Hangzhou Hikvision Digital Technology Co., Ltd.

2018 Annual Report

April 20th 2019

To shareholders

Dear Shareholders,

In 2018, Hikvision realized total revenue of RMB 49.84 billion, with a year-over-year growth rate of 18.93 percent; and net profit attributable to the parent company of RMB 11.35 billion, an increase of 20.64 percent year-over-year. The Company maintained solid growth.

Our business faced more challenges in 2018 than in any previous years. The Company was more cautious and conservative on sales strategy than any previous year and put more emphasis on short-term risk management. However, the Company remains upbeat about growth in the domestic and overseas markets in the years ahead. We actively explored business development opportunities in both domestic and foreign markets, and continued to increase investment in product research and development (R&D) and marketing.

In 2018, the Company stepped up the development of its AI Cloud software platform and facilitated the adoption of AI Cloud. In the era of AI, artificial intelligence is everywhere. We see opportunities arising from demand for perceptual AI, and recognize the difficulties in meeting the fragmented demand for perceptual AI applications. The Company offers an AI open development platform to its clients, allowing them to participate in AI applications with fragmented demands, and protecting their data at the same time. The gradual adoption of AI Cloud will help the Company promote the development of intelligent Internet of Things (IoT), as well as help it advance the integration of IoT with information networks and development of the Company's big data business.

To better meet clients' needs and enhance operating efficiency, the Company has restructured its traditional security segments into public business group (PBG), enterprise business group (EBG), and small and medium enterprise business group (SMBG). The Company will adopt different business strategies for its various business groups and offer a variety of products and system solutions. Meanwhile, the development of our innovative businesses is in line with our expectations.

The external environment remains uncertain to some extent in 2019. However, regardless of how the external environment evolves, the Company will continue to make R&D investments to

ensure the competence of its products and system solutions, ramp up investments in customer services to enhance customer satisfaction, optimize internal operations management to improve operating efficiency, push forward with its globalization strategy, and step up investments in the international markets. We remain confident about our future.

The Company will address unconventional business challenges thoughtfully, while continually improving and growing. With an open, transparent and sincere attitude, we are ready to respond to uncertainties stemming from various challenges. We firmly believe that we can go further only by constantly improving ourselves.

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

See far, go further!

Board of Hangzhou Hikvision Digital Technology Co., Ltd.

April 2019

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 accounting work, and Zhan Junhua, the person in charge of accounting department (accounting supervisor) hereby declare and warrant that the financial statements in this report are authentic, accurate and complete.

The Company's chairman Chen Zongnian, and director Gong Hongjia, Qu Liyang, Hu Yangzhong, Wu Weiqi, independent director Lu Jianzhong, Wang Zhidong attended the board meeting to review this report in person. Independent director Cheng Tianzong and Hong Tianfeng were unable to attend the board meeting in person due to personal reasons, and authorized independent director Wang Zhidong and Lu Jianzhong to attend and exercise the voting right on their behalf respectively.

The profit distribution proposal passed upon deliberation at the meeting of the Board of Directors is set out as follows: Based on the Company's current total share capital of 9,348,465,931 shares, the Company proposed to distribute cash dividend of RMB 6 (tax inclusive) per each 10 shares to all shareholders, bonus share and share distribution from capital reserve is nil.

Note:

This document is a translated version of the Chinese version 2018 Annual Report ("2018 年年度报告"), and the published announcements in the Chinese version shall prevail. The complete published Chinese 2018 Annual Report may be obtained at www.cninfo.com.cn.

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

1) **Risk of technology upgrade:** Technologies such as artificial intelligence, big data, cloud computing, and edge computing are developing rapidly, and technology diffusion is faster. 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) **Domestic macro-economy fluctuation risk:** The Company's domestic business is closely related to the investment needs of the government, enterprises and institutions. The Company adjusts its business strategy in response to the changing domestic demands. If the domestic macro-economy continues to decline, the industry demand will shrink. The Company's development will face great pressure; and difficulties and risks in business operation will increase.

3) **Trade protectionism risks in developed countries:** The trend of unilateralism and trade protection in some of the countries is obviously rising. If the trend of reverse globalization is aggravated, it will affect the Company's business expansion and brand upgrading in overseas developed markets.

4) **Risk of global market expansion:** The Company’s business covers more than 150 countries and regions worldwide. If various situations such as foreign exchange rate fluctuation, debt problem, declining purchasing power, or political conflict occur in the country where our business is carried out, there might be adverse impact on the Company’s business development.

5) **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.

6) **Legal compliance risk:** The world's multilateral trading system is facing an impact. The local laws and regulations that business activities need to comply with are more complicated. The regulation of data worldwide is becoming stricter, and the compliance review of business is becoming more important. If the Company's legal compliance ability cannot keep up with the situation, it will bring risks to the Company's operations.

7) **Risk of cybersecurity:** The Company has always attached importance and taken active measures to enhance cybersecurity performance of our products and systems, However, with any Internet-connected device, 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 cybersecurity issues.

8) **Risk of exchange rate fluctuation:** 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.

9) **Risk of intellectual property (IP) rights:** The Company continues to maintain the relative large scale of

R&D investment, and produces considerable technical achievements, and at the same time, implements well-organized intellectual property right (IPR) protection measures. However, the risk of intellectual property disputes and the risk of intellectual property rights violations still exist.

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

CONTENTS

To shareholders 1

Section I Important Notes, Contents and Definitions 3

Section II Corporate Profile & Key Financial Data 9

Section III Corporate Business Summary 14

Section IV Operation Discussion and Analysis 58

Section V Significant Events 81

Section VI Changes in Shares and Information about Shareholders 103

Section VII Information of Preferred Shares 114

Section VIII Information about Directors, Supervisors, Senior Management 115

Section IX Corporate Governance 136

Section X Corporate Bonds 148

Section XI Financial Report 149

Section XII Documents Available for Reference 274

Definitions

Term	Definition
Reporting Period	From January 1st 2018 to December 31st 2018
Articles of Associations	*Articles of Associations for Hangzhou Hikvision Digital Technology Co., Ltd*
Hikvision, our Company, the Company	Hangzhou Hikvision Digital Technology Co., Ltd
CETHIK	CETHIK Group Co., Ltd. Controlling Shareholder of the Company
Innovative Co-investment Partnership	Hangzhou Hikvision Equity Investment Partnership (Limited Partnership)
EZVIZ, EZVIZ Network Inc.	Hangzhou EZVIZ Network Ltd. (According to the context, also refers to the corresponding business)
Hikvision Robotics	Hangzhou Hikvision Robtics Technology Ltd. (According to the context, also refers to the corresponding business)
Hikvision Automotive Technology, Hikvision Automotive Electronics	Hangzhou Hikvision Automotive Electronics Ltd. (According to the context, also refers to the corresponding business)
Hikvision Weiying	Hangzhou Hikvision Weiying Sensor Technology Ltd. (According to the context, also refers to the corresponding business)
Hikvision Storage; Hikvision Smart Storage	Wuhan HIK Storage Technology Ltd. (According to the context, also refers to the corresponding business)
Hikvision Huiying	Hangzhou HIK Huiying Technology Ltd. (According to the context, also refers to the corresponding business)
Security Industrial Base (Tonglu)	Located in Tonglu economic development area, Hangzhou, Zhejiang province, purposes for production factories, warehousing logistics center. Initially disclosed in *Announcement about the Company's Investment in Tonglu to Set up Wholly Owned Subsidiary and New Hikvision Security Industry Base (Tonglu) Project(*《关于在桐庐投资设立全资子公司及新建海康威视安防产业基地（桐庐）项目的公告》) (NO. 2014-044).
Internet Security Industry Base	Located in Binjiang district, Hangzhou, Zhejiang province, purposes for the office building. Initially disclosed in *Announcement about the Company's New Construction of Internet Security Industry Base Project* (《关于新建海康威视互联网安防产业基地项目的公告》)(NO. 2014-035).
Chongqing Manufacture Base	Located in Chongqing, purposes for manufacturing facility, initially disclosed in *Announcement about Resolution of the 20th Meeting of the 3rd Session Board*（No：2016-068）
Innovative Business	A long investment cycle, business prospects uncertain, has the high risk and uncertainty, in need for direct or indirect investment in exploration, in order for the Company to timely enter into new areas of business. Initially disclosed in *Announcement about Management Measures for Core Staff Investment in Innovative Business* (《核心员工跟投创新业务管理办法》) (www.cninfo.com.cn). In this report, innovative business also refers to EZVIZ, Hikvision Robtics, Hikvision

	Automotive Electronics, Hikvision Weiying, Hikvision Storage, Hikvision Huiying and their related business or products.
Euro Bond	The Company publicly issued the bond with nominal value amounting to Euro 400 million; and the bond was settled, listed and traded on the Irish Stock Exchange on February 18th 2016. For details, please refer to *Announcement about Issuing Foreign Currency Bond* (《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		
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		

II. Contacts and contact information

	Board Secretary	Securities Affairs Representative
Name	Huang Fanghong	
Address	No. 518 WuLianWang Street, Binjiang District, Hangzhou	
Tel.	0571-88075998; 0571-89710492	
Fax	0571-89986895	
E-mail	hikvision@hikvision.com	

III. Information disclosure and place of the report

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

IV. Company Registration and Alteration

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

V. Other Relevant Information

Accounting firm engaged by the Company

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

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

□ Applicable √ Inapplicable

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

□ Applicable √ Inapplicable

VI. Key accounting data and Financial Indicators

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

□Yes √No

Unit: RMB

	2018	2017	YoY Change (%)	2016
Operating income (RMB)	49,837,132,481.61	41,905,476,572.07	18.93%	31,934,544,088.82
Net profits attributable to shareholders of the Company (RMB)	11,352,869,241.32	9,410,855,084.82	20.64%	7,423,683,960.91
Net profits attributable to shareholders of the Company excluding non-recurring gains and losses (RMB)	10,983,228,170.60	9,177,116,964.06	19.68%	7,270,742,762.47
Net cash flows from operating activities (RMB)	9,114,013,286.06	7,373,160,250.68	23.61%	6,216,364,642.05
Basic earnings per share (RMB/share)	1.240	1.030	20.39%	0.818
Diluted earnings per share (RMB/share)	1.234	1.024	20.51%	0.817
Weighted average ROE	33.99%	34.96%	-0.97%	34.58%
	At December 31st 2018	At December 31st 2017	YoY Change (%)	At December 31st 2016
Total assets (RMB)	63,484,352,233.42	51,570,963,466.61	23.10%	41,348,428,750.40
Net assets attributable to shareholders of the Company (RMB)	37,590,154,638.46	30,358,072,874.22	23.82%	24,285,707,211.82

The total share capital of the Company as of the previous trading day of the annual report disclosure:

The total share capital of the Company as of the previous trading day of the annual report disclosure (share)	9,348,465,931
Fully diluted earnings per share (RMB/share) calculated with the latest share capital	1.214

Whether there is a corporate bond:

□ Yes √ No

Whether the Company has continuous losses in the last two years

□ Yes √ No □ Not applicable

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

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

□ Applicable √ Inapplicable

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

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

□ Applicable √ Inapplicable

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

3. Explanation of the differences in accounting data under domestic and overseas accounting standards

□ Applicable √ Inapplicable

VIII. Key Quarterly Financial Indicators

Unit：RMB

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Operating income	9,364,828,201.00	11,510,930,023.63	12,926,932,976.48	16,034,441,280.50
Net profit attributable to shareholders of the Company	1,815,964,569.77	2,331,430,966.09	3,248,407,615.14	3,957,066,090.32
Net profit attributable to shareholders of the Company excluding non-recurring gains and losses	1,808,323,790.71	2,200,947,170.54	3,142,725,705.56	3,831,231,503.79
Net cash flows from operating activities	-3,856,064,680.53	2,234,871,322.53	4,267,464,655.50	6,467,741,988.56

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

□ Yes √ No

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

√ Applicable □ Inapplicable

Unit：RMB

Item	2018	2017	2016
Profit or loss from disposal of non-current assets (including the write-off for the impairment provision of assets)	4,975,825.83	1,585,222.50	-736,149.02
The government subsidies 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.)	319,304,315.50	184,557,043.27	171,321,088.31
Net gains and losses from beginning of the reporting period to the merge date for the subsidiary merged involving enterprises under common control	-	-42,070.90	3,949,938.20
Profits and losses attributed to change in fair value for held-for-trading financial assets and held-for-trading financial liabilities, and investment income from disposal of held-for-trading financial assets, held-for-trading financial liabilities and available-for-sale financial assets, excluding the effective hedging business related to the regular business operation of the Company.	62,153,461.82	86,740,196.23	321,708.86
Other non-operating income and expenditures except the items mentioned above	94,651,413.78	30,044,820.52	18,276,871.37
Less: Impact of income tax	84,510,487.85	50,405,620.44	36,000,258.26
The impact of the minority interests (after tax)	26,933,458.36	18,741,470.42	4,192,001.02
Total	369,641,070.72	233,738,120.76	152,941,198.44

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

□ Applicable √ Inapplicable

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

Section III Corporate Business Summary

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

1. Main Business and industry position

Hikvision is a provider of video-centered intelligent IoT (Internet of Things) solution and big data services. Global research firm IHS Markit has ranked Hikvision as global No. 1 in the video surveillance industry for seven consecutive years, with 22.6 percent[1] of the global video surveillance market share. In the "A&S Security 50" list published by A&S *Security Automation*, Hikvision has been ranked No.1 in the world for three consecutive years.

In 2016, Hikvision integrated deep learning algorithm into products, and launched a full range of deep learning and intelligent product families that integrate intelligent analysis capabilities throughout the entire process from information gathering to storage application. In 2017, Hikvision led the intelligent application trend based on the fusion of cloud and edge computing architectures, innovatively launching the three-tier AI Cloud architecture of edge node, edge domain and cloud center, and vigorously promoting the development and application of AI (artificial intelligence) in the IoT field. In 2018, based on the fusion of cloud and edge computing architectures, Hikvision deepened and integrated the AI Cloud product line with "Two Pools, One Library and Four Platforms"[2] and proposed the AI Cloud data architecture with the fusion of IoT and Information Networks. During the implementation of the business, the Company focused on solving the scenario-based and fragmented AI application and the difficulties in the implementation of user needs, unified the software architecture internally and promoted the open integration strategy externally, and changed and restructured the internal organizational structure to match the business changes. Hikvision has laid a solid foundation for the arrival of the intelligent era.

2. Technology Accumulation and Innovation

2.1 Technical Architecture Overview

The interconnection of all things is the cradle of the concept of the Internet of Things, which depicts a

[1] Based on the global video surveillance market report published by IHS Markit in June 2018, with the 2017 data as the statistical basis.

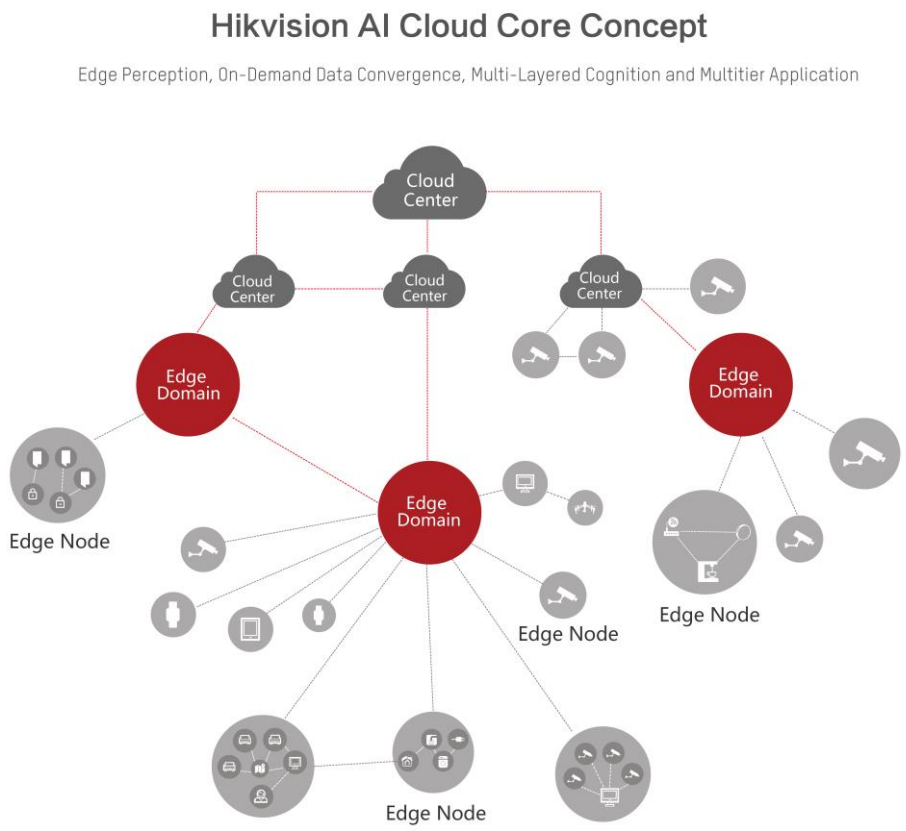
[2] Refers to “Computing Resource Pool, Data Resource Pool, Algorithm Warehouse, Data Resource Platform, Intelligent Application Platform, Resource Scheduling Platform, Operation and Service Platform.

broader scene for human beings after the Internet era. However, how to make objects see, listen, read and write like humans? How to make objects respond intellectually? And how to make the interconnection between things integrate into human beings' production and living environment to truly form a meridian system? The application of deep learning drives the combination of artificial intelligence and the perceptual information of objects such as video, audio and text, and gives objects intelligence, making it possible for the objects to respond intellectually. When intelligent objects are interconnected into a network, the intelligent Internet of Things is created. At present, the scale and scope of intelligent IoT is expanding, no longer limited to homes, production lines, buildings, etc. The intelligent IoT is a new infrastructure of the intelligence era.

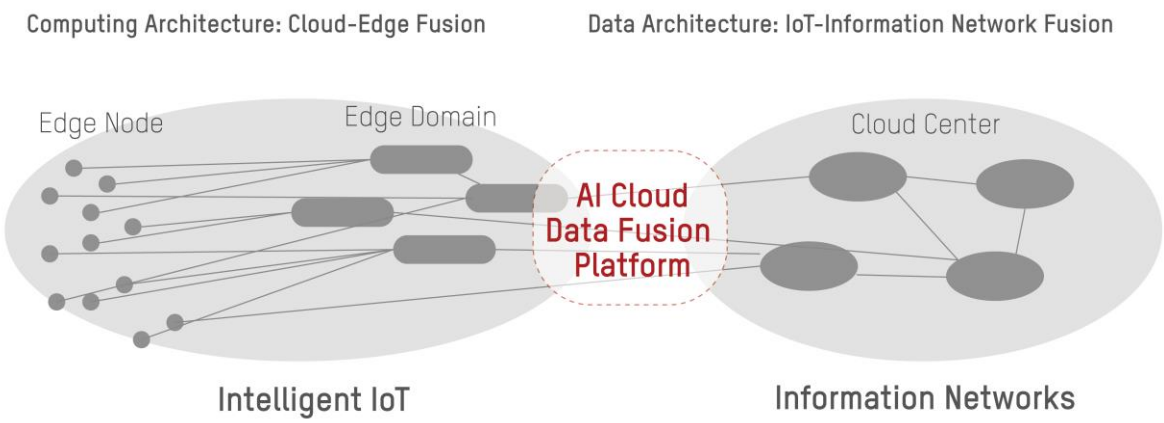
From the perspective of computing, computing architecture with the fusion of cloud and edge is required in the intelligent era. The fusion of cloud and edge computing is a computing architecture that conforms to intelligent IoT applications and is the allocation method of computing resources that Hikvision adopts and advocates. On one hand, even if cloud computing power is strong enough, some data only needs to be locally processed and applied, and does not need to be transmitted to the cloud for processing. On the other hand, the scale of the intelligent IoT is so large that it is unrealistic for all data to be transmitted to the cloud for processing, and the growth of bandwidth will not be able to keep up with the growth of IoT data. For example, for video cloud, a current topic in the industry, there is basically no video processed in the cloud, but mainly structured data[3], small videos and images that are processed by edge computing.

