all locked up within in six months after leaving his post	
Zheng Yibo	30,375	-	77,775	108,150	Partial of the unlocked restricted shares turning into executives locked shares +all locked up within in six months after leaving his post	
Cai Dingguo	30,375	-	111,375	141,750	Partial of the unlocked restricted shares turning into executives locked shares +all locked up within in six months after leaving his post	
<b>Total</b>	1,971,217,850	696,343,912	46,925,809	1,320,205,106	--	--

Note:

1. Executives who are grantees under incentive restricted shares scheme, his/her holding incentive restricted shares are counted within the total incentive restricted shares (consolidated statistics) on the fourth row.
2. The difference of 1,594,641 shares between ending balance of restricted shares of *total incentive restricted shares (consolidated statistics) for grantees* and the calculated balance (opening balance - unlocked shares + increased restricted shares) was due to repurchasing and cancelling of 1,594,641 shares on March 27<sup>th</sup> 2018.

### 3. Issuance and listing of securities

None

## II. Total number of shareholders and their shareholdings

Unit: Share

Total number of common shareholders at the end of the reporting period		150,262		Total number of preferred shareholders (if any) whose voting rights have been recovered at the end of the reporting period			0	
Particulars about shares held by shareholders with a shareholding percentage over 5% or the Top 10 of them								
Name of shareholder	Nature of shareholder	Share-holding percentage (%)	Total shares held at the period-end	Increase/ decrease during the reporting period	The number of common shares held with trading restrictions	The number of shares held without trading restrictions	Pledged or frozen	
							Status	Amount
China Electronics Technology HIK Group Co., Ltd.	State-owned corporation	39.60%	3,653,674,956	0	0	3,653,674,956	Pledged	50,000,000
Gong Hongjia	Overseas individual	13.60%	1,255,056,700	-130,000,000	1,038,792,525	216,264,175	Pledged	237,700,000
Hong Kong Securities Clearing Company Ltd.(HKSCC)	Overseas corporation	11.16%	1,029,994,200	128,783,753	0	1,029,994,200	-	-
Xinjiang Weixun Investment Management Limited Partnership	Domestic non-state-owned corporation	4.89%	450,795,176	-78,925,700	0	450,795,176	Pledged	166,100,000
Xinjiang Pukang Investment Limited Partnership	Domestic non-state-owned corporation	1.98%	182,510,174	-9,836,700	0	182,510,174	Pledged	106,530,000
Hu Yangzhong	Domestic Individual	1.97%	182,186,477	59,400,000	136,639,858	45,546,619	Pledged	86,530,000
The 52nd Research Institute at China Electronics Technology Group Corporation	State-owned corporation	1.96%	180,775,044	0	0	180,775,044	-	-

CITIC Securities Company Limited	Domestic non-state-owned corporation	0.97%	89,183,758	-66,798,871	0	89,183,758	-	-
UBS AG	Overseas corporation	0.79%	72,894,443	-36,029,007	0	72,894,443	-	-
Central Huijin Investment Ltd.	State-owned corporation	0.71%	65,818,800	0	0	65,818,800	-	-
Explanation on associated relationship or concerted actions among the above-mentioned shareholders:	<p>China Electronics Technology HIK Group Co., Ltd. and The 52nd Research Institute at China Electronics Technology Group Co., Ltd. are all subject to control of China Electronics Technology Group Corporation. Ms. Chen Chunmei, limited partner of Xinjiang Pukang Investment Limited Partnership, is the spouse of Mr. Gong Hongjia, foreign individual shareholder of the Company. Hu Yangzhong, domestic individual, is holding shares in both Xinjiang Weixun Investment Management Limited Partnership and Xinjiang Pukang Investment Limited Partnership.</p> <p>Except for these, the Company does not know whether the other shareholders are related parties or whether they are acting-in-concert parties in accordance with the <i>Measures for Management of the Disclosure of the Shareholding Changes of Shareholders of the Listed Company</i>.</p>							
Particulars about shares held by the Top 10 common shareholders holding shares that are not subject to trading restriction(s)								
Name of shareholder	Number of common shares without trading restrictions held at the period-end	Type of shares						
		Type	Number					
China Electronics Technology HIK Group Co., Ltd.	3,653,674,956	RMB ordinary shares	3,653,674,956					
Hong Kong Securities Clearing Company Ltd.(HKSCC)	1,029,994,200	RMB ordinary shares	1,029,994,200					
Xinjiang Weixun Investment Management Limited Partnership	450,795,176		450,795,176					
Gong Hongjia	216,264,175	RMB ordinary shares	216,264,175					
Xinjiang Pukang Investment Limited Partnership	182,510,174	RMB ordinary shares	182,510,174					
The 52nd Research Institute at China Electronics	180,775,044	RMB ordinary shares	180,775,044					

Technology Group Corporation			
CITIC Securities Company Limited	89,183,758	RMB ordinary shares	89,183,758
UBS AG	72,894,443	RMB ordinary shares	72,894,443
Central Huijin Investment Ltd.	65,818,800	RMB ordinary shares	65,818,800
Hu Yangzhong	45,546,619	RMB ordinary shares	45,546,619
Explanation on associated relationship and concerted actions among top ten common shareholders without trading restrictions, and among top ten common shareholders and top ten common shareholders without trading restrictions	<p>China Electronics Technology HIK Group Co., Ltd. and The 52nd Research Institute at China Electronics Technology Group Co., Ltd. are all subject to control of China Electronics Technology Group Corporation. Ms. Chen Chunmei, limited partner of Xinjiang Pukang Investment Limited Partnership, is the spouse of Mr. Gong Hongjia, foreign individual shareholder of the Company. Hu Yangzhong, domestic individual, is holding shares in both Xinjiang Weixun Investment Management Limited Partnership and Xinjiang Pukang Investment Limited Partnership.</p> <p>Except for these, the Company does not know whether the other shareholders are related parties or whether they are acting-in-concert parties in accordance with the <i>Measures for Management of the Disclosure of the Shareholding Changes of Shareholders of the Listed Company</i>.</p>		

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

Applicable  Inapplicable

No such cases during the current reporting period.

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

Change of the controlling shareholder during the reporting period

Applicable  Inapplicable

No such cases in the reporting period.

Change of the actual controller during the reporting period

Applicable  Inapplicable

No such cases in the reporting period.



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

Applicable  Inapplicable

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

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

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

√Applicable □ Inapplicable

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Number of restricted shares held at the beginning of the period (shares)	Number of restricted shares granted during the period (shares)	Number of restricted shares held at the end of the period (shares)
Chen Zongnian	Chairman	Incumbent	0	0	0	0	0	0	0
Gong Hongjia	Vice Chairman	Incumbent	1,385,056,700	0	130,000,000	1,255,056,700	0	0	0
Qu Liyang	Director	Incumbent	15,750	0	0	15,750	0	0	0
Hu Yangzhong	Director, General Manager	Incumbent	122,786,477	59,400,000	0	182,186,477	336,000	0	248,250
Wu Weiqi	Director, Standing Deputy General Manager	Incumbent	11,371,389	0	0	11,371,389	305,100	0	226,800
Cheng Tianzong	Independent Director	Incumbent	0	0	0	0	0	0	0
Lu Jianzhong	Independent Director	Incumbent	0	0	0	0	0	0	0
Wang Zhidong	Independent Director	Incumbent	0	0	0	0	0	0	0

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Number of restricted shares held at the beginning of the period (shares)	Number of restricted shares granted during the period (shares)	Number of restricted shares held at the end of the period (shares)
Hong Tianfeng	Independent Director	Incumbent	0	0	0	0	0	0	0
Cheng Huifang	Supervisor Chairman	Incumbent	0	0	0	0	0	0	0
Wang Qiuchao	Supervisor	Incumbent	20,000	0	0	20,000	0	0	0
Xu Lirong	Supervisor; person in charge of internal audit	Incumbent	303,000	0	0	303,000	225,600	0	167,500
Jiang Haiqing	Senior Deputy General Manager	Incumbent	11,310,882	0	0	11,310,882	258,000	0	190,500
Jia Yonghua	Senior Deputy General Manager	Incumbent	5,601,244	0	0	5,601,244	109,500	0	109,500
Li Pan	Senior Deputy General Manager	Incumbent	5,500,068	0	0	5,500,068	109,500	0	109,500
He Hongli	Senior Deputy General Manager	Incumbent	331,500	0	0	331,500	254,100	0	196,050
Fu Baijun	Senior Deputy General Manager	Incumbent	390,000	0	0	390,000	312,600	0	254,550
Cai Changyang	Senior Deputy General Manager	Incumbent	109,500	0	0	109,500	109,500	0	109,500

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Number of restricted shares held at the beginning of the period (shares)	Number of restricted shares granted during the period (shares)	Number of restricted shares held at the end of the period (shares)
Xu Ximing	Senior Deputy General Manager	Incumbent	0	0	0	0	0	0	0
Bi Huijuan	Senior Deputy General Manager	Incumbent	150,000	0	0	150,000	150,000	0	150,000
Jiang Yufeng	Senior Deputy General Manager	Incumbent	325,500	0	0	325,500	244,500	0	183,750
Pu Shiliang	Senior Deputy General Manager	Incumbent	293,900	0	0	293,900	293,900	0	243,900
Jin Duo	Senior Deputy General Manager	Incumbent	109,500	0	0	109,500	109,500	0	109,500
Jin Yan	Senior Deputy General Manager, Person in charge of finance	Incumbent	174,000	0	0	174,000	174,000	0	174,000
Huang Fanghong	Senior Deputy General Manager, Board Secretary	Incumbent	292,500	0	0	292,500	148,500	0	74,250
Chen Junke	Senior Deputy General Manager	Incumbent	0	0	0	0	0	0	0
Liu Xiang	Director	Left the post	0	0	0	0	0	0	0
Chen Junke	Supervisor	Left the post	0	0	0	0	0	0	0

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Number of restricted shares held at the beginning of the period (shares)	Number of restricted shares granted during the period (shares)	Number of restricted shares held at the end of the period (shares)
Zheng Yibo	Deputy General Manager	Left the post	168,900	0	0	168,900	121,500	0	60,750
Cai Dingguo	Deputy General Manager	Left the post	312,000	0	0	312,000	231,000	0	170,250
Zhou Zhiping	Deputy General Manager	Left the post	7,404,876	0	0	7,404,876	225,600	0	167,550
Xu Lirong	Deputy General Manager	Left the post	303,000	0	0	303,000	225,600	0	167,550
Total	--	--	1,552,330,686	59,400,000	130,000,000	1,481,730,686	3,944,000	0	3,113,700

Note:

(1) Number shares held at the beginning of the period, shares increased during the period, shares decreased during the period for directors, supervisors, and senior management personnel above are all shares directly held by them accordingly, including restricted shares.

(2) During the reporting period, the number shares held at the beginning of the period, shares increased during the period, shares decreased during the period for newly appointed directors, supervisors, and senior management personnel is the data after their appointment

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

√Applicable □Inapplicable

Name	Position	Type	Date	Reasons
Qu Liyang	Director	Appointment and dismissal	March 7 <sup>th</sup> 2018	The general election of the board of directors
Liu Xiang	Director	Leave the post when terms were up	March 7 <sup>th</sup> 2018	Termination on term of office
Xu Lirong	Employee Supervisor	Appointment and dismissal	March 21 <sup>st</sup> 2018	The general election of the workers and staff

Name	Position	Type	Date	Reasons
				congress
Chen Junke	Employee Supervisor	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office
Pu Shiliang	Senior management personnel	Appointment and dismissal	March 21 <sup>st</sup> 2018	Appointment
Chen Junke	Senior management personnel	Appointment and dismissal	March 21 <sup>st</sup> 2018	Appointment
Zheng Yibo	Senior management personnel	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office
Cai Dingguo	Senior management personnel	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office
Zhou Zhiping	Senior management personnel	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office
Xu Lirong	Senior management personnel	Leave the post when terms were up	March 21 <sup>st</sup> 2018	Termination on term of office

## Section IX Corporate Bonds

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

Yes  No

## **Section X Financial Report**

### **I. Audit report**

Whether audit has been performed on this interim financial report

Yes  No

The Company's 2018 Half Year Report has not been audited



At June 30<sup>th</sup> 2018

**Consolidated Balance Sheet**

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Assets:</b>			
Cash and bank balances	(V)1	13,751,564,452.20	16,468,430,702.64
Financial assets at fair value through profit or loss	(V)2	20,549,980.77	4,100,657.54
Notes receivable	(V)3	3,101,869,002.40	3,636,961,616.03
Accounts receivable	(V)4	16,949,626,312.71	14,705,210,072.81
Prepayments	(V)5	403,145,778.12	527,576,857.11
Other receivables	(V)6	497,608,220.95	583,681,240.81
Inventories	(V)7	5,507,182,528.93	4,940,332,311.65
Non-current assets due within one year	(V)8	76,858,384.20	66,566,230.12
Other current assets	(V)9	1,423,012,974.05	3,720,449,532.88
<b>Total Current Assets</b>		<b>41,731,417,634.33</b>	<b>44,653,309,221.59</b>
<b>Non-current Assets:</b>			
Available-for-sale financial assets	(V)10	287,466,813.00	287,466,813.00
Long-term receivables	(V)11	35,767,446.98	23,375,680.61
Long-term equity investment	(V)12	160,012,824.27	130,474,733.58
Fixed assets	(V)13	4,075,143,444.28	3,024,025,496.31
Construction in progress	(V)14	705,731,687.16	1,436,319,118.30
Intangible assets	(V)15	799,821,748.10	429,160,982.63
Goodwill	(V)16	246,430,417.72	248,964,102.97
Deferred tax assets	(V)17	530,967,055.23	479,070,649.49
Other non-current assets	(V)18	1,446,952,545.78	858,796,668.13
<b>Total Non-current Assets</b>		<b>8,288,293,982.52</b>	<b>6,917,654,245.02</b>
<b>Total Assets</b>		<b>50,019,711,616.85</b>	<b>51,570,963,466.61</b>

At June 30<sup>th</sup> 2018

**Consolidated Balance Sheet - continued**

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Liabilities:</b>			
Short-term borrowings	(V)19	3,396,803,881.03	97,114,655.91
Financial liabilities at fair value through profit or loss	(V)20	38,501,338.00	15,946,836.46
Notes payable	(V)21	705,958,442.30	845,397,427.92
Accounts payable	(V)22	7,187,885,155.12	10,039,943,012.26
Receipts in advance	(V)23	614,236,976.75	570,573,208.60
Payroll payable	(V)24	1,007,572,155.38	1,391,291,256.90
Taxes payable	(V)25	1,210,905,739.93	1,453,515,065.77
Dividends payable	(V)26	119,917,640.92	94,857,139.16
Other payables	(V)27	510,992,530.58	401,861,078.67
Non-current liabilities due within one year	(V)28	3,878,341,679.64	1,546,407,270.89
Other current liabilities	(V)29	681,816,656.89	744,583,627.22
<b>Total Current Liabilities</b>		<b>19,352,932,196.54</b>	<b>17,201,490,579.76</b>
<b>Non-current Liabilities:</b>			
Long-term borrowings	(V)30	190,000,000.00	490,000,000.00
Bonds payable	(V)31	-	3,120,920,000.00
Long-term payables		-	2,437,038.62
Provisions	(V)32	74,480,717.05	63,068,638.49
Deferred income	(V)33	169,512,193.09	88,925,771.65
<b>Total non-current liabilities</b>		<b>433,992,910.14</b>	<b>3,765,351,448.76</b>
<b>Total liabilities</b>		<b>19,786,925,106.68</b>	<b>20,966,842,028.52</b>
<b>Owners' Equity</b>			
Share capital	(V)34	9,227,270,473.00	9,228,865,114.00
Capital reserves	(V)35	1,892,809,407.02	1,819,397,715.63
Less: Treasury shares	(V)36	681,816,656.89	744,583,627.22
Other comprehensive income	(V)37	(40,576,485.06)	(27,677,939.35)
Surplus reserves	(V)38	3,483,742,918.53	3,483,742,918.53
Retained earnings	(V)39	16,132,088,991.99	16,598,328,692.63
<b>Total owners' equity attributable to owner of the Company</b>		<b>30,013,518,648.59</b>	<b>30,358,072,874.22</b>
Minority equity		219,267,861.58	246,048,563.87
<b>Total owners' equity</b>		<b>30,232,786,510.17</b>	<b>30,604,121,438.09</b>
<b>Total liabilities and owners' equity</b>		<b>50,019,711,616.85</b>	<b>51,570,963,466.61</b>

The accompanying notes form part of the financial statements.

The financial statements were signed by the following:

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

Person in Charge of the Accounting Organization: Jin Yan

At June 30<sup>th</sup> 2018

## Balance sheet of the company

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Assets:</b>			
Cash and bank balances		9,694,940,970.31	12,304,090,713.99
Notes receivable		251,101,382.47	345,651,612.11
Accounts receivable	(XV)1	15,663,394,617.18	12,505,683,317.78
Prepayments		133,934,671.56	94,545,948.67
Dividend receivables		-	2,550,000.00
Other receivables	(XV)2	1,165,132,399.12	709,592,493.72
Inventories		234,137,909.23	376,776,045.69
Other current assets		830,510,301.75	3,296,055,941.42
<b>Total Current Assets</b>		<b>27,973,152,251.62</b>	<b>29,634,946,073.38</b>
<b>Non-current Assets:</b>			
Available-for-sale financial assets		287,456,813.00	287,456,813.00
Long-term equity investment	(XV)3	4,011,159,655.61	3,367,076,734.95
Fixed assets		2,821,509,143.37	1,757,777,870.77
Construction in progress		4,621,033.41	914,859,063.00
Intangible assets		208,298,568.98	154,604,755.69
Deferred tax assets		246,528,548.37	200,147,031.89
Other non-current assets		25,356,628.70	16,925,712.83
<b>Total Non-current Assets</b>		<b>7,604,930,391.44</b>	<b>6,698,847,982.13</b>
<b>Total Assets</b>		<b>35,578,082,643.06</b>	<b>36,333,794,055.51</b>

At June 30<sup>th</sup> 2018

**Balance sheet of the company - continued**

Unit: RMB

Item	Notes	Closing balance	Opening balance
<b>Current Liabilities:</b>			
Short term borrowings		200,000,000.00	-
Accounts payable		291,588,438.91	286,629,255.35
Receipts in advance		226,851,111.88	216,747,866.68
Payroll payable		743,898,680.09	946,587,240.01
Taxes payable		1,099,163,024.15	1,219,102,007.88
Dividends payable		117,467,640.92	92,407,139.16
Other payables		1,166,942,276.23	708,051,044.04
Non-current liabilities due within one year		3,073,584,089.06	33,614,018.51
Other current liabilities		681,816,656.89	744,583,627.22
<b>Total Current Liabilities</b>		<b>7,601,311,918.13</b>	<b>4,247,722,198.85</b>
<b>Non-current Liabilities:</b>			
Bonds payable		-	3,120,920,000.00
Provisions		48,871,158.60	43,024,784.70
Deferred Income		125,668,163.01	62,903,600.00
<b>Total non-current liabilities</b>		<b>174,539,321.61</b>	<b>3,226,848,384.70</b>
<b>Total liabilities</b>		<b>7,775,851,239.74</b>	<b>7,474,570,583.55</b>
<b>Owners' Equity</b>			
Share capital		9,227,270,473.00	9,228,865,114.00
Capital reserves		1,818,293,026.68	1,742,755,331.51
Less: Treasury shares		681,816,656.89	744,583,627.22
Surplus reserves		3,483,742,918.53	3,483,742,918.53
Retained earnings		13,954,741,642.00	15,148,443,735.14
<b>Total owners' equity</b>		<b>27,802,231,403.32</b>	<b>28,859,223,471.96</b>
<b>Total liabilities and owners' equity</b>		<b>35,578,082,643.06</b>	<b>36,333,794,055.51</b>

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

**Consolidated Income Statement**

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Total operating income</b>	(V)40	<b>20,875,758,224.63</b>	<b>16,447,539,736.52</b>
Less: Total operating costs	(V)40	11,586,298,826.07	9,420,695,024.84
Business taxes and surcharges	(V)41	177,890,618.60	174,232,595.70
Selling expenses		2,649,393,264.42	1,726,924,956.22
Administrative expenses		2,503,531,051.09	1,761,709,877.13
Financial expenses	(V)42	(158,521,317.81)	65,500,627.65
Impairment losses of assets	(V)43	325,897,698.19	251,738,374.96
Add: Gains (losses) from changes in fair values	(V)44	(6,102,548.02)	38,552,490.41
Investment income	(V)45	78,267,116.16	49,652,189.10
Including: Investment gains (losses) in associated enterprise and joint-venture enterprise		2,538,090.69	(3,877,702.05)
Asset disposal income (loss)		3,763,578.84	2,226,974.55
Other Income	(V)46	837,626,393.59	677,411,292.41
<b>II. Operating profit</b>		<b>4,704,822,624.64</b>	<b>3,814,581,226.49</b>
Add: Non-operating income	(V)47	73,150,373.86	31,717,593.78
Less: Non-operating expenses	(V)48	4,584,127.20	1,708,777.17
<b>III. Total profit</b>		<b>4,773,388,871.30</b>	<b>3,844,590,043.10</b>
Less: Income tax expenses	(V)49	665,802,758.48	568,658,390.85
<b>IV. Net profit</b>		<b>4,107,586,112.82</b>	<b>3,275,931,652.25</b>
4.1 Classification by continuous operation			
(a) Net profit on continuous operation		4,107,586,112.82	3,275,931,652.25
(b) Net loss on terminated operation		-	-
4.2 Classification by attribution of ownership			
(a) Profit or loss attributable to minority shareholders		(39,809,423.04)	(15,614,404.45)
(b) Net profit attributable to owners of parent company		4,147,395,535.86	3,291,546,056.70
<b>V. Other comprehensive income, net of income tax</b>		<b>(14,284,828.74)</b>	<b>29,434,317.10</b>
Other comprehensive income attributable to owners of the Company, net of tax		(12,898,545.71)	28,590,931.77
(I) Items that will not be reclassified subsequently to profit or loss		-	-
(II) Other comprehensive income to be reclassified to profit or loss in subsequent periods		(12,898,545.71)	28,590,931.77
1. Exchange differences arising on conversion of financial statements denominated in foreign currencies		(12,898,545.71)	28,590,931.77
Other comprehensive income attributable to minority interests, net of tax		(1,386,283.03)	843,385.33
<b>VI. Total comprehensive income</b>		<b>4,093,301,284.08</b>	<b>3,305,365,969.35</b>
Total comprehensive income attributable to owners of the parent company		4,134,496,990.15	3,320,136,988.47
Total comprehensive income attributable to minority shareholders		(41,195,706.07)	(14,771,019.12)