Hikvision's AI Cloud computing architecture can be summarized as "the fusion of cloud and edge computing" and consists of edge nodes, edge domains and cloud centers. Edge nodes and edge domains are located in the intelligent IoT and make full use of edge computing capabilities; and cloud centers are located in the intelligent IoT or information networks to form cross-network cloud computing capabilities. Edge nodes focus on collection of multi-dimensional perception data and front-end intelligent applications; edge domains focus on aggregation of perception data and intelligent applications; and cloud centers focus on cross-network data fusion and macro comprehensive applications.

[3] Structured data: Data that is logically expressed and implemented by a two-dimensional table structure, strictly following the data format and length specifications, and is mainly stored and managed through a database.



From the perspective of data, the data in the intelligent IoT cannot be well used by the information system and by users until it is organized according to the models required by the information network and fused in the information network. The intelligent IoT is closely fused with various information networks such as the Internet and industry information networks to truly realize a full interaction with humans. The connection between intelligent objects and information systems is the fusion of IoT and information Networks, which will open the data channel between the intelligent IoT and information networks; it is also the meridian system of data in the intelligent era. The fusion of IoT and information networks is the data architecture suitable for applications under intelligent IoT and information network and the data organization form that Hikvision AI Cloud complies with and advocates.



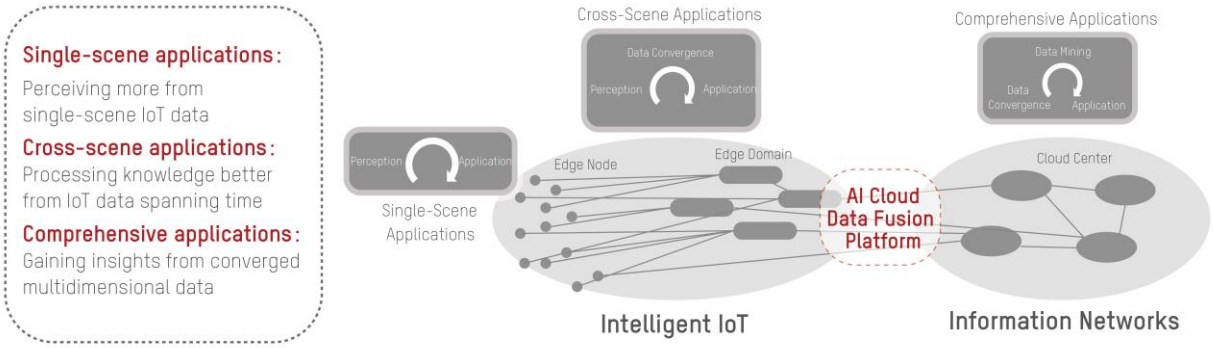
Hikvision AI Cloud's data architecture can be summarized as “the fusion of IoT and information networks", which supports resource governance, data governance, data fusion, data services, and data applications across the intelligent IoT and information networks. The main capabilities of AI Cloud Data Fusion Platform can be summarized as horizontal cross-network fusion, vertical cross-layer convergence, dual-network three-type applications, and data security protection.

Horizontal cross-network fusion: First, regarding data source governance, it is necessary to solve the quality problem of intelligent IoT data source. Second, for intelligent analysis, it is necessary to use artificial intelligence to transform IoT data into easy-to-understand data such as people, places, things and objects in the information network. Third, on IoT data services, it is necessary to send the data to information networks for fusion with other data while supporting intelligent applications of IoT. Finally, in respect to converged data governance, it is necessary to organize the data according to the theme library[4], topic library[5], tag library or relationship library, and then provides converged data services to support the development of information network data applications.

Vertical cross-layer convergence: Hikvision provides data platform cascading function to support the upward on-demand data convergence in both the intelligent IoT and information networks.

Dual-network three-type applications: In the intelligent IoT and information networks, three types of applications may be developed based on the intelligent application platform: single-scene applications, cross-scene applications, and comprehensive applications.

[4] Theme Library: a business subject - oriented database.
[5] Topic Library: a database addressing a certain professional application.



Data security protection: In the AI Cloud Data Fusion Platform, Hikvision focuses on data protection from four angles: data collection, transmission and storage, data services, and data applications. Data security is protected at four levels: development and testing, delivery and implementation, data governance, and operation and maintenance.

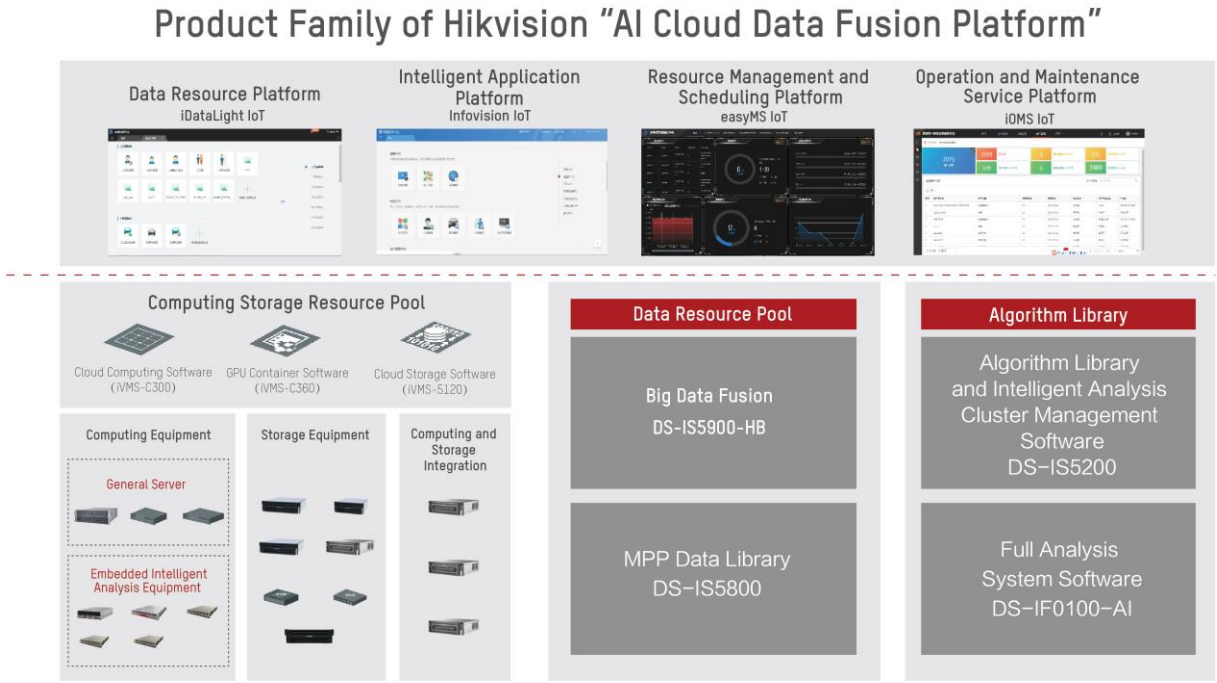
The number of IoT devices worldwide will exceed 20 billion by the year 2020[6]. The intelligent IoT will be characterized by larger number of terminals, more diverse terminal types, more powerful terminal performance, more complex network architecture, more extensive data content, and more diverse business applications. Therefore, it is necessary to strengthen data security protection and privacy protection at multiple levels such as terminal, network, data, platform services, and applications.

2.2 AI Cloud Software and Hardware Platforms

2.2.1 AI Cloud Software Products

Hikvision firmly believes that the AI Cloud architecture is a reasonable solution to the fusion and application of intelligent IoT and information network. In 2018, Hikvision fully released software products of "two pools, one library and four platforms" based on the AI Cloud architecture by implementing the "cloud-edge fusion" computing architecture, and continuously deepened the implementation of the "IoT-information network fusion" data architecture in practice, and further integrated the "two pools, one library and four platforms" into an “AI Cloud Data Fusion Platform", continuously consolidating the layout in AI, big data and application areas and leading the market through technological innovation and product innovation.

[6] https://www.gartner.com/en/newsroom/press-releases/2017-02-07-gartner-says-8-billion-connected-things-will-be-in-use-in-2017-up-31-percent-from-2016



Through the resource management and scheduling platform, Hikvision realized the unified management of various resources such as IoT perception, computing storage, intelligent algorithm and software service. In addition, by introducing the standardization of algorithm library, the pooling of computing storage resources and other management tools, Hikvision provides unified access, centralized management, flexible scheduling, and other functions for heterogeneous computing storage resources and algorithm resources, providing more flexible choices for users and intensifying users' investments. The software in the algorithm library supports unified management scheduling of different types of intelligent algorithms from different vendors. It not only realizes the unified management scheduling of Hikvision's own algorithms for human face, human body and vehicle, etc., but also completes the algorithm docking with the ecological partners, which have been implemented in a number of projects.

Through the data resource platform, Hikvision provides the capabilities of data convergence, data storage, data fusion, data computation, data sharing and data universal applications, supporting the fusion between business data in the information system and IoT perception data. By providing rich toolkits such as data aggregation, data governance, multi-dimensional data modeling, data sharing and opening, and universal fusion applications, the data resource platform provides users with a one-stop solution to various problems such as the lack of data specifications, low data quality, difficult data convergence and management, insufficient data mining, and high data management costs, helping users to quickly realize the delivery of data platforms and supporting

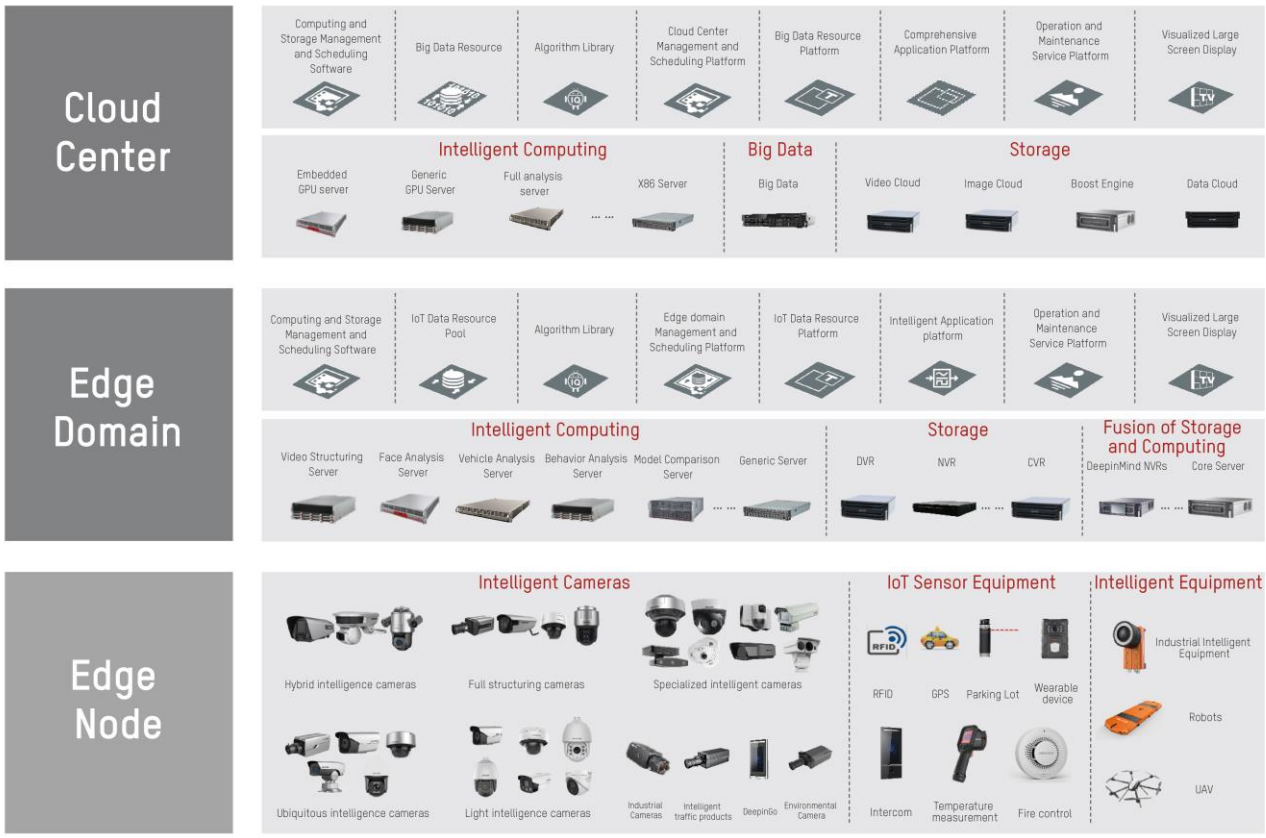
data fusion and application.

Hikvision takes advantage of the intelligent application platform to provide agile development, integration, and operational support for applications. The application developers can quickly develop, seamlessly integrate and rapidly deploy applications that fulfill specific business demands by following a unified integration specification for technical architecture, and leveraging the development interfaces such as device access, intelligent resolution, platform services, and universal applications provided by the intelligent application platform.

Through the operation and maintenance service platform, Hikvision realized various functions including rapid fault identification, response tracking, service evaluation, and statistical assessment of IoT resources and IT resources, and solved the problem of unified operation and maintenance management of equipment with multiple types, large quantity and scattered distribution, which effectively improves the efficiency of fault handling and ensures the operational stability of the video surveillance system.

2.2.2 AI Cloud Hardware Products

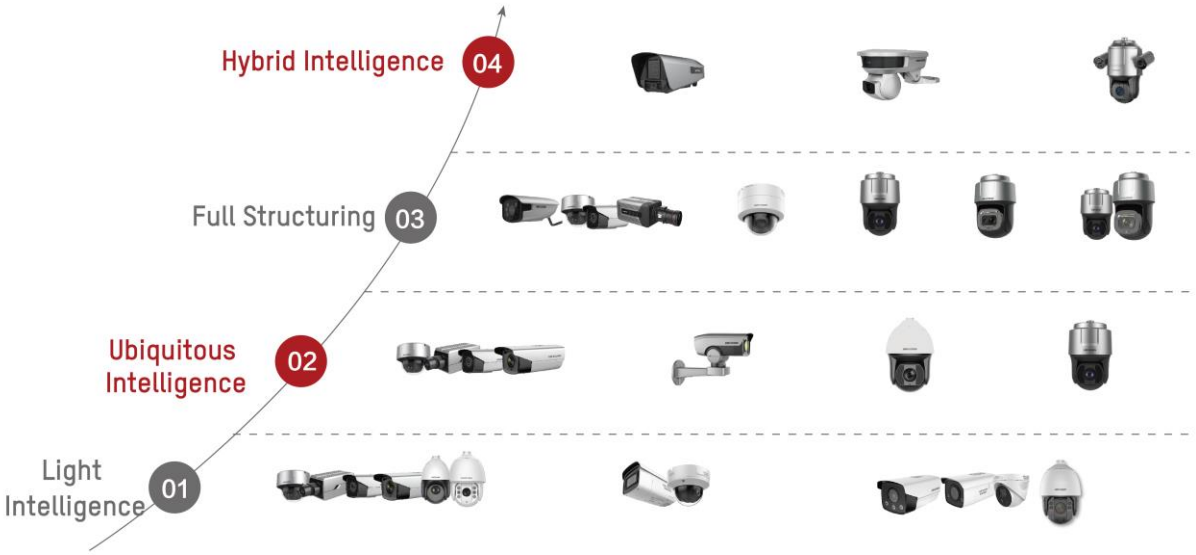
In 2018, centering around the AI Cloud architecture, the Company continued to deepen and improve the layout of hardware products in respects of edge nodes, edge domains and cloud centers.



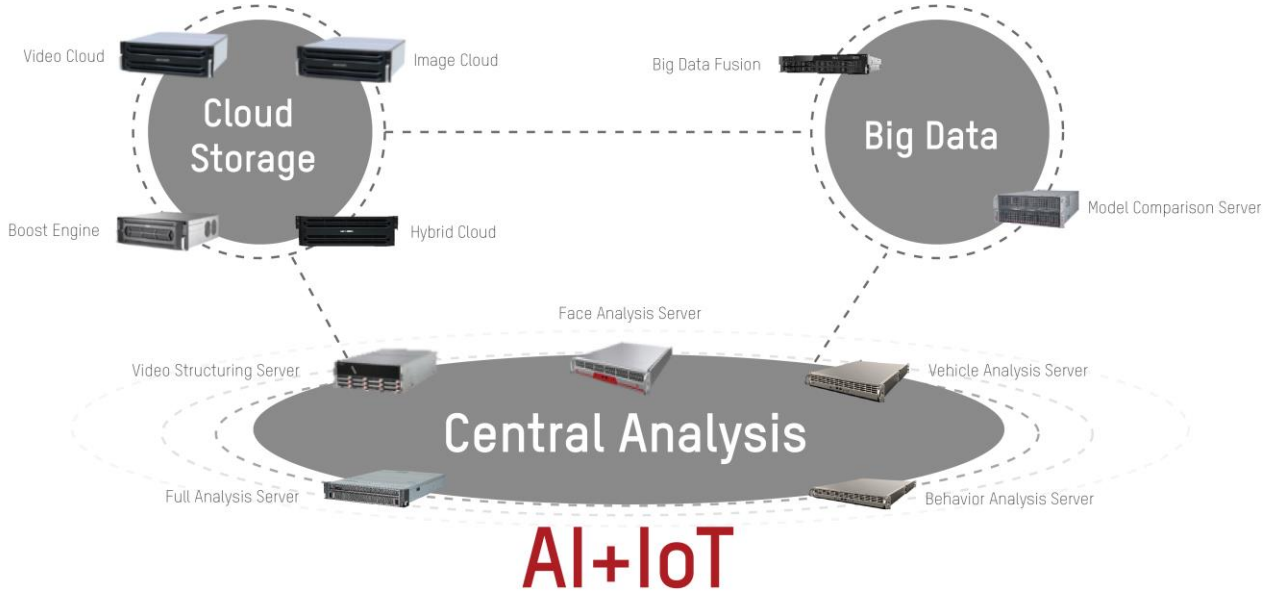
Hikvision continued to break through in imaging, fill-in light, video-structuring and intelligence technologies in front-end products, from Darkfighter to DarkfighterX, from white fill-in light to hybrid fill-in light, from monocular structure to multi-cular structure, and from single intelligence to fully structured hybrid intelligence. Driven by the business demand, we layered products and intelligence; based on application scenarios, we fully upgrade our products through deeply understanding users' needs. A rich family of future-oriented AI products was gradually formed, including light intelligence, ubiquitous intelligence, full structuring, intelligent DarkfighterX[7], and hybrid intelligence[8] series of products.

[7] Intelligent DarkfighterX series cameras adopt dual light fusion + hybrid fill-in light technology, and enable capturing high-definition color feature images at night without light pollution, and are able to capture features in more distant and complex scenes through the adaptive image algorithm for feature capture.

[8] Hybrid intelligence series cameras adopt advanced structural design, hardware architecture and high-performance intelligent chip and can perform target detection, active sensing and feature capture of people, vehicles and events in the monitoring scene; realized scene integration, device integration, installation integration and business integration, and enabled efficient capture of more dimensional and more efficient data while fulfilling the coverage of the monitoring scene.



In 2018, Hikvision's back-end products continued to develop in the areas of AI intelligence, big data and fused storage. Focusing on customer demands, Hikvision greatly improved the accuracy, performance and fused application level of AI for the back-end intelligent products, and continued to lead the intelligent video surveillance market.



The central intelligent analysis products are oriented to industry markets such as safe city and smart transportation. Hikvision put forward the concept of full analysis of video intelligence, full compatibility of computing resources, and full openness of engines and data in order to form an abundant and open series of central intelligent products and ecosystem, and has achieved good market performance. In terms of big data,

Hikvision implemented fused storage and associated applications of multi-dimensional data, and fused security data with business data, laying a foundation for data governance business. The Company innovatively introduced a server for data model comparison to convert module data into fully structured information data, enabling unified management of data in a true sense.

In 2018, Hikvision continued to expand the central display business field, and achieved interactive access to information, intelligent display of information, and comprehensive presentation of big data through diversified display approaches such as seamless splicing, transparency, curved surface, touch control, holographic display. For example, Hikvision's small-pitch LED products, which are based on "Zhenshi" image processing technology, realized ultra-high contrast and ultra-high-definition seamless splicing display and were widely used in places such as monitoring centers and command centers. In terms of display control products, Hikvision enabled the classic products such as decoders, splicing controllers and video comprehensive platforms based on the technologies of video and audio processing, multimedia data integration, ultra-high definition, AI, and clustering and scattering control, diversifying the applications of monitoring centers and command centers, and maintained the leading position in the industry.

In 2018, based on solid technology accumulation in the fields of image capture and AI algorithm, Hikvision improved the "DeepinGo" (明眸) series of close-range facial recognition products. In numerous edge-node applications such as access control, attendance checking, consumption, visitors management, elevator control, personnel access, etc., the new products have greatly expand the application scenarios of facial recognition technology with rapid response speed, a more friendly human-equipment interaction, and support for larger volume face comparison and live detection. The “DeepinGo” series products not only upgrade the traditional "one card" access control system to the "one face" system, but also effectively improve the security, convenience and accuracy of the system.

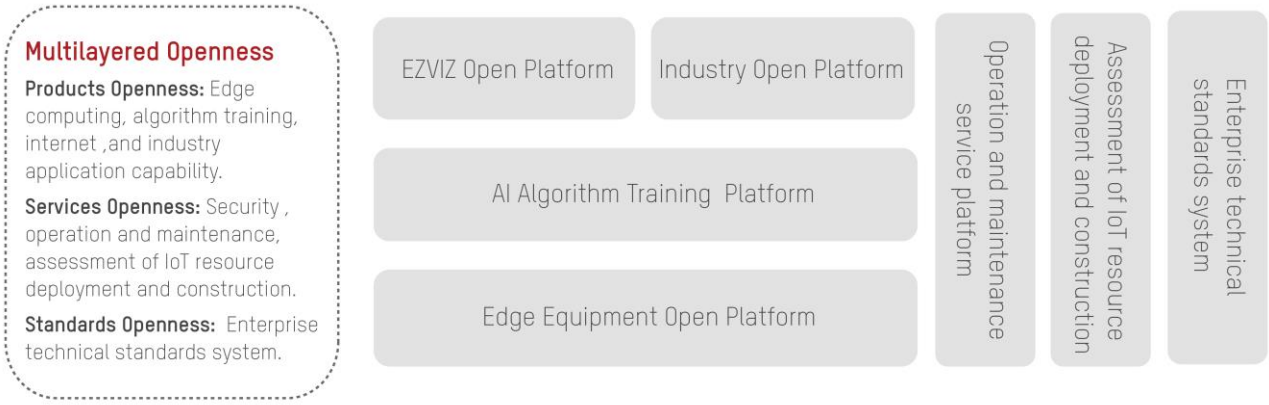
In 2018, Hikvision continued to promote the implementation of its AI Cloud products and solutions for intelligent transportation. Based on customer demand, Hikvision integrated videos with multi-dimensional perception technologies, and created a fused domain product package which consists of intelligent traffic cameras and intelligent road terminals. To practice the core value of “improve traffic order, alleviate traffic jams, prevent traffic accidents, enhance traffic safety, and facilitate transportation”, Hikvision innovated its traffic applications to help further develop the market. The “Environment-Friendly Access Control System”, equipped with snap cameras, made a technological breakthrough and solved the problem of white-light sharp flash, a light pollution problem troubling the industry for more than ten years, and was recognized with many awards. In respect to the comprehensive governance of road traffic, Hikvision’s innovative applications, including “high beam inspection for vehicles”, “jaywalker”, “pedestrians first”, “snap camera system for horning”, and “inspection of vehicles emitting black smoke”, played a role in building safe cities. As for static traffic, Hikvision launched cutting-edge radar products utilizing the technology of multi-dimensional perception: trigger-based radar and smash-proof radar, which simplifies the construction and maintenance by discarding induction coils and solves parking problems for users, thus facilitating traffic.

In 2018, Hikvision launched the development of smart fire control products. Relying on the Company's video and AI technology, combined with multi-dimensional perception, narrow-band transmission and other IoT technologies, the front-end sensors are able to collect key fire control data and upload it to the platform in real

time for data analysis and remote monitoring. Through the integration of security and fire control businesses, we launched an integrated solution for security and fire control, which is widely applicable to urban key units, nine small places[9], schools, hospitals, banks, enterprise campuses and government buildings to enhance the level of fire control information construction in various industries and promote smart fire control constructions.

2.3 AI Open Platform

Based on the scenario-based and fragmented characteristics of intelligent application, we believe that open integration is the development trend of the video industry and will become a new business format in the era of intelligence. In order to achieve open integration, Hikvision established a complete open system.



The demand for AI in the real economy is very strong and the application of AI has emerged in large numbers in a scenario-based and fragmented manner. AI applications require many conditions such as data, algorithm, computing power, products and application systems; therefore, it is difficult to implement the applications in the real economy. In order to build an open and shared AI industry ecological environment and help the implementation of AI, Hikvision launched the AI open platform to provide complete services from demand mining to application release and to help industries to upgrade.

The AI open platform has two purposes. The first purpose is to help customers with zero algorithm basis to develop their industry's intelligent algorithms; the open platform incorporates a number of cutting-edge technologies and has three major characteristics:

1) It utilizes virtual data engine[10], transfer learning[11], incremental learning[12], and other technologies, and can

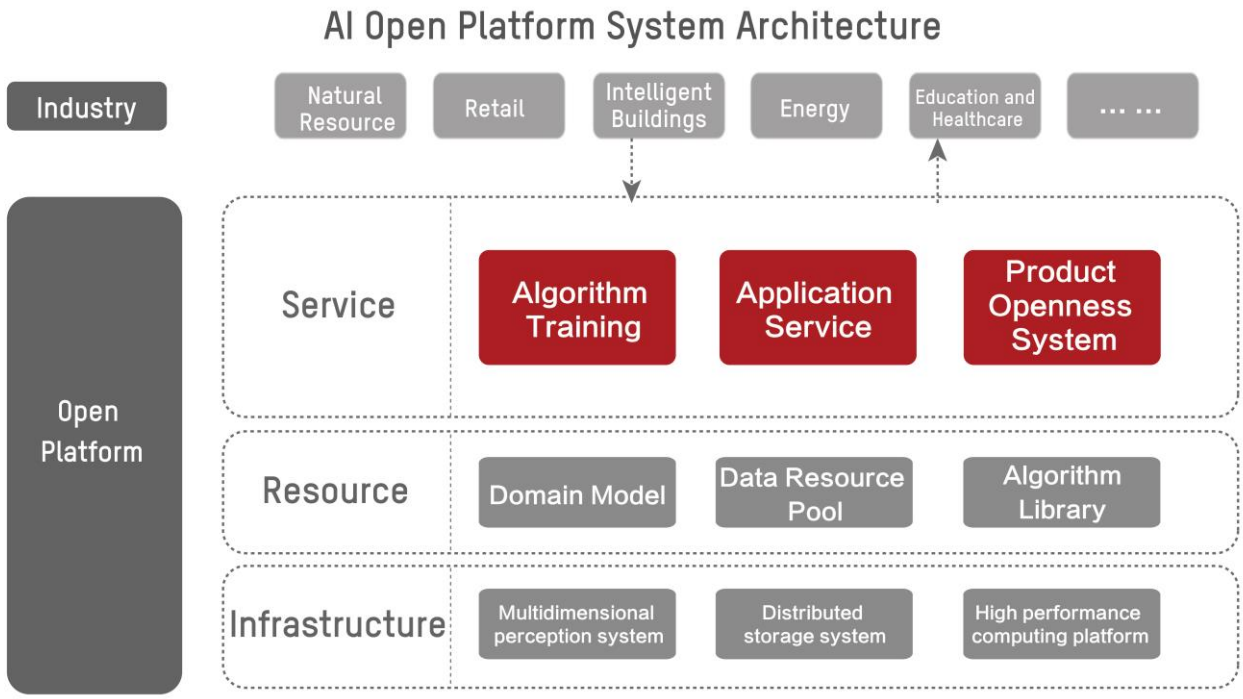
[9] Nine small places refer to small schools or kindergartens, small hospitals, small stores, small restaurants, small hotels, small recreational bars and clubs, small Internet bars, small beauty salons or bathhouses, and small production and processing enterprises.

[10] Virtual data engine: generates image data through 3D modeling, ray tracing, adversarial learning and other approaches; its visual effects are close to those of on-site collection.

quickly generate AI algorithms that meet scenario-based demands, based on a small amount of data;

2) Algorithm training, compilation, optimization and deployment are all automatically implemented, and the platform provides one-stop services to customers with zero algorithm basis. The platform can be combined with Hikvision's application systems to solve the "last mile" problem of AI visual perception applications, and implement continued collection of data and loop iterative optimization of algorithm model under production environment; and

3) Based on Hikvision's hardware foundation, the platform can easily build intelligent products with powerful sensing capabilities.



The second purpose is to help AI practitioners to have their own intelligent hardware products and solutions. The large-scale implementation of AI technology in China's real economy requires a large number of AI practitioners to carry out continuous mass innovation with mass wisdom. However, AI practitioners often lack the suitable products to carry their algorithms in the current time. For this reason, Hikvision has opened a full range of front-end and back- end AI hardware products to help AI practitioners realize their AI functions and solutions.

Our open systems for equipment include:

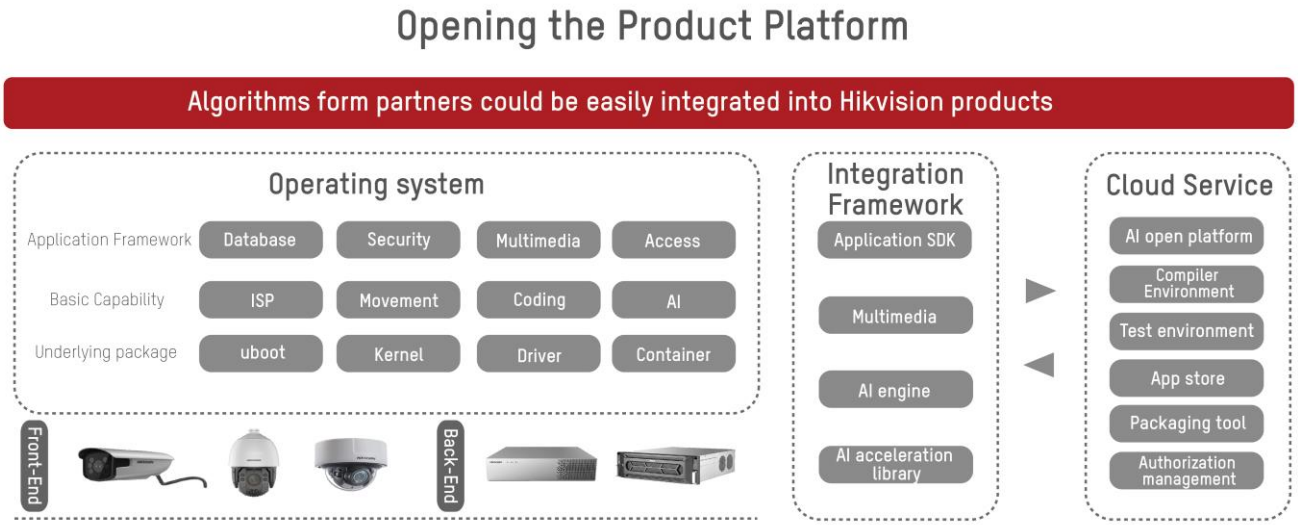
[11] Transfer learning is a learning method for robots, enabling a robot to apply the knowledge and techniques learned from former tasks to new tasks.

[12] Incremental learning refers to learning new knowledge by a learning system from new samples, storing most of the knowledge it has learned and overcoming catastrophic losses of memory. The system does not have to visit original data, and is able to enhance its performance on an overall data set merely by learning new data.

1) Hikvision equipment operating system, which provides various basic capabilities of the equipment including image processing, coding and decoding, storage and transmission;

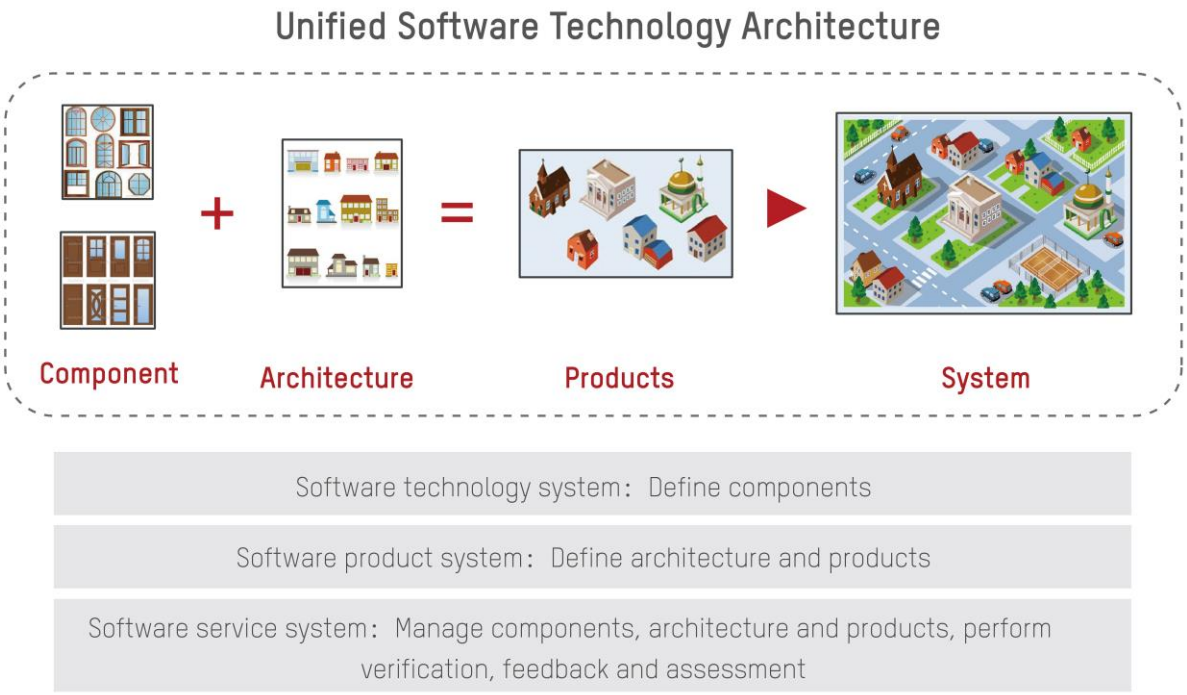
2) Integrated development kit, which opens the equipment's AI computing resources based on the container technology, enabling users to integrate their own algorithms on the product; and

3) A variety of supporting services provided in the cloud, including the compiling environment, testing environment, app stores, and authorization tools.



In 2018, Hikvision successfully applied the AI open platform to intelligence upgrade in multiple areas. In pharmaceutical enterprises, the platform helped the standardized review of production behavior of employees and reduced safety hazards in production. In food production enterprises, it enabled “Transparent Kitchen” and guaranteed safe production and standardized storage of food. In the field of natural resources, it empowers “weather identification” and promotes intelligent meteorological observation.

In addition, due to the very fragmented business scenario, a series of problems from customers, delivery and R&D have emerged during the process of software development, delivery and maintenance, including product integration and unification, version upgrade, and repetitive development. Hikvision has comprehensively upgraded its software engineering capabilities and practices and reconstructed the original software R&D model by establishing a Unified Software Technology Architecture. The software R&D has changed the development model from "driven by market demand" to "driven by both market demand and technology planning", in order to finally realize the sustainable and rapid introduction of high-quality software products to meet the rapidly growing demand of the software market, providing support for the Company's strategic planning.



Based on years of accumulation in the front-end field, Hikvision also introduced an evaluation system of scientific deployment of front-end video surveillance products, which links business applications with front-end constructions, defines a variety of equipment capability models and scenario evaluation models, enables the evaluation of the reasonableness of the front-end construction plans and the actual construction results of front-end products, and outputs evaluation reports and optimization suggestions to guide the scientific deployment of the front-end points.

3. Transformation and restructuring of business architecture

Since 2009, the Company has launched solutions that carry a vertical industrial layout covering seven industries, including public security, transportation, law enforcement, finance, education and healthcare, energy, and building, and 40 sub-industries to drive the rapid development of its business and lead the security industry into a solution-oriented era. To better adapt to customers' demands and improve internal operational efficiency, the Company initiated the transformation and restructuring of its business architecture in 2018. Through reorganizing and integrating the resources, the Company divided its domestic business into three business groups of PBG (Public Business Group), EBG (Enterprise Business Group) and SMBG (Small and Medium Enterprise Business Group) to more specifically target different types of markets and customers and more effectively

coordinate internal resources.

The PBG (Public Business Group) business team, which was established based on the traditional three business departments of public security, transportation and law enforcement, primarily specializes in urban governance and urban services, adapts to the block module of the administrative regions, and conforms to the overall operational needs of urban governance and urban services; the EBG (Enterprise Business Group) business team, which was established based on the traditional four business departments of traditional finance, energy, building, and education and healthcare, mainly serves the traditional large-scale enterprise market, adapts to the strip model of the group enterprises and meets the vertical operation management needs of group enterprises; the SMBG (Small and Medium Enterprise Business Group) business team, which was established based on the traditional channel distribution management team, mainly focuses on the small and medium-sized enterprise market services, striving to create an industry ecosystem and platform that integrates product distribution, installation and operation and maintenance services, as well as SaaS sharing.