Item	Notes	Amount for the current period	Amount for the prior period
<b>VII. Earnings per share</b>			
(I) Basic earnings per share	(XVI)2	0.449	0.357
(II) Diluted earnings per share	(XVI)2	0.449	0.357

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

**Income statement of the Company**

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Total operating income</b>	(XV)4	<b>9,137,644,216.56</b>	<b>7,509,542,127.38</b>
Less: Operating Cost	(XV)4	2,610,963,590.76	2,351,188,963.05
Business taxes and surcharges		122,576,976.71	104,526,475.97
Selling expenses		1,238,887,252.96	806,289,156.71
Administrative expenses		1,803,898,110.43	1,317,996,842.01
Financial expense		(8,819,870.56)	(104,308,868.68)
Impairment losses of assets		280,443,036.30	156,626,616.68
Add: Gains (losses) from changes in fair values		-	53,740,407.58
Investment income	(XV)5	68,579,010.57	33,096,969.42
Including: Investment gain (loss) in associated enterprise and joint-venture enterprise		1,630,985.74	(1,409,148.78)
Asset disposal income (loss)		3,744,349.94	2,324,953.32
Other income		766,533,199.09	645,332,167.80
<b>II. Operating profit</b>		<b>3,928,551,679.56</b>	<b>3,611,717,439.76</b>
Add: Non-operating income		40,362,676.29	17,749,870.12
Less: Non-operating expenses		856,317.26	1,000,039.72
<b>III. Total profit</b>		<b>3,968,058,038.59</b>	<b>3,628,467,270.16</b>
Less: Income tax expenses		548,124,895.23	527,608,856.72
<b>IV. Net profit</b>		<b>3,419,933,143.36</b>	<b>3,100,858,413.44</b>
<b>V. Other comprehensive income, net of income tax</b>			
<b>VI. Total comprehensive income</b>		<b>3,419,933,143.36</b>	<b>3,100,858,413.44</b>

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

**Consolidated Cash Flow Statement**

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		22,109,383,677.92	16,056,237,726.30
Receipts of tax refunds		1,773,794,015.21	1,334,775,928.53
Other cash receipts relating to operating activities	(V)50(1)	450,666,762.39	191,162,610.48
<b>Sub-total of cash inflows from operating activities</b>		<b>24,333,844,455.52</b>	<b>17,582,176,265.31</b>
Cash payments for goods purchased and services received		17,665,339,796.23	13,831,392,836.70
Cash paid to and on behalf of employees		3,584,062,421.13	2,562,794,533.81
Payments of various types of taxes		2,477,876,007.17	1,899,822,855.27
Other cash payments relating to operating activities	(V)50(2)	2,227,759,588.99	1,230,966,841.95
<b>Sub-total of cash outflows from operating activities</b>		<b>25,955,037,813.52</b>	<b>19,524,977,067.73</b>
<b>Net Cash Flow from Operating Activities</b>	(V)51(1)	<b>(1,621,193,358.00)</b>	<b>(1,942,800,802.42)</b>
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from recovery of investments		3,590,000,000.00	5,173,000,000.00
Cash receipts from investment income		75,731,655.76	53,398,372.17
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		6,667,459.97	11,061,674.71
Other cash receipts relating to investing activities	(V)50(3)	1,190,562.94	13,100,745.41
<b>Sub-total of cash inflows from investing activities</b>		<b>3,673,589,678.67</b>	<b>5,250,560,792.29</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		1,573,966,251.59	510,640,894.91
Cash paid to acquire investments		1,100,000,000.00	1,453,000,000.00
Net cash payments for acquisitions of subsidiaries and other business units		13,500,000.00	98,000,000.00
<b>Sub-total of cash outflows from investing activities</b>		<b>2,687,466,251.59</b>	<b>2,061,640,894.91</b>
<b>Net Cash Flow from Investment Activities</b>		<b>986,123,427.08</b>	<b>3,188,919,897.38</b>
<b>III. Cash flows from financing activities:</b>			
Cash receipts from capital contributions		12,289,000.00	-
Including: cash receipts from capital contributions from minority owners of subsidiaries		12,289,000.00	-
Cash receipts from borrowings		3,982,689,336.94	4,938,568,095.06
Other cash receipts relating to financing activities		-	1,061,515,931.39
<b>Sub-total of cash inflows from financing activities</b>		<b>3,994,978,336.94</b>	<b>6,000,084,026.45</b>
Cash repayments of borrowings		1,726,234,534.31	2,723,867,188.71
Cash payments for distribution of dividends or profits or settlement of interest expenses		4,687,814,879.75	3,755,681,574.80
Other cash payments relating to financing activities		6,555,746.33	1,630,518,738.29
<b>Sub-total of cash outflows from financing activities</b>		<b>6,420,605,160.39</b>	<b>8,110,067,501.80</b>
<b>Net Cash Flow from Financing Activities</b>		<b>(2,425,626,823.45)</b>	<b>(2,109,983,475.35)</b>
<b>IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents</b>		<b>(1,968,297.26)</b>	<b>(132,118,698.33)</b>
<b>V. Net Increase (Decrease) in Cash and Cash Equivalents</b>	(V)51(1)	<b>(3,062,665,051.63)</b>	<b>(995,983,078.72)</b>
Add: Opening balance of Cash and Cash Equivalents	(V)51(1)	16,029,185,269.17	13,522,337,697.28
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	(V)51(2)	<b>12,966,520,217.54</b>	<b>12,526,354,618.56</b>



For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

**Cash Flow Statements of the Company**

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
<b>I. Cash Flows from Operating Activities::</b>			
Cash receipts from the sale of goods and the rendering of services		7,318,348,837.09	6,476,622,168.11
Receipts of tax refunds		766,533,199.09	645,332,167.80
Other cash receipts relating to operating activities		305,846,876.05	163,967,938.23
<b>Sub-total of cash inflows from operating activities</b>		<b>8,390,728,912.23</b>	<b>7,285,922,274.14</b>
Cash payments for goods acquired and services received		3,109,703,886.15	1,741,766,982.54
Cash payments to and on behalf of employees		1,929,734,291.07	1,390,775,272.77
Payments of all types of taxes		1,772,764,658.71	1,541,060,047.84
Other cash payments relating to operating activities		1,359,620,072.28	914,241,265.56
<b>Sub-total of cash outflows from operating activities</b>		<b>8,171,822,908.21</b>	<b>5,587,843,568.71</b>
<b>Net Cash Flow from Operating Activities</b>	(XV)8(1)	<b>218,906,004.02</b>	<b>1,698,078,705.43</b>
<b>II. Cash Flows from Investing Activities:</b>			
Cash receipts from recovery of investments		3,550,000,000.00	5,170,000,000.00
Cash receipts from investment income		76,942,053.30	44,435,846.99
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		8,508,255.52	7,443,183.85
Net cash receipts from disposals of subsidiaries and other business units		5,971.53	70,271.21
Other cash receipts relating to investing activities		454,032,282.20	732,237,447.02
<b>Sub-total of cash inflows from investing activities</b>		<b>4,089,488,562.55</b>	<b>5,954,186,749.07</b>
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		411,154,554.19	228,633,880.72
Cash payments to acquire investments		1,100,000,000.00	1,450,000,000.00
Net cash payments for acquisitions of subsidiaries and other business units		630,150,000.00	973,000,000.00
Other cash payments relating to investing activities		515,046,698.74	862,202,465.11
<b>Sub-total of cash outflows from investing activities</b>		<b>2,656,351,252.93</b>	<b>3,513,836,345.83</b>
<b>Net Cash Flow from Investment Activities</b>		<b>1,433,137,309.62</b>	<b>2,440,350,403.24</b>
<b>III. Cash Flows from Financing Activities</b>			
Cash receipts from borrowings		700,000,000.00	300,000,000.00
Other cash receipts relating to financing activities		-	41,000.00
<b>Sub-total of cash inflows from financing activities</b>		<b>700,000,000.00</b>	<b>300,041,000.00</b>
Cash repayments of borrowings		500,000,000.00	300,000,000.00
Cash payments for distribution of dividends or profits or settlement of interest expenses		4,643,329,229.19	3,708,086,118.95
Other cash payments relating to financing activities		6,555,746.33	15,151,512.29
<b>Sub-total of cash outflows from financing activities</b>		<b>5,149,884,975.52</b>	<b>4,023,237,631.24</b>
<b>Net Cash Flow from Financing Activities</b>		<b>(4,449,884,975.52)</b>	<b>(3,723,196,631.24)</b>
<b>IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents</b>		<b>(4,714,994.16)</b>	<b>(42,974,366.35)</b>
<b>V. Net increase in cash and cash equivalents</b>	(XV)8(1)	<b>(2,802,556,656.04)</b>	<b>372,258,111.08</b>
Add: Beginning balance of cash and cash equivalents	(XV)8(1)	12,304,082,533.11	10,245,969,003.13
<b>VI. Closing Balance of Cash and Cash Equivalents</b>	(XV)8(2)	<b>9,501,525,877.07</b>	<b>10,618,227,114.21</b>

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

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

Unit: RMB

Item	Amount for the 2018 first half year							
	Owner's Equity Attributable to owners of the Company						Minority interests	Total owners' equity
	Share capital	Capital reserves	Less: Treasury share	Other comprehensive income	Surplus reserve	Retained profits		
<b>I. Opening balance of the current period</b>	9,228,865,114.00	1,819,397,715.63	744,583,627.22	(27,677,939.35)	3,483,742,918.53	16,598,328,692.63	246,048,563.87	30,604,121,438.09
<b>III. Increase or decrease in the current period</b>	(1,594,641.00)	73,411,691.39	(62,766,970.33)	(12,898,545.71)	-	(466,239,700.64)	(26,780,702.29)	(371,334,927.92)
(I) Total comprehensive income	-	-	-	(12,898,545.71)	-	4,147,395,535.86	(41,195,706.07)	4,093,301,284.08
(II) Owners' contributions and reduction in capital	(1,594,641.00)	73,411,691.39	(6,555,746.33)	-	-	-	14,415,003.78	92,787,800.50
1. Capital contribution from shareholders	-	-	-	-	-	-	12,289,000.00	12,289,000.00
2. Share-based payment recognized in owners' equity	-	78,372,796.72	-	-	-	-	2,126,003.78	80,498,800.50
3. Others	(1,594,641.00)	(4,961,105.33)	(6,555,746.33)	-	-	-	-	-
(III) Profit distribution	-	-	(56,211,224.00)	-	-	(4,613,635,236.50)	-	(4,557,424,012.50)
1. Transfer to surplus reserve	-	-	-	-	-	-	-	-
2. Distributions to shareholders	-	-	(56,211,224.00)	-	-	(4,613,635,236.50)	-	(4,557,424,012.50)
3. Others	-	-	-	-	-	-	-	-
<b>IV. Closing balance of the current period</b>	<b>9,227,270,473.00</b>	<b>1,892,809,407.02</b>	<b>681,816,656.89</b>	<b>(40,576,485.06)</b>	<b>3,483,742,918.53</b>	<b>16,132,088,991.99</b>	<b>219,267,861.58</b>	<b>30,232,786,510.17</b>

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

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

Unit: RMB

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

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

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

Unit: RMB

Item	Amount for 2018 first half year					
	Share capital	Capital reserves	Less: Treasury share	Surplus reserve	Retained profits	Total owners' equity
<b>I. Opening balance of the current period</b>	9,228,865,114.00	1,742,755,331.51	744,583,627.22	3,483,742,918.53	15,148,443,735.14	28,859,223,471.96
<b>II. Increase or decrease in the current period</b>	(1,594,641.00)	75,537,695.17	(62,766,970.33)	-	(1,193,702,093.14)	(1,056,992,068.64)
(I) Total comprehensive income	-	-	-	-	3,419,933,143.36	3,419,933,143.36
(II) Owners' contributions and reduction in capital	(1,594,641.00)	75,537,695.17	(6,555,746.33)	-	-	80,498,800.50
1. Capital contribution from shareholders	-	-	-	-	-	-
2. Share-based payment recognized in owners' equity	-	80,498,800.50	-	-	-	80,498,800.50
3. Others	(1,594,641.00)	(4,961,105.33)	(6,555,746.33)	-	-	-
(III) Profit distribution	-	-	(56,211,224.00)	-	(4,613,635,236.50)	(4,557,424,012.50)
1. Transfer to surplus reserve	-	-	-	-	-	-
2. Distributions to shareholders	-	-	(56,211,224.00)	-	(4,613,635,236.50)	(4,557,424,012.50)
3. Others	-	-	-	-	-	-
<b>III. Closing balance of the current period</b>	<b>9,227,270,473.00</b>	<b>1,818,293,026.68</b>	<b>681,816,656.89</b>	<b>3,483,742,918.53</b>	<b>13,954,741,642.00</b>	<b>27,802,231,403.32</b>
Item	Amount for 2017 first half year					
	Share capital	Capital reserves	Less: Treasury share	Surplus reserve	Retained profits	Total owners' equity
<b>I. Opening balance of the current period</b>	6,102,706,885.00	955,687,875.52	300,177,750.17	2,615,437,822.15	14,138,569,341.95	23,512,224,174.45
<b>II. Increase or decrease in the current period</b>	3,126,158,229.00	693,720,939.82	553,329,577.38	-	(3,704,013,060.76)	(437,463,469.32)
(I) Total comprehensive income	-	-	-	-	3,100,858,413.44	3,100,858,413.44
(II) Owners' contributions and reduction in capital	49,869,858.00	693,720,939.82	645,736,716.54	-	-	97,854,081.28
1. Capital contribution from shareholders	52,326,858.00	608,561,358.54	660,888,216.54	-	-	-
2. Share-based payment recognized in owners' equity	-	97,854,081.28	-	-	-	97,854,081.28
3. Others	(2,457,000.00)	(12,694,500.00)	(15,151,500.00)	-	-	-
(III) Profit distribution	3,076,288,371.00	-	(92,407,139.16)	-	(6,804,871,474.20)	(3,636,175,964.04)
1. Transfer to surplus reserve	-	-	-	-	-	-
2. Distributions to shareholders	-	-	(92,407,139.16)	-	(3,728,583,103.20)	(3,636,175,964.04)
3. Others	3,076,288,371.00	-	-	-	(3,076,288,371.00)	-
<b>III. Closing balance of the current period</b>	<b>9,228,865,114.00</b>	<b>1,649,408,815.34</b>	<b>853,507,327.55</b>	<b>2,615,437,822.15</b>	<b>10,434,556,281.19</b>	<b>23,074,760,705.13</b>

**I. Basic Information about the Company**

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

As of March 30<sup>th</sup> 2018, authorized by the first Extraordinary General Meeting in 2014, the Company completed the repurchase and cancellation of 1,594,641 granted restricted shares, of which the incentive conditions were no longer fulfilled, and the total share capital of the Company was adjusted to 9,227,270,473 shares. For details of share capital, please refer to Note (V) 34.

As of June 30<sup>th</sup> 2018, the Company's total registered capital is RMB 9,227,270,473, with total capital shares of 9,227,270,473 shares (face value RMB 1per share), of which restricted A-shares were 1,320,205,106 shares, A-shares without restriction are 7,907,065,367 shares.

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

The Company's and consolidated financial reports were approved for issuance by the 3<sup>rd</sup> meeting of the fourth session Board of Directors of the Company on July 20<sup>th</sup> 2018.

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

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

The Company and its subsidiaries (hereinafter referred to as "the Group") have adopted the Accounting Standards for Business Enterprises ("ASBE") and relevant provisions issued by the Ministry of Finance ("MoF"). In addition, the Group has disclosed relevant financial information in accordance with

*Information Disclosure and Presentation Rules for Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reporting (revised in 2014).*

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

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

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

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

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

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

### **Going concern**

The Group has evaluated its going concern for 12 months going forward starting from June 30<sup>th</sup> 2018, and there is no factor that may cast significant doubt on the entity's ability to continue as a going concern. Therefore, the financial statements have been prepared on a going concern basis.

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

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

The financial statements of the Company have been prepared in accordance with ASBE, and present truly and completely, the Company's and consolidated financial position as of June 30<sup>th</sup> 2018, and the Company's and consolidated results of operations and cash flows for 2018 first half year.

## **2. Accounting Period**

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

## **3. Business Cycle**

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

## **4. Functional currency**

Renminbi ("RMB") is the currency in the primary economic environments in which the Company and its domestic subsidiaries are operated. The Company and its domestic subsidiaries take RMB as their functional currency. Overseas subsidiaries of the Company determine their functional currency on the basis of the primary economic environment in which it operates. For functional currency of overseas subsidiaries of the Company, see Note (V) 53. The Group adopts RMB to prepare its financial statements.

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

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

### 5.1 Business combinations involving enterprises under common control

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

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

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

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

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

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

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

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

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

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

### 6.1 Preparation method of consolidated financial statements

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

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

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



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

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

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

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

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

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

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

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

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

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

### 8.1 Transactions denominated in foreign currencies

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

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

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

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

## 8.2 Conversion of financial statements denominated in foreign currencies

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

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

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

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

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

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

## **9. Financial Instruments**

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

### 9.1 Effective Interest Method

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

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

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

On initial recognition, the Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables,

and available-for-sale financial assets. All purchases or sales of financial assets through regular methods are recognized and derecognized on a trade date basis.

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

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

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

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

### 9.2.2 Held-to-maturity investments

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

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

### 9.2.3 Loans and Receivables

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

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

### 9.2.4 Available-for-sale Financial Assets

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

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

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

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

### 9.3 Impairment of financial assets

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

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

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

#### - Impairment of financial assets measured at amortized cost

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

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

#### - Impairment of available-for-sale financial assets

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

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

#### - Impairment of financial assets measured at cost

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

### 9.4 Transfer of Financial Assets

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

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

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

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

## 9.5 Classification, recognition and measurement of financial liabilities

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

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

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

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

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

A financial liability may be designated as at FVTPL upon initial recognition only when one of the following conditions is satisfied: (1) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise result from measuring liabilities or recognizing the

gains or losses on them on different bases; or (2) The financial liability forms part of a group of financial liabilities or a group of financial assets and financial liabilities, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is reported to key management personnel on that basis.; or (3) qualified hybrid tool with inclusion of embedded derivatives.

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

### 9.5.2 Other financial liabilities

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

### 9.5.3. Financial Guarantee Contracts

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

### 9.6 Derecognition of Financial Liabilities

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

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

### 9.7 Derivative Instruments and Embedded Derivative Instruments



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

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

**9.8 Offsetting financial assets and financial liabilities**

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

**9.9 Equity instrument**

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

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

**10. Receivables**

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

Basis or monetary criteria for determining an individually significant receivable	A receivable that exceeds RMB 4 million (inclusive) and accounting for more than 10% of the receivables book balance is deemed as an individually significant receivable by the Group.
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Method of determining provision for receivables that are individually significant and for which bad debt provision is individually assessed	For receivables that are individually significant, the Group assesses the receivables individually for impairment. For account receivables and other receivables that is not impaired individually, the Group includes the receivables in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Account receivables and other receivables for which an impairment loss is individually recognized are not included in a collective assessment of impairment.
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## 10.2 Receivables for which bad debt provision is collectively assessed on a portfolio basis

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

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

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

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

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

## **11. Inventories**

### 11.1 Categories of inventories

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

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

### 11.2 Valuation method of inventories upon delivery

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

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

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

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

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

### 11.4 Inventory count system

The perpetual inventory system is maintained for stock system.

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

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

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

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

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

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

## 12.2 Determination of initial investment cost

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

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

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

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

## 12.3 Subsequent measurement and recognition of profit or loss

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

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

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

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

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

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

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

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

### 12.4 Disposal of long-term equity investments

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

**13. Fixed Assets**

13.1 Recognition criteria for fixed assets

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

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

13.2 Depreciation of each category of fixed assets

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

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

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

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

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

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

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

#### 13.4 Other explanations

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

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

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

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

### **15. Borrowing Costs**

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

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

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

**16. Intangible Assets**

16.1 Intangible Assets

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

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

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

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

16.2 Internal Research and Development Expenditure

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

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

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



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

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

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

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

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

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

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

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

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

## **18. Employee compensation**

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

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

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

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

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

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

### 18.3 Accountant Arrangement Method of the Termination Benefits

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

## **19. Provisions**

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

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

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

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

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

### 20.1 Equity-settled share-based payments

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

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

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

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

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

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

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

## **21. Revenue**

### 21.1 Revenue from sale of goods

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

### 21.2 Revenue from rendering of services

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

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

### 21.3 Construction Contract

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

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

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

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

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

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

## **22. Governmental Subsidy**

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

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

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

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

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

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

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

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

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

### 23.1. Current Income Tax

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

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

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

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

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

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

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

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

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

### 23.3 Offset of Income Tax

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

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

## **24. Lease**

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

### 24.1 Accounting treatment of operating Lease

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

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

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

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

### 24.2. Accounting treatment of the finance lease

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

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

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

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

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

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

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

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

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

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

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

During the process of using accounting policy described in note (III), due to the uncertainty in operation activities, the group should judge, estimate and assume the book value of the report items which may not be metered reliably. These judgments, estimates and assumptions are based on the historical experience of the Group's management and other related factors. Differences may exist between the actual results and the Group's estimate.



The Group regularly reviews the above judgments, assumptions and estimations on the basis of continuous operation. If the changes of accounting estimate only influence current period, the influence amount will be affirmed during the changing period; if it influences the current period and subsequent periods, the influence amount will be recognized in the current period and future period.