3.1 Public Business Group (PGB): Data-driven urban governance

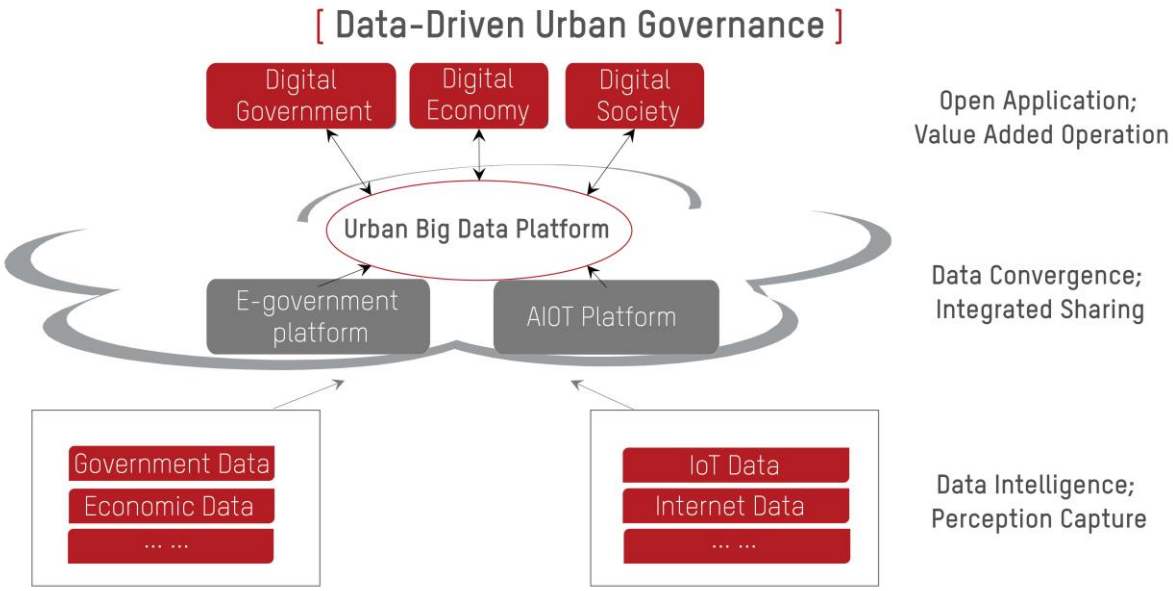
3.1.1 Principal business

Digital government construction is a vital move to implement the Internet power strategy, the digital China strategy and the smart society strategy. Hikvision PBG relies on the urban big data platform to promote urban digitalization and intelligent transformation, and facilitate sustainable urban development. Centering on digital government, digital economy and digital society, Hikvision PBG establishes data sharing, exploits data value, focuses on urban governance, and creates a new era of AI Cloud Internet of Things (IoT).

Data-driven urban governance uses data for analysis, decision-making, management and innovation. Taking urban governance as an example, things as small as well covers and street lamps and as big as bridges and tunnels, and other matters ranging from the flow and stop of vehicles, gathering and dispersal of people to market states and public opinions, could all be analyzed and summarized through informational means such as IoT perception technology and big data analysis. Through the search and analysis of various types of data such as traffic data, tourism data, daily life consumption data, government data, medical data and leisure data, we can find all kinds of hidden problems and events, provide timely warning and reminder, carry out linked handling of events, promote coordinated management of multiple governance entities, and improve the level of refined urban governance.

With AI Cloud as the core technology framework, Hikvision PBG sets up a unified intelligent perception network for cities to achieve the complete perception collection of city states, features and events, builds twin

digital cities coexisting with physical cities, establishes a unified urban big data platform, and takes advantage of this platform to carry out the sharing, development and governance of urban data, empowering the intelligent applications of various industries and fields of the cities, upgrading the integrated government service system, and enhancing the sense of well-being and security of the masses.



3.1.2 Core technology: AI Cloud "Hikvision Red Digital Forest" platform

"Hikvision Red Digital Forest", the urban IoT intelligent cloud platform of Hikvision PBG under the AI Cloud architecture, is the brain center for implementing AI Cloud. Compared with the previous video networking sharing platforms, the "Hikvision Red Digital Forest" platform not only has a stronger access capabilities for video and IoT resources, but also has the capability for fusion, correlation and deep mining of IoT data and business data, the capabilities for unified management and scheduling and self-training of multiple AI algorithms, as well as the capabilities for the pooling of computing storage resource and flexible computing, which enables it to carry IoT basic application, smart applications and big data applications across multiple industries and provide strong support for the implementation of industry solutions such as smart policing, smart transportation, smart security supervision, smart city management, and smart government.

Cloud-edge fusion, intelligent "perception": The "perception" capability refers to the capability to extract targets such as people, cars and objects, and their attributes such as the license plates, vehicle models and colors of cars from the video images. The efficient collaboration between cloud computing and edge computing greatly

enhances the system's intelligent "perception" capabilities. Based on the demands from intelligent application scenarios, the corresponding AI algorithms, computing power, data and services can be scheduled on demand; with part of the data processed on the edge node side and part of the data processed on the platform side, the two sides cooperatively work together to achieve optimal system performance. At the same time, the platform, with AI algorithm training capability, can train a new AI algorithm based upon the data accumulated on it; and the new AI algorithm can be loaded into edge devices to meet the new intelligent application demands.

Data fusion, deep "cognition": The "cognition" capability means to discover the essence behind the data based on multidimensional big data mining analysis. From the perspective of application demands, the big data "cognition" capability of a system can be built by integrating IoT data, business data and Internet data. Based on application demands, data could be converged on demand, various basic libraries, theme libraries, and topic libraries can be constructed, and algorithm models such as regional collision, regularity analysis, frequency analysis, integral warning, and relational graphs can be extracted and summarized. In this way, lager amount and better quality data will be gradually accumulated, the data will support more and more in-depth applications.

Comprehensive opening, empowering various industries: we have fully opened the data from all kinds of basic libraries, theme libraries and topic libraries, and the interfaces such as IoT basic services, intelligent analysis services, big data fused analysis services, algorithm library services, AI training services, and intelligent application services. We also supported integration with third-party platforms to achieve the complementarity of capabilities and to support industry ecosystems.

3.1.3 Industry application scenarios

Hikvision PBG's solutions cover all aspects of public services. The solutions in four aspects, namely public security, traffic and travel, ecological protection, and people's livelihood services, are taken as examples to represent how intelligence and data can drive intelligent urban governance.

Solutions for public security

Hikvision PBG provides solutions for public security, aiming to further improve the three-dimensional social security prevention and control system, strengthen the technological prevention capabilities of public security, enhance the level of grassroots services, advance the construction of a safer China, and establish a social governance model based on collaboration, co-construction, and sharing.

Following the core design concept of "multi-dimensional perception, sharing and co-construction,

network-wide intelligence, and smart governance", the Company deployed a multi-dimensional perception system in different regions and scenarios, and constructed an organically integrated comprehensive three-dimensional front-end perception system, in order to achieve all-round, all-weather multi-dimensional information perception and collection. The video information data is deeply integrated with technologies such as artificial intelligence and big data to realize dynamic information perception, accurate data analysis and business intelligent assistance, which lays a solid foundation for scientific decision-making and command, efficiently combating crimes, precise risk prevention and control, and innovative social governance. Through constructing a public security video image information exchange resource pool with consistent technical standards and uniform requirements, implementing effective hierarchical integration of various video image resources, and facilitating point location complementation, network interconnection and platform interoperability, the networking integration of video image resources in public areas is maximized. The Company established cross-regional, cross-departmental and cross-level video image information exchange, integrated the sharing and scheduling mechanisms, and provided visualized government management supporting services for public security, transportation, railway, urban management, fire control, environment protection, forestry, safety supervision, finance, food and medicine, and other departments under the premise of ensured safety and controllability.

Solutions guaranteeing "traffic and travel"

Hikvision PBG furnishes "traffic and travel" solutions for scenarios such as urban traffic management, transportation hubs, public transportation, traffic network, and cargo transportation, utilizing artificial intelligence and big data technology to make "traffic and travel" safer, more convenient and more efficient.

In the field of urban traffic management, AI + IoT perception technology could help optimize the signal system of urban roads and alleviate urban traffic congestion; in the field of public transportation, intelligent identification technology could actively detect the abnormal behaviors of drivers and passengers of buses, taxis, freight vehicles, and dangerous goods vehicles, and issue timely warning to ensure the safety of public travel. The big data + Internet technology could be utilized to optimize the connection and scheduling of various traffic tools, optimize traffic network, and enhance traffic efficiency; for example, big data analysis could help bus companies optimize bus routes and optimize taxi distribution, so that the traffic and travel become more efficient and convenient.

Industry solutions for safeguarding "Clear Water, Blue Sky and Green Mountains"

Hikvision PBG offers a series of industry solutions for safeguarding "Clear Water, Blue Sky and Green

Mountains" to achieve the comprehensive protection of air, water and ecology.

Through AI visual perception technology, together with IoT technology, it is possible to detect excessive emission of industrial waste gas, open-air straw burning, smoky vehicles on the road, as well as dust on construction sites and roads in a timely manner, reducing air pollution and protecting the natural outdoor environment for the public to enjoy. The implementation of pollution source monitoring and *Chief Mechanism for Rivers*[13] ensures that unlawful emission and emission leakage from enterprises, abnormal sewage discharge into the rivers and lakes, floating garbage on the river, and pollution risk in water sources can be discovered quickly, reducing industrial and domestic sewage pollution and guaranteeing the safety of drinking water.

The application of high-altitude observation, unmanned aerial vehicles (UAV) and other technical means could help find out ecological destruction behaviors in time within the red-line area of ecological protection including overgrazing, dam building, road repairing, mining, and soil breaking. Besides, the application of ecological environment big data exerts a positive role in pushing forward the overall protection and system restoration of mountains, rivers, forests, farmlands, lakes, and grasslands, and safeguarding "Clear Water, Blue Sky and Green Mountains."

Industry solutions for improving people's livelihood services

Hikvision PBG launches livelihood service solutions that enhance the convenience and precision service capabilities of government centers through the application of face recognition and IoT technology. For instance, by performing video identification of people who have made a reservation and automatically arranging the order for them, the handling process can be shortened; by equipping face authentication devices in the number-taking and handling process, business handling will become more efficient and convenient; by monitoring the condition of common facilities that serve the masses and delivering the information in time, the public can be better served.

Through the application of video networking and AI visual perception technology, the internal management level of government centers is enhanced. For instance, the behavior of window service personnel can be intelligently analyzed in order to improve window service quality; the above technology can also conduct non-inductive attendance for internal staff, and carry out intelligent reporting of unusual events such as fights and quarrels in public areas. Based on big data analysis, face and business big data, targeted return visits could be achieved, which could help find problems easily and avoid repeated visits.

[13] Chief Mechanism for Rivers: Principals of party and government departments at all levels act as "river chiefs" to be responsible for organizing and leading the management and protection of the corresponding rivers and lakes.

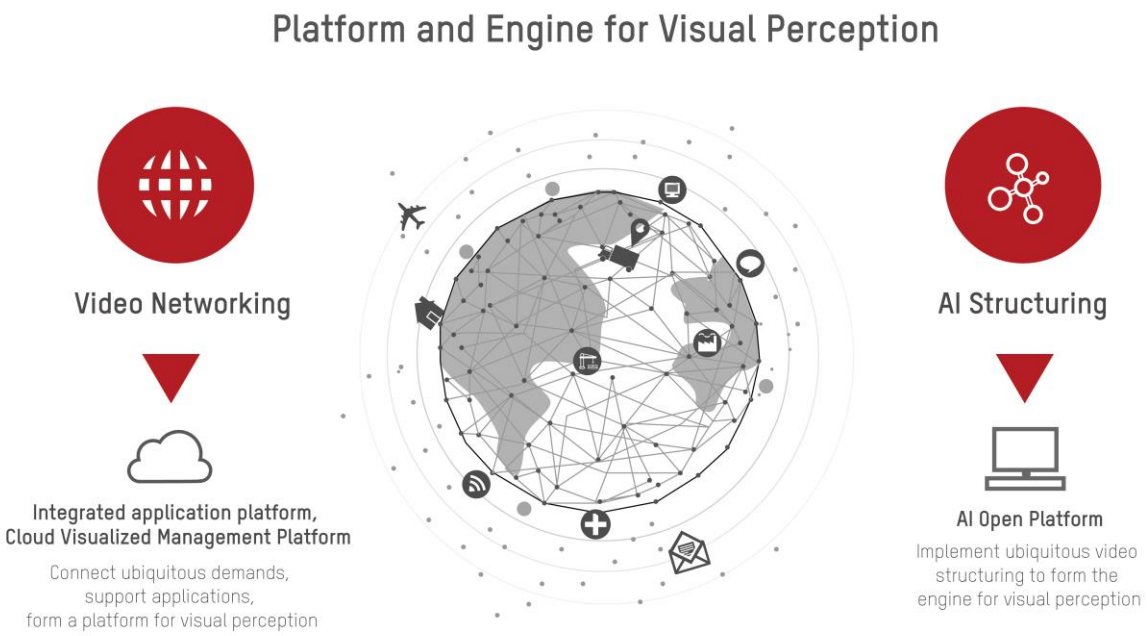
3.2 Enterprise Business Group (EGB): Visual perception assists enterprises in reducing costs and improving efficiency

3.2.1 Principal business

Digitalization has exerted a great impact on all walks of life and has become a key factor in the transformation of enterprises. Based on its understanding and insight into the business, Hikvision's EBG launches products and solutions centered on video networking and AI visual perception technology for enterprise users. In process of digital transformation, we are building a bridge between the physical world and the digital world, propelling the Internet of Everything, and empowering industry users to realize intelligent industrial upgrades with AIOT as the core.

The digital architecture of an enterprise can be divided into four layers: infrastructure, business applications, management tools, and decision-making support. As the traditional principal business of EBG, the security business focuses on the infrastructure of enterprises. In 2018, Hikvision EBG continued to enhance its insight and understanding of industry business, extended its business around the business applications and the management tools of enterprises, and helped enterprise users achieve business means innovation and improve management efficiency, which significantly improved the business value recognition by users. Using visual perception as the most effective digital means, Hikvision EBG plays an important role in the digital transformation of all walks of life.

3.2.2 Core technology: The AI Open Platform acts as the engine. The Integrated Application Platform and the Cloud Visualized Management Platform act as two driving wheels



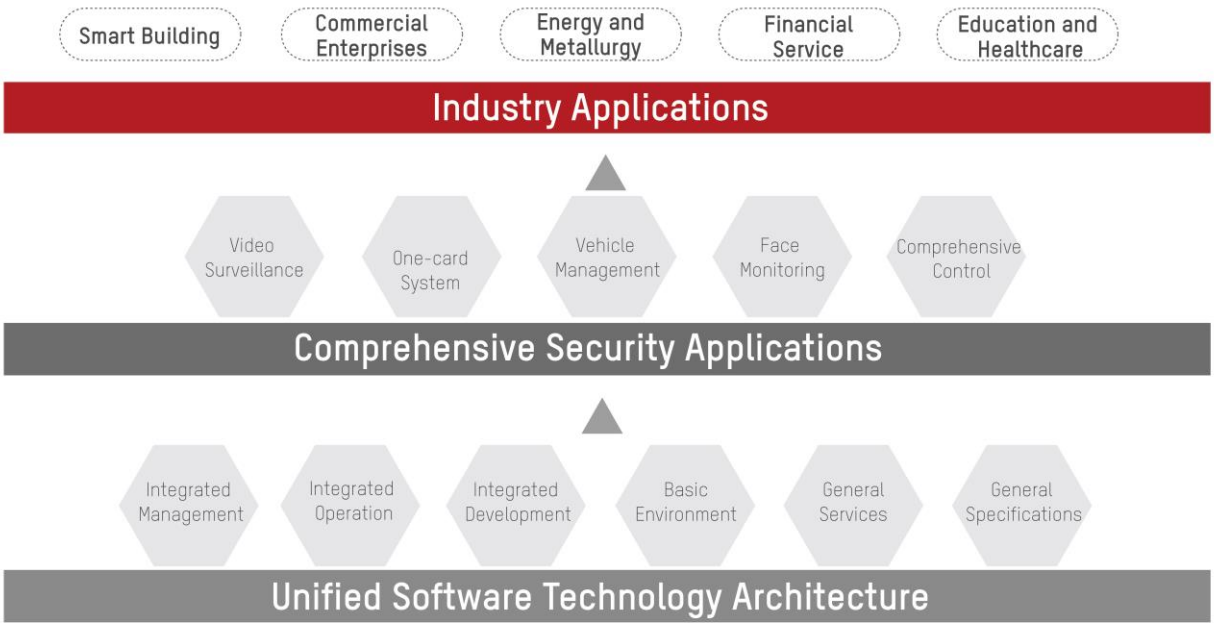
In the business scenarios for various sub-industries, Hikvision's EBG takes the AI Open Platform as the innovation engine and the Integrated Application Platform and the Cloud Visualized Management Platform as two driving wheels, to provide users with solutions and products based on visual perception capabilities. It takes advantage of the AI Open Platform to explore and fulfill the visual perception demands based on personalized scenarios, utilizes the Integrated Application Platform and the Cloud Visualized Management Platform to build a video grid system and satisfy video networking demands based on privatized deployments and Internet application scenarios, jointly builds an industrial ecosystem with industry users and partners, and serves digital transformation.

A one-stop algorithm customized service platform: AI Open Platform

The AI Open Platform is Hikvision's one-stop algorithm customized service platform for industry users and ecological partners to meet the demands of scenario-based visual perception applications in various industries. The AI Open Platform, which has a scenario-based AI development capability, can quickly generate an AI application that meets the users' demands based on a small amount of data. After the application is online for use, the new data is superimposed and accumulated for incremental training, and the optimization algorithm is continuously iterated. Hikvision EBG relies on the AI Open Platform to enable industry users to rapidly implement applications based on AI visual perception, providing impetus for intelligent upgrade of the industries.

A privatized management platform: Integrated Application Platform

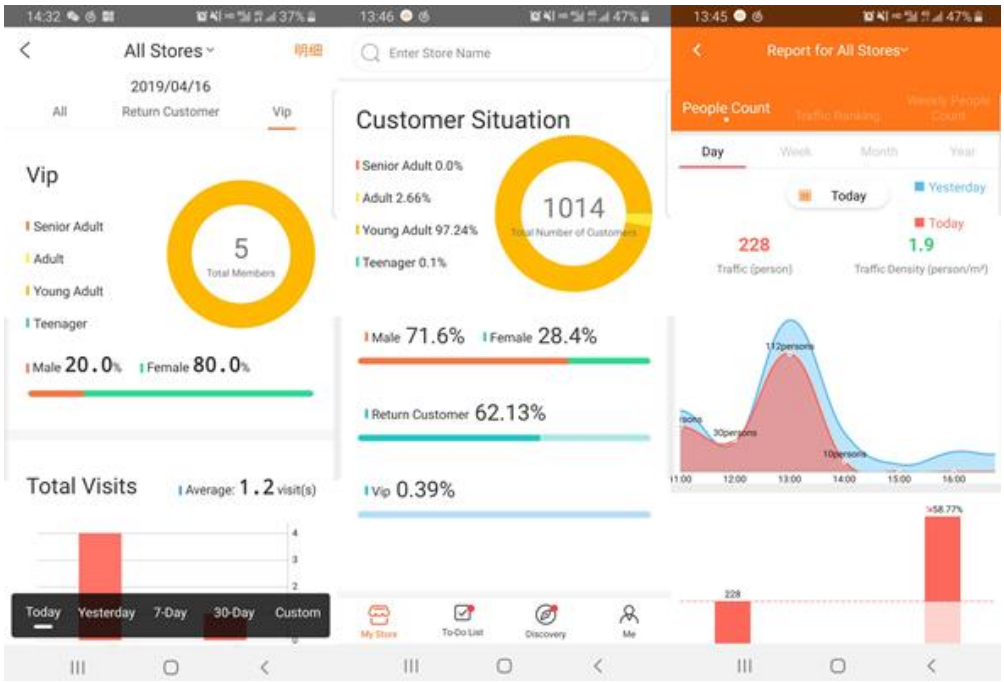
As a privatized management platform of Hikvision EBG for enterprise video networking applications, the Integrated Application Platform relies on Hikvision's unified software technology architecture and provides video networking business software management tools (such as smart scenic area management platform, pharmaceutical enterprise behavior supervision platform, and smart construction site management platform etc.) for different industry application scenarios, based on its core capabilities such as IoT device access and video networking services. By applying componentized development technology, the Integrated Application Platform builds industry application architecture based on business understanding, accumulates businesses with common value, responds quickly to users' demands, practically pushes forward the optimization of business processes and the innovation of business methods, achieves cost reduction and efficiency enhancement, and improves customer satisfaction.