### **- Key assumptions and uncertainties used in accounting estimate**

On balance sheet date, key assumptions and uncertainties for performing accounting estimates on book value of assets and liabilities in subsequent future periods are:

#### Impairment of the fixed assets

At the balance sheet date, the Group will review whether fixed assets have signs that impairment is likely to occur. When the signs indicate that the carrying amount cannot be repurchased, then the impairment test shall be implemented. The impairment occurred when the book value of asset or asset group is higher than the recoverable amount, which is the net amount of fair value minus the disposal expenses or the present value of expected future cash flow (whichever is higher). The net amount of fair value minus disposal expenses is determined by deducting the incremental cost which directly belongs to the assets disposal referring to the price of sales agreement of similar assets in fair transaction or the observable market price. When predicting present value of future cash flows, management team must estimate the predicted future cash flows of the said asset or asset portfolio, and shall select proper discount rate to confirm the present value of future cash flows. Based on the above procedure, the Group's management team deems that it is not necessary to withdraw provision of fixed assets impairment.

#### Useful life and predicted net residual value of fixed asset

The Group's estimation of fixed assets useful life is based on the historical experience of actual usable term of fixed assets with similar properties and functions, the estimation of predicted net residual value is the amount obtained currently by the Group from the assets after deducting the anticipated disposal expense based on the anticipated status assuming the conditions that fixed assets' predicted useful life expires and fixed assets are at the end of useful life. The Group shall conduct the review on the predicted service life and predicted net residual value of fixed assets at least annually. For the current period, the Group's management did not see signs either indicating a shortened or extended useful life of the Group's fixed asset or indicating a change in predicted net residual value.

#### Impairment of accounts receivables

When there is a clear evidence to make the accounts receivables collection in doubt, then the Group will calculate and withdraw the impairment provision to the accounts receivables. Because the Group's management needs to judge the historic conditions of receivable collection, aging, debtor's financial condition and overall economic environment when considering the impairment provision, there are uncertainties related to the calculation of impairment provision. Although there is no reason to believe that the estimation applied when calculating the impairment provision of accounts receivables will have

significant changes in the future, the book value and impairment loss of accounts receivables will change when the future actual result is different from the anticipated and original estimations.

#### Accrued liabilities of product quality warranty

Accrued liabilities of product quality assurance are an estimation made by the Group according to the predicted repair and replacement cost of relevant products. The estimation considers the product claim rate trend, historic defect rate, industry practice and other major estimations. The management deems that the current estimation on accrued liabilities of product quality warranty is reasonable, however, the Group will continue to review the conditions of product repairs, and will conduct adjustment if any sign indicating the need to make adjustments on accounting estimates.

#### Impairment provision for inventories

Inventories are measured at the lower of cost and net realizable value. The Group will regularly conduct a comprehensive stocktaking to review the impairment circumstances on outmoded and dull inventory if any; in addition, the Group's management will regularly review the impairment circumstance of inventory with long storage time according to the inventory aging list. The review procedure includes the comparison between carrying value of outmoded, dull inventory and inventory with long storage time and its corresponding net realizable value in order to determine whether to withdraw provisions on the outmoded, dull inventory and inventory with long storage time. Based on the above procedure, the Group's management deems that the full provision amounts have been withdrawn for the outmoded, dull inventory and inventory with long storage time

#### Assets from deferred income tax

The realization of deferred income tax assets mainly depends on the actual future profits and the effective tax rate of temporary difference in the future applicable years. If the actual profit in the future is less than the estimation, or actual tax rate is lower than the estimation, then the confirmed deferred income tax assets will be reversed and confirmed in the income statement during the corresponding period. If the actual profit in the future is more than the estimation, or actual tax rate is higher than the estimation, then the corresponding deferred income tax assets will be adjusted and confirmed in the income statement during the corresponding period.

#### Goodwill impairment

When performing impairment test on goodwill, the predicted present value of future cash flow of relevant asset group or asset group portfolio included the goodwill need to be calculated, the future cash flow of relevant asset group or asset group portfolio need to be estimated, and the proper pretax rate that fairly reflects the current market time value of money and specific asset risk need to be determined. When the future actual result is different from the original estimation, the goodwill impairment loss will alter.

## IV. Taxes

### 1. Major categories of taxes and tax rates

Category of tax	Basis of tax computation	Tax rate
Enterprise income tax	Taxable income	25% (Note 1)
VAT	For the taxable product sales revenue or taxable labor revenue, the Company and its domestic subsidiaries are ordinary Value-added Tax payers; the VAT payable is the balance of input tax after deducting the deductible output tax.	6%, 10%, 11%, 16%, 17% and simple collection rate of 3% (Note 2)
City maintenance and construction tax	Actual payable turnover tax	7%
Education surcharges	Actual payable turnover tax	3%
Local education surcharges	Actual payable turnover tax	2%

Note 1: Except that this Company and subsidiaries in China are applicable to the following tax preference, this Company's other subsidiaries in China are applicable to 25% of enterprise income tax rate, the overseas subsidiaries are applicable to corresponding local tax rate.

- (1) In accordance with the *Replies on Publishing the List of First Batch of identified High-tech Enterprises of Zhejiang Province in 2017* (GuoKeHuoZi [2017] No. 201) issued by the leading group office of Zhejiang high-tech enterprise identification management work on December 15<sup>th</sup> 2017, the Company was identified as the high-tech enterprise with a valid term of 3 years, from 2017 to 2019. Therefore, the Company's enterprise income tax rate is 15% for the current period.
- (2) In accordance with the *Letter of Reply on Publishing the Registration of First Batch of High-tech Enterprises of Zhejiang Province in 2016* (GuoKeHuoZi [2016] No. 149) issued by leading group office of Zhejiang high-tech enterprise identification management work on December 9<sup>th</sup> 2016, the wholly-owned subsidiary, Hangzhou Hikvision System Technology Co., Ltd. (Hangzhou System Technology) was identified as the high-tech enterprise with a valid term of 3 years, from 2016 to 2018, the enterprise income tax in the current period shall be calculated and paid according to tax rate of 15%.
- (3) According to the *Notice on Publishing the List of Second Batch of proposed identified High-tech Enterprises of Shanghai in 2017* issued by Shanghai high-tech enterprise identification office, the Company's wholly-owned subsidiary, Shanghai Goldway Intelligent Traffic System Co., Ltd. (Shanghai Goldway) was identified as the high-tech enterprise with a valid term of 3 years, from 2017 to 2019, the enterprise income tax in the current period shall be calculated and paid according to tax rate of 15%.
- (4) In accordance with the *Replies on Publishing the List of First Batch of identified High-tech Enterprises of Zhejiang Province in 2017* (GuoKeHuoZi [2017] No. 201) issued by the leading group office of Zhejiang high-tech enterprise identification management work on December 15<sup>th</sup> 2017, the Company's joint-venture subsidiary, Hangzhou HIK Robotic Technology Co., Ltd. (Hangzhou Robotic Technology) was identified as the high-tech enterprises with a valid term of 3 years, from

2017 to 2019. Therefore, the enterprise income tax in the current period shall be calculated and paid according to tax rate of 15%.

- (5) In accordance with Finance and Taxation [2011] No. 58 Document of Ministry of Finance, State Administration of Taxation (SAT) and General Administration of Customs, the wholly-owned subsidiaries, Chongqing Hikvision Science and Technology Co., Ltd. and Chongqing Hikvision System Technology Co., Ltd., are qualified to enjoy the west development preferential tax policy from 2011 to 2020, therefore, the enterprise income rate shall be calculated and paid on the basis of 15% in the current period.

Note 2: In accordance with *Notice on Adjustment of VAT Rates* (Finance and Taxation [2018] No. 32) issued by Ministry of Finance, State Administration of Taxation (SAT), starting from May 1<sup>st</sup> 2018, the Group's original applicable VAT tax rate of 17% and 11% will be adjusted to 16% and 10% respectively.

In accordance with the *Notice on Software Product Value-added Tax Policy* (Finance and Taxation [2011] No. 100) of Ministry of Finance and State Administration of Taxation (SAT), as for the self-developed software product sales of the Company and the Company's wholly-owned subsidiaries such as Shanghai Goldway, Hangzhou System, Beijing Brainaire Storage Technology Ltd., as well as the Company's joint-venture subsidiaries such as Wuhan HIK Storage Technology Ltd. (Wuhan Storage), Hangzhou Ezviz Software Ltd. (EZVIZ Software), Hangzhou HIK Automotive Software Ltd. (Automotive Software), Hangzhou HIK Huiying Technology Ltd. (Huiying), and Hangzhou Robotic Technology, and Hangzhou HIK Automotive Technology Ltd. (Hangzhou Auto Technology), the VAT shall be calculated and paid with tax rate of 17% at first, then the portion with actual tax bearing excess 3% shall be refunded after SAT reviews.

## V. Notes to items in the consolidated financial statements

### 1. Cash and bank balances

Item	Closing Balance			Opening Balance		
	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
<b>Cash:</b>				-		
RMB	-	-	132,488.51	-	-	130,403.91
USD	17,702.47	6.6166	117,130.15	35,098.97	6.5342	229,343.66
MYR	854,551.69	1.6373	1,399,157.48	-	-	-
RUB	13,767.65	0.1054	1,451.11	-	-	-
THB	16,579.38	0.1998	3,312.56	-	-	-
EUR	7,948.72	7.6515	60,819.62	15,918.33	7.8023	124,199.58
GBP	8,065.01	8.6551	69,803.46	7,396.17	8.7792	64,932.46
ZAR	20,323.05	0.4803	9,761.16	19,530.51	0.5277	10,306.25
INR	1,436,162.90	0.0965	138,589.72	1,222,954.96	0.1019	124,619.11
RUB	-	-	-	22,805.81	0.1135	2,588.46
AED	5,470.35	1.8016	9,855.57	35,070.03	1.7790	62,389.59
HKD	1,420.58	0.8431	1,197.69	3,072.66	0.8359	2,568.44
BRL	8,697.27	1.7066	14,842.76	9,297.27	1.9641	18,260.77
<b>Bank balance:</b>						
RMB	-	-	8,524,502,012.74	-	-	10,082,944,463.42
USD	535,319,361.02	6.6166	3,541,994,084.12	822,098,082.75	6.5342	5,371,753,292.29
EUR	67,544,323.76	7.6515	516,815,393.26	36,681,727.64	7.8023	286,201,843.60
GBP	1,597,832.11	8.6551	13,829,396.69	1,171,110.92	8.7792	10,281,416.98
JPY	408.00	0.0599	24.44	408.00	0.0579	23.62
ZAR	23,122,670.04	0.4803	11,105,818.42	11,105,021.55	0.5277	5,860,119.88
INR	2,900,713,040.93	0.0965	279,918,808.45	1,604,304,664.42	0.1019	163,478,645.31
RUB	362,364,868.98	0.1054	38,193,257.19	431,796,810.54	0.1135	49,008,937.99
HKD	294,924.40	0.8431	248,650.76	147,865.08	0.8359	123,600.42
AUD	1,314,229.44	4.8633	6,391,492.04	1,110,556.92	5.0928	5,655,844.28
AED	2,088,142.98	1.8016	3,762,069.34	5,099,038.05	1.7790	9,071,188.69
BRL	5,848,144.51	1.7066	9,980,443.42	4,579,468.83	1.9641	8,994,534.73
SGD	16,698.28	4.8386	80,796.30	35,788.26	4.8831	174,757.65
PLN	607,659.55	1.7658	1,073,005.23	338,408.19	1.8680	632,146.48
KRW	665,160,083.01	0.0059	3,926,439.97	461,310,471.00	0.0061	2,818,145.67
CAD	57,526.58	4.9947	287,328.01	824,149.98	5.2009	4,286,321.63
KZT	25,428,875.77	0.0194	493,320.19	43,256,830.49	0.0195	843,508.19
COP	404,867,359.33	0.0023	913,785.63	150,707,765.53	0.0022	328,799.13
TRY	52,535.88	1.4412	75,714.71	46,834.84	1.7291	80,982.11
THB	-	-	-	4,267,411.59	0.1998	852,750.61
HUF	37,667,794.76	0.0234	882,183.52	57,206,835.37	0.0250	1,430,205.20
NZD	87,280.78	4.4704	390,180.00	106,049.60	4.6327	491,295.98
CZK	565,451.50	0.2971	167,995.64	1,701,256.64	0.3057	520,074.15
KES	17,943,623.28	0.0653	1,171,718.60	23,771,784.15	0.0630	1,497,622.40
UZS	562,859,157.97	0.0008	469,255.68	260,975,830.78	0.0008	208,597.98

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Item	Closing Balance			Opening Balance		
	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
<b>Other currency funds:</b>						
RMB	-	-	532,645,223.26	-	-	459,284,934.33
USD	39,146,315.92	6.6166	259,015,513.90	7,768.39	6.5342	50,760.21
EUR	136,091.14	7.6515	1,041,301.35	100,775.09	7.8023	786,277.48
GBP	26,669.77	8.6551	230,829.55	-	-	-
<b>Total</b>			13,751,564,452.20			16,468,430,702.64
including: deposited in overseas banks			739,065,334.45			788,391,050.26

**Details of other currency funds:**

Item	Closing Balance			Opening Balance		
	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
<b>Capitals with limitations:</b>						
Bank acceptance bill	-	-	50,481,853.17	-	-	204,607,890.97
Deposits pledged for long-term borrowing	-	-	35,000,000.00	-	-	35,000,000.00
Deposits pledged for long-term USD borrowing	39,143,170.54	6.6166	258,994,702.19	-	-	-
Deposits for letter of guarantee	-	-	21,235,365.77	-	-	20,379,624.20
Deposits for letter of guarantee in EUR	62,483.26	7.6515	478,090.66	-	-	-
Deposits for letter of Credit	-	-	46,800,000.00	-	-	-
Deposits for letter of Credit in EUR	-	-	-	74,056.26	7.8023	577,809.16
Other security deposit	-	-	503,422.87	-	-	502,664.40
Deposits for letter of Credit in USD	-	-	-	5,133.72	6.5342	33,544.74
Other capitals with limitations	-	-	371,550,800.00	-	-	178,143,900.00
<b>Subtotal</b>			<b>785,044,234.66</b>			<b>439,245,433.47</b>
<b>Capitals without limitations:</b>						
Deposit in Alipay, Tenpay, etc.	-	-	7,073,781.45	-	-	20,650,854.76
Other currency funds in EUR	73,607.88	7.6515	563,210.69	26,718.83	7.8023	208,468.32
Other currency funds in USD	3,145.38	6.6166	20,811.71	2,634.67	6.5342	17,215.47
Other currency funds in GBP	26,669.77	8.6551	230,829.55	-	-	-
<b>Subtotal</b>			<b>7,888,633.40</b>			<b>20,876,538.55</b>
<b>Total</b>			<b>792,932,868.06</b>			<b>460,121,972.02</b>

## 2. Financial assets valued at fair value through profit and loss

Unit: RMB

Item	Closing Balance	Opening Balance
Held-for-trading financial assets	20,549,980.77	4,100,657.54
including: derivative financial assets	20,549,980.77	4,100,657.54
Total	20,549,980.77	4,100,657.54

Derivative financial assets includes forwards, foreign exchange option contract and foreign exchange swap contracts, not designated as a hedging instrument, gains or losses due to changes in fair value is directly included in the current period profits and losses.

## 3. Notes receivable

### (1) Categories of notes receivable

Unit: RMB

Category	Closing Balance	Opening Balance
Bank acceptance bill	2,849,049,699.51	3,513,890,558.68
Commercial acceptance bill	252,819,302.89	123,071,057.35
Total	3,101,869,002.40	3,636,961,616.03

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

Unit: RMB

Category	Pledged amount by June 30 <sup>th</sup> 2018
Bank acceptance bill	50,360,052.08
Commercial acceptance bill	-
Total	50,360,052.08

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

Unit: RMB

Category	Derecognized amount (Note)	Not Derecognized amount
Bank acceptance bill	382,873,760.11	-
Commercial acceptance bill	-	-
Total	382,873,760.11	-

Note: Because the main risks related to such bank acceptance bill, such as interest rate risk, has been transferred to bank or others, therefore, those discounted and endorsed bank acceptance bills have been derecognized by the Group.

(4) As of June 30<sup>th</sup> 2018, there is no such case the Group has to transfer the defaulted note receivable into account receivable.

Notes to Financial Statements

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

**4. Accounts Receivable**

**(1) Disclosure of accounts receivable by categories**

Unit: RMB

Category	Closing Balance					Beginning Balance				
	Carrying amount		Bad debt provision		Carrying Value	Carrying amount		Bad debt provision		Carrying Value
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Amount	Proportion (%)	Amount	Proportion (%)	Amount
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Accounts receivable with provision accrued collectively on a portfolio basis for credit risk	18,274,373,362.27	100.00	1,324,747,049.56	7.25	16,949,626,312.71	15,839,958,044.79	100.00	1,134,747,971.98	7.16	14,705,210,072.81
Accounts receivable that are not individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>18,274,373,362.27</b>	<b>100.00</b>	<b>1,324,747,049.56</b>	<b>7.25</b>	<b>16,949,626,312.71</b>	<b>15,839,958,044.79</b>	<b>100.00</b>	<b>1,134,747,971.98</b>	<b>7.16</b>	<b>14,705,210,072.81</b>

Note: The Group categorizes a single account receivable in an amount above RMB 4 million and representing more than 10% of the total accounts receivable closing balance as accounts receivable that is individually significant.

**The aging analysis of bad debt provision of accounts receivable in portfolio basis**

Unit: RMB

Aging	Closing Balance		
	Carrying amount	Bad debt provision	Proportion (%)
Within 1 year	16,371,219,310.27	818,560,965.51	5.00
1-2 years	1,057,304,940.78	105,730,494.08	10.00
2-3 years	490,630,908.09	147,189,272.43	30.00
3-4 years	163,361,528.21	81,680,764.11	50.00
4-5 years	101,355,607.43	81,084,485.94	80.00
Over 5 years	90,501,067.49	90,501,067.49	100.00
<b>Subtotal</b>	<b>18,274,373,362.27</b>	<b>1,324,747,049.56</b>	<b>7.25</b>



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

In the current reporting period, the Company recorded a bad debt allowance of RMB 203,029,687.92; recollected bad debt RMB 77,136.00, reduced bad debt allowance balance for RMB 817,505.10 due to conversion of financial reports prepared in foreign currency.

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

In the current reporting period, the amount of accounts receivable write-off is RMB 12,290,241.24.

## (4) Top five debtors based on corresponding closing balance of account receivables

Unit: RMB

Name of the Party	Relationship with the Company	Book balance of accounts receivable	Closing balance for bad debt provision	Proportion (%)
Related party A	Related Party	608,025,206.51	30,778,298.66	3.33
Company A	Third party	461,542,521.39	23,061,755.21	2.53
Company B	Third party	125,371,495.37	6,268,574.77	0.69
Company C	Third party	111,786,543.37	5,589,327.17	0.61
Company D	Third party	94,965,065.79	5,596,834.68	0.52
Total		1,401,690,832.43	71,294,790.49	7.67

(5) As of June 30<sup>th</sup> 2018, there is no termination of accounts receivable booking due to transfer of a financial asset.

(6) As of June 30<sup>th</sup> 2018, the Group has no assets/liabilities booked due to transferred accounts receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

## 5. Prepayments

### (1) Aging analysis of prepayments is as follows

Unit: RMB

Aging	Closing Balance		Opening Balance	
	Carrying amount	Proportion (%)	Carrying amount	Proportion (%)
Within 1 year	361,712,125.74	89.72	481,603,579.15	91.29
1-2 years	35,341,335.99	8.77	38,258,814.47	7.25
2-3 years	5,730,111.18	1.42	7,480,653.49	1.42
Over 3 years	362,205.21	0.09	233,810.00	0.04
Total	403,145,778.12	100.00	527,576,857.11	100.00

### (2) Closing balances of top five prepayments parties

As of June 30<sup>th</sup> 2018, the Group's top five balances of prepayments amounted to RMB 148,933,362.87, accounting for 36.94% of total closing balance of prepayments.

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## 6. Other receivables

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

Unit: RMB

Category	Closing Balance					Opening Balance				
	Carrying amount		Bad debt provision		Carrying Value	Carrying amount		Bad debt provision		Carrying Value
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Amount	Proportion (%)	Amount	Proportion (%)	Amount
Other receivables that are individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Other receivables with provision accrued collectively on a portfolio basis for credit risk	556,888,974.42	100.00	59,280,753.47	10.64	497,608,220.95	641,690,488.45	100.00	58,009,247.64	9.04	583,681,240.81
Other receivables that are not individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>556,888,974.42</b>	<b>100.00</b>	<b>59,280,753.47</b>	<b>10.64</b>	<b>497,608,220.95</b>	<b>641,690,488.45</b>	<b>100.00</b>	<b>58,009,247.64</b>	<b>9.04</b>	<b>583,681,240.81</b>

Note: The group categorizes other receivables above RMB 4 million and accounts for more than 10% of the total other receivables closing balance as other receivable that is individually significant.

### The aging analysis of bad debt provision of other receivables in portfolio basis

Unit: RMB

Aging	Closing Balance		
	Carrying amount	Bad debt provision	Proportion (%)
Within 1 year	362,306,414.55	18,115,320.72	5.00
1-2 years	121,413,486.17	12,141,348.62	10.00
2-3 years	46,810,267.62	14,043,080.29	30.00
3-4 years	20,949,930.82	10,474,965.41	50.00
4-5 years	4,514,184.16	3,611,347.33	80.00
Over 5 years	894,691.10	894,691.10	100.00
<b>Total</b>	<b>556,888,974.42</b>	<b>59,280,753.47</b>	<b>10.64</b>

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

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

During the reporting period, the Company recorded a bad debt allowance of RMB 1,137,997.56; increased bad debt allowance of RMB 133,508.27 due to conversion of financial statements prepared in foreign currency; there is no such case as recollected or reversed bad debt allowance.

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

In current reporting period, the actual write-off of other receivables is nil.

## (4) Nature of other receivables

Unit: RMB

Nature of other receivables	Closing balance	Opening balance
Other receivables for interim payments	368,617,119.73	365,413,004.37
Guarantee deposits	159,896,659.66	199,237,401.53
Tax rebates for export	2,143,027.65	28,195,951.27
Acquisition of asset group	9,354,103.98	19,053,271.93
Investment intention fund	-	13,500,000.00
Others	16,878,063.40	16,290,859.35
Total	556,888,974.42	641,690,488.45

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

Unit: RMB

Entities	Nature	Carrying amount	Aging	Proportion of total (%)	Bad debt Provision
Hangzhou customs of the People's Republic of China.	Guarantee deposits	9,456,803.04	Within 1 year	1.70	472,840.15
The company E	Acquisition of asset group	9,354,103.98	1-2 years	1.68	935,410.40
People's Court	Guarantee deposits	6,858,813.80	Within 1 year	1.23	342,940.69
The company F	Guarantee deposits	6,438,709.55	Within 1 year	1.16	321,935.48
The company G	Guarantee deposits	4,163,208.70	Within 1 year	0.75	208,160.44
Total		36,271,639.07		6.52	2,281,287.16

(6) As of June 30<sup>th</sup> 2018, the Group does not have other receivables related to government subsidies.