The Integrated Application Platform of Hikvision EBG, which is based on visual perception AI capability, runs in a localized deployment mode and can adapt to application scenarios of large, medium and small-sized enterprises. It offers professional enterprise applications, rich application interfaces and high quality services, working together with partners to empower corporate customers and help them reduce costs, enhance efficiency and deliver better services.

An enterprise-level public cloud platform: Cloud Visualized Management Platform

The Cloud Visualized Management Platform, relying on equipment access of EZVIZ Cloud, equipment management, stream media, AI model management and other IoT PaaS services, is a public cloud application service portal based on the industrial scenario intelligence that provides SaaS cloud services to chain business, community, general education and other sub-industries, and propels enterprises to evolve from manual operation to partially intelligent operation, and then to fully intelligent operation. Meanwhile, by continuously strengthening its basic capabilities and leveraging API openness, the Cloud Visualized Management Platform builds an ecosystem and forms ecosystem cloud service capabilities.



The Cloud Visualized Management Platform offers enterprise-level SaaS services to sub-industries and dedicates to help enterprises enhance the visualization, standardization and intelligent management capabilities. Currently, it has covered the typical industry scenarios including chain retail, community, general education, logistics, etc.

In the chain retail industry, the Cloud Visualized Management Platform enables managers to complete site management more efficiently through remote video inspection, and enables operators to make better marketing decisions by collecting and analyzing the structured data in multiple aspects such as customer flow, human face, human body, etc. In the community scenario, the Cloud Visualized Management Platform helps property management companies achieve efficient and unified management of residents, visitors, employees and vehicles, and provides residents with safe, convenient and high quality life service experience. In general-education schools,

the Cloud Visualized Management Platform delivers a whole set of campus security solutions to middle and primary schools as well as kindergartens, establishes intelligent campuses with the help of facial attendance and electronic class board, and provides networking supervision system for education management departments at all levels so as to realize the networking of multi-dimensional data including video, alarm and students' attendance. In the logistics industry, the Cloud Visualized Management Platform supplies video networking, vehicle networking and security check networking services for scenarios such as logistics parks and delivery lockers, and keeps upgrading centered on people, vehicle, goods, warehouse and safety to facilitate the refined operations of logistics enterprises. And in the field of alarm operation, the Cloud Visualized Management Platform supports the acquisition and processing as well as storage and analysis of mass data such as alarm signals, real-time information and video streaming media, and assists alarm operators in rapidly possessing large cross-regional alarm operational coordination capability, command and dispatch capability as well as emergency disposal service capability.

In addition, the Cloud Visualized Management Platform, as a public cloud application service portal on the basis of sub-scenario-based fragmentized intelligence, relies on the AI Open Platform of the Company to carry out and implement the corporate strategy of “video + AI”. With public cloud structure, the Cloud Visualized Management Platform furnishes users with business application value as well as outstanding value in lightweight deployment, convenient implementation and ongoing optimization and upgrading.

3.2.3 Industry application scenarios

Hikvision EBG’s business covers nearly 20 sub-industries. From the perspective of business integration, the business can be summarized into four main lines: business world, social energy, better lives and wealth growth.

Industry solutions serving the "business world"

Hikvision EBG offers business area solutions for manufacturing, logistics and retail, with an aim of helping business operators achieve cost reduction and efficiency enhancement and lightening management anxiety.

Large video networking makes employees' work centralized and intensive, while AI visual perception technology allows machine-replacing-people and results in a reduction in the number of indirect staff and a compression in the working hours of direct staff, which improves efficiency. For instance, remote video store inspection can replace the traditional offline store inspection of retail enterprises; the AI visual perception technology can be applied to analyze the waiting time of workers in the production process, optimize the time distribution of workers in different types of production teams, and reduce the indirect waiting time of direct personnel.

The digitalization of behavioral standards and management practices can improve staff efficiency, and the digitization of business processes, business scenarios and production facilities can bring about process optimization and intelligent improvement of asset application efficiency. For instance, precise insight about consumers can be realized through an analysis of distribution of passenger flow and customer group of retail stores; the "two-ticket and three-system mechanism"[14] of the electric power industry can be implemented, accident prevention capability of electric power enterprises can be enhanced, and human-factor accident and serious misoperation accident can be prevented with the help of techniques like face recognition; the digitization of electric power production facilities can be realized through intelligent reading technology for meters and the inspection efficiency can be improved thanks to the intelligent reading technology for meters.

Safety production assurance solutions, anti-theft solutions, as well as integrated security and fire protection solutions help reduce safety concerns. In the field of manufacturing, these solutions cover the factory area and the workshop. For instance, best practices for production line workers at pharmaceutical enterprises can be

[14] Two tickets: work ticket and operation ticket; three systems: shift system, tour inspection system, and equipment periodic testing and rotation system.

standardized by intelligent behavioral analysis to ensure the safety of pharmaceutical production; in the field of logistics and transportation, these solutions cover the whole logistic park area to realized visualized tracking of the whole process of goods movements and visualized dispatch of the platform resources.

Industry solutions serving "social energy"

Hikvision EBG provides a range of industry solutions for "social energy", covering primary energy acquisition such as grain growing, oil extraction and coal mining, secondary energy processing such as oil refining and power generation, as well as energy use at gas stations and in the power transmission and distribution.

Safe production solutions are ideal for outdoor areas and harsh environments, and reduce safety risks of personnel operations, environmental changes and equipment production through AI visual perception technology. For example, intelligent, reliable and effective remote control means are available for unattended stations to reduce personnel costs and help build ubiquitous IoT through video visualized inspection. Intelligent analysis and alarm can be used to minimize dangerous behaviors such as people intruding into dangerous zones and irregular operation, by means of AI visual perception technology; and technical support can be provided for the fusion of IoT and information networks through linkage with an enterprise information system.

The traceability supervision solutions ensure grain production and food production, realize visualization of traceability, and assist process supervision and automatic identification. For instance, real-time detection can be carried out for various indicators of the grain planting environment via dynamic environment detection, to realize real-time supervision of food production environment; all-time intelligent detection can be conducted for ensuring that staffs wearing the uniforms, and supervising the kitchen environment of various catering units in the application zones by AI visual perception technology, and problems like multiple supervision departments and wide scope of supervision could be solved though linkage with regulatory information platform, to build

transparent kitchens.

Industrial IoT solutions based on visual perception are helpful for energy enterprises to cut cost, improve quality, speed up processes and improve capital investment. For example, in the metallurgical industry, intelligent observation and analysis of short-circuit heating of cathode plate in copper electrolytic cell by thermal imaging camera effectively settles the problems of time-consuming, labor-intensive and inefficiency of traditional manual meter reading, water sprinkling and manual detection method, whereby manual inspection cost of each workshop can be reduced by RMB 400,000 per year.

Industry solutions serving a "better life"

Hikvision EBG provides smart solutions for the healthcare, education and tourism industries.

In the field of higher education, the video cloud technology can be used to provide a cloud platform for teaching resources and online classroom solutions to achieve quality education resource sharing, and promote fair education. The classroom behavior analysis can enable quantitative evaluation on the classroom teaching effect, providing data support for making major decisions such as students' learning state, occupational guidance, teachers' further study directions, improvement of teaching facilities, etc. The AI visual perception technology could be applied for building a campus identity verification system taking biological characteristics (human face) as the core, which is widely applied in dormitory management, cafeteria consumption, book borrowing and academic conference, and data association has been established for teaching, educational administration, logistics, safety guard and other information systems, providing a feasible idea for realizing big data intelligent application in campus.

In the field of intelligent tourism, the AI visual perception technology can comprehensively perceive the scenic resources, tourists' behaviors and passenger flow trajectory, and represent group portraits of visitors, whereby reasonably matching resources and enhancing customer service experience; in the meantime, based on

video cloud technology, live broadcasting scenic spots becomes possible and allows tourists to enjoy and share scenic spots.

In the field of intelligent healthcare, the video AI recognition technology realizes the identification of reference personnel, while video networking and AI visual perception technology makes the remote supervision of medical insurance consumption possible, which facilitates medical digitalization and ensures the fairness of medical resources.

Industry solutions contributing to "wealth growth"

Hikvision EBG carries out a series of industry solutions dedicated to achieving "wealth growth" for various industries covering real estate asset construction, property management services and financial institution wealth management, helping industry users achieve wealth growth.

The large video networking and AI visual perception technology is applied for personnel management and safety control on construction sites during the construction process. To solve the chaos of construction site staff management, a real-name attendance management scheme for workers is used with functions such as attendance statistics and job category statistics, combining with real-name attendance system and real-name enterprise management system to supervise wage payments of rural migrant workers and prevent the labor force from defaulting on wages for migrant workers. To settle the matter of difficulties in management of site accidents, a visualization solution for site safety production is used: by taking advantage of high-altitude panoramic video monitoring system and intelligent safety helmet equipment, the details of site operation and the situation of safety helmet wearing of personnel are clear at a glance.

Hikvision EBG empowers leading real estate developers and property management companies through the application of technological means, so as to enhance brand effect and property management capabilities and

improve owner's experience. For instance, by means of consumption structure analysis and dynamic passenger flow analysis, business planning and precise marketing of commercial properties can be strengthened; by applying parking robots, a new model of human-free parking lots can be created.

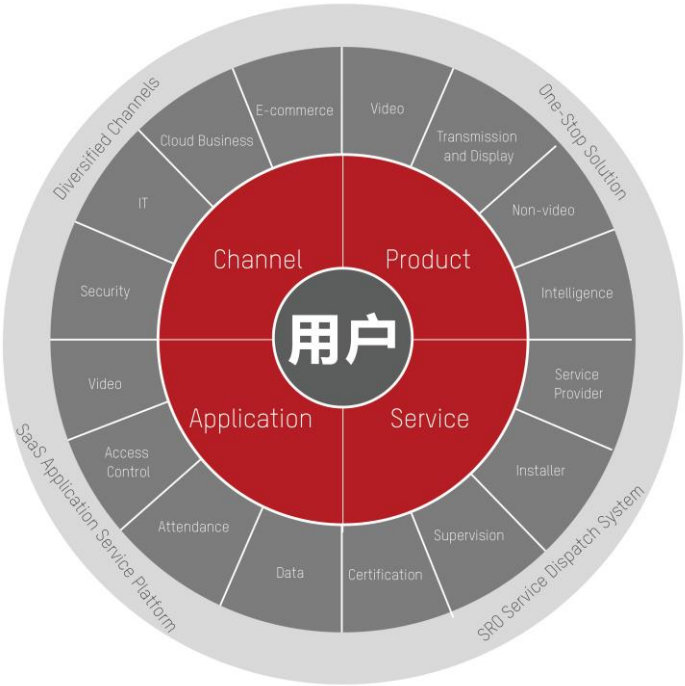
Based on standardized service requirements of financial institutions, combined with application scenarios such as counter, e-banking, and self-service devices, Hikvision EBG provides various face recognition-based identity verification methods to realize effective control of operational risks. The AI visual perception technology is applied for customer classification and behavioral information analysis so as to provide differentiated marketing services and enhance customer experience.

3.3 Small & Medium Business Group (SMBG): adapting to the transformation trend, contributing to channel upgrade, and creating a service ecosystem

As the most active business group, small and medium businesses represent strong developmental vitality and growth potential. The SMB market is a promising market, and the business is driven by real demands from small businesses and small units, which are less affected by changes in macroeconomic policies. At present, such demands have been continuously growing and are gradually upgrading toward visual operation management.

For the SMB market, Hikvision formed the SMBG business team based on the channel distribution management team, aiming to serve small and medium-sized enterprises. The Company sets up SMBG business team to closely follow the demands of SMB users and distribution customers, efficiently and flexibly provide products and services based on market insights, and strive to establish an eco-industrial platform for product distribution, service crowdsourcing, and SaaS sharing.

China's SMB security market is massive, being not only a device product market, but also an engineering market, where product price premium brought by the service is an important "moat" of this market. In the meantime, the SMB market is a very representative long-tail market with personalized and scattered users' demands. Despite of the small individual demand, the cumulative effect of scale is significant given the enormous overall quantity and the extremely wide range. In this market, the information cannot be easily delivered, the cost of brand replacement is low, and there are a large number of simple service demands without unified industry standard. Hikvision SMBG strives to achieve diversified and differentiated business development by changing marketing methods, broadening product types, deepening scenario-based demands, and innovating channel model.



Based on AI intelligence and big data, Hikvision SMBG established a comprehensive service platform integrating cloud business transactions, security services and SaaS applications, and created a new ecosystem of security Internet; with the help of e-commerce, 400 hotline, official website and other sources of traffic, Hikvision SMBG deepens access to multiple channels including security, IT and industrial equipment, and obtains information about both online and offline traffic; Hikvision SMBG builds nationwide logistics and warehousing to improve logistics turnover efficiency; it optimizes the means of controlling capital stocks, refines channel customer management, and strengthens systematic risk management; it creates a group of efficient, fast, integrated service providers with standardized delivery capabilities, standardizes the service standards of the industry, expands the scale of services, enhances service revenue, builds the core competitive advantages of Hikvision SMBG, and continues to realize the value and create value centered on customers.

Taking advantage of its accumulation of products, channels and services, Hikvision SMBG has comprehensively launched five major initiatives: “diversification of products, scale of online business, digitalization of business, standardization of services, and efficiency of operations”, continues to build a new distribution management system and model, and creates a good user ecology to consolidate the foundation for the long-term development of the Company’s SMBG business.

4. Innovative Businesses

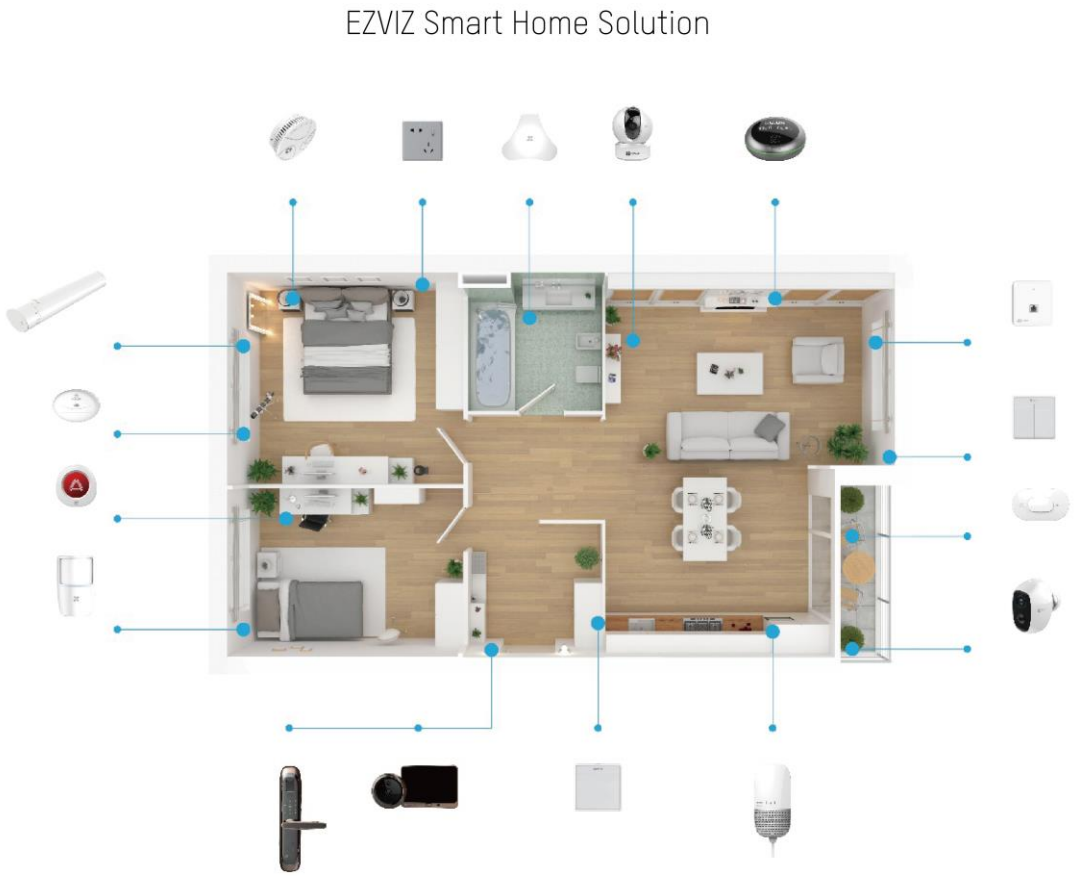
During the reporting period, the video technology-based new businesses such as EZVIZ Network, Hikvision Robotics, Hikvision Automotive Electronics, Hikvision Smart Storage, Hikvision Weiying, and Hikvision Huiying maintained healthy and steady growth, contributing to the Company's long-term sustainable development.

4.1 Innovative Business -- EZVIZ Network

Focusing on smart home business, the EZVIZ Network business continued to grow at a high rate in 2018, with revenues exceeding RMB 1.6 billion for the full year.

EZVIZ naturally evolved from intelligent items and kits to a full house intelligent system

In 2018, EZVIZ launched various new products such as "all wireless Internet battery camera C3A", "garden light camera LC1", all wireless video intercom "battery doorbell camera DB2", "Internet fingerprint password lock LT21S", "smart wall switch P1" for intelligent control of the whole house, "smart curtain MC1", and "child accompanying robot -- YingBao", and extended the existing IPC product line and smart lock, smart door viewer, smart visual doorbell and other smart home product lines, forming a full house smart home system with video technology as the core.



EZVIZ improved the intelligence of home-like scenes (business scenes, etc.) and continued to launch new products and optimize services. Under the premise of continuously optimizing the original products and services, EZVIZ launched a new hemispherical product with customizable voices -- "Little Conch" C4W, which allows users to record different voices such as welcome, reminders and alarms through EZVIZ APP, enriched business scenario applications. In addition, EZVIZ cloud storage service is growing rapidly, and EZVIZ also explored AI-based call reminder and other businesses and received positive response from users.