(7) As of June 30<sup>th</sup> 2018, there is no termination of other receivables booking due to transfer of a financial asset.

(8) As of June 30<sup>th</sup> 2018, the Group has no assets/liabilities booked due to any transferred other receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## 7. Inventories

### (1) Categories of inventories

Unit: RMB

Category	Closing Balance			Opening Balance		
	Carrying amount	Provision for decline in value of inventories	Carrying value	Carrying amount	Provision for decline in value of inventories	Carrying value
Raw materials	1,510,230,536.00	4,869,424.13	1,505,361,111.87	1,279,086,935.83	4,092,497.08	1,274,994,438.75
Work-in-progress	320,388,789.39	-	320,388,789.39	196,583,804.97	-	196,583,804.97
Finished goods	3,936,652,726.16	303,322,097.84	3,633,330,628.32	3,598,361,044.81	190,211,526.56	3,408,149,518.25
Completed but unsettled assets formed by construction contracts	48,101,999.35	-	48,101,999.35	60,604,549.68	-	60,604,549.68
<b>Total</b>	<b>5,815,374,050.90</b>	<b>308,191,521.97</b>	<b>5,507,182,528.93</b>	<b>5,134,636,335.29</b>	<b>194,304,023.64</b>	<b>4,940,332,311.65</b>

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

Unit: RMB

Category	Opening balance	Increase in the current period	Decrease in the current period		Effect of foreign currency exchange difference	Closing Balance
			Reversals	write-offs		
Raw materials	4,092,497.08	850,372.18	-	73,445.13	-	4,869,424.13
Finished goods	190,211,526.56	120,879,640.53	-	8,259,398.64	490,329.39	303,322,097.84
<b>Subtotal</b>	<b>194,304,023.64</b>	<b>121,730,012.71</b>	<b>-</b>	<b>8,332,843.77</b>	<b>490,329.39</b>	<b>308,191,521.97</b>

Net realizable value of inventory is calculated based on estimated selling price less all estimated cost of completion and costs necessary to make the sale for inventories. The reversals or write-offs of provision for inventories in the current period are due to use or sale of inventories.

### (3) Completed but unsettled assets formed by construction contracts at the end of June 30<sup>th</sup> 2018.

Unit: RMB

Item	Amount
Accumulated occurred costs of construction	3,133,252,674.58
Accumulated booked gross profit margin	146,863,887.38
Less: estimated losses	-
Settled amounts	2,169,124,845.38
Completed but unsettled assets formed by construction contracts	1,110,991,716.58
Including: other non-current assets (Note (V) 18)	1,062,889,717.23
<b>Inventories</b>	<b>48,101,999.35</b>

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

### 8. Non-current assets due within one year

Unit: RMB

Item	Closing Balance	Opening Balance
Long-term receivables due within one year (Note (V) 11)	76,858,384.20	66,566,230.12
Total	76,858,384.20	66,566,230.12

### 9. Other current assets

Unit: RMB

Item	Closing balance	Opening balance
Principal-guaranteed bank finance products (Note)	900,000,000.00	3,390,000,000.00
Deductible VAT input	453,906,410.87	286,332,435.43
Prepaid income tax	44,302,660.75	42,645,678.02
Prepaid tariff	19,527,904.79	-
Others	5,275,997.64	1,471,419.43
Total	1,423,012,974.05	3,720,449,532.88

Note: Those are bank entrusted financial products bought by the Group, which are all principal-guaranteed, with a termination period less than one year. Therefore, the management team agreed that there won't be significant differences between the estimated interests and risks of those bank entrusted financial products and the book value of those products.

### 10. Available-for-sale financial assets

#### (1) Available-for-sale financial assets

Unit: RMB

Item	Closing Balance			Opening Balance		
	Carrying amount	Provision for decline in value	Carrying Value	Carrying amount	Provision for decline in value	Carrying Value
Available-for-sale equity instruments	287,466,813.00	-	287,466,813.00	287,466,813.00	-	287,466,813.00
Cost method	287,466,813.00	-	287,466,813.00	287,466,813.00	-	287,466,813.00
Total	287,466,813.00	-	287,466,813.00	287,466,813.00	-	287,466,813.00

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

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

Unit: RMB

The invested entity (Note 1)	Carrying Balance				Provision for decline in value				Proportion of shareholding in the invested entity (%)	Cash dividend in the current reporting period
	Opening balance	Increase	Decrease	Closing balance	Opening balance	Increase	Decrease	Closing balance		
Zhejiang Tuxun Technology Co., Ltd. (浙江图讯科技股份有限公司)	32,430,800.00		-	32,430,800.00	-	-	-	-	8.1318	-
Hangzhou Confirmware Technology Co., Ltd. (康奋威科技(杭州)有限公司)	26,629,200.00	-	-	26,629,200.00	-	-	-	-	9.5238	-
Nanwang Group Ltd. (南望信息产业集团有限公司)	604,313.00	-	-	604,313.00	-	-	-	-	0.2518	-
Hangzhou Hikvision Equity Investment Partnership (Limited Partnership) (杭州海康威视股权投资合伙企业(有限合伙))	10,000.00	-	-	10,000.00	-	-	-	-	0.0017	-
CETC Finance Ltd. (Note2) (中国电子科技财务有限公司)	227,792,500.00	-	-	227,792,500.00	-	-	-	-	3.8300	12,256,000.00
<b>Total</b>	<b>287,466,813.00</b>		-	<b>287,466,813.00</b>	-	-	-	-	-	<b>12,256,000.00</b>

Note1: The Group's equity investments listed are all non-listed companies; and the Group has no control, joint control or significant influence on the invested entities.

Note2: CETC Finance Co., Ltd is one of the companies held under CETC, which is the Company's ultimate controlling shareholder.

## 11. Long-term receivables

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

Unit: RMB

Item	Closing balance			Opening balance			Range of discount rate
	Carrying amount	Provision for decline in value	Carrying value	Carrying amount	Provision for decline in value	Carrying value	
Financial leases receivables	91,135,768.30	-	91,135,768.30	89,941,910.73	-	89,941,910.73	0.54% - 6.05%
Including: Unrealized income from financing	1,473,965.14	-	1,473,965.14	2,516,655.49	-	2,516,655.49	-
Long-term receivables for project	21,490,062.88	-	21,490,062.88	-	-	-	-
Including: Unrealized income from financing	2,772,208.48	-	2,772,208.48	-	-	-	-
Less: Financial leases receivables due within one year (Note (V) 8)	76,858,384.20	-	76,858,384.20	66,566,230.12	-	66,566,230.12	-
<b>Total</b>	<b>35,767,446.98</b>	-	<b>35,767,446.98</b>	<b>23,375,680.61</b>	-	<b>23,375,680.61</b>	-

(2) As of June 30<sup>th</sup> 2018, there is no termination of long-term receivables booking due to transfer of a financial asset.

(3) As of June 30<sup>th</sup> 2018, the Group has no assets/liabilities booked due to any transferred long-term receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

**12. Long-term equity investment**

Unit: RMB

The invested entity	Opening Balance	Decrease/Increase in the current period								Closing Balance	Closing balance for impairment provision
		Additional Investments	Investment reduction	Investment Profit (Loss) recognized under the equity Method	Adjustment: Other comprehensive income	Other Changes in equity	Declaration of cash dividends or profit distribution	Impairment provision	others		
Associated Companies											
Wuhu Sensor Technology Ltd.	38,207,959.74	-	-	(605,746.30)	-	-	-	-	-	37,602,213.44	-
Maxio Technology (Hangzhou) Ltd.	92,266,773.84	27,000,000.00	-	3,143,836.99	-	-	-	-	-	122,410,610.83	-
Total	130,474,733.58	27,000,000.00	-	2,538,090.69	-	-	-	-	-	160,012,824.27	-

Note: According to the *Equity Capital Increase Agreements* signed between the Company and Maxio Technology and its shareholders, the Company increased capital investment of RMB 27 million on Maxio Technology, and increased capital has been paid in June 2018. After this capital increment, the Group together is holding 47.64% equity of Maxio Technology. The board of Maxio Technology consists of three directors, one of whom is appointed by the Group to exert a significant influence on the Maxio Technology.

## 13. Fixed Assets

### (1) Details of fixed assets

Unit: RMB

Items	Building and construction	General-purpose equipment	Special-purpose equipment	Transportation vehicles	Total
<b>Total original carrying amount</b>					
1. Opening balance	2,635,572,180.62	232,106,450.97	927,755,822.62	62,377,196.97	3,857,811,651.18
2. Increase in the period	1,067,341,191.19	117,324,130.17	55,154,871.87	11,318,473.06	1,251,138,666.29
1) purchase	1,212,842.79	117,149,000.75	54,291,811.11	11,318,473.06	183,972,127.71
2) transferred from construction in progress	1,066,128,348.40	175,129.42	863,060.76	-	1,067,166,538.58
3. Decrease in the period	6,131,002.53	3,070,909.12	993,652.80	3,249,727.02	13,445,291.47
1) disposal or write-off	6,131,002.53	3,070,909.12	993,652.80	3,249,727.02	13,445,291.47
4. Effect of foreign currency exchange difference	(98,323.28)	(1,483,344.56)	(233,770.70)	(149,346.33)	(1,964,784.87)
5. Closing Balance	3,696,684,046.00	344,876,327.46	981,683,270.99	70,296,596.68	5,093,540,241.13
<b>Accumulated depreciation</b>					
1. Opening balance	388,100,028.52	84,717,617.61	320,033,092.54	40,935,416.20	833,786,154.87
2. Increase in the period	78,415,711.77	27,919,628.72	86,634,800.68	3,221,788.22	196,191,929.39
(1) provided	78,415,711.77	27,919,628.72	86,634,800.68	3,221,788.22	196,191,929.39
3. Decrease in the period	2,172,525.16	4,905,984.78	289,612.93	2,945,024.45	10,313,147.32
(1) disposal or write-off	2,172,525.16	4,905,984.78	289,612.93	2,945,024.45	10,313,147.32
4. Effect of foreign currency exchange difference	(122,731.35)	(830,137.59)	(240,974.71)	(74,296.44)	(1,268,140.09)
5. Closing balance	464,220,483.78	106,901,123.96	406,137,305.58	41,137,883.53	1,018,396,796.85
<b>Provision for decline in value</b>					
1. Opening balance	-	-	-	-	-
2. Increase in the period	-	-	-	-	-
3. Decrease in the period	-	-	-	-	-
4. Closing balance	-	-	-	-	-
<b>Total carrying value</b>					
1. Closing balance	3,232,463,562.22	237,975,203.50	575,545,965.41	29,158,713.15	4,075,143,444.28
2. Opening balance	2,247,472,152.10	147,388,833.36	607,722,730.08	21,441,780.77	3,024,025,496.31

(2) As of June 30<sup>th</sup> 2018, the Group did not have any significant idle fixed assets.

(3) As of June 30<sup>th</sup> 2018, the Group had not leased any fixed asset through financial leasing.

(4) As of June 30<sup>th</sup> 2018, the Group had not rent out any fixed asset through operating leasing

(5) Fixed assets of which certificates of title have not been granted as of June 30<sup>th</sup> 2018.

Unit: RMB

Item	Carrying amount	Reason for certificates of title not granted
Office building for branches	34,309,673.46	In the process of obtaining the real estate certificates
Internet Security Industry Base	1,038,453,318.96	In the process of obtaining the real estate certificates
Tonglu Security Industrial Base-the factory and dormitory	604,239,043.58	In the process of obtaining the real estate certificates after transferred from construction in process to fixed assets
Total	1,677,002,036.00	



Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## 14. Construction in progress

### (1) Details of construction in progress

Unit: RMB

Item	Closing balance			Opening balance		
	Carrying amount	Provision	Carrying value	Carrying amount	Provision	Carrying value
Security industrial base (Tonglu) -Phase 2	370,833,169.98	-	370,833,169.98	300,688,913.96	-	300,688,913.96
Internet Security Industry Base	-	-	-	914,014,265.08	-	914,014,265.08
Chongqing Manufacture Base	171,027,046.32	-	171,027,046.32	89,393,611.81	-	89,393,611.81
Public Security Monitoring Site Project	125,083,638.33	-	125,083,638.33	105,039,082.92	-	105,039,082.92
Others	38,787,832.53	-	38,787,832.53	27,183,244.53	-	27,183,244.53
<b>Total</b>	<b>705,731,687.16</b>	<b>-</b>	<b>705,731,687.16</b>	<b>1,436,319,118.30</b>	<b>-</b>	<b>1,436,319,118.30</b>

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

Unit: RMB

Item	Budget (RMB 0,000)	Opening balance	Increase in the period	Transferred to fixed assets during the current period	Effect of foreign currency exchange difference	Closing balance	Amount invested as a proportion of budget amount (%)	Construction in Progress (%)	Accumulated capitalized interest and profit/loss on exchange (Note 1)	Including: capitalized interest and profit/loss on exchange for the current period	Capitalization rate for interest in the current period (%)	Source of funds
Internet Security Industry Base	105,786.91	914,014,265.08	143,854,825.81	1,057,869,090.89	-	-	100%	100%	230,188,228.59	23,416,716.68	1.25%	Bond
Security industrial (Tonglu) base-Phase 2	53,379.68	300,688,913.96	70,144,256.02	-	-	370,833,169.98	69%	69%	(90,040,971.72)	(90,040,971.72)	1.25%	Bond
Chongqing Manufacture Base	25,500.00	89,393,611.81	81,633,434.51	-	-	171,027,046.32	67%	67%	-	-	-	Self-financing
Others	-	132,222,327.45	40,673,861.72	9,297,447.69	272,729.38	163,871,470.86	-	-	-	-	-	Self-financing
<b>Total</b>	<b>184,666.59</b>	<b>1,436,319,118.30</b>	<b>336,306,378.06</b>	<b>1,067,166,538.58</b>	<b>272,729.38</b>	<b>705,731,687.16</b>	<b>-</b>	<b>-</b>	<b>140,147,256.87</b>	<b>(66,624,255.04)</b>	<b>-</b>	

Note 1: This amount is calculated by interest expense for specific foreign currency borrowings, less interest income for unused borrowing fund and profit/loss on exchange rate difference.

As of June 30<sup>th</sup> 2018, the Group did not have any sign of impairment of projects under construction; therefore, no provision for impairment loss was booked.

## 15. Intangible assets

### (1) Details of Intangible assets

Unit: RMB

Item	Land use right	Intellectual property right	Application Software	Total
<b>Total original carrying amount</b>				
1. Opening balance	324,362,066.44	39,269,042.11	182,640,105.31	546,271,213.86
2. Increased	360,882,783.89	-	37,489,212.46	398,371,996.35
(1) Purchase	360,882,783.89	-	37,489,212.46	398,371,996.35
3. Decreased	-	-	-	-
(1) Disposal or write-off	-	-	-	-
4. Effect of foreign currency exchange difference	-	(14,263.40)	(619,786.92)	(634,050.32)
5. Closing balance	685,244,850.33	39,254,778.71	219,509,530.85	944,009,159.89
<b>Total accumulated amortization</b>				
1. Opening balance	18,571,240.39	12,058,812.00	86,480,178.84	117,110,231.23
2. Increased	9,723,302.43	3,358,550.22	14,490,391.27	27,572,243.92
(1) Provided	9,723,302.43	3,358,550.22	14,490,391.27	27,572,243.92
3. Decreased	-	-	-	-
(2) Disposal or write-off	-	-	-	-
4. Effect of foreign currency exchange difference	-	(12,108.51)	(482,954.85)	(495,063.36)
5. Closing balance	28,294,542.82	15,405,253.71	100,487,615.26	144,187,411.79
<b>Provision for decline in value</b>				
1. Opening balance	-	-	-	-
2. Increased	-	-	-	-
3. Decreased	-	-	-	-
4. Closing balance	-	-	-	-
<b>Total carrying value</b>				
Closing carrying value	656,950,307.51	23,849,525.00	119,021,915.59	799,821,748.10
Opening carrying value	305,790,826.05	27,210,230.11	96,159,926.47	429,160,982.63

## 16. Goodwill

### (1) Goodwill book value

Unit: RMB

The invested entity	Opening balance	Increased	Decreased	Effect of foreign currency exchange difference	Closing balance
		Business combination not involving enterprises under common control	Disposal		
ZAO Hikvision	67,349.64	-	-	-	67,349.64
Beijing Brainaire Storage Technology Ltd. (北京邦诺存储科技有限公司)	42,695,573.44	-	-	-	42,695,573.44
Henan HuaAn Intelligence Development Ltd. (河南华安保全智能发展有限公司) and its subsidiaries	61,322,871.63	-	-	-	61,322,871.63
Hundure Technology (Shanghai) Ltd. (汉军智能系统(上海)有限公司)	13,774,405.88	-	-	-	13,774,405.88
Hangzhou Haikang Zhicheng Investment and Development Ltd. (杭州海康智城投资发展有限公司)	12,573.42	-	-	-	12,573.42
Secure Holdings Limited (SHL)	131,091,328.96	-	-	(2,533,685.25)	128,557,643.71
<b>Total</b>	<b>248,964,102.97</b>	<b>-</b>	<b>-</b>	<b>(2,533,685.25)</b>	<b>246,430,417.72</b>

## (2) Provision of impairment in goodwill

The key assumptions used in the Group's annual impairment test performed for goodwill at the end of the reporting period:

The recoverable amounts of the relevant assets have been determined on the discounted present value of the future cash flow projections. The cash flow projections are based on 2018-2022 Financial Budgets approved by management covering a 5-year period, with discount rates of 18% to 20%. The sets of cash flows beyond the 5-year period are projected without growth. This growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. Expected cash inflows/outflows, considering budgeted net sales, cost of revenue and operating expenses, have been determined by management based on past performance and expectations for the future market development.

There was no case recognized that the recoverable amount of the goodwill is less than the carrying value of the goodwill, therefore, no provision for impairment loss was booked during the current period.

## 17. Deferred tax assets/deferred tax liabilities

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

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Provision for impairment losses of assets	1,490,664,815.07	302,124,254.34	1,162,036,595.26	252,830,021.37
Payroll payables	253,384,576.51	38,007,686.48	253,384,576.51	38,007,686.48
Share-based compensation	283,919,601.52	43,330,181.30	208,856,209.85	32,070,672.55
Provisions	48,871,158.60	7,330,673.79	43,024,784.70	6,453,717.71
Unrealized profit from inter-group transactions	905,602,799.99	135,840,420.01	978,313,377.64	146,747,006.65
Changes in the fair value of derivative financial instruments	37,885,338.00	9,471,334.50	15,946,836.46	3,986,709.12
Total	3,020,328,289.69	536,104,550.42	2,661,562,380.42	480,095,813.88

### (2) Deferred tax liabilities that are not presented on net off basis

Unit: RMB

Item	Closing balance		Opening balance	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Changes in the fair value of derivative financial instruments	20,549,980.77	5,137,495.19	4,100,657.54	1,025,164.39
Total	20,549,980.77	5,137,495.19	4,100,657.54	1,025,164.39

### (3) Deferred tax assets or deferred tax liabilities that are presented at the net amount after offset

Unit: RMB

Item	Closing balance		Opening balance	
	Offset amount	Deferred tax assets or liabilities at the net amount after offset	Offset amount	Deferred tax assets or liabilities at the net amount after offset
Deferred tax assets	5,137,495.19	530,967,055.23	1,025,164.39	479,070,649.49
Deferred tax liabilities	5,137,495.19	-	1,025,164.39	-

**18. Other non-current assets**

Unit: RMB

Item	Closing balance	Opening balance
Completed but unsettled assets formed by construction contracts (Note (V) 7)	1,062,889,717.23	488,178,801.99
Prepayments for acquisition of land	185,680,000.05	314,410,044.45
Prepayments for purchase of equipment	134,309,321.97	52,356,860.27
Prepayments for infrastructure	50,767,824.03	3,850,961.42
Prepayments for project deposit	13,305,682.50	-
<b>Total</b>	<b>1,446,952,545.78</b>	<b>858,796,668.13</b>

**19. Short-term borrowings**

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

Unit: RMB

Item	Closing balance	Opening balance
Fiduciary loan	83,845,381.13	10,492,107.52
Guaranteed loans	2,753,963,797.71	74,622,548.39
Pledged loans	558,994,702.19	12,000,000.00
<b>Total</b>	<b>3,396,803,881.03</b>	<b>97,114,655.91</b>

(2) As of June 30<sup>th</sup> 2018, the Group did not have any overdue short-term loans that were failed to repay.

**20. Financial liabilities booked at fair value, and differences in fair value booked through profit or loss in the current period**

Unit: RMB

Item	Closing balance	Opening balance
Held-for-trading financial liabilities	38,501,338.00	15,946,836.46
Including: derivative financial liabilities	38,501,338.00	15,946,836.46
<b>total</b>	<b>38,501,338.00</b>	<b>15,946,836.46</b>

Derivative financial liabilities include foreign exchange structured options, forward foreign exchange contracts and foreign exchange swap contracts, not designated as a hedging instrument, gains or losses due to changes in fair value is directly included in the current period profits and losses.

**21. Notes payable**

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance Bill	705,958,442.30	845,397,427.92
<b>Total</b>	<b>705,958,442.30</b>	<b>845,397,427.92</b>

As of June 30<sup>th</sup> 2018, the Group did not have any unpaid matured notes payable.

**22. Accounts payable**

## (1) List of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Loans	7,094,668,924.28	9,948,393,218.09
Payables on equipment	93,216,230.84	91,549,794.17
Total	7,187,885,155.12	10,039,943,012.26

As of June 30<sup>th</sup> 2018, the Group did not have any significant accounts payable with aging above one year.