EZVIZ Cloud platform is further opening up, and AI empowers sub-industry applications

EZVIZ Cloud has been striving to build the most comprehensive security protection and actively improve security compliance through professional qualification certification. In 2018, EZVIZ Cloud obtained the international certification of cloud security (CSA-STAR[15]), once again recognized by the international cloud computing service market, which marked that EZVIZ Cloud is in line with international standards and will

[15] CSA-STAR: Security Trust Assurance and Risk certification organized by Cloud Security Alliance (CSA), is an enhanced version of information safety management system ISO/IEC27001, and provides a comprehensive safety evaluation for cloud computing services combing Cloud Control Matrix and maturity evaluation module as well as complying with relevant requirements of laws, regulations and standards.

provide high-quality, high-level cloud services to overseas customers.

After six years of growth, EZVIZ Cloud has become a global video cloud service platform, providing basic video cloud services to global customers and users in North America, South America, Asia Pacific, Europe, Russia, and the United Kingdom. There are currently 27 service areas covering five continents and nearly 150 countries.

It links and aggregates a large number of intelligent terminals and serves customers and end consumers in a variety of industries worldwide by providing acquisition, transmission, storage and deep analysis capabilities for video and audio-based IoT data. To date, the EZVIZ Cloud platform has a magnitude of 40 million device accesses and 30 million users, providing stable and continuous video-based comprehensive services for users across the world.

Based on the basic capabilities of EZVIZ's hardware + cloud, AI + open interface, EZVIZ Cloud Platform provides open device access, open basic services, open value-added services, and packages a number of SaaS common components around application scenarios (for example, identification components, headcount change detection components, frequency detection components, dynamic face retrieval components which can be used for applications such as VIP management, off-the-post detection, repeating customer analysis, personnel trajectory analysis, as well as cloud live broadcasting components of industrial live broadcasting such as scenic and road condition live, preschool parents live, and Clean and Healthy Kitchen live through applying surveillance); it allows developers to quickly and easily develop their own business SaaS based on the basic capabilities of EZVIZ SaaS components, and to serve their customers by taking advantage of AI capabilities. As of the end of 2018, more than 30,000 partners have joined EZVIZ Cloud, docking more than 5,000 active applications. An open and shared video cloud ecosystem has been initially established.

4.2 Innovative Business -- Hikvision Robotics

Hikvision Robotics focuses on the field of automation and specializes in intelligent manufacturing, and continues to explore, invest and rapidly develop in mobile robots, machine vision and industrial-level UAVs (unmanned aerial vehicles), empowering the development of the national manufacturing industry.

In the area of mobile robots, Hikvision Robotics focuses on internal logistics and the core technology of robots, provides customers with reliable AGV[16] products and solutions, and continuously builds intelligent internal logistics solutions for factories, which have been widely used in 3C, automotive manufacturing, new energy, medical, tobacco and other industries. Hikvision Robotics' main product, Qianmo Robot, released its third generation in 2018, which supports a variety of vision and laser positioning and navigation methods. The performance and quality of the third generation has been greatly improved to meet the application requirements in a variety of complex scenarios. Hikvision Robotics also launched new products such as automatic forklifts and hybrid robots[17], continuously enriching the product series of mobile robots to provide industry customers with a wider range of product selection.

In the area of machine vision, Hikvision Robotics focuses on industrial visual sensing applications and specializes in the underlying algorithm software and hardware technology, to provide customers with excellent machine vision products and algorithm platforms, which have been widely used in various fields of industrial automation such as 3C, electronic semiconductor and logistics, realizing positioning and guidance, measurement, defect detection, code reading, OCR recognition and other applications. In 2018, Hikvision Robotics released 31

[16] AGV：Automated Guided Vehicle

[17] Hybrid robot: robot integrated functions of both mobile robot and general industrial robot (such as mechanical arm).

megapixels, 43 megapixels and 50 megapixels ultra-high resolution industrial cameras to actively deploy and preempt the high-end industrial camera market. At the same time, it released 8.9 megapixels, 12 megapixels, 20 megapixels, etc. intelligent code reading camera products to help the rapid upgrade of logistics automation. In addition, Hikvision Robotics also released series products such as smart sensors, high-precision 3D profilers, and lenses, which could meet the demands of most vision applications, to provide industry customers with one-stop visual product procurement services.

Relying on Hikvision's technology accumulations in the fields of image sensing, AI, big data analysis, etc., Hikvision Robotics' industrial-level UAVs, with video image processing as the core, based on security and focused on the industries, are widely used in various scenarios such as fire rescue, emergency command, traffic management, facility inspection, and event support and protection. In 2018, Hikvision Robotics successively released Falcon IV series UAVs, UAV monitoring and management platforms, automatic tracking antennas, fixed and handheld defense systems, and other new products, providing industry users with complete solutions from product to system.

4.3 Innovative Business--Hikvision Automotive Electronics

Hikvision Automotive Electronics business is committed to the R&D, manufacturing, sales and services of Advanced Driving Assistant System (ADAS) and the related sensors, applying Hikvision’s technical reserves in

image processing, video analysis, AI intelligence, video storage and other fields to the automobile industry. Since its establishment, Hikvision Automotive Electronics has completed the upgrading of its quality system and the construction of a new automated production line in accordance with the IATF16949 Standard[18].

Self-developed Fully Automated Production Lines and Core Equipment

Hikvision Automotive Electronics business covers OEMs and related operators of passenger cars and commercial vehicles, and the company has production lines for vehicle mounted cameras, driving recorders, 360° panoramic viewing systems, streaming rearview mirrors, multimedia intelligent rearview mirrors, ADAS[19], radars, and etc. As of 2018, Hikvision Automotive Electronics has passed the audit and the verification of 20 OEMs and become their qualified supplier, basically covering domestic mainstream independent brands and some of the joint venture brands; the company has also implemented more than 200 fixed-point projects, of which more than 100 have been put into mass production. At the same time, relying on Hikvision's branches in more than 200 cities across China, Hikvision Automotive Electronics has realized transaction coverage of more than 500 channel partners.

[18]IATF16949 Standard: a system standard developed by International Automotive Task Force (IATF) in relation to the R&D, manufacturing, quality control of automobiles.

[19] ADAS：the abbreviation of Advanced Driving Assistant System, an active safety technology, by taking advantage of various sensors installed in a vehicle, is able to collect environmental data inside and outside of the vehicle immediately to recognize, detect and trace the static and dynamic objects, so as to alert the driver of potential dangers as soon as possible, draw the driver's attention and improve safety.

Product Family of Hikvision Automotive Electronics

Hikvision Automotive Electronics unveiled the first-generation ADAS in 2017. The system, with the functions of front vehicle collision warning, lane departure warning and driving behavior analysis based on video analysis, has been widely used in domestic passenger vehicles and dangerous goods transportation vehicles. In provinces that have introduced the local technical standards such as Jiangsu, Shanxi and Zhejiang, Hikvision Automotive Electronics is among the first batch of enterprises that passed the testing and certification. While introducing the ADAS, Hikvision Automotive Electronics also provides multi-sensor fusion solutions with video, millimeter wave radar and ultrasonic radar for autonomous driving.

4.4 Innovative Business—Hikvision Smart Storage

In 2018, Hikvision Smart Storage introduced the V210 series dedicated solid state disk (SSD) for video surveillance, which supports the latest 64-layer 3D TLC NAND Flash[20], and supports up to 4TB of maximum capacity. All capacities are equipped with power-down protection[21] to meet the cost-effective, high-capacity and power-down protection demands in automotive and rail industries. The 4TB mass production complements the

[20] NAND Flash: Nand-flash memory is a type of flash memory, which has a non-linear internal macro-cell mode, providing cheap and effective solution for large-capacity solid state memory implementations. TLC: Triple-Level Cell, which is 3 bit per cell, 1 memory storage unit can store 3 bit data.

[21] Power-down protection: abnormal power-off will increase the chance of a SSD failure. By providing a power-down protection mechanism, the SSDs can be ensured of data integrity in the event of abnormal power failure.

gap in the domestic large-capacity SSD mass production products, which has driven the expansion of external industrial markets of automotive and railroad and enhanced the brand awareness of the industry. At the same time, Hikvision Smart Storage participated in the formulation of *GA/T 1357-2018 Public Safety Video Surveillance Hard Disk Classification and Test Method*, which promoted standardized development of video surveillance SSD. Hikvision Smart Storage also made significant breakthroughs in enterprise-class SSD, and released D200 series enterprise-class SSD, which is the first mass-produced domestically-controlled enterprise-class SATA SSD solution. Its performance and performance stability exceed the common read-intensive enterprise-class SSDs. In the area of industrial-grade SSDs, Hikvision Smart Storage released the S210M and S210N, small-sized and ultra-small-sized SSDs, with full capacity support from 64GB to 2TB, meeting the needs of miniaturization and large-capacity development of SSDs, and providing stable performance and system support for the systems.

Product Family of Hikvision Smart Storage

Hikvision Smart Storage provides H1, L1, H10 series video surveillance memory cards, and constantly introduces new products. Based on the industry application characteristics of video surveillance, Hikvision Smart Storage launched P1, L2, P10 series video surveillance memory card products, covering various industries such as public security, transportation, finance and education, applicable to various application environments; at the same time, these new products have passed the relevant certification of the Ministry of Public Security, protecting customers' data security.

For the personal family scenes, Hikvision Smart Storage launched the "Personal Private Cloud" H100 in 2017, which solved the problem of security and sharing convenience of personal data and at the same time enabled intelligent management of photos and videos through AI technology. For office scenes in small and micro corporates, Hikvision Smart Storage launched the "Hikvision Enterprise Private Network Disk" H304 in 2018,

which provided a series of programs that make office work simple and efficient, such as online documents, collaborative sharing, mobile office, organizational structure management, etc. In terms of idle drives due to upgrading under personal scenes, Hikvision Smart Storage released the "single-disk" H90, allowing the idle hard drive to instantly change into network disk.

In 2018, Hikvision Weiying, Hikvision Huiying and other innovative businesses have developed rapidly, opening up new space for the Company's long-term development.

II. Significant changes in main assets

1. Major Changes in Main Assets

Major assets	Explanation on Major Changes
Equity Assets	Increased by 8.69%， mainly due to investments on Zhiguang Hailian Big Data Technology Ltd. and SanMenXiaYun Vision Technology Ltd., and additional investments on Maxio Technology (Hangzhou) Ltd.
Fixed Assets	Increased by 68.07%, mainly due to transfer of the completed Internet Video Industry Base, Security Industry Base (Tonglu) project-phase 2, and Chongqing Manufacturing Base from construction in process to fixed assets during the current reporting period.
Intangible Assets	Increased by 102.70%, mainly due to newly added land use rights of Chengdu Science and Technology Base, Wuhan Science and Technology Base, and Hangzhou Innovation Industry Base.
Construction in Progress	Decreased by 71.03%, mainly due to transfer of the completed Internet Video Industry Base, Security Industry Base (Tonglu) project-phase 2, and Chongqing Manufacturing Base from construction in process to fixed assets during the current reporting period.

2. Major Overseas Assets

□ Applicable √ Inapplicable

III. Core Competitiveness

Whether it is the video surveillance industry, the security industry, or the intelligent IoT industry, the users' scenario-based demands are very scattered, indicating a market with demand fragmentation. Centering around its goal of better meeting the needs of a fragmented market, Hikvision has been concentrated on technology accumulation, product development, program design, marketing and service system construction, as well as supply chain delivery capabilities since its inception. The Company focuses on hiring the right people and builds its global comprehensive competitive advantages through continuous accumulation.

1. Focusing on video technology and satisfying users' fragmented demands with scenario-based products and solutions

Video technology is a very comprehensive technology, which involves optics, sensors, microelectronic technology, imaging technology, video compression technology, video storage technology, video transmission technology, low illumination and wide dynamic technology, video display technology, as well as traditional pattern recognition technology, deep learning technology that is extremely popular at present, and many other related technologies. These technologies are rapidly developing and deepening. Regardless of how the market changes, the Company will continue to invest in video technology and other related technologies, endlessly develop these technologies, and apply these technologies to products or systems to better meet users' demands.

Based on these video technologies, the Company develops video products and solutions. Given scenario-based video applications and the fragmented users' demands, the Company needs to provide the appropriate products or solutions for different scenarios and often needs to customize them accordingly. In order to meet fragmented demands more efficiently, the Company has been continuously improving its R&D system, optimizing and developing its technology platform, product platform and system platform to maintain its competitiveness. For example, the accumulation of big data technology and the construction of big data platform in the past few years have empowered the Company with big data capabilities.

2. Maintaining a high level of R&D investments and proactive planning business development

The continued high level of R&D investment is the core driving force for Hikvision's competitiveness. During the reporting period, the Company invested RMB 4.48 billion in R&D. Unlike companies that are only engaged in one area of the industrial chain, Hikvision provides not only algorithms and products, including hardware products like cameras, access control for channels, structured servers, etc., but also application systems, being a company that covers the entire industrial chain from technology and products to systems. The Company has a three-in-one hierarchical R&D system consisting of the technology platform, the product platform and the solution platform. The three platforms are different in functions yet cooperate with each other. The continuous development of technologies, products and solutions enables the Company to respond to and fulfill ongoing customers' demands. The Company anticipated the significance of artificial intelligence and has deployed its business in advance in terms of algorithms, software and hardware. As a result, Hikvision already possesses relatively complete and mature artificial intelligence technologies, products and systems at present. The Company

is confidently working to seize the opportunity once again in the current wave of artificial intelligence.

Hikvision has established an R&D system, which is headquartered in Hangzhou and covers various locations including Beijing, Shanghai, Wuhan, Montreal in Canada, and London in Britain. In addition, it is planning to make R&D investments in various regions including Xi'an, Chengdu, Chongqing and Shijiazhuang, hiring local professionals to lay a good foundation for the Company's sustainable development.

3. Improving manufacturing flexibility and continuously enhancing product delivery capability

Due to the fragmented market demand, there is a wide variety of products and a wide range of models, and orders are characterized by small sizes and multiple batches, which poses a challenge to the delivery of the supply chain and necessitated the development of a flexible production capacity. The Company's efforts to develop a flexible production capacity can be summarized in three aspects: first, combining independent production with outsourced production to balance delivery capacity and production efficiency; second, strengthening the construction of the internal operation coordination mechanism and the IT system, with production plans leading marketing, product development and production, maintaining collaboration with suppliers, ensuring efficient and accurate material demand forecasting and management, and implementing flexible and effective program coordination and production scheduling, which is crucial for the Company's supply chain to respond to the changing demands, optimize costs, and increase efficiency; third, promoting the construction of intelligent factories and improving the level of manufacturing equipment, which on the one hand enhances the production efficiency of the factory, and on the other hand improves the technological level and ensures the consistency of product quality.

Currently, Hikvision has three main manufacturing bases in Hangzhou, Tonglu and Chongqing, and it has also launched production expansion plans for Tonglu, Wuhan and Chongqing to ensure steady and healthy business growth. At present, the Company applies the intelligent Qianmo AGV and machine vision cameras at the Tonglu production base to fully implement the automation of warehousing and in-plant logistics. We will continue implementing the intelligent factory construction to strengthen the intelligence level of the supply chain system with the support of a comprehensive information system, IoT technology and automation technology. Based on the Tonglu Production Base template, we'll build more agile, flexible and scaled intelligent factories.

4. Continuously optimizing marketing and service networks and building organizational capabilities that match the Company's businesses

To better fulfill the fragmented demands of users and reduce the intermediate links of information transmission, the Company reinforces the construction of its marketing and service networks. Hikvision's marketing service network continues to expand to allocate resources globally. The Company has 32 provincial-level business centers/primary branches, and has established 44 overseas sales branches, forming a marketing network covering more than 100 countries and regions around the world, with the self-owned brand products being sold to more than 150 countries and regions.

In the domestic market, to better serve customers, Hikvision promotes the transformation of local branches to provincial business centers, allocates more resources to business centers to better cater to customer needs; and the provincial business centers act as the front desk for the Company to get closer to users and the market and to respond to customer needs. For the purpose of better adapting to the demands of customers, Hikvision revolutionized and reorganized the traditional security business in 2018 and established the Public Business Group (PBG), the Enterprise Business Group (EBG) and the Small & Medium Business Group (SMBG), adopting different business strategies and offering different products and solutions.

In the meantime, Hikvision continues to establish distribution channels in major countries and regions around the world. By optimizing the distributor team, it continuously consolidates and expands the outreach of its business, providing product delivery and after-sales support for various users in various industries of various countries and regions. Through continuous improvement of products and technical service standards, the Company provides a comprehensive certification training system for its partners to continuously enhance the professional capabilities of its partners so as to serve customers together.

Through continuous adjustment of the business structure, Hikvision will continue to build an optimized organizational capability that is more compatible with the market.

5. Strengthening human resource construction to support the company's sustainable development

The competition among enterprises is ultimately the competition for talent, the most important source of competitiveness in enterprises. The Company adheres to the "talent-focused, growing together" employment concept, and has set up a dual career development path consisting of management sequence and professional sequence, established a professional qualification evaluation system and a talent assessment system, and implemented a multi-level training mechanism, to continuously invest resources for the cultivation of core talents and back-up talents for the Company. Through a variety of activities such as "Face-to-Face with Executives",

"Dialogue with Managers", "Humanities Lecture Hall", and "Reading Club", the Company creates a fair, open and positive organizational atmosphere and helps employees gain a sense of accomplishment and belonging.

In addition to providing employees with competitive compensation in the industry, the Company has implemented a restricted share incentive scheme for the fourth time in 2018, awarding more than 6,000 employees, covering the core talent team of executives and business backbones from various levels, thereby maintaining the stability and motivation of the Company's core talents.

6. Continuing to build the quality system, safety system and compliance system to escort the Company's development

Hikvision continues to invest resources to strengthen and optimize the quality management system, R&D management system for product safety, and compliance system to empower its business development. The Company strictly complies with the applicable laws, regulations and relevant provisions of different countries and regions where the operation is conducted, fosters an open and transparent atmosphere, welcomes the supervision of all parties, and constantly optimizes itself.

Section IV Operation Discussion and Analysis

I. Overview

In 2018, the domestic economy underwent a rapid decline and the impact of overseas non-market factors soared, resulting in continuously rising uncertainty risks. Affected by the economic and political environment, with a clear downward trend of market demand, the Company faced greater business challenges than ever before. On the other hand, the application of AI technology accelerated the development of IoT, visual perception technology brought opportunities for the digital transformation of traditional industries, and the fusion of intelligent IoT and information network generated tremendous space for data governance, data fusion, data services and data applications, which has once again lifted the bottleneck of the industry development. Hikvision continued to maintain a solid growth through its own operations and efforts.

Facing a complicated domestic and overseas environment, the Company adhered to a growth strategy that is oriented by customer demands, driven by technological innovations, and laid equal emphasis on both efficiency and risk management. During the reporting period, the Company achieved total operating income of RMB 49.84 billion, an increase of 18.93% on a year-over-year basis; and net profit attributable to shareholders of the listed company of RMB 11.35 billion, an increase of 20.64% on a year-over-year basis. The Company's overall gross profit margin was 44.85% in 2018, improving by 0.85% compared to the prior year.

II. Core business analysis

1. Overview

(1) Continuing to maintain R&D investment and speeding up the implementation of intelligent applications of technologies, products and solutions

In 2018, the Company's R&D investment reached RMB 4.48 billion, accounting for 8.99% of its total sales volume. The Company maintained a relatively large scale R&D investment, with the number of R&D and technical service personnel in excess of 16,000.