## 23. Receipts in advance

### (1) List of receipts in advance

Unit: RMB

Item	Closing balance	Opening balance
Advanced receipts from sales of goods	375,781,816.67	417,208,664.56
Advanced receipts from construction contracts	238,455,160.08	153,364,544.04
Total	614,236,976.75	570,573,208.60

(2) As of June 30<sup>th</sup> 2018, the Group did not have any significant receipts in advance with aging above one year

## 24. Payroll payable

### (1) Details of payroll payable

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
1.Short-term remuneration	1,387,542,162.19	3,006,366,358.92	3,391,780,039.63	1,002,128,481.48
2. Termination benefits – defined contribution scheme	3,749,094.71	193,976,960.69	192,282,381.50	5,443,673.90
Total	1,391,291,256.90	3,200,343,319.61	3,584,062,421.13	1,007,572,155.38

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

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
1.Wages or salaries, bonuses, allowances and subsidies	1,317,396,875.01	2,649,676,954.75	3,049,346,034.74	917,727,795.02
2.Staff welfare	5,090,949.83	59,897,504.02	57,466,268.71	7,522,185.14
3.Social insurance contributions	3,010,470.90	129,813,113.99	130,066,233.11	2,757,351.78
Including: medical insurance	2,966,831.43	113,906,382.70	114,313,367.49	2,559,846.64
injury insurance	9,592.94	4,645,011.86	4,598,305.42	56,299.38
maternity insurance	34,046.53	11,261,719.43	11,154,560.20	141,205.76
4.Housing funds	109,455.82	122,052,303.91	121,985,358.23	176,401.50
5.Labor union and education fund	61,934,410.63	44,926,482.25	32,916,144.84	73,944,748.04
subtotal	1,387,542,162.19	3,006,366,358.92	3,391,780,039.63	1,002,128,481.48

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

Unit: RMB

Item	Opening balance	Increase in the current period	Decrease in the current period	Closing balance
Basic pension insurance	3,530,623.96	187,145,947.05	185,383,693.01	5,292,878.00
Unemployment insurance	218,470.75	6,831,013.64	6,898,688.49	150,795.90
Subtotal	3,749,094.71	193,976,960.69	192,282,381.50	5,443,673.90

Note:

During the reporting periods, the employees of the Company are the members of state-managed retirement benefit plan, and unemployment insurance plan, operated by the respective governments of these jurisdictions. The Group is required to contribute specified percentage out of payroll costs to the retirement benefit schemes and unemployment insurance schemes to fund the benefits. The Group has no other material obligation for the payment of pension benefits beyond the contributions described above, and corresponding expenses are booked into profits and losses of related assets during the current period.

### 25. Taxes payable

Unit: RMB

Item	Closing balance	Opening balance
Enterprise income tax	929,904,350.95	1,099,786,533.85
Value-added tax	151,994,941.81	281,447,062.92
City construction and maintenance tax	18,422,011.59	19,789,046.85
Education surcharges	7,927,264.03	8,501,502.81
Local education surcharges	5,307,068.96	5,666,165.96
Others	97,350,102.59	38,324,753.38
Total	1,210,905,739.93	1,453,515,065.77

### 26. Dividends payable

Unit: RMB

Item	Closing balance	Opening balance
Dividends of restricted shares (Share Incentive Scheme)	117,467,640.92	92,407,139.16
Dividends of ordinary shares	2,450,000.00	2,450,000.00
Total	119,917,640.92	94,857,139.16

### 27. Other payables

#### (1) List of other payables according to the nature of the payment

Unit: RMB

Item	Closing balance	Opening balance
Guarantee and deposit fees	155,812,879.61	145,730,079.74
Collection and payment on behalf	105,867,575.53	87,921,755.93
Accrued expenses	229,370,017.82	149,359,652.21
Others	19,942,057.62	18,849,590.79
Total	510,992,530.58	401,861,078.67

Note: As of June 30<sup>th</sup> 2018, the Group does not have any significant other payables aging over one year.

## 28. Non-current liabilities due within one year

Unit: RMB

Item	Closing balance	Opening balance
Long-term borrowings due within one year (Note (V) 30)	800,883,116.82	1,512,793,252.38
Bonds Payable due within one year (Note (V) 31)	3,073,584,089.06	33,614,018.51
Long-term payables due within one year	3,874,473.76	-
Total	3,878,341,679.64	1,546,407,270.89

## 29. Other current liabilities

Unit: RMB

Item	Closing balance	Opening balance
Subscription payment of restricted shares	681,816,656.89	744,583,627.22
Total	681,816,656.89	744,583,627.22

## 30. Long-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Pledged loan (Note 1)	300,000,000.00	310,473,667.00
Guaranteed loans	500,000,000.00	1,500,000,000.00
Fiduciary loan	883,116.82	2,319,585.38
Other borrowing (Note 2)	190,000,000.00	190,000,000.00
Less: Long-term loans due within one year (Note (V) 30)	800,883,116.82	1,512,793,252.38
Total	190,000,000.00	490,000,000.00

As of June 30<sup>th</sup> 2018, the GBP loans, with carrying value of RMB 453,183.55, carry annual interest rate of 2.5% (December 31<sup>st</sup> 2017: 2.40% to 2.50%); The INR loans, with carrying value of RMB 429,933.27, carry annual interest rate ranging from 8.65% to 10.20% (December 31<sup>st</sup> 2017: nil); the RMB loan, with carrying value RMB 990,000,000.00, carry annual interest rate ranging from 1.20% to 3.05% (December 31<sup>st</sup> 2017: 2.65% to 5.00%).

Note 1: As of June 30<sup>th</sup> 2018, the Group's RMB 300,000,000.00 pledged loan was pledged by VAT Rebate Account under the Company's wholly-owned subsidiary, Hangzhou HIK Science and Technology Co., Ltd., the balance of VAT Rebate Account is not less than RMB 5,000,000.00 according to the contract, maturity date is November 14<sup>th</sup> 2018, annual interest rate is 2.65%. Besides, the Company bore joint liability guarantee for the loan.

Note 2: During 2016, the Group entered into an agreement with CDB Development Fund(国开发展基金, as "CDBDF") to jointly inject capital into Hikvision Electronics Co., Ltd. ("Hangzhou Electronics"), a subsidiary of the Group. Pursuant to the capital injection agreement, CDBDF would not participate in senior management personnel such as directors, and it would either take part in decision-making or make significant influence on Hangzhou Electronics. The Group shall pay a 1.2% annualized return to CDBDF through dividends or interest payments, and the Group is required to redeem the CDBDF's equity investment in the current period by installments each year from 2021 to 2024. Therefore, the capital injection by CDBDF is treated as a long-term loan. As of June 30<sup>th</sup> 2018, CDBDF has aggregately invested RMB 190 million (December 31<sup>st</sup> 2017: RMB 190 million).

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## 31. Bonds payable

### (1) Bonds payable

Unit: RMB

Item	Closing balance	Opening balance
Euro Bond (Note)	-	3,120,920,000.00
Total	-	3,120,920,000.00

### (2) Change in bond payable balance

Unit: RMB

Item	Face value	Issue Date	Maturity	Issuance	Opening balance	Opening balance due within one year	Effects of changes in Foreign exchange	Interests expenses accrued based on the principal amount	Repayments in the current reporting period	Less: Amount due within one year (Note (V) 28)	Closing balance
Irish Euro Bond (Note)	Euro 400,000,000.00	February 18 <sup>th</sup> 2016	3 years	2,903,120,000.00	3,120,920,000.00	33,614,018.51	(61,058,929.45)	19,218,000.00	39,109,000.00	3,073,584,089.06	-
Total	Euro 400,000,000.00			2,903,120,000.00	3,120,920,000.00	33,614,018.51	(61,058,929.45)	19,218,000.00	39,109,000.00	3,073,584,089.06	-

Note: On February 3<sup>rd</sup>, 2016, the Company publically issued the bond with nominal value amounting to Euro 400 million ("Euro Bond"); and the bond was settled, listed and traded on the Irish Stock Exchange on February 18<sup>th</sup>, 2016. The Euro Bond has a maturity term for 3 years, maturity date is February 18<sup>th</sup>, 2019, the issuance price of the bond is 99.959% of the principal value, and coupon rate is 1.25%, with interest payment date of February 18<sup>th</sup> per annum, and one-time principal repayment on maturity date. The Euro Bond is mainly used for constructions of the Company's Security Industry Base (Tonglu), the Internet Security Industry Base, and other projects.



## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

### 32. Provisions

Unit: RMB

Item	Closing balance	Opening balance
Product warranty	74,480,717.05	63,068,638.49
Total	74,480,717.05	63,068,638.49

### 33. Deferred income

Unit: RMB

Item	Opening balance	Increase in current Period	Decrease in current period	Closing balance	Details
Cloud storage service income	26,022,171.65	55,361,354.76	37,539,496.33	43,844,030.08	Note 1
Government Subsidies	62,903,600.00	81,274,800.00	18,510,236.99	125,668,163.01	Note 2
Total	88,925,771.65	136,636,154.76	56,049,733.32	169,512,193.09	

 As of June 30<sup>th</sup> 2018, the deferred income related to government subsidies:

Unit: RMB

Liability Items	Opening Balance	Increase in current Period	Amounts booked into other income	Other changes	Closing Balance	Related to assets/related to incomes
Projects of core electronic devices, high-end universal chips and basic software products	38,714,300.00	81,274,800.00	18,510,236.99	-	101,478,863.01	Related to incomes
Chongqing Manufacturing Base construction	24,189,300.00	-	-	-	24,189,300.00	Related to assets
Subtotal	62,903,600.00	81,274,800.00	18,510,236.99	-	125,668,163.01	

Note 1: This is revenue related to cloud storage service, video service, and telephone service that the Group provides to its customers; and the Group recognized the revenue accordingly during the period the service is actually provided.

Note 2: Refer to government subsidies received by the Group for projects of core electronic devices, high-end universal chip and basic software products, and for Chongqing Manufacturing Base construction; Actual expenses occurred in the current year for projects of core electronic devices, high-end universal chips and basic software products were recognized in non-operating income; and relevant assets for Chongqing Manufacturing Base construction were amortized averagely into current profits or losses within the assets' useful lives.

### 34. Share capital

Unit: RMB

	Opening balance	Changes for the current period					Closing balance
		New issue of shares (Note 1)	Bonus issue	Transfer from Capital Reserve	Others (Note 1)	Subtotal	
2018.06.30							
Total shares	9,228,865,114.00	-	-		(1,594,641.00)	(1,594,641.00)	9,227,270,473.00

Note 1: On December 15<sup>th</sup> 2017, pursuant to the *Articles of Association* of the Company revised by the resolution of 26<sup>th</sup> General Meeting of 3<sup>rd</sup> session Board of Directors authorized by the first Extraordinary General Meeting in 2014, the Company repurchased and cancelled 1,594,641 granted but restricted RMB treasury shares by cash, and the total share capital of the Company decreased by RMB 1,594,641.00, capital reserve decreased by RMB 4,961,105.33. The registration procedures were completed on March 30<sup>th</sup> 2018.

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

### 35. Capital reserves

Unit: RMB

Item	Opening balance	Increase in the current period (Note 1)	Decrease in the current period (note 2)	Closing balance
2018.06.30				
Share premium	1,594,317,396.71	-	7,087,109.11	1,587,230,287.60
Other capital reserves	225,080,318.92	80,498,800.50	-	305,579,119.42
<b>Total</b>	<b>1,819,397,715.63</b>	<b>80,498,800.50</b>	<b>7,087,109.11</b>	<b>1,892,809,407.02</b>

Note 1: The increase of RMB 80,498,800.50 in other capital reserves is due to recognition of equity investment payments into capital reserve; please refer to Note (XI).

Note 2: The decrease of RMB 4,961,105.33 in share premium was due to the Company's repurchase of 1,594,641 granted but restricted RMB treasury shares by cash, please refer to Note (V) 34-Note 1; The decrease of RMB 2,126,003.78 in share premium was due to share distributions by equity settlements to minority shareholders.

### 36. Treasury shares

Unit: RMB

Item	Opening Balance	Increase in the current year	Decrease in the current year (Note 1)	Closing balance
2018.06.30				
Restricted shares incentive scheme	744,583,627.22	-	62,766,970.33	681,816,656.89
<b>Total</b>	<b>744,583,627.22</b>	<b>-</b>	<b>62,766,970.33</b>	<b>681,816,656.89</b>

Note 1: The decrease of RMB 6,555,746.33 in treasury shares was due to the repurchase and cancellation of 1,594,641 restricted RMB ordinary shares of 2014 Restricted Share Incentive Scheme; and a decrease of RMB 56,211,224.00 in treasury shares was due to provision of cash dividend allocated to restricted shareholders.

### 37. Other comprehensive income

Unit: RMB

Item	Opening balance	Change for the period					Closing balance
		Before tax balance	Less: transfer to current period P/L from previous other comprehensive income	Less: income tax expense	Attributable to the owner of the Company (after tax)	Attributable to minority interest (after tax)	
2018.06.30							
Other incomes that may be reclassified subsequently to profit or loss	(27,677,939.35)	(14,284,828.74)	-	-	(12,898,545.71)	(1,386,283.03)	(40,576,485.06)
Included: Effect on conversion of financial statements denominated in foreign currencies	(27,677,939.35)	(14,284,828.74)	-	-	(12,898,545.71)	(1,386,283.03)	(40,576,485.06)
<b>Other comprehensive income</b>	<b>(27,677,939.35)</b>	<b>(14,284,828.74)</b>	<b>-</b>	<b>-</b>	<b>(12,898,545.71)</b>	<b>(1,386,283.03)</b>	<b>(40,576,485.06)</b>

### 38. Surplus reserves

Unit: RMB

Item	Surplus reserve	Increase in the current period	Decrease in the current period	Closing balance
2018.06.30				
Statutory surplus reserve	3,483,742,918.53	-	-	3,483,742,918.53
<b>Total</b>	<b>3,483,742,918.53</b>	<b>-</b>	<b>-</b>	<b>3,483,742,918.53</b>

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

### 39. Retained earnings

Unit: RMB

Item	2018 First Half Year	2017 First Half Year
Retained Earnings at the close of previous reporting period before adjustment	16,598,328,692.63	14,866,457,856.65
Business merger involving enterprises under common control	-	(9,679,463.77)
Adjusted retained earnings at the beginning of the period	16,598,328,692.63	14,856,778,392.88
Add: Net profit attributable to owners of the Company for the current period	4,147,395,535.86	3,291,546,056.70
Less: Dividends on ordinary shares payable (Note)	4,613,635,236.50	3,728,583,103.20
Bonus shares (Note)	-	3,076,288,371.00
Retained earnings at the end of the period	16,132,088,991.99	11,343,452,975.38

Note: According to the resolution of 2017 annual General Meeting dated on May 11<sup>th</sup> 2018, based upon the total capital share of the Company on the equity distribution date, for each 10 ordinary shares, the company proposed distributing cash dividends of RMB 5 (tax inclusive), the rest of retained earnings were all carried forward for future distributions.

### 40. Operating income/operating cost

Unit: RMB

Item	2018 First Half Year		2017 First Half Year	
	Revenue	Cost	Revenue	Cost
Operating income	20,666,389,810.48	11,489,340,600.25	16,190,840,525.65	9,290,852,501.98
Other operating income	209,368,414.15	96,958,225.82	256,699,210.87	129,842,522.86
Total	20,875,758,224.63	11,586,298,826.07	16,447,539,736.52	9,420,695,024.84

### 41. Business Taxes and Surcharges

Unit: RMB

Items	2018 First Half Year	2017 First Half Year
Business tax	-	1,889,150.09
City construction and maintenance tax	88,734,456.82	81,381,228.77
Education surcharges	38,163,736.90	36,835,581.00
Local education surcharges	25,421,753.02	28,681,113.91
Real estate tax	11,677,622.92	15,144,057.60
Tax on use of land	2,797,148.26	1,104,700.47
Stamp duty	9,553,973.80	8,924,393.79
Vehicle and vessel tax	155,796.31	272,370.07
Others	1,386,130.57	-
Total	177,890,618.60	174,232,595.70

### 42. Financial Expenses

Unit: RMB

Items	2018 First Half Year	2017 First Half Year
Interest expenses	81,772,282.07	81,683,226.19
Less: Interest income	217,425,369.68	159,445,016.70
Effect on changes in foreign exchange	(105,663,396.52)	346,869,555.21
Less : Foreign exchange differences on specific loan and the capitalized specific loan interests	(66,624,255.04)	212,883,858.92
Others	16,170,911.28	9,276,721.87
Total	(158,521,317.81)	65,500,627.65

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

### 43. Impairment losses of assets

Unit: RMB

Items	2018 First Half Year	2017 First Half Year
Bad debt provision	204,167,685.48	212,178,792.88
Inventory provision	121,730,012.71	39,559,582.08
Total	325,897,698.19	251,738,374.96

### 44. Profits (losses) from changes in fair values

Unit: RMB

Sources of gains/losses from changes in fair values	2018 First Half Year	2017 First Half Year
Financial assets at fair value through profits and losses	16,449,323.23	(12,543,365.42)
Including: Profits (losses) on the changes in fair value of derivative financial instruments	16,449,323.23	(12,543,365.42)
Financial liabilities at fair value through profits and losses	(22,551,871.25)	51,095,855.83
Including: Profits (losses) on the changes in fair value of derivative financial instruments	(22,551,871.25)	51,095,855.83
Total	(6,102,548.02)	38,552,490.41

### 45. Investment income

#### (1) Details of investment income

Unit: RMB

Item	2018 First Half Year	2017 First Half Year
Long-term equity investment gains (losses) based on equity method	2,538,090.69	(3,877,702.05)
Investment income (losses) on disposal of financial assets at fair value through profits and losses	(2,018,145.43)	22,296,650.52
Investment incomes for available-for-sale financial assets during the holding period	12,256,000.00	8,505,842.42
Investment income redeemed on matured financial products	65,491,170.90	22,727,398.21
Total	78,267,116.16	49,652,189.10

### 46. Other income

Unit: RMB

Item	2018 First Half Year	2017 First Half Year	The amount booked into current period non-recurring profits and losses
VAT Refund	816,616,027.70	677,411,292.41	-
Special subsidies	21,010,365.89	-	21,010,365.89
Total	837,626,393.59	677,411,292.41	21,010,365.89

### 47. Non-operating income

Unit: RMB

Item	2018 First Half Year	2017 First Half Year	The amount booked into current period non-recurring profits and losses
Special subsidies	11,134,607.89	12,859,922.90	11,134,607.89
Tax refunds	258,553.39	1,270,311.77	258,553.39
Fines and confiscations	46,529,147.77	10,498,710.41	46,529,147.77
Others	15,228,064.81	7,088,648.70	15,228,064.81
Total	73,150,373.86	31,717,593.78	73,150,373.86

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## 48. Non-operating expenses

Unit: RMB

Item	2018 First Half Year	2017 First Half Year	Amount recorded into the current period non-recurring profits (losses) <sup>t</sup>
Local water conservancy construction fund	436,280.16	544,266.79	-
Others	4,147,847.04	1,164,510.38	4,147,847.04
Total	4,584,127.20	1,708,777.17	4,147,847.04

## 49. Income tax expenses

### (1) Details of Income tax expenses

Unit: RMB

Item	2018 First Half Year	2017 First Half Year
Current income tax	717,290,286.21	627,672,617.73
Deferred income tax	(51,487,527.73)	(59,014,226.88)
Total	665,802,758.48	568,658,390.85

## 50. Notes to consolidated cash flow statement

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

Unit: RMB

Item	2018 First Half Year	2017 First Half Year
Interest income	217,425,369.68	159,445,016.70
Government subsidies <sup>2</sup>	95,168,090.18	14,130,234.67
Others	138,073,302.53	17,587,359.11
Total	450,666,762.39	191,162,610.48

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

Unit: RMB

Item	2018 First Half Year	2017 First Half Year
Office expenses and business expenses	321,731,198.63	201,114,049.99
Advertising and Selling services	513,332,986.75	350,742,415.17
R&D expense	437,739,763.84	232,735,332.67
Shipping and transportation expense	296,718,288.88	220,925,130.08
Travelling expense	174,690,476.79	110,284,099.64
Deposits to restricted monetary funds	345,798,801.19	-
Rental expense	74,995,187.54	57,015,437.63
Others	62,752,885.37	58,150,376.77
Total	2,227,759,588.99	1,230,966,841.95

<sup>2</sup> Please refer to Note (V) 46 for details about government subsidy, which is closely related to daily operations of the Company.

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

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

Unit: RMB

Item	2018 First Half Year	2017 First Half Year
Receipts of financing leases	1,190,562.94	13,100,745.41
Total	1,190,562.94	13,100,745.41

## 51. Supplementary information about cash flow statement

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

Unit: RMB

Supplementary information	2018 First Half Year	2017 First Half Year
<b>1. Reconciliation of net profit to cash flow from operating activities:</b>		
<b>Net profit</b>	4,107,586,112.82	3,275,931,652.25
Add: Impairment of assets	325,897,698.19	251,738,374.96
Fixed assets depreciation	196,191,929.39	162,308,009.16
Amortization of intangible assets	27,572,243.92	21,115,783.51
Losses (gains) on disposal of fixed assets, intangible assets and other long-term assets	(3,763,578.84)	(2,226,974.55)
Retirement losses on fixed assets, intangible assets and other long-term assets	415,906.30	-
Losses (gains) from changes in fair value	6,102,548.02	(38,552,490.41)
Financial expenses	40,310,003.53	215,668,922.48
Investment income	(78,267,116.16)	(49,652,189.10)
Share-based payment based on equity	80,498,800.50	97,854,081.28
Changes in other monetary fund	(345,798,801.19)	
Decrease (Increase) in deferred income tax assets	(51,896,405.74)	(59,014,226.88)
Decrease (Increase) in inventories	(689,070,559.38)	(1,145,432,144.84)
Decrease (Increase) in operating receivables	(1,903,396,501.38)	(2,803,131,577.53)
Increase(Decrease) in operating payables	(3,414,162,059.42)	(1,875,392,178.82)
Increase (decrease) in deferred income	80,586,421.44	5,984,156.07
<b>Net cash flow from operating activities</b>	<b>(1,621,193,358.00)</b>	<b>(1,942,800,802.42)</b>
<b>2. Significant investing and financing activities not involving cash receipts and payments:</b>		
<b>3. Net changes in cash and cash equivalents:</b>		
Ending balance of cash	12,966,520,217.54	12,526,354,618.56
Less: Opening balance of cash	16,029,185,269.17	13,522,337,697.28
Add: Ending balance of cash equivalents		
Less: Opening balance of cash equivalents		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,062,665,051.63)</b>	<b>(995,983,078.72)</b>

## (2) Constituents of cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
<b>Cash</b>	12,966,520,217.54	16,029,185,269.17
Including: Cash on hand	1,958,409.79	769,612.23
Bank deposit for payment at any time	12,956,673,174.35	16,007,539,118.39
Other monetary capital for payment at any time	7,888,633.40	20,876,538.55
<b>Cash equivalents</b>	-	-
<b>Ending balance of cash and cash equivalents</b>	12,966,520,217.54	16,029,185,269.17

Among the total balance of RMB 792,932,868.06 of the other monetary fund(s) at the end of the period (December 31<sup>st</sup> 2017: RMB 460,121,972.02), RMB 785,044,234.66 are various guarantee deposits (December 31<sup>st</sup> 2017: RMB 439,245,433.47), not cash and cash equivalents.

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

Unit: RMB

Item	Carrying Value at the end of the period	Cause of restriction
Monetary fund(s)	785,044,234.66	Various guarantee deposits, and deposits pledged for obtaining long-term borrowing
Notes receivable	50,360,052.08	Pledged for issuing bank acceptance bill
Total	835,404,286.74	

## 53. Monetary items of foreign currencies

### (1) foreign currencies

Item	Balance in foreign currency at the end of period	Exchange rate for conversion	Balance of RMB converted at the end of period
<b>Monetary funds</b>			
Including: USD	561,354,371.02	6.6166	3,714,257,331.26
EUR	58,009,465.22	7.6515	443,859,423.12
GBP	75,661.66	8.6551	654,859.25
JPY	408.00	0.0599	24.44
<b>Accounts receivable</b>			
Including: USD	417,959,350.57	6.6166	2,765,469,838.98
EUR	12,040,259.30	7.6515	92,126,044.03
<b>Short-term borrowing</b>			
Including: GBP	9,999,995.36	8.6551	86,550,959.80
<b>Accounts Payable</b>			
Including: USD	160,653,071.33	6.6166	1,062,977,111.76
<b>Non-current liabilities due within one year</b>			
Including: EUR	406,808,219.18	7.6515	3,112,693,089.06

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## (2) Details of Overseas Operational Entities

Name of overseas subsidiaries	Main overseas operational office	Recording Currency	Basis of selection
HDT International Ltd.	Hongkong	HKD	Selection based on local economic environment
Hikvision Europe BV	Netherlands	EUR	Selection based on local economic environment
Prama Hikvision Indian Private Limited	India	INR	Selection based on local economic environment
Hikvision Uk Limited	UK	GBP	Selection based on local economic environment
Hikvision Italy (S.R.L.)	Italy	EUR	Selection based on local economic environment
Hikvision International Co., Limited	Hongkong	HKD	Selection based on local economic environment
Hikvision Australia PTY Ltd.	Australia	AUD	Selection based on local economic environment
Hikvision Spain, S.L.	Spain	EUR	Selection based on local economic environment
Hikvision France SAS	France	EUR	Selection based on local economic environment
Hikvision Singapore Pte. Ltd	Singapore	SGD	Selection based on local economic environment
Hikvision South Africa (Pty) Ltd.	South Africa	ZAR	Selection based on local economic environment
Hikvision FZE	Dubai	USD	Selection based on local economic environment
Hikvision Poland Spolka Z ograniczona Odpowiedzialnoscia.	Poland	PLN	Selection based on local economic environment
Hikvision do Brasil Comercio de Equipamentos de Seguran ca Ltda.	Brazil	BRL	Selection based on local economic environment
Hikvision LLC	Russia	RUB	Selection based on local economic environment
Ezviz Inc.	USA	USD	Selection based on local economic environment
Cooperative Hikvision Europe U.A.	Netherlands	USD	Selection based on local economic environment
Hikvision Korea Limited	Korea	KRW	Selection based on local economic environment
Hikvision Colombia SAS	Columbia	COP	Selection based on local economic environment
Hikvision Kazakhstan limited liability partnership	Kazakhstan	KZT	Selection based on local economic environment
Pyronix Ltd	UK	GBP	Selection based on local economic environment
Microwave Solutions Limited	UK	GBP	Selection based on local economic environment
Secure Holdings limited	UK	GBP	Selection based on local economic environment
Hikvision Turkey Technology And Security Systems Commerce Corporation	Turkey	TRY	Selection based on local economic environment
ZAO Hikvision	Russia	RUB	Selection based on local economic environment
Hikvision Hungary Limited	Hungary	HUF	Selection based on local economic environment
Hikvision New Zealand Limited	New Zealand	NZD	Selection based on local economic environment
Hikvision Czech s.r.o.	Czech	CZK	Selection based on local economic environment
Hikvision Deutschland GmbH	Germany	EUR	Selection based on local economic environment
Hikvision Kenya (Pty) Ltd	Kenya	KES	Selection based on local economic environment
LLC Hikvision Tashkent	Uzbekistan	UZS	Selection based on local economic environment
Hikvision (Malaysia) SDN. BHD	Malaysia	MYR	Selection based on local economic environment
Hikvision USA,Inc.	USA	USD	Selection based on local economic environment
Hikvision Canada INC.	Canada	CAD	Selection based on local economic environment



## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## 54. Others

Unit: RMB

Subsidies	Related to assets/ related to incomes	Financial Report Items	Accumulated amount in 2018 first half year	Accumulated amount in 2017 first half year
VAT Rebate	Income	Other Income	816,616,027.70	677,411,292.41
Special Subsidies				
Including: Other Special Subsidies	Income	Other Income/Non-operating Income	13,634,736.79	12,859,922.90
Subsidies for core electronic devices, high-end universal chip and basic software product projects	Income	Other Income	18,510,236.99	-
		Deferred Income	81,274,800.00	-
Tax Refund	Income	Other Income/Non-operating Income	258,553.39	1,270,311.77
Total			930,294,354.87	691,541,527.08
Including: subsidies booked into current profit/loss			849,019,554.87	691,541,527.08

## VI. Changes in consolidation scope

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

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

Company Name	Time of establishment	Registered capital	Amount of contribution of the Company	Ratio of contribution (%)
Xi'An Hikvision Digital Technology Ltd. (Note 1)	January 2018	RMB 200 million	RMB 200 million	100
Wuhan Hikvision Science and Technology Ltd. (Note 2)	January 2018	RMB 200 million	RMB 200 million	100
Wuhan Hikvision Technology Ltd. (Note 3)	January 2018	RMB 200 million	RMB 200 million	100
Xi'An Hikvision System Technology Ltd.	February 2018	RMB 216.16 million	RMB 213.99 million	99
Hangzhou HIK Huiying Technology Ltd. (Note 4)	March 2018	RMB 80 million	RMB 48 million	60
Yu Tian Hai Shi Mei Tian Electronic Technology Ltd. (Note 5)	March 2018	RMB 73.65 million	RMB 72.18 million	98
Luo Pu District Hai Shi Ding Xin Electronic Technology Ltd. (Note 6)	April 2018	RMB 71.33 million	RMB 64.20 million	90

Note 1: At the end of the reporting period, the actual paid-up capital of Xi'An Hikvision Digital Technology Ltd. was RMB 33,000,000.00, entirely contributed by the Group.

Note 2: At the end of the reporting period, the actual paid-up capital of Wuhan Hikvision Science and Technology Ltd. was RMB 55,150,000.00, entirely contributed by the Group.

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

Note 4: At the end of the reporting period, the actual paid-up capital of Hangzhou HIK Huiying Technology Ltd. was RMB 25,000,000.00, of which RMB 15,000,000.00 that resulted in 60% equity holding percentage was contributed by the Group.

Note 5: At the end of the reporting period, the actual paid-up capital of Yu Tian Hai Shi Mei Tian Electronic Technology Ltd. was RMB 72,181,700.00, entirely contributed by the Group.

Note 6: At the end of the reporting period, the actual paid-up capital of Luo Pu District Hai Shi Ding Xin Electronic Technology Ltd. was RMB 64,197,000.00, entirely contributed by the Group.

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

Company Name	Date of equity disposition	Proportion of shareholding (%)
Beijing Hikvision Security and Protection Technology Service Ltd.	January 2018	100

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## VII. Interest in other entities

### 1. Equity in subsidiaries

#### (1) Composition of corporate group

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
Hangzhou Hikvision System Technology Ltd.	Hangzhou	Hangzhou, Zhejiang	System integration, Technology development	100.00	-	Establishment
Hangzhou Hikvision Science and Technology Ltd.	Hangzhou	Hangzhou, Zhejiang	manufacture	100.00	-	Establishment
Hangzhou Hikvision Security Equipment Leasing Services Ltd.	Hangzhou	Hangzhou, Zhejiang	Finance lease	100.00	-	Establishment
Chongqing Hikvision System Technology Ltd.	Chongqing	Chongqing	System integration	100.00	-	Establishment
Hikvision USA, Inc.	USA	Los Angeles	Sales	100.00	-	Establishment
HDT International Ltd.	Hong Kong	Hong Kong	Sales	95.00	5.00	Establishment
Prama Hikvision Indian Private Limited	India	Mumbai	Sales	58.00	-	Business combination not involving enterprises under common control
Hikvision Europe BV	Europe	Amsterdam	Sales	-	100.00	Establishment
Hikvision FZE	Dubai	Dubai	Sales	100.00	-	Establishment
Hikvision Singapore Pte. Ltd	Singapore	Singapore	Sales	100.00	-	Establishment
Chongqing Hikvision Science and Technology Ltd.	Chongqing	Chongqing	Manufacture	100.00	-	Establishment
Beijing Hikvision Security and Protection Technology Service Ltd. (Note 4)	Beijing	Beijing	Services	-	-	Establishment
Hangzhou Fuyang Hik Baotai Security Technology Services Ltd. (Note 1)	Hangzhou	Hangzhou, Zhejiang	Construction	-	51.00	Establishment
Hikvision South Africa (Pty) Ltd.	South Africa	South Africa	Sales	100.00	-	Establishment
Hikvision Italy S.R.L.	Italy	Milan	Sales	-	100.00	Establishment
Hikvision do Brasil Comercio de Equipamentos de Seguranca Ltda.	Brazil	Brazil	Sales	95.00	5.00	Establishment
Hikvision Australia PTY Ltd.	Australia	Australia	Sales	100.00	-	Establishment
Hikvision International Co., Limited	Hong Kong	Hong Kong	Sales	100.00	-	Establishment
Hikvision France SAS	France	France	Sales	-	100.00	Establishment
Hikvision Spain,S.L.	Spain	Spain	Sales	-	100.00	Establishment
Shanghai Goldway Intelligent Traffic System Ltd.	Shanghai	Shanghai	Manufacture	100.00	-	Business combination not involving enterprises under common control
ZAO Hikvision	Russia	St. Peterburg	Sales	-	100.00	Business combination not involving enterprises under common control
Beijing Brainaire Storage Technology Ltd.	Beijing	Beijing	Manufacture	100.00	-	Business combination not involving enterprises under common control
Henan Hua'an Intelligence Development Ltd.	Zhengzhou	Zhengzhou	Construction	51.00	-	Business combination not involving enterprises under common control
Henan Hua'an Security Services Ltd. (Note 2)	Zhengzhou	Zhengzhou	Services	-	45.90	Business combination not involving enterprises under common control
Hundure Technology (Shanghai) Ltd.	Shanghai	Shanghai	Manufacture	100.00	-	Business combination not involving enterprises under common control
Hikvision Uk Limited	UK	UK	Sales	-	100.00	Establishment
Hikvision Poland Spolka Z Ograniczona Odpowiedzialnoscia	Poland	Poland	Sales	-	100.00	Establishment
Hangzhou Hikvision Electronics Ltd. (Note 3)	Hangzhou	Hangzhou	Manufacture	71.30	-	Establishment
Cooperative Hikvision Europe U.A.	Netherlands	Netherlands	Sales	99.00	1.00	Establishment
Hikvision Canada Inc.	Canada	Canada	Sales	100.00	-	Establishment
Hikvision LLC	Moscow	Moscow	Sales	100.00	-	Establishment

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
Hikvision Korea Limited	Korea	Korea	Sales	100.00	-	Establishment
Hangzhou EZVIZ Network Ltd.	Hangzhou	Hangzhou	Technology development	60.00	-	Establishment
Ezviz Inc.	USA	Los Angeles	Sales	-	60.00	Establishment
Hangzhou Haikang Zhicheng Investment Development Ltd	Hangzhou	Hangzhou	System integration	80.00	-	Business combination not involving enterprises under common control
Hangzhou Hikvision Robotics Technology Ltd.	Hangzhou	Hangzhou	Technology development	60.00	-	Establishment
Hangzhou Hikvision Investment Management Ltd.	Hangzhou	Hangzhou	Investment Management	100.00	-	Establishment
Hangzhou Hik Automotive Technology Ltd.	Hangzhou	Hangzhou	Technology development	60.00	-	Establishment
Hangzhou Hikvision Communication Technology Ltd.	Hangzhou	Hangzhou	Technology development	70.00	-	Establishment
Hangzhou Hikvision Weiyang Sensory Technology Ltd.	Hangzhou	Hangzhou	Technology development	60.00	-	Establishment
Hikvision Turkey Technology And Security Systems Commerce Corporation	Turkey	Istanbul	Sales	100.00	-	Establishment
Hikvision Colombia SAS	Columbia	Santa Fe Bogota	Sales	100.00	-	Establishment
Hikvision Kazakhstan limited liability partnership	Kazakhstan	Astana	Sales	100.00	-	Establishment
Secure Holding Limited	British	Sheffield	Manufacture	-	100.00	Business combination not involving enterprises under common control
Pyronix Limited	British	Sheffield	Manufacture	-	100.00	Business combination not involving enterprises under common control
Microwave Solutions Limited	British	Sheffield	Manufacture	-	100.00	Business combination not involving enterprises under common control
Wuhan HIK Storage Software Ltd.	Wuhan	Wuhan, Hubei	Technology development	-	60.00	Establishment
Chengdu Hikvision Digital Technology Ltd.	Chengdu	Chengdu	Technology development	100.00	-	Establishment
MoYuHaiShi Electronic Technology Ltd.	Hetian	Moyu	Construction	-	85.00	Establishment
Hangzhou EZVIZ Software Ltd.	Hangzhou	Hangzhou	Technology development	-	60.00	Establishment
PiShanHaiShi YongAn Electronic Technology Ltd.	Hetian	Pishan	System integration	-	90.00	Establishment
Henan Haikang Hua'anBaoQuan Electronics Ltd.	Zhengzhou	Zhengzhou	Construction	51.00	-	Establishment
Hikvision Czech s.r.o.	Czech	Czech	Sales	-	100.00	Establishment
Hikvision (Malaysia) SDN. BHD	Malaysia	Malaysia	Sales	-	100.00	Establishment
Hikvision Deutschland GmbH	Germany	Germany	Sales	-	100.00	Establishment
Xi'an Hikvision Digital Technology Ltd.	Xi'an	Xi'an	Technology development	100	-	Establishment
Wuhan Hikvision Science and Technology Ltd.	Wuhan	Wuhan	Technology development	100	-	Establishment
Wuhan Hikvision Technology Ltd.	Wuhan	Wuhan	Technology development	100	-	Establishment
Xi'an Hikvision System Technology Ltd.	Xi'an	Xi'an	Construction	-	99	Establishment
Hangzhou Huiying Technology Ltd.	Hangzhou	Hangzhou	Technology development	60	-	Establishment
Yu Tian Hai Shi Mei Tian Electronic Technology Ltd.	Hetian	Xinjiang Hetian	System integration	-	98	Establishment
Luo Pu District Hai Shi Ding Xin Electronic Technology Ltd.	Hetian	Xinjiang Hetian	System integration	-	90	Establishment

Note 1: Hangzhou Fuyang HIK Baotai Security Technology Services Ltd. is a subsidiary controlled by Hangzhou Hikvision System Ltd. who holds 51% equity interests. According to the *Articles of Association* of the Company, Hangzhou Hikvision Systems Ltd. has a 50% dividend payout ratio in the said company (Fuyang Baotai).

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

Note 3: The remaining 28.70% equity interests of Hangzhou Hikvision Electronics Ltd. is held by China Development Bank Fund. Please refer to Note (V) 30 for details.

Note 4: Beijing Hikvision Security and Protection Technology Service Ltd. was cancelled in 2018.

## 2. Equity in joint ventures or associates

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

Unit: RMB

	Closing balance / Amount for 2018 first half year	Opening balance / Amount for 2017 first half year
Associates:		
The aggregate carrying amount of investments in associates	160,000,000.00	133,000,000.00
The aggregate amount of the following items calculated based on the Company's equity share percentage of the associates		
--Net profit (loss) and total comprehensive income (loss)	2,538,090.69	(3,877,702.05)

## VIII. Risks associated with financial instrument

The Group's principal financial instruments include cash and bank balances, equity investments, notes receivable, accounts receivable, other receivables, long-term receivables, borrowings, accounts payable, interest payable, other payables, other current assets, note payables, dividends payable, bonds payable, long-term payables, derivative financial instruments, etc. Details of these financial instruments are set out in Note (V). Below are the risks associated with such financial instruments and the risk management policies adopted by the Group to mitigate such risks. The management of the Group manages and monitors such risk exposures to ensure such risks are contained within a prescribed scope.

The Company adopts sensitivity analysis techniques to analyze the possible effects of rational and probable changes in risk variables to profit or loss for the period or to the interests of shareholders. Since risk variables seldom change on a stand-alone basis, while the correlation between variables may have significant influence to the ultimate amount of change effected by the change in a single risk variable, the analysis below is based on the assumption that the changes in each variable occurred separately.

### 1. Objectives and policies of risk management

The Group engages in risk management with the aim of achieving an appropriate balance between risk and return, where the negative effects of risks against the Group's operating results are minimized, in order to maximize the benefits of shareholders and other stakeholders. Based on such objective in risk management, the underlying strategy of the Group's risk management is to ascertain and analyze all types of risks exposures of the Group, establish appropriate risk tolerance thresholds, carry out risk management procedures and perform risk monitoring on all kinds of risks in a timely and reliable manner, thus containing risk exposures within a prescribed scope.

#### 1.1 Market risks

##### 1.1.1. Foreign exchange risks

Foreign exchange risks refer to the risk that losses will occur because of changes in foreign exchange rates. The Company is primarily exposed to risks relating to the currencies such as USD and EUR. The Group's subsidiaries in the

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

mainland of China whose procurement, sales and financing are denominated in RMB, USD and EUR, other principal activities are settled in RMB. The Group's subsidiaries in Hong Kong and outside China are principally engaged in procurement, sales, financing and other major business activities in local currencies such as USD, EUR, GBP, RUB, and etc.

As of June 30<sup>th</sup> 2018, except for monetary items of foreign currencies set out in Note (V) 53, the Group mainly adopted the functional currency of each of its subsidiary to present the balance of its assets and liabilities. The foreign exchange risks arising from assets and liabilities denominated in USD and EUR (which has been converted into RMB) as follows may affect the operating results of the Group.

Unit: RMB

Currencies	Assets		Liabilities	
	Closing balance	Opening balance	Closing balance	Opening balance
USD	6,479,727,170.24	6,919,071,811.35	1,062,977,111.76	1,336,240,339.97
EUR	535,985,467.15	288,885,022.47	3,112,693,089.06	3,154,534,018.51

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

### Sensitivity analysis on exchange rate risk

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

Unit: RMB

Change in foreign exchange rates	2018 First Half Year		2017 First Half Year	
	Effect on profit	Effect on shareholders' equity	Effect on profit	Effect on shareholders' equity
5% appreciation of USD against functional currency	270,837,502.92	270,837,502.92	290,061,335.95	290,061,335.95
5% depreciation of USD against functional currency	(270,837,502.92)	(270,837,502.92)	(290,061,335.95)	(290,061,335.95)
5% appreciation of EUR against functional currency	(128,835,381.10)	(128,835,381.10)	(150,443,155.03)	(150,443,155.03)
5% depreciation of EUR against functional currency	128,835,381.10	128,835,381.10	150,443,155.03	150,443,155.03

### 1.1.2. Interest rate risk — risk related to changes in cash flow

The Group's risk related to changes in the cash flow of financial instruments due to changes in interest rates is mainly related to floating interest rate bank borrowings. The Group's policy is to maintain the floating rate of these borrowings to eliminate the risk of changes in the fair value of interest rates.

### Interest rate risk sensitivity analysis

Interest rate risk sensitivity analysis is based on the following assumption:

## Notes to Financial Statements

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

- Change in market interest rates affect interest income or expenses of financial instruments with variable interest rate;
- For financial instruments measured at fair value with fixed interest rates, changes in market interest rates only affect their interest income or expenses

Based on the above assumptions, under the condition that other variables remain unchanged, the pretax impact of reasonable changes in interest rates on current profits and losses and shareholders' equity is as follows:

Unit: RMB

Change in interest rates	2018 First Half Year		2017 First Half Year	
	Effect on profit	Effect on shareholders'	Effect on profit	Effect on shareholders'
Loan interest rate increase by 50 basis points	(26,662,904.00)	(26,662,904.00)	(199,227,031.43)	(199,227,031.43)
Loan interest rate decrease by 50 basis points	26,662,904.00	26,662,904.00	199,227,031.43	199,227,031.43

## 1.2 Credit risk

As of June 30<sup>th</sup> 2018, the biggest credit risk exposure that may cause financial loss suffered by the Group was mainly due to the other party's inability to fulfill obligations that caused the loss on the Group's financial assets, which include:

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

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

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

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

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

### 1.3. Liquidity risk

The Group maintains and monitors a level of cash and cash equivalents deemed adequate by the management to meet the operation needs of the Group and to reduce the effect of cash flow movements when managing liquidity risk. The management of the Company monitors the usage of bank borrowings, and ensures compliance with borrowing agreements.