While continuing to invest in the technology and products related to the traditional security business, the Company accelerated a series of R&D investment in AI Cloud. Following the AI Cloud computing architecture of cloud-edge fusion, the Company proposed a data architecture of IoT-Information network fusion and

comprehensively released a series of platforms, such as “two pools, one library and four platforms”, AI open platform, and video surveillance construction evaluation system, constantly consolidating the business layout in AI intelligence, big data, and application and building the business architecture system through technological innovation.

In 2018, Hikvision’s products and solutions were widely applied in the public service market, the enterprise market, and the consumer market, including intelligent products represented by “Full Structuring”, “Hybrid Intelligence”, Darkfighter series of intelligent cameras, intelligent traffic products, full-analysis intelligent servers, “DeepinGo” series close-range face recognition intelligent access control products； and its solutions facing the public service industry represented by public security projects, solutions guaranteeing “traffic and travel”, solutions for safeguarding “clear water, blue sky and green mountains”; and solutions for improving people’s livelihood services; as well as its solutions facing the enterprise industry represented by solutions serving the “business world”, “social energy”, “better life”, and “wealth growth”.

(2) Transforming and reorganizing business organizations to further reach the market and users

For the domestic market, the Company advanced the construction of provincial-level business centers, upgraded provincial-level branches to business centers, and set up secondary branches in key cities, moving sales, R&D and technical support resources forward and relocating market front-line and decision-making center forward to stay closer to and better serve customers. The Company re-planned its business groups to PBG, EBG and SMBG according to the different characteristics of the three types of markets, effectively coordinating internal resources and forming market coverage according to customer differences.

For the overseas markets, the Company set up five new subsidiaries in Mexico, Panama, Pakistan, Peru and Israel, one new branch in the Philippines, one new office in Ho Chi Minh City, summed up to 44 overseas branches and more than 100 authorized repair centers in total in 2018, further improved its overseas sales and service network. The Company continued to consolidate its overseas channels, focused on breaking through the project market, maintained investment inputs for the overseas market, enhanced brand influence of the Company to better serve local customers. In 2018, the Company achieved major project breakthroughs in India and other countries, and made some progress in the project markets of many countries and regions.

(3) Making targeted adjustments to business strategy and being cautious in dealing with economic fluctuations

In response to the pressure of industry-wide capital contraction brought about by deleveraging campaign in

domestic China, the Company adopted a destocking strategy in the domestic channel market since the second quarter of 2018 to help distributors reduce inventory, optimize asset structure and improve the ability to address capital risks. Meanwhile, it cooperated with the Company's warehouse management (HiveBox Project[22]) in major cities across the country to speed up the operating turnover of our channel partners.

In the second half of 2018, facing the risks brought by the continuous downturn of the domestic economy, the Company paid more attention to the quality of revenue.

(4) Continuing to promote the development of innovative business

In 2018, EZVIZ business continued to be profitable, and the Hikvision Robot business started to generate profits as well. Hikvision Automotive Electronics, Hikvision Storage and other innovative businesses have all invested heavily to propel the target market. Employees were committed to the business development with the spirit of hard work and entrepreneurship. The Company's employee team and the innovative business team have a positive and productive working relationship; likewise the Company's business and the innovative businesses complement each other and are synergistic.

(5) Improving supply chain management and deploying overseas production bases

In 2018, the Company promoted intelligent manufacturing in its production base, improving manufacturing flexibility and production efficiency. It also impelled the construction of the supply chain IT system, enhanced the level of process operation, and reinforced the control and management of the production process.

During the reporting period, the Tonglu Production Base-Phase 2 and the Chongqing Production Base were completed and delivered, and the factory in India, the Company's first production base in the overseas market, was constructed, forming overseas manufacturing capabilities to more effectively ensure the products supply in the overseas market.

(6) Furthering management change and improving management capabilities

In 2018, the Company continued to promote various management change projects and upgraded capabilities in all aspects. From focusing on scale growth, we are laying emphasis on both scale growth and efficiency improvement now. At the same time, we continue to develop and cultivate promising employees to activate organizational vitality.

[22] Hive Box Plan: establish warehouses in major cities across the country, centralize warehouse management, and respond quickly to distributors' orders to improve overall delivery efficiency.

2. Operating incomes and operating costs

1) Operating income structure

Unit：RMB

	2018		2017		YoY Change (%)
	Amount	Proportion to operating income	Amount	Proportion to operating income	
Total operating income	49,837,132,481.61	100.00%	41,905,476,572.07	100.00%	18.93%
Classified by industry					
Video products and video services	49,837,132,481.61	100.00%	41,905,476,572.07	100.00%	18.93%
Classified by product					
Front-end equipment	24,083,382,887.01	48.32%	21,090,230,299.49	50.33%	14.19%
Back-end equipment	6,779,290,973.76	13.60%	6,151,038,063.70	14.68%	10.21%
Central control equipment	7,323,448,788.51	14.69%	5,073,899,931.95	12.11%	44.34%
Constructions	2,285,061,427.63	4.59%	2,540,799,165.58	6.06%	-10.07%
Others	6,668,689,372.12	13.39%	5,394,298,987.25	12.87%	23.62%
Subtotal	47,139,873,449.03	94.59%	40,250,266,447.97	96.05%	17.12%
Smart home business	1,636,697,390.22	3.28%	1,090,629,830.13	2.60%	50.07%
Other innovative businesses	1,060,561,642.36	2.13%	564,580,293.97	1.35%	87.85%
Subtotal	2,697,259,032.58	5.41%	1,655,210,124.10	3.95%	62.96%
Classified by region					
Domestic	35,646,435,049.93	71.53%	29,661,186,316.32	70.78%	20.18%
Overseas	14,190,697,431.68	28.47%	12,244,290,255.75	29.22%	15.90%

Note: In the category classified by product, “Smart home business” under innovative businesses was listed separately; “Other innovative businesses” includes corresponding business products of innovative business subsidiaries - Hikvision Robotics, and Hikvision Automotive Electronics, Hikvision Weiying, Hikvision Storage, Hikvision Huiying, and Similar hereinafter.

Unit: RMB

	2018			
	Q1	Q2	Q3	Q4
Operating income	9,364,828,201.00	11,510,930,023.63	12,926,932,976.48	16,034,441,280.50
Net profits attributable to shareholders of the listed company	1,815,964,569.77	2,331,430,966.09	3,248,407,615.14	3,957,066,090.32

	2017			
	Q1	Q2	Q3	Q4
Operating income	7,043,724,101.73	9,403,815,634.79	11,282,202,421.66	14,175,734,413.89
Net profits attributable to shareholders of the listed company	1,480,780,632.01	1,810,765,424.69	2,861,268,129.82	3,258,040,898.30

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

√ Applicable □ Inapplicable

Unit: RMB

	Operating income	Operating cost	Gross margin	YoY Change (%) of operating income	YoY Change (%) of operating cost	YoY Change (%) of gross margin
Classified by industry						
Video products and video services	49,837,132,481.61	27,483,469,555.24	44.85%	18.93%	17.11%	0.85%
Classified by product						
Front-end equipment	24,083,382,887.01	12,054,070,919.03	49.95%	14.19%	16.41%	-0.95%
Back-end equipment	6,779,290,973.76	3,603,440,284.98	46.85%	10.21%	13.88%	-1.71%
Central control equipment	7,323,448,788.51	3,380,634,705.16	53.84%	44.34%	45.68%	-0.42%
Constructions	2,285,061,427.63	2,008,019,572.05	12.12%	-10.07%	-11.95%	1.88%
Others	6,668,689,372.12	4,850,627,883.95	27.26%	23.62%	12.97%	6.85%
Subtotal	47,139,873,449.03	25,896,793,365.17	45.06%	17.12%	15.54%	0.75%
Smart home business	1,636,697,390.22	997,681,210.62	39.04%	50.07%	40.91%	3.96%
Other innovative businesses	1,060,561,642.36	588,994,979.45	44.46%	87.85%	70.50%	5.65%
Subtotal	2,697,259,032.58	1,586,676,190.07	41.17%	62.96%	50.61%	4.82%
Classified by region						
Domestic	35,646,435,049.93	19,658,459,789.79	44.85%	20.18%	14.32%	2.83%
Overseas	14,190,697,431.68	7,825,009,765.45	44.86%	15.90%	24.79%	-3.93%

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

□ Applicable √ Inapplicable

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

√ Yes □ No

Industry	Item	Unit	2018	2017	YoY Change (%)
Video products and video services	Sales volume	Per unit	126,356,788	98,345,860	28.48%
	Output volume	Per unit	128,068,306	100,205,025	27.81%

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

□Applicable √Inapplicable

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

□ Applicable √ Inapplicable

5) Operating cost structure

Classified by industry

Unit: RMB

Industry	Item	2018		2017		Increase/ decrease over previous year
		Amount	Proportion to operating cost	Amount	Proportion to operating cost	
Video products and video services	Operating cost	27,483,469,555.24	100.00%	23,467,310,590.76	100.00%	17.11%

Classified by products

Unit: RMB

Product	Item	2018		2017		Increase/ decrease over previous year
		Amount	Proportion to operating cost	Amount	Proportion to operating cost	
Front-end equipment	Operating cost	12,054,070,919.03	43.86%	10,354,906,543.30	44.12%	16.41%
Back-end equipment	Operating cost	3,603,440,284.98	13.11%	3,164,186,804.35	13.48%	13.88%
Central control equipment	Operating cost	3,380,634,705.16	12.30%	2,320,570,446.43	9.89%	45.68%
Constructions	Operating cost	2,008,019,572.05	7.31%	2,280,617,025.82	9.72%	-11.95%
Others	Operating cost	4,850,627,883.95	17.65%	4,293,560,908.63	18.30%	12.97%
Subtotal	Operating cost	25,896,793,365.17	94.23%	22,413,841,728.53	95.51%	15.54%
Smart home business	Operating cost	997,681,210.62	3.63%	708,022,298.25	3.02%	40.91%
Other innovative businesses	Operating cost	588,994,979.45	2.14%	345,446,563.98	1.47%	70.50%
Subtotal	Operating cost	1,586,676,190.07	5.77%	1,053,468,862.23	4.49%	50.61%

6) Any change in consolidation scope during the reporting period

√Yes □ No

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

7) Significant change or adjustment of the Company's business, products or services during the reporting period:

□ Applicable √ Inapplicable

8) Major customers and suppliers:

Sales to major customers of the Company

Sales to top five customers (RMB)	1,907,664,504.44
Total sales to top five customers as a percentage of the total sales for the year (%)	3.83%
Total sales to the related parties in top five customers as a percentage of the total sales of the year (%)	0.47%

Information on top five customers

No.	Name of Customer	Sales Amount (RMB)	Percentage of total sales for the year
1	First	855,032,885.62	1.72%
2	Second	328,807,648.02	0.66%
3	Third	257,177,044.92	0.52%
4	Fourth (related party)	235,831,258.92	0.47%
5	Fifth	230,815,666.96	0.46%
Total	--	1,907,664,504.44	3.83%

Other information of major customers

√Applicable □ Inapplicable

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

Major suppliers of the Company

Total purchases from top five suppliers (RMB)	6,869,030,217.74
Total purchases from top five suppliers as a percentage of the total purchases for the year	22.88%
Total purchases from the related parties in the top five suppliers as a percentage of the total purchases for the year	0.00%

Information on top five suppliers of the Company

No.	Supplier Name	Purchase Amount (RMB)	Percentage of total purchase for the year
1	First	3,415,111,828.07	11.38%
2	Second	1,237,317,431.12	4.12%
3	Third	769,661,849.33	2.56%
4	Fourth	731,451,005.50	2.44%
5	Fifth	715,488,103.72	2.38%
Total	--	6,869,030,217.74	22.88%

Other information on major suppliers

□ Applicable √ Inapplicable

3. Expenses

Unit: RMB

	2018	2017	Increase/decrease over previous year	Note of significant change
Sales expenses	5,892,500,406.52	4,430,220,065.13	33.01%	Improve sales network, increase personnel contribution
Administrative expenses	1,376,013,682.79	1,011,214,457.29	36.08%	Increase in personnel and low-value consumables used in new office buildings
Financial expenses	-424,257,896.76	265,411,287.66	-259.85%	Increase in foreign exchange gains during the reporting period
R&D expenses	4,482,780,693.41	3,194,223,108.16	40.34%	Continue to increase R&D investments

4. R&D Investment

√Applicable □Inapplicable

Benefited from the professional intellectual property management system, in 2018, the Company has newly added 850 patents (including 116 patents for invention, 270 utility models and 464 product design patents), and newly added 112 software copyrights. As of the end of 2018, the Company had accumulatively owned 2809 patents (including 513 invention patents, 741 utility models and 1555 product design patents), and owned 881 software copyrights.

During the reporting period, the Company invested RMB 4.48 billion in R&D, which accounted for 8.99% of the operating income. Owing to the continuous relatively high level R&D investment and continuous innovation, the Company is able to keep and enhance its technology leading position and rapidly transform technical advantage to product superiority, so as to continually promote the growth of the Company's performance.

R&D investment of the Company

	2018	2017	Change Percentage
Number of Engineers (ppl)	16,010	13,085	22.35%
Engineers as percentage of Total headcount	46.55%	49.70%	-3.15%
Amount of R&D expenses (RMB)	4,482,780,693.41	3,194,223,108.16	40.34%
R&D investment as a percentage of operating income	8.99%	7.62%	1.37%
Capitalized R&D expenses (RMB)	0.00	0.00	0.00
Capitalized R&D expenses as a percentage of R&D expenses	0.00%	0.00%	0.00%

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

□ Applicable √ Inapplicable

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

□ Applicable √ Inapplicable

5. Cash flow

Unit: RMB

Item	2018	2017	Increase/decrease over previous year
Subtotal of cash inflows from operating activities	57,331,971,581.36	45,403,833,925.46	26.27%
Subtotal of cash outflows from operating activities	48,217,958,295.30	38,030,673,674.78	26.79%
Net cash flows from operating activities	9,114,013,286.06	7,373,160,250.68	23.61%
Subtotal of cash inflows from investing activities	10,894,117,243.97	10,418,044,681.02	4.57%
Subtotal of cash outflows from investing activities	9,443,396,961.92	11,626,742,349.71	-18.78%
Net cash flows from investing activities	1,450,720,282.05	-1,208,697,668.69	-220.02%
Subtotal of cash inflows from financing activities	12,493,552,609.39	3,642,688,936.06	242.98%
Subtotal of cash outflows from financing activities	13,298,915,018.82	7,044,435,588.93	88.79%
Net cash flows from financing activities	-805,362,409.43	-3,401,746,652.87	76.33%
Net increase in cash and cash equivalents	9,994,553,723.02	2,506,847,571.89	298.69%

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

√ Applicable □ Inapplicable

The fluctuation of net cash flows from operating activities is mainly due to the increase in sales collection; the fluctuation of net cash flows from investing activities is mainly due to the increase in the net recovery amount of principal-guaranteed financial products; the fluctuation of net cash flows from financing activities is mainly due to equity incentive subscription funds received in the current period.

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

□ Applicable √ Inapplicable

III. Non-Core Business Analysis

□Applicable √Inapplicable

IV. Analysis of assets and liabilities

1. Material changes of asset items

Unit：RMB

	December 31st 2018		December 31st 2017		YoY Change (%)	Note of significant change
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Cash and bank balances	26,552,402,711.23	41.83%	16,468,430,702.64	31.93%	9.90%	Increase in sales collection
Accounts receivable and notes receivable	19,188,886,471.10	30.23%	18,342,171,688.84	35.57%	-5.34%	No significant change
Inventory	5,725,104,153.41	9.02%	4,940,332,311.65	9.58%	-0.56%	Inventory increases as sales increase
Long-term equity investment	163,301,844.56	0.26%	130,474,733.58	0.25%	0.01%	Mainly due to investments in associates
Fixed assets	5,082,415,160.10	8.01%	3,024,025,496.31	5.86%	2.15%	The transfer of Internet Security Vedio Industry Base, Security Industry Base (Tonglu) Project-phase 2, and Chongqing Manufacturing Base into fixed assets after completion during the current reporting period.
Construction in process	416,092,413.42	0.66%	1,436,319,118.30	2.79%	-2.13%	
Short-term loans	3,465,655,688.29	5.46%	97,114,655.91	0.19%	5.27%	Increased Short-term borrowing used for temporary capital turnover
Long-term loans	440,000,000.00	0.69%	490,000,000.00	0.95%	-0.26%	No significant change

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
Financial assets							
Derivative financial assets	4,100,657.54	-2,249,271.02	8,664.07				1,860,050.59
Subtotal of financial assets	4,100,657.54	-2,249,271.02	8,664.07				1,860,050.59
Financial Liabilities	15,946,836.46	15,656,203.19	-365.16				290,998.43

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

□ Yes √ No

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

Unit: RMB

Item	Closing Book Value (RMB)	Reasons for being restricted
Monetary fund	528,663,719.04	Various cash deposits and other restricted funds
Notes receivable	412,061,782.74	Pledge for issuance of bank acceptance
Total	940,725,501.78	

V. Analysis of Investments

1. Overview

√Applicable □ Inapplicable

Investment during 2018 (RMB)	Investment during 2017 (RMB)	Fluctuation (%)
2,070,774,031.12	1,804,851,313.86	14.73%

2. Significant equity investment during the reporting period

□Applicable √Inapplicable

3. Significant non-equity investment during the reporting period

√ Applicable □ Inapplicable

Unit: RMB

Project name	Invest method	Fixed assets investment or not	Project industry	Investment during the current reporting period	Cumulative amount of investment by the end of reporting period	Source of funds	Project schedule
Internet Security Industry Base	Self-built	YES	Video product and video service	171,166,453.22	1,085,180,718.30	Bond	100%
Security Industrial Base (Tonglu)-phase 2	Self-built	YES	Video product and video service	341,337,980.27	642,026,894.23	Self-fund	100%
Chongqing Manufacture Base	Self-built	YES	Video product and video service	187,895,561.81	277,289,173.62	Self-fund	100%
Hangzhou Innovation Industry Base	Self-built	YES	Video product and video service	50,840,516.83	50,840,516.83	Self-fund	4.96%
Chengdu Science and Technology Base Project	Self-built	YES	Video product and video service	6,577,446.74	6,577,446.74	Self-fund	0.49%
Chongqing Science and Technology Base Project-phase 2	Self-built	YES	Video product and video service	2,257,412.05	2,257,412.05	Self-fund	0.30%
Xi'an Science and Technology Base Project	Self-built	YES	Video product and video service	1,664,067.68	1,664,067.68	Self-fund	0.15%
Wuhan Science and Technology Base Project	Self-built	YES	Video product and video service	1,641,509.43	1,641,509.43	Self-fund	0.06%
Wuhan Intelligence Industry Base Project	Self-built	YES	Video product and video service	934,836.51	934,836.51	Self-fund	0.04%

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
Total	--	--	--	764,315,784.54	2,068,412,575.39	--	--

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	Accumulated fair value changes included in equity	Purchase during the reporting period	Amount sold during the reporting period	Cumulative investment income	Closing balance	Source of funds
Derivative instruments	1,400,293,692.23	13,406,932.17	0.00	7,860,873,273.42		-40,669,470.74	1,013,306,062.25	Company's own funds
Total	1,400,293,692.23	13,406,932.17	0.00	7,860,873,273.42		-40,669,470.74	1,013,306,062.25	--

5. Use of raised funds

□ Applicable √ Inapplicable

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

VI. Disposal of significant assets and equity

1. Disposal of significant assets:

□ Applicable √ Inapplicable

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

2. Sale of significant equity:

□ Applicable √ Inapplicable

VII. Analysis of major subsidiaries and investees

√ Applicable □ Inapplicable

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

Unit：RMB

Company name	Company type	Principal business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Hangzhou Hikvision System Technology. Co., Ltd.	Subsidiary	Manufacturing: video surveillance system; Technology development and service: computer system integration, electronic product, communication product; service: the installation of electric security engineering, the design, construction and maintenance of intelligent system; selling its self-produced products, import and export its own products and technology.	600 million	4,039,319,343.68	1,484,001,942.46	3,670,112,122.85	302,469,418.63	316,692,239.46
Hangzhou Hikvision Science and Technology Co. Ltd.	Subsidiary	Manufacturing: 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; technology development, technology consulting, results transferring: computer software, electronic product, communication product, digital security product; wholesale: 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	26,761,014,281.27	2,680,178,976.27	46,198,675,003.99	889,705,199.85	683,540,040.65

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
Hangzhou HIK Huiying Technology Ltd.	Cash contribution	Business development
Xinjiang CET Yihai Information Technology Ltd.	Cash contribution	Business development
Xinjiang CET Yihai Information Technology Ltd.	Cash contribution	Business development
Luo Pu District Hai Shi Ding Xin Electronic Technology Ltd.	Cash contribution	Business development
Yu Tian Hai Shi Mei Tian Electronic Technology Ltd.	Cash contribution	Business development
Hikvision Xi'an Xueliang Construction Project Management Ltd.	Cash contribution	Business development
Wuhan Hikvision Science and Technology Ltd.	Cash contribution	Business development
Wuhan Hikvision Technology Ltd.	Cash contribution	Business development
Wuhan Hikvision Fire Control Technology Ltd.	Cash contribution	Business development
Hainan Hikvision System Technology Ltd.	Cash contribution	Business development
Nanjing Hikvision Digital Technology Ltd.	Cash contribution	Business development
Hikvision Panama Commercial S.A.	Cash contribution	Expand overseas sales channels
Hikvision Mexico S.A.de C.V.	Cash contribution	Expand overseas sales channels
Hikvision Pakistan (SMC-Private) Limited	Cash contribution	Expand overseas sales channels
Hikvision Peru Closed Stock Company	Cash contribution	Expand overseas sales channels
Hikvision Technology Israel Ltd.	Cash contribution	Expand overseas sales channels
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. Outlook for the Future Development of the Company

1. Industry developing trends

(1) Continual growth in traditional comprehensive security needs

Security is highly valued, and therefore continuously enhancing the security and protection capability is an inevitable requirement for development. The security demands of governments, enterprises and families in various countries will continue to increase; therefore, the demands for traditional comprehensive security business will maintain a solid growth.