According to the term to maturity of non-discounted and remaining contract obligations, the financial liabilities held by the Group are analyzed as below:

Unit: RMB

June 30 <sup>th</sup> 2018				
	Within one year	1-5 years	More than five years	Total
<b>Non-derivative financial liabilities</b>				
Short-term borrowings	3,753,258,380.27	-	-	3,753,258,380.27
Notes payables	705,958,442.30			705,958,442.30
Accounts payables	7,187,885,155.12			7,187,885,155.12
Other payables	630,910,171.50	-	-	630,910,171.50
Other current liabilities	681,816,656.89	-	-	681,816,656.89
Bonds payable	3,098,110,815.09	-	-	3,098,110,815.09
Long-term borrowings	811,682,362.19	102,170,594.10	98,885,808.22	1,012,738,764.51
Long-term payables	3,874,473.76		-	3,874,473.76
<b>Derivative financial liabilities</b>				
Foreign exchange structured options - settled in the gross amount				
- Cash inflow	-	-	-	-
- Cash outflow	616,000.00	-	-	616,000.00
- Net cash outflow	616,000.00	-	-	616,000.00
Forward foreign exchange contracts- settled in the gross amount				
- Cash inflow	951,271,001.00	-	-	951,271,001.00
- Cash outflow	980,530,249.00	-	-	980,530,249.00
- Net cash outflow	29,259,248.00	-	-	29,259,248.00
Foreign exchange swap contracts- settled in the gross amount				
- Cash inflow	596,980,910.00	-	-	596,980,910.00
- Cash outflow	605,607,000.00	-	-	605,607,000.00
- Net cash outflow	8,626,090.00	-	-	8,626,090.00



Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## IX. Fair value disclosure

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

Unit: RMB

Items	Closing fair value			
	Level 1	Level 2	Level 3	Total
<b>I. Continuous fair value measurement</b>	-	(17,951,357.23)	-	(17,951,357.23)
(I) Financial assets at fair value through profit and loss				
1. Tradable Financial Assets	-	20,549,980.77	-	20,549,980.77
-- Derivative financial assets	-	20,549,980.77	-	20,549,980.77
<b>Total assets measured continuously at fair value</b>	-	20,549,980.77	-	20,549,980.77
(II) Tradable Financial Liabilities				
- Derivative financial liabilities	-	38,501,338.00	-	38,501,338.00
<b>Total liabilities measured continuously at fair value</b>	-	38,501,338.00	-	38,501,338.00

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

	Fair value at June 30 <sup>th</sup> 2018	Estimation technique	Inputs
Forward Foreign Exchange Contracts (Assets)	16,303,880.33	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties
Foreign Exchange Swap Contracts (Assets)	2,020,000.00	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties
Foreign Exchange Structured Options (Assets)	2,226,100.44	Discounted cash flow approach	Forward interest rate Discounted rate that reflects the credit risk of counterparties
Foreign Exchange Structured Options (Liabilities)	(616,000.00)	Discounted cash flow approach	Forward interest rate Discounted rate that reflects the credit risk of counterparties
Forward Foreign Exchange Contracts (Liabilities)	(29,259,248.00)	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties
Foreign Exchange Swap Contracts (Liabilities)	(8,626,090.00)	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties

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

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

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

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

## X. Related parties and related-party transactions

### 1. Information on parent company of the Company

Name	Place of registration	Nature of business	Registered capital	Shareholding ratio of parent company in the Company (%)	Percentage of voting rights of parent company to the Company (%)
China Electronics Technology HIK Group Co., Ltd. (CETHIK)	Hangzhou, Zhejiang	Industrial investment	RMB 660 million	39.60%	39.60%

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

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

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

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

For details of the associated companies of the Company, see Note (V) 12.

### 4. Information on other related parties

Name	Relationship
Gong Hongjia	Director of the company, holds 13.60% of the share of the Company
Shanghai Fullhan Microelectronics Co., Ltd. (Shanghai Fullhan Micro)	Gong Hongjia or his relative(s) serve(s) as the director(s)
Zhejiang Tuxun Technology Co.,Ltd. (Zhejiang Tuxun)	the Company's senior management serve(s) as director(s)
Confirmware Technology(Hangzhou) Co., Ltd. (Hangzhou Confirmware)	the Company's senior management serve(s) as director(s)
Beijing Woqi Co., Ltd.(Beijing Woqi)	Gong Hongjia or his relative(s) serve(s) as the director(s) (Note 1)
Wuhu Sensor Technology Co., Ltd. (Wuhu SensorTech)	Associated company of the Group
Maxio Technology (Hangzhou) Ltd. and its subsidiaries (Maxio Technology and its subsidiaries)	Associated company of the Group
Subsidiaries of CETE (Note 2)	Under common control of the ultimate controlling party of the Company
Minority shareholders of Henan Hua'an BaoQuan Intelligence Development Co., Ltd. (Minority shareholders of Hua'an BaoQuan)	Minority shareholders who carry out significant influence on subsidiaries

Note 1: Mr Gong Hongjia left Beijing Woqi as senior management personnel on November, 2016. 2017 is the subsequent one year after Gong left his post, therefore, Beijing Woqi is still regarded as the Group's related party in 2017, and it was no longer regarded as the Group's related party in the current reporting period.

Note 2: Subsidiaries of CETC, excluding Hikvision and its subsidiaries.

### 5. Related party transactions

(1) Related party transactions regarding sales and purchases of goods, provision of services and receiving services

#### Purchase of commodities / receiving of services:

Unit: RMB

Related party	Transaction type	Amount for 2018 first half year	Amount for 2017 first half year
Subsidiaries of CETE	Purchase of materials and receiving of services	153,495,293.67	94,447,392.66
Shanghai Fullhan Micro	Purchase of materials and receiving of services	120,432,833.93	72,069,293.64
Wuhu SensorTech	Purchase of materials and receiving of services	19,486,211.82	4,489,736.27

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Related party	Transaction type	Amount for 2018 first half year	Amount for 2017 first half year
Maxio Technology and its subsidiaries	Purchase of materials and receiving of services	44,208,712.51	32,900,000.00
Beijing Woqi	Purchase of materials	-	2,058,082.38
Total		337,623,051.93	205,964,504.95

**Sales of commodities / rendering of services:**

Unit: RMB

Related party	Transaction content	Amount for 2018 first half year	Amount for 2017 first half year
Subsidiaries of CETE	Sales of products and rendering of services	237,165,349.46	190,588,282.71
Zhejiang Tuxun	Sales of products and rendering of services	964,627.62	419,664.11
Wuhu Sensor Tech	Sales of products and rendering of services	36,416.97	-
Hangzhou Confirmware	Sales of products and rendering of services	524,591.79	-
Maxio Technology and its subsidiaries	Sales of products and rendering of services	39,051.29	-
Total		238,730,037.13	191,007,946.82

Statement of capital deposits:

Unit: RMB

Related Party	Content of related party transaction	Amount occurred in 2018 first half year	Balance at the end of the current period	Amount occurred during 2017 first half year	Opening Balance
Subsidiaries of CETE (Note)	Deposit into fixed deposits	-	1,000,000,000.00	200,000,000.00	1,000,000,000.00
Subsidiaries of CETE (Note)	Deposit (withdraw) into call deposits	(500,000,000.00)	-	-	500,000,000.00
Total		(500,000,000.00)	1,000,000,000.00	200,000,000.00	1,500,000,000.00

Note: the fixed deposit and the deposit at notice that the Group deposited into China Electronic Technology Finance Co., Ltd. during the current period.

The above transactions are executed at market prices.

## (2) Guaranteed by the related party

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

**6. Receivables from related parties and payables to related parties**

## (1) Receivables from related parties

Unit: RMB

Item	Related Party	Closing balance		Opening balance	
		Carrying balance	Bad debt provision	Carrying balance	Bad debt provision
Accounts receivable	Subsidiaries of CETE	845,734,141.61	45,578,628.12	764,292,224.05	39,661,148.57
Accounts receivable	Zhejiang Tuxun	596,950.00	29,847.50	833,986.98	41,699.35
Accounts receivable	Hangzhou Confirmware	197,519.99	12,256.00	21,219.99	1,197.00
Total		846,528,611.60	45,620,731.62	765,147,431.02	39,704,044.92

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Item	Related Party	Closing balance		Opening balance	
		Carrying balance	Bad debt provision	Carrying balance	Bad debt provision
Other Receivables	Maxio Technology and its subsidiaries	-	-	13,500,000.00	675,000.00
<b>Total</b>		-	-	13,500,000.00	675,000.00
Prepayments	Subsidiaries of CETE	4,748,018.13	272,400.91	-	-
Prepayments	Maxio Technology and its subsidiaries	4,968,016.26	510,713.16	5,201,444.41	-
<b>Total</b>		9,716,034.39	783,114.07	5,201,444.41	-

## (2) Payables to related parties

Unit: RMB

Item	Related Party	Closing balance	Opening balance
Accounts payable	Subsidiaries of CETE	131,176,782.34	160,186,487.11
Accounts payable	Shanghai Fullhan Micro	74,822,640.40	103,732,194.30
Accounts payable	Wuhu Sensor Tech	3,940,973.13	14,496,160.00
Accounts payable	Beijing Woqi	-	1,301,025.64
Accounts payable	Maxio Technology and its subsidiaries	-	117,563.33
<b>Total</b>		209,940,395.87	279,833,430.38
Dividends payable	Minority Shareholders of Hua'an BaoQuan	2,450,000.00	2,450,000.00
<b>Total</b>		2,450,000.00	2,450,000.00
Receipts in advance	Subsidiaries of CETE	1,881,385.19	1,647,988.21
<b>Total</b>		1,881,385.19	1,647,988.21
Other payables	Subsidiaries of CETE	26,152,622.17	73,881,697.00
Other payables	Beijing Woqi	-	150,000.00
Other payables	Shanghai Fullhan Micro	100,000.00	100,000.00
<b>Total</b>		26,252,622.17	74,131,697.00

## XI. Share-based payments

### 1. Overview of share-based payments

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

The Scheme shall be effective for a term of 10 years commencing from the date of approval by general meeting of the Company, during which the Company may grant restricted shares to grantees under the Scheme. In

principle, each grant should be at an interval of two years. After the expiry of the Scheme, no restricted shares could be granted to grantees under the Scheme. However, all the provisions of the Scheme remain valid to the restricted shares granted under the Scheme.

The total number of subject Shares related to the Restricted Shares granted under the Scheme (excluding lapsed restricted shares) and the total number of subject Shares related to other effective share incentive schemes of the Company (if any) in aggregate shall not exceed 10% of the total issued share capital of the Company. Unless approval is obtained at the general meeting by way of special resolution, the total number of Restricted Shares granted or to be granted to any Participant under this Scheme or other effective share incentive schemes of the Company (if any) in aggregate shall not exceed 1% of the total issued share capital of the Company.

The grant price for restricted shares, being the purchase price by staff, shall be determined by the Board of Directors. The grant price shall not be lower than 50% of the following price, whichever is the highest:

- (I) The closing price of the subject shares of the Company for one trading day prior to publication of the summary Share Incentive Scheme draft;
- (II) The average closing price of the subject shares of the Company for 30 trading days prior to publication of the summary Share Incentive Scheme draft;
- (III) The average price of the subject shares of the Company for 20 trading days prior to publication of the summary Share Incentive Scheme draft; or
- (IV) The unit nominal value of the subject shares of the Company.

Each batch of restricted shares shall not be unlocked unless fulfilling, each time, by the Company its unlock performance criteria (including net asset yield and operating income growth rate), and by grantees' individual performance criteria simultaneously. Where, during any year of the unlocking period, any one or more unlock criteria for the Company or individuals is or are not fulfilled, such portion of subject shares shall be cancelled, and no grantees shall be entitled to make another application for unlocking those subject shares in the future years. The cancelled restricted shares will be repurchased by the Company based on the grant price.

On August 23<sup>rd</sup> 2012, after consideration and approval by the general meeting, the Company granted 8,611,611 restricted shares to grantees at a grant price of RMB 10.65 per share ("2012 Share Incentive Scheme"). The Lock-up Period of the Subject Shares shall last for a period of 24 months commencing on the grant date, during which the Subject Shares granted to grantees under the scheme shall be subject to lock-up and shall not be transferable. The Unlocking Period shall be the 24 to 60 months following the grant of restricted shares (including Lock-up Period), during which grantees may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking in 3 tranches: the first unlocking period shall be the 24 to 36 months following the grant date and the number of shares to be unlocked shall be 1/3 of the aggregate number of the Subject Shares granted; the second unlocking period shall be the 36 to 48 months following the grant date and the number of shares to be unlocked shall be 1/3 of the aggregate number of the Subject Shares granted; the third unlocking period shall be the 48 to 60 months following the grant date and the number of shares to be unlocked shall be 1/3 of the aggregate number of the Subject Shares granted. As of December 31<sup>st</sup> 2016, the 2012 restricted incentive shares scheme had been completed.

On October 24<sup>th</sup> 2014, after consideration and approval by the general meeting, the Company granted 52,910,082 restricted shares to grantees at a grant price of RMB 9.25 per share ("2014 Share Incentive Scheme"). The Lock-up Period of the Subject Shares shall last for a period of 24 months commencing on the grant date, during which the Subject Shares granted to grantees under the scheme shall be subject to lock-up and shall not be transferable. The Unlocking Period shall be the 24 to 60 months following the grant of restricted shares (including Lock-up Period), during which grantees may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking in 3 tranches: the first unlocking period shall be the 24 to 36 months following the grant date and the number of shares to be unlocked shall be 40% of the aggregate number of the Subject Shares granted; the second unlocking period shall be the 36 to 48 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted; the third unlocking period shall be the 48 to 60 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted.

On December 23<sup>rd</sup> 2016, after consideration and approval by the general meeting, the Company granted 52,326,858 restricted shares to grantees at a grant price of RMB 12.63 per share ("2016 Share Incentive Scheme"). The Lock-up Period of the Subject Shares shall last for a period of 24 months commencing on the grant date, during which the Subject Shares granted to grantees under the scheme shall be subject to lock-up and

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

shall not be transferable. The Unlocking Period shall be the 24 to 60 months following the grant of restricted shares (including Lock-up Period), during which grantees may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking in 3 tranches: the first unlocking period shall be the 24 to 36 months following the grant date and the number of shares to be unlocked shall be 40% of the aggregate number of the Subject Shares granted; the second unlocking period shall be the 36 to 48 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted; the third unlocking period shall be the 48 to 60 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted.

Unit: share

2014 Share Incentive Scheme	2018 first half year	2017 first half year
Total of equity instruments outstanding at the beginning of the reporting period	33,932,161	46,220,473
Total of equity instruments granted during the current reporting period	-	23,110,236
Total of equity instruments vested during the current reporting period	-	-
Total of equity instruments forfeited during the current reporting period (Note)	-	-
Total of equity instruments outstanding at the end of the reporting period	33,932,161	69,330,709
The exercise price (ex-rights) of the outstanding Share-based payments of the Company at the end of the reporting period and the remaining period of the contract	RMB 4.11 per share and 16 months	RMB 4.11 per share and 28 months

Note: on December 15<sup>th</sup> 2017, pursuant to the revised articles of association and resolutions of the 26<sup>th</sup> general meeting of 3<sup>rd</sup> session board, and approved by the 2<sup>nd</sup> extraordinary general meeting of 2016, the Company repurchased and cancelled 1,594,641 granted and unvested restricted RMB treasury shares in cash settlement. The company completed the business change registration procedure on March 30<sup>th</sup> 2018.

Unit: share

2016 Share Incentive Scheme	2018 first half year	2017 first half year
Total of equity instruments outstanding at the beginning of the reporting period	78,490,287	52,326,858
Total of equity instruments granted (share dividend) during the current reporting period	-	26,163,429
Total of equity instruments vested during the current reporting period	-	-
Total of equity instruments forfeited during the current reporting period	-	-
Total of equity instruments outstanding at the end of the reporting period	78,490,287	78,490,287
The exercise price (ex-rights) of the outstanding Share-based payments of the Company at the end of the reporting period and the remaining period of the contract	RMB 8.42 per share and 48 months	RMB 8.42 per share and 54 months

## 2. Information of the share-based payment through equity settlements

Unit: RMB

	2014 Share Incentive Scheme	2016 Share Incentive Scheme
Method of determine the fair value of equity instruments at the grant date	Determined based on stock price at the grant date and the costs of restricted shares during Lock-up Period	Determined based on stock price at the grant date and the costs of restricted shares during Lock-up Period
Recognition basis of the number of the equity instruments qualified for vesting	Determined based on the results estimation of each vesting period	Determined based on the results estimation of each release period
Reasons of the significant difference between the estimates of the current reporting period with that of the prior year	None	None
Accumulative amount of share-based payment through equity settlement and further included in the capital	353,750,750.86	208,270,171.50

	2014 Share Incentive Scheme	2016 Share Incentive Scheme
reserve		
Total amount of the expenses recognized according to share-based payment through equity settlement in the current reporting period	11,075,410.00	69,423,390.50

### 3. There is no share-based payment through cash settlements

## XII. Commitments and contingencies

### 1. Significant commitments

#### (1) Capital commitments

Unit: RMB'000

	Closing balance	Opening balance
Contracted but not yet recognized in financial statements		
- Commitment on construction of long-term assets	11,467,694	11,641,286
<b>Total</b>	11,467,694	11,641,286

#### (2) Operating lease commitments

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

Unit: RMB'000

	Closing balance	Opening balance
Minimum lease payments under non-cancellable operating leases:		
First year subsequent to the balance sheet date	68,520	93,006
Second year subsequent to the balance sheet date	53,625	49,061
Third year subsequent to the balance sheet date	40,811	33,185
Subsequent years	40,197	72,516
<b>Total</b>	203,153	247,768

(3) As of June 30<sup>th</sup> 2018, the Group has no other commitments need to be disclosed.

### 2. Contingencies

The Group has no significant contingencies to be disclosed.

## XIII. Events after the balance sheet date

The Group did not have any significant unadjusted events after the balance sheet date.

## XIV. Other significant events

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

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

Technology Ltd., Wuhan HIK Storage Technology Ltd., and Hangzhou HIK Weiyang Technology Ltd. respectively.

## 2. Segment information

### 1.1 Report segment determining and accounting policy

According to the Group's internal organization structure, management requirements and internal report principles, the Group has only one operating segment, which is the research and development, production and sales of video products and video services.

### 1.2 Segment financial reporting

External revenue by product or business segments

Unit: RMB

Item		Amount for 2018 first half year	
		Operating income	Operating cost
Video Surveillance Products	Front-end equipment	10,285,314,406.66	5,171,808,124.76
	Back-end equipment	2,994,583,467.04	1,618,843,751.15
	Central control equipment	2,798,476,654.30	1,314,431,389.49
	Constructions	1,077,104,977.68	921,303,977.95
	Others	2,404,445,208.43	1,766,913,713.92
Innovative Business Products	Smart home business	725,865,396.10	462,125,654.34
	Other innovative businesses	380,599,700.27	233,913,988.64
Total		20,666,389,810.48	11,489,340,600.25

Unit: RMB

Item		Amount for 2017 first half year	
		Operating income	Operating cost
Video Surveillance Products	Front-end equipment	8,471,727,239.99	4,330,837,875.51
	Back-end equipment	2,581,996,973.35	1,318,164,201.90
	Central control equipment	1,893,438,540.55	1,035,848,060.56
	Constructions	428,858,036.85	387,677,860.96
	Others	2,200,994,312.68	1,805,372,126.76
Innovative Business Products	Smart home business	459,861,958.09	309,998,385.02
	Other innovative businesses	153,963,464.14	102,953,991.27
Total		16,190,840,525.65	9,290,852,501.98

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

Unit: RMB

Item	2018 First Half Year	2017 First Half Year
External revenue generated in domestic area	14,580,485,895.05	11,478,885,424.15
External revenue generated in overseas area	6,295,272,329.58	4,968,654,312.37
Total	20,875,758,224.63	16,447,539,736.52

Unit: RMB

Item (Note)	Closing balance	Opening balance
Non-current assets in domestic area	6,820,901,389.32	5,676,079,020.66
Non-current assets in overseas area	453,178,453.72	321,187,347.68
Total	7,274,079,843.04	5,997,266,368.34

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



Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

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

### 1. Accounts receivable

(1) Accounts receivable disclosed by categories:

Unit: RMB

Category	Closing balance					Opening balance				
	Carrying balance		Bad debt provision		Carrying value	Carrying balance		Bad debt provision		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)		Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable that are individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Accounts receivable with provision accrued collectively on a portfolio basis for credit risk.	16,698,783,842.40	100.00	1,035,389,225.22	6.20	15,663,394,617.18	13,338,459,657.76	100.00	832,776,339.98	6.24	12,505,683,317.78
Accounts receivable that are not individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>16,698,783,842.40</b>	<b>100.00</b>	<b>1,035,389,225.22</b>	<b>6.20</b>	<b>15,663,394,617.18</b>	<b>13,338,459,657.76</b>	<b>100.00</b>	<b>832,776,339.98</b>	<b>6.24</b>	<b>12,505,683,317.78</b>

The Group categorizes accounts receivable in an amount above RMB 4 million and representing more than 10% of the total accounts receivable closing balance as account receivable that is individually significant.

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

Unit: RMB

Aging	Closing balance		
	Amount	Bad debt provision	Percentage (%)
Within 1 year	16,069,249,743.42	803,462,487.17	5.00
1-2 years	277,805,054.32	27,780,505.43	10.00
2-3 years	151,511,982.69	45,453,594.81	30.00
3-4 years	62,030,080.67	31,015,040.34	50.00
4-5 years	52,546,919.15	42,037,535.32	80.00
Over 5 years	85,640,062.15	85,640,062.15	100.00
Total	16,698,783,842.40	1,035,389,225.22	6.20

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

The amount of bad debt provision in the current reporting period was RMB 208,635,697.31, and the recollected bad debt was RMB 40,000.00.

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

The accounts receivable actually written off in the current reporting period was RMB 6,062,812.07.

(4) The top five debtors of accounts receivables in terms of closing balance.

Unit: RMB

Company name	Relationship with the Company	Carrying balance	Ending balance of bad debt provision	Proportion of ending balance of accounts receivables in total (%)
Subsidiary A	Subsidiary	13,782,049,522.78	689,322,429.43	82.53
Company H	Third party	84,279,739.18	11,920,386.95	0.50
Company I	Third party	65,065,274.32	3,253,263.72	0.39
Subsidiary J	Third party	43,414,156.85	2,462,620.91	0.26
Company K	Third party	37,838,650.94	2,431,623.11	0.23
Total		14,012,647,344.07	709,390,324.12	83.91

(5) At the end of the reporting period, there is no account receivable derecognized due to the transfer of financial assets.

(6) At the end of the reporting period, there is no asset or liability formed by continuing involvement in derecognized accounts receivables.

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## 2. Other receivables

### (1) Other receivables disclosed by categories

Unit: RMB

Category	Closing balance					Opening balance				
	Carrying amount		Bad debt provision		Carrying value	Carrying amount		Bad debt provision		Carrying value
	Amount	Percentage (%)	Amount	Percentage (%)		Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that are individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Other receivables with provision accrued collectively on a portfolio basis for credit risk	1,247,477,978.22	100.00	82,345,579.10	6.60	1,165,132,399.12	764,252,803.59	100.00	54,660,309.87	7.15	709,592,493.72
Other receivables that are not individually significant and for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>1,247,477,978.22</b>	<b>100.00</b>	<b>82,345,579.10</b>	<b>6.60</b>	<b>1,165,132,399.12</b>	<b>764,252,803.59</b>	<b>100.00</b>	<b>54,660,309.87</b>	<b>7.15</b>	<b>709,592,493.72</b>

The Group categorizes other receivable in an amount above RMB 4 million and representing more than 10% of the total other receivables closing balance as other receivable that is individually significant.

**Other receivables with bad debt provision provided by aging analysis on portfolio basis:**

Unit: RMB

Aging	Closing balance		
	Carrying amount	Bad debt provision	Percentage of appropriation (%)
Within 1 year	1,124,557,401.64	56,227,870.08	5.00
1–2 years	76,201,477.40	7,620,147.74	10.00
2–3 years	30,256,936.00	9,077,080.80	30.00
3–4 years	12,841,994.28	6,420,997.14	50.00
4–5 years	3,103,427.80	2,482,742.24	80.00
Over 5 years	516,741.10	516,741.10	100.00
<b>Total</b>	<b>1,247,477,978.22</b>	<b>82,345,579.10</b>	<b>6.60</b>

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

The amount of bad debt provision in the current reporting period was RMB 27,685,269.23, and the recovered or reversed bad debt provision was nil.

## (3) The write-off of other receivables for the current reporting period.

The write-off of other receivables in the current reporting period was nil.

## (4) Other receivables by nature

Unit: RMB

Nature	Closing balance	Opening balance
Temporary borrowing	940,768,953.33	425,722,254.59
Temporary receivables	244,484,837.48	240,668,412.28
Guarantee deposit	56,979,223.15	82,796,114.04
Investment deposit	-	13,500,000.00
Others	5,244,964.26	1,566,022.68
<b>Total</b>	<b>1,247,477,978.22</b>	<b>764,252,803.59</b>

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

Unit: RMB

The name of entity	Nature	Closing balance	Aging	Percentage to total other receivables (%)	Bad debt provision
Subsidiary B	Temporary borrowing	353,454,672.99	Within 1 year	28.33	17,672,733.65
Subsidiary C	Temporary borrowing	264,811,606.22	Within 1 year	21.23	13,240,580.31
Subsidiary D	Temporary borrowing	228,294,984.03	Within 1 year	18.30	11,414,749.20
Subsidiary E	Temporary borrowing	36,134,324.03	Within 1 year	2.90	1,806,716.20
Subsidiary F	Temporary borrowing	23,636,017.77	Within 1 year	1.89	1,181,800.89

## Notes to Financial Statements

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

The name of entity	Nature	Closing balance	Aging	Percentage to total other receivables (%)	Bad debt provision
Total		906,331,605.04		72.65	45,316,580.25

- (6) At the end of the reporting period, there were no other receivables derecognized due to the transfer of financial assets.
- (7) At the end of the reporting period, there were no assets or liabilities formed by continuing involvement in derecognized other receivables

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

### 3. Long-term equity investment

Details of long-term equity investment:

Unit: RMB

Name of investee	Accounting method	Opening balance	Increase/Decrease during the current reporting period				Closing balance	Provision for impairment losses	Provision for impairment losses for the current reporting period
			Additional investment	Decrease investment	Investment Income recognized based on equity method	Increase due to granting share options			
Hangzhou Hikvision System Technology Ltd.	Cost method	719,263,965.23	-	-	-	14,050,202.50	733,314,167.73	-	-
Hangzhou Hikvision Security Equipment Leasing Services Ltd.	Cost method	200,000,000.00	-	-	-	-	200,000,000.00	-	-
Shanghai Goldway Intelligent Traffic System Ltd.	Cost method	23,000,000.00	-	-	-	-	23,000,000.00	-	-
Chongqing Hikvision System Technology Ltd.	Cost method	200,000,000.00	500,000,000.00	-	-	-	700,000,000.00	-	-
Hundure Technology (Shanghai) Ltd.	Cost method	37,247,790.28	-	-	-	-	37,247,790.28	-	-
Hangzhou EZVIZ Network Ltd.	Cost method	6,040,138.16	-	-	-	300,768.72	6,340,906.88	-	-
Hangzhou Haikang Zhicheng Investment and Development Ltd.	Cost method	24,000,000.00	-	-	-	-	24,000,000.00	-	-
Hangzhou Hik Robotic Technology Ltd.	Cost method	54,825,970.00	-	-	-	1,341,850.44	56,167,820.44	-	-
Hangzhou Hikvision Investment Management Ltd.	Cost method	100,000.00	-	-	-	-	100,000.00	-	-
Hangzhou Hik Automotive Technology Ltd.	Cost method	92,346,510.60	-	-	-	233,503.76	92,580,014.36	-	-
Hangzhou Hik Automotive Software Ltd.	Cost method	-	-	-	-	939,056.54	939,056.54	-	-
Tianjin Hikvision System Technology Ltd.	Cost method	10,000,000.00	-	-	-	-	10,000,000.00	-	-
Hangzhou Hikvision Communication	Cost method	7,000,000.00	-	-	-	-	7,000,000.00	-	-

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Name of investee	Accounting method	Opening balance	Increase/Decrease during the current reporting period				Closing balance	Provision for impairment losses	Provision for impairment losses for the current reporting period
			Additional investment	Decrease investment	Investment Income recognized based on equity method	Increase due to granting share options			
Technology Ltd.									
Hangzhou Hik Weiyang Sensory Technology Ltd.	Cost method	60,000,000.00	-	-	-	-	60,000,000.00	-	-
Wuhan Hik Storage Technology Ltd.	Cost method	60,000,000.00	-	-	-	-	60,000,000.00	-	-
Hangzhou Hik Intelligent Technology Ltd.	Cost method	-	-	-	-	277,949.06	277,949.06	-	-
Chengdu Hikvision Digital Technology Ltd.	Cost method	80,000,000.00	-	-	-	-	80,000,000.00	-	-
HDT International Ltd.	Cost method	87,786.14	-	-	-	-	87,786.14	-	-
Prama Hikvision Indian Private Limited	Cost method	1,585,696.80	-	-	-	-	1,585,696.80	-	-
Hikvision International Co., Limited	Cost method	79,423.52	-	-	-	-	79,423.52	-	-
Hikvision Australia PTY Ltd.	Cost method	2,866,850.00	-	-	-	-	2,866,850.00	-	-
Hikvision Singapore Pte. Ltd.	Cost method	1,900,590.00	-	-	-	-	1,900,590.00	-	-
Hikvision South Africa (Pty) Ltd.	Cost method	1,578,650.00	-	-	-	-	1,578,650.00	-	-
Hikvision FZE	Cost method	1,870,351.40	-	-	-	-	1,870,351.40	-	-
Hikvision do Brasil Comercio de Equipamentos de Segurança Ltda.	Cost method	4,579,750.50	-	-	-	-	4,579,750.50	-	-
Hikvision LLC	Cost method	647,249.19	-	-	-	-	647,249.19	-	-
Cooperative Hikvision Europe U.A.	Cost method	65,485.53	-	-	-	-	65,485.53	-	-
Hikvision Korea Limited	Cost method	1,535,850.00	-	-	-	-	1,535,850.00	-	-
Hikvision Colombia SAS	Cost method	1,337,440.00	-	-	-	-	1,337,440.00	-	-

## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Name of investee	Accounting method	Opening balance	Increase/Decrease during the current reporting period				Closing balance	Provision for impairment losses	Provision for impairment losses for the current reporting period
			Additional investment	Decrease investment	Investment Income recognized based on equity method	Increase due to granting share options			
LLC Hikvision Tashkent	Cost method	4,758.69	-	-	-	-	4,758.69	-	-
Hikvision Turkey Technology And Security Systems Commerce Corporation	Cost method	1,148,115.83	-	-	-	-	1,148,115.83	-	-
Chongqing Hikvision Science and Technology Ltd.	Cost method	100,000,000.00	-	-	-	-	100,000,000.00	-	-
Hikvision USA, Inc.	Cost method	1,546,160.00	-	-	-	-	1,546,160.00	-	-
Hikvision Canada Inc.	Cost method	994,442.54	-	-	-	-	994,442.54	-	-
Henan Hua'An Bao Quan Intelligent Development Ltd.	Cost method	67,475,000.00	-	-	-	-	67,475,000.00	-	-
Beijing Hikvision Security and Protection Technology Service Ltd.	Cost method	10,000,000.00	-	10,000,000.00	-	-	-	-	-
Henan Hik Hua'An Bao Quan Electronics Ltd.	Cost method	510,000.00	-	-	-	-	510,000.00	-	-
Hangzhou Hikvision Science and Technology Ltd.	Cost method	1,015,206,036.40	-	-	-	2,936,722.96	1,018,142,759.36	-	-
Hangzhou Hikvision Electronics Ltd.	Cost method	397,745,645.00	-	-	-	-	397,745,645.00	-	-
Beijing Brainaire Storage Technology Ltd.	Cost method	95,878,126.85	-	-	-	-	95,878,126.85	-	-
Xi'An Hikvision Digital Technology Ltd.	Cost method	-	33,000,000.00	-	-	-	33,000,000.00	-	-
Hangzhou EZVIZ Software Ltd.	Cost method	-	-	-	-	2,221,880.94	2,221,880.94	-	-
Wuhan Hikvision Science and Technology Ltd.	Cost method	-	55,150,000.00	-	-	-	55,150,000.00	-	-



## Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Name of investee	Accounting method	Opening balance	Increase/Decrease during the current reporting period				Closing balance	Provision for impairment losses	Provision for impairment losses for the current reporting period
			Additional investment	Decrease investment	Investment Income recognized based on equity method	Increase due to granting share options			
Hangzhou Huiying Technology Ltd.	Cost method	-	15,000,000.00	-	-	-	15,000,000.00	-	-
Wuhu Sensor Technology Ltd.	Equity method	38,207,959.74	-	-	(605,746.30)	--	37,602,213.44	-	-
Maxio Technology (Hangzhou) Ltd.	Equity method	46,400,992.55	27,000,000.00	-	2,236,732.04		75,637,724.59	-	-
<b>Total</b>		3,367,076,734.95	630,150,000.00	10,000,000.00	1,630,985.74	22,301,934.92	4,011,159,655.61	-	-

As of June 30<sup>th</sup> 2018, there were no restrictions on the capability of transferring fund to the Company from investees in which the Company held long-term equity investment.

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

#### 4. Operating income and operating cost

Unit: RMB

Item	2018 First Half Year		2017 First Half Year	
	Income	Cost	Income	Cost
Operating income	8,256,611,162.57	2,472,684,680.13	6,798,573,690.37	2,251,271,391.25
Other operating income	881,033,053.99	138,278,910.63	710,968,437.01	99,917,571.80
Total	9,137,644,216.56	2,610,963,590.76	7,509,542,127.38	2,351,188,963.05

#### 5. Investment income

##### (1) Details of investment income

Unit: RMB

Item	2018 First Half Year	2017 First Half Year
Long-term equity investment income measured by cost method	-	(7,379,719.62)
Long-term equity investment income measured by equity method	1,630,985.74	(1,409,148.78)
Investment loss on disposal of long-term equity investment	(9,994,028.47)	-
Investment gains (losses) for available-for-sale financial assets during the holding period	12,256,000.00	8,505,842.42
Gain (loss) on disposal of financial assets at fair value through current profit and loss	-	4,064,470.64
Investment income from redemption of bank finance products upon expiry	64,686,053.30	29,315,524.76
Total	68,579,010.57	33,096,969.42

#### 6. Related party transactions

##### (1) Sales and purchase of goods, provision of services and receiving services

Purchase of goods/receiving of services:

Unit: RMB

Related party	Transaction type	Amount for 2018 first half year	Amount for 2017 first half year
Subsidiaries of Hikvision (Note)	Purchase of materials and receiving of services	2,918,246,037.89	2,793,186,245.21
Subsidiaries of CETE	Purchase of materials and receiving of services	244,100.92	37,490.97
Maxio Technology and its subsidiaries	Purchase of materials and receiving of services	44,208,712.51	23,584,904.76
Total		2,962,698,851.32	2,816,808,640.94

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

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Sales of goods/rendering of services:

Unit: RMB

Related party	Transaction type	Amount for 2018 first half year	Amount for 2017 first half year
Subsidiaries of Hikvision	Sales of products and rendering of services	6,365,104,835.26	4,996,070,218.10
Subsidiaries of CETE	Sales of products and rendering of services	27,754,100.86	10,109,281.20
Zhejiang Tuxun	Sales of products and rendering of services	-	419,664.11
<b>Total</b>		<b>6,392,858,936.12</b>	<b>5,006,599,163.41</b>

Statement of capital deposits:

Unit: RMB

Related Party	Content of related party transaction	Amount occurred in the current year	Balance at the end of the year	Amount occurred during last year	Opening Balance
Subsidiaries of CETE (Note)	Deposit into fixed deposits	-	1,000,000,000.00	200,000,000.00	1,000,000,000.00
Subsidiaries of CETE (Note)	Deposit into call deposits	(500,000,000.00)	-	-	500,000,000.00
<b>Total</b>		<b>(500,000,000.00)</b>	<b>1,000,000,000.00</b>	<b>200,000,000.00</b>	<b>1,500,000,000.00</b>

Note: the Company has deposited fixed deposits and call deposits into China Electronic Technology Finance Ltd. during the current reporting period.

Those transactions above were executed at market prices or at the prices agreed by both parties.

## (2) Guarantees with related parties

During 2018 first half year, the Company has provided guarantees for its 17 wholly-owned and majority-owned subsidiaries in an amount not exceeding an equivalent of RMB 22.45 billion (2017 first half year: equivalent of RMB 14.05 billion), including the joint liability guarantee for the payment obligations on purchase from suppliers in an amount not exceeding an equivalent of RMB 2.5 billion (2017 first half year: equivalent of RMB 1.2 billion), and the joint liability guarantee for the general credit limit applied from commercial banks and other financial institutions or other financing methods through agreed methods in an amount not exceeding an equivalent of RMB 19.95 billion (2017 first half year: equivalent of RMB 12.85 billion).

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

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## 7. Receivables from related parties and payables to related parties

### (1) Receivables from related parties

Unit: RMB

Item	Related party	Closing balance		Opening balance	
		Carrying balance	Bad debt provision	Carrying balance	Provision
Accounts receivable	Subsidiaries of Hikvision	13,796,384,041.54	690,039,155.37	10,839,522,465.63	542,196,076.58
Accounts receivable	Subsidiaries of CETE	38,632,794.97	2,548,567.73	24,170,969.21	1,526,150.68
<b>Total</b>		<b>13,835,016,836.51</b>	<b>692,587,723.10</b>	<b>10,863,693,434.84</b>	<b>543,722,227.26</b>
Other receivables	Subsidiaries of Hikvision	941,945,934.48	47,097,296.72	425,722,254.59	21,286,112.72
Other receivables	Maxio Technology and its subsidiaries	-	-	13,500,000.00	675,000.00
<b>Total</b>		<b>941,945,934.48</b>	<b>47,097,296.72</b>	<b>439,222,254.59</b>	<b>21,961,112.72</b>
Prepayments	Subsidiaries of Hikvision	12,810,572.77	-	3,349,033.66	-
Prepayments	Subsidiaries of CETE	121,105.90	-	-	-
<b>Total</b>		<b>12,931,678.67</b>	<b>-</b>	<b>3,349,033.66</b>	<b>-</b>
Dividend receivables	Subsidiaries of Hikvision	-	-	2,550,000.00	-
<b>Total</b>		<b>-</b>	<b>-</b>	<b>2,550,000.00</b>	<b>-</b>

### (2) payables to related parties

Unit: RMB

Item	Related party	Closing balance	Opening balance
Accounts payable	Subsidiaries of Hikvision	43,633,182.34	54,312,472.11
Accounts payable	Subsidiaries of CETE	131,595.72	1,314.27
<b>Total</b>		<b>43,764,778.06</b>	<b>54,313,786.38</b>
Receipts in advance	Subsidiaries of Hikvision	7,065,855.56	1,228,879.80
Receipts in advance	Subsidiaries of CETE	50,609.41	47,751.41
<b>Total</b>		<b>7,116,464.97</b>	<b>1,276,631.21</b>
Other payables	Subsidiaries of Hikvision	1,064,627,656.46	610,605,005.68
Other payables	Subsidiaries of CETE	150,000.00	150,000.00
Other payables	Shanghai Fullhan Micro	100,000.00	100,000.00

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Item	Related party	Closing balance	Opening balance
Total		1,064,877,656.46	610,855,005.68

## 8. Supplementary information to the cash flow statement

### (1) Supplementary information to the cash flow statement

Unit: RMB

Supplementary information	2018 First Half Year	2017 First Half Year
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	3,419,933,143.36	3,100,858,413.44
Add: Assets impairment	280,443,036.30	156,626,616.68
Depreciation of fixed assets	104,727,970.04	71,073,919.61
Amortization of intangible assets	19,161,104.18	11,122,295.66
Losses (gains) on disposal of fixed assets, intangible assets and other long-term assets	(3,744,349.94)	(2,324,953.32)
Retirement losses on fixed assets, intangible assets and other long-term assets	259,406.67	-
Losses (gains) from change in fair value		(53,740,407.58)
Financial expenses	183,179,929.97	41,298,277.77
Investment income	(68,579,010.57)	(33,096,969.42)
Share-based payment through equity settlement	58,196,865.58	71,212,805.16
Change in other monetary funds	(193,406,912.36)	-
Decrease (Increase) in deferred income tax assets	(46,381,516.48)	(16,661,233.80)
Decrease (increase) of inventories	98,516,066.70	(105,490,368.20)
Decrease (Increase) in operating receivables	(3,451,566,482.37)	(2,247,984,881.97)
Increase (Decrease) in operating payables	(244,597,810.07)	705,185,191.40
Increase (Decrease) in deferred income	62,764,563.01	-
<b>Net cash flow from operating activities</b>	<b>218,906,004.02</b>	<b>1,698,078,705.43</b>
<b>2. Major investing and financing activities not involving cash receipt and payment:</b>		
<b>3. Net change in cash and cash equivalents:</b>		
Closing balance of cash	9,501,525,877.07	10,618,227,114.21
Less: Opening balance of cash	12,304,082,533.11	10,245,969,003.13
Add: Closing balance of cash equivalents		
Less: Opening balance of cash equivalents		
<b>Net increase in cash and cash equivalents</b>	<b>(2,802,556,656.04)</b>	<b>372,258,111.08</b>

Notes to Financial Statements

 For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

## (2) Composition of cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
I. Cash	9,501,525,877.07	12,304,082,533.11
Including: Cash on hand	258,669.21	378,292.56
Bank deposit for payment at any time	9,501,060,628.84	12,303,704,240.55
Other monetary funds for payment at any time	206,579.02	-
II. Cash equivalents	-	-
III. Closing balance of cash and cash equivalents	9,501,525,877.07	12,304,082,533.11

On June 30<sup>th</sup> 2018, the Company's closing balance of other monetary funds was RMB 193,621,672.26 (December 31<sup>st</sup> 2017: RMB 8,180.88), of which RMB 193,415,093.24 were various guarantee deposits (December 31<sup>st</sup> 2017: RMB 8,180.88), not cash or cash equivalents.

## XVI. Supplementary information

### 1. Details of current non-recurring gains and losses

Unit: RMB

Item	Amount	Description
Profit or loss from disposal of non-current assets	3,763,578.84	/
The government subsidies included in the current profits and losses (excluding the government subsidy <sup>3</sup> closely related to regular course of business of the Company and government subsidy based on standard quota or quantitative continuous enjoyment according to the state industrial policy)	32,403,527.17	/
Held- for-trading financial assets, profits and losses from change in fair value of held-for-trading financial liabilities, and investment income from disposal of held-for-trading financial assets and liabilities and available-for-sale financial assets excluding the effective hedging business related to the regular business operation of the Company	69,626,477.45	/
Other non-operating income and expense except the items mentioned above	57,609,365.54	/
Impact of income tax	(24,177,242.28)	/
The impact of minority equity	(1,101,132.11)	/
<b>Total</b>	<b>138,124,574.61</b>	/

### 2. Return on net assets and earnings per share

The return on net assets and earnings per share have been prepared by Hangzhou Hikvision Digital Technology Co., Ltd. in accordance with the Information *Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revised in 2010)* issued by China Securities Regulatory Commission.

Unit: RMB

<sup>3</sup> Please refer to Note (V) 46 for details about government subsidy, which is closely related to daily operations of the Company.

## Notes to Financial Statements

For the reporting period from January 1<sup>st</sup> 2018 to June 30<sup>th</sup> 2018

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	13.08%	0.449	0.449
Net profit excluding non-recurring items of profit or loss attributable to ordinary shareholders of the Company	12.65%	0.434	0.434

## Section XI Documents Available for Reference

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

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

Hangzhou Hikvision Digital Technology Co., Ltd.  
Chairman: Chen Zongnian  
July 21<sup>st</sup> 2018

### Note:

This document is a translated version of the Chinese version 2018 Half Year Report (“2018 年半年度报告”), and the published announcements in the Chinese version shall prevail. The complete published Chinese 2018 Half Year Report may be obtained at [www.cninfo.com.cn](http://www.cninfo.com.cn).