(2) Rapidly emerging demand for intelligent applications, AI will be ubiquitous

AI empowers objects with intelligence and facilitates the swift development of IoT. A large number of sub-industries will introduce AI, and AI will be everywhere. Ubiquitous intelligence has brought the Company clear opportunities. However, the fragmented demands of intelligent applications will be the constraint. If an efficient and low-cost solution could be found to address the intelligent needs of the sub-industries, the industry will flourish.

(3) Greater challenges arising from increased non-market interference factors in overseas markets

The competitive and cooperation relationship between different countries directly or indirectly affects the Company's business environment in the country and region. Along with increased non-market interference factors in overseas markets, the uncertainty risks will continue to rise.

2. Development Strategy of the Company

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

With the corporate mission of "exploring innovative ways to better perceive and understand the world, empowering vision for decision-makers and practitioners and work together to enhance safety and advance sustainable development of the world", the Company is committed to empower vision for the security and growth of the world.

3. Key Operation Priorities in 2019

(1) Continue to carry out refined marketing in the existing market to ensure stable and efficient revenue generation; develop the market of AI-perceptual intelligent business to fulfill more fragmented demands for intelligence; and develop big data business under the cloud-edge fusion and IoT-information network fusion architectures.

(2) Continue to promote innovative businesses and strive to make the innovation businesses bigger and stronger.

(3) Continue to enhance the Company's R&D capabilities in technology, products and systems to better fulfill customers' demands.

(4) Maintain the driving force of both products and solutions, and focus on improving the marketing capabilities of solutions.

(5) Continuously pay attention to the development of organizational capabilities and improve per capita effectiveness.

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

√ Applicable □ Inapplicable

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

Time of reception	Method of reception	Type of reception object	Basic situation of the research
From January 1st 2018 to February 2nd 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From January 1st 2018 to February 2nd 2018*
From February 5th 2018 to March 2nd 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From February 5th 2018 to March 2nd 2018*
From March 5th 2018 to March 16th 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From March 5th 2018 to March 16th 2018*
April 23rd 2018	Annual performance result Conference Call	Institutional and individual investors	CNINFO, *Investor Relations Activity Record: April 23rd 2018*
May 11th 2018	Investor Reception Day	Institutional and individual investors	CNINFO, *Investor Relations Activity Record: May 11th 2018*
From May 14th 2018 to May 25th 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From May 14th 2018 to May 25th 2018*
From May 28th 2018 to June 8th 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From May 28th 2018 to June 8th 2018*
From June 11th 2018 to June 22nd 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From June 11th 2018 to June 22nd 2018*
July 23rd 2018	Performance result-Conference Call	Institutional and individual investors	CNINFO, *Investor Relations Activity Record: July 23rd 2018*
From July 24th 2018 to August 10th 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From July 24th 2018 to August 10th 2018*

Time of reception	Method of reception	Type of reception object	Basic situation of the research
From August 13th 2018 to August 31st 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From August 13th 2018 to August 31st 2018*
From September 3rd 2018 to September 14th 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From September 3rd 2018 to September 14th 2018*
October 22nd 2018	Performance result-Conference Call	Institutional and individual investors	CNINFO, *Investor Relations Activity Record: October 22nd 2018*
From October23rd 2018 to November 2nd 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From October23rd 2018 to November 2nd 2018*
From November 5th 2018 to November 16th 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From November 5th 2018 to November 16th 2018*
From November 19th 2018 to December 4th 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From November 19th 2018 to December 4th 2018*
From December 5th 2018 to December 17th 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From December 5th 2018 to December 17th 2018*
From December 18th 2018 to December 29th 2018	Site Research and telephone communication	Institutional investors	CNINFO, *Investor Relations Activity Record: From December 18th 2018 to December 29th 2018*

(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.

Time of conference	Location	Conference Name	Type of reception object	Method of reception
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	Taibei	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	23rd 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.
September 2018	London	CICC Forum (UK) 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2018	Stockholm -London	Europe NDR-via CICC	All kinds of investors	One-on-One Meetings
September 2018	Shenzhen	UBS China A-Share Conference 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2018	Taibei	Credit Suisse 19th Annual Asian Technology Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
September 2018	Hongkong	25th CLSA Investors' Forum	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2018	Shenzhen	9th Credit Suisse China Investment Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2018	Hong Kong	Jefferies 8th Annual Greater China Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2018	Beijing	Bank of America Merrill Lynch China Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2018	Shenzhen	13th CITI China Investment Conference 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2018	Shenzhen	CITIC Securities 2018 Annual Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2018	Hong Kong	J.P. Morgan Global TMT Conference 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2018	Shenzhen	ShenWanHongYuan Securities 2019 Capital Market Forum	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
November 2018	Singapore	Morgan Stanley 17th Annual Asia Pacific Summit	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2018	Shanghai	Merchants Securities 2018 Investment Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2018	Tokyo	Nomura Investment Forum 2018	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
December 2018	Chengdu	GF Securities 2018 Winter Listed Company Non-disclosure Investment Forum	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)	395
Number of institutional investors received (ppl)	3373
Number of individual investors received (ppl)	80
Number of investor relations conference participated	38

Section V Significant Events

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

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

□ Applicable √ Inapplicable

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

(1) Profit distribution for the year 2016: Based on the total share capital of 6,152,576,743 shares on the actual date of record when implementing the 2016 profit distribution proposal, the Company distributed cash dividend of RMB 6 (tax inclusive) and 5 bonus shares (tax inclusive) per each 10 shares to all shareholders; share distribution from capital reserve is nil.

(2) Profit distribution for the year 2017: Based on the Company's total share capital of 9,227,270,473 shares, the Company proposed to distribute cash dividend of RMB 5 (tax inclusive) per each 10 shares to all shareholders, bonus share and share distribution from capital reserve is nil.

(3) Profit distribution proposal for the year 2018: Based on the Company's current total share capital of 9,348,465,931 shares, the Company proposed to distribute cash dividend of RMB 6 (tax inclusive) per each 10 shares to all shareholders, bonus share and share distribution from capital reserve is nil.

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

Unit: RMB

Year	Cash dividends (including tax)	Net profit attributable to shareholders of listed Company in consolidated statements	Ratio of net profit attributable to shareholder of Company in consolidated financial statements (%)	Amount of cash dividends in other methods	Ratio of cash dividends in other methods
2018	5,609,079,558.60	11,352,869,241.32	49.41%	0.00	0.00%
2017	4,613,635,236.50	9,410,855,084.82	49.02%	0.00	0.00%
2016	3,691,546,045.80	7,423,683,960.91	49.74%	0.00	0.00%

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

□ Applicable √ Inapplicable

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

Bonus issue per 10 shares (share)	0
Cash dividend per 10 shares (RMB) (tax inclusive)	6.00
Additional shares converted from capital reserves for 10 shares (share)	0
Total capital shares as the basis for the distribution proposal (share)	9,348,465,931
Total cash dividend (RMB) (tax inclusive)	5,609,079,558.60
Distributable profits (RMB)	19,327,533,457.91
Percentage of cash dividends in the total distributed profit (%)	29.02%
Cash dividend policy:	
The Company is in the development stage and has a substantial plan of cash expenditure. In the current profit distribution, cash dividends shall account for at least 20%.	
Details about the plan for profit distribution and capitalizing capital reserves into share capital	
As audited by Deloitte Touche Tohmatsu Certified Public Accountants LLP, in 2018, the parent company of the Company realized net profit of RMB 9,769,694,399.19， after deducting the statutory surplus reserve of RMB 976,969,439.92, which was provided at 10% of the net profits, adding the undistributed profit of the parent company at the beginning of the year of RMB 15,148,443,735.14, deducting the cash dividends of RMB 4,613,635,236.50 in 2017, as of December 31st 2018, the profits attributable to shareholders of the parent company amounted to RMB 19,327,533,457.91. As of December 31st 2018, the profits attributable to shareholders in the consolidated statement were RMB 22,360,593,257.53 (consolidated). To sum up, according to the principle of “whichever is lower”, the profits attributable to shareholders this year was RMB 19,327,533,457.91. Based on the Company’s total share capital of 9,348,465,931 shares, the Company proposed to distribute cash dividend of RMB 6 (tax inclusive) per each 10 shares to all shareholders, bonus share and share distribution from capital reserve is nil. The above scheme will distribute a total cash dividend of RMB 5,609,079,558.60, and the remaining undistributed profits will be transferred to the next year.	

III. Performance of commitments

1. Complete and incomplete commitments of the Company and its actual controller, shareholders, related parties, acquirers, and other related parties for the commitments 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.	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. 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 commited as below for the transactions with Hikvsion: (1) Haikang Group will not make use of the controlling power to offer more favorable conditions to Hikvision than those to any independent third party in any fair market transactions in the cooperation with Hikvision. (2) Haikang Group will not make use of the controlling power to obtain the prior right to complete the transaction with Hikvision. (3) Haikang Group will not deal with Hikvsion in not fair terms comparing to the market prices to prejudice the Company's interests. For unavoidable related transactions, the Company will observe the principles of justice and fairness to deterimine 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	October 29th 2013	Long-term	Strict performance

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

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

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		to make significant changes to the existing employee recruitment for the listed Company. 4.6 Currently the Company has no plan to make significant changes for the dividend distribution plan for the listed Company. 4.7 Currently the Company has no plan to make significant changes for business and organizational structure for the listed Company.			
Commitments in Initial Public Offering or re-financing	Hangzhou Weixun Investment Management Limited Partnership（later renamed as Xinjiang Weixun Investment Management Limited Partnership）	During Hu Yangzhong, Wu Weiqi, JiangHaiqing, Zhou Zhiping, Xu Lirong, Cai Dingguo, He Hongli, Zheng Yibo, Hu Dan,、Jiang Yufeng, Liu Xiang, Wang Ruihong, Chen Junke's tenure of the Company's board of directors, supervisors and senior management personnel, the annual transfer of 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 17th 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 17th 2010	Long term	Strict performance
	The Company's directors, supervisors and executive: HuYangzhong,Wu Weiqi, Jiang Haiqing, Zhou	During their tenure of the Company's board of directors, supervisors and senior management personnel, the annual shares transfer should not exceed	May 17th 2010	Long term	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
	Zhiping，Xu Lirong, Cai Dingguo, He Hongli, Zheng Yibo, Hu Dan, Jiang Yufeng, Liu Xiang, Wang Ruihong, Chen Junke	25% of total number of shares held under Weixun; whthin 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; whthin 6 months after their dimission, they should not transfer their shares held under Pukang.	May 17th 2010	Long term	Strict performance
	The Company's director Gong Hongjia's spouse, Chen Chunmei	During Gong Hongjia's tenure of the Company's board of directors, supervisors and senior management personnel, Chen's annual shares transfer should not exceed 25% of total number of shares held under Pukang; whthin 6 months after the dimission of Gong Hongjia,Chen should not transfer her shares held under Pukang.	May 17th 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 18th 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 *Commitment Letters of non-competition in the same industry* on 10 July, 2008.	July 10th 2008	Long term	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
Other commitments to the company's minority shareholders	CETC Investment Holdin Co.,Ltd (CETCIH).; The 52nd Research Institute at China Electronics Technology Group Corporation; China Electronics Technology Group Co., Ltd.	During the effective period of the implementation of CETCIH's plan to increase the holding of Hikvision (within 6 months from October 23rd 2018) and the statutory period, CETCIH will not reduce its shareholdings of Hikvision	October 23rd 2018	Within 6 months from October 23rd 2018	Strict performance
Whether the commitments is fulfilled in time	Yes				

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

□ Applicable √ Inapplicable

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

□ Applicable √ Inapplicable

No such case in the reporting period.

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

□ Applicable √ Inapplicable

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

√ Applicable □Inapplicable

1. Changes in accounting policies

The *Notice on Amending the 2018 Annual Financial Statements of General Enterprises* was issued by the Ministry of Finance on June 15th 2018 (Accounting Council (2018) No. 15, hereinafter referred to as Financial Accounting No. 15 Document). The Financial Accounting No. 15 Document revised the presentation items on the

balance sheet and the income statement, and added new items such as “receivable notes and accounts receivable”, “payable notes and accounts payable” and “research and development expenses”; revised contents of line items such as "other receivables", "fixed assets", "construction in progress", "other payables" and "long-term payables" and "management expenses"; reduced line items such as "receivable notes", “accounts receivable”, “dividends receivable”, “interests receivable”, “fixed assets clearance”, “engineering materials”, “payable notes”, “accounts payable”, “interest payable”, “dividends payable” and the "special payables"; Under the “Financial Expenses” item, the “Including: Interest Expenses” and “Interest Income” lines were added to report, and the presentation position of some items in the income statement were adjusted.

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

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

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

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

□ Applicable √ Inapplicable

No such case in the reporting period.

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

√ Applicable □ Inapplicable

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

IX. Engagement and disengagement of the CPA firm

CPA firm engaged at present

Name of the domestic CPA firm	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration for the domestic CPA firm (RMB'0000)	305
Consecutive years of the audit service provided by the domestic CPA firm	3
Name of the certified public accountants from the domestic CPA firm	Mou Zhengfei has provided audit service for 3 consecutive years; Zhang Shushu has provided audit service for 2 consecutive year.

Whether the CPA firm was changed in the current period

□ Yes √ No

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

□ Applicable √Not applicable

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

□ Applicable √ Inapplicable

XI. Bankruptcy and restructuring

□ Applicable √ Inapplicable

No such case during the reporting period.

XII. Material litigation and arbitration

□ Applicable √ Inapplicable

No such case during the reporting period.

XIII. Punishments and rectifications

□ Applicable √ Inapplicable

No such case during the reporting period.

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

□ Applicable √ Inapplicable

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

√Applicable □Inapplicable

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

On December 15th 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 26th 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 8th 2018. Meanwhile, 1,594,641 restricted shares held by a portion of grantees not fulfilling the incentive conditions were repurchased and cancelled. On March 27th 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 Scheme* (No. 2018-017) issued on January 5th 2018 and March 29th 2018 respectively.

By the end of the reporting period, 33,932,161 awarded shares remains un-locked for 2014 Restricted Share Incentive Scheme; 78,490,287 awarded shares remains un-locked for 2016 Restricted Share Incentive Scheme; and the total number of unblocked restricted shares are 112,422,448 shares, accounting for 1.22% of the Company's total share capital at the end of the reporting period.

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

During the reporting period, costs amortized in relation to the 2014 and 2016 Restricted Share Incentive

Schemes of the Company have no material impact on the financial position and operating results of the Company.

For details, please refer to Note (XI) - Share-based Payments.

XVI. Significant related-party transaction

1. Related-party transactions arising from routine operation

√ Applicable □ Inapplicable

Related party	Relationship	Type of related transaction	Content of related transaction	Valuation	Trading 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 or research institutes of CETC	Under the common control of the Company's actual controller.	Procurement	Purchase materials, receiving services	Reference market price; Agreed on price	30,054	1.00%	50,000	No	Payment on delivery	April 21st 2018	Announcement on projections on 2018 related transactions (No：2018-024）
Shanghai Fullhan Micro	The Company's director, Gong Hongjia is the director of the related party	Procurement	Purchase materials, receiving services	Reference market price; Agreed on price	26,800	0.89%	40,000	No	Payment on delivery		
Wuhu Sensor Technology	A joint venture affiliated business held by the Company	Procurement	Purchase materials, receiving services	Reference market price; Agreed on price	4,561	0.15%	4,000	No	Payment on delivery		
Maxio	A joint venture	Procurement	Purchase	Reference	5,213	0.17%	8,000	No	Payment on		

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
Technology and its subsidiaries	affiliated business held by the Company		materials, receiving services	market price; Agreed on price					delivery		
Subsidiaries or research institutes of CETC	Under the common control of the Company’s actual controller.	Sales	Providing services, selling products, commercial goods	Reference market price; Agreed on price	50,121	1.01%	120,000	No	Payment on delivery		
Zhejiang Tuxun	Zheng Yibo, the Company's senior executive, served as a director in Zhejiang Tuxun. Zheng Yibo left his post from the Company in March 2018; since it is less than 12 months after Zheng’s departure, Zhejiang Tuxun remained a related party of the	Sales	Providing services, selling products, commercial goods	Reference market price; Agreed on price	137	0.00%	500	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
	Company.										
Wuhu Sensor Technology	A joint venture affiliated business held by the Company	Sales	Providing services, selling products, commercial goods	Reference market price; Agreed on price	293	0.01%	500	No	Payment on delivery		
Hangzhou Comfirmware	The Company’s senior executive, Jia Yonghua, is the director of the related party	Sales	Providing services, selling products, commercial goods	Reference market price; Agreed on price	78	0.00%	100	No	Payment on delivery		
Maxio Technology and its subsidiaries	A joint venture affiliated business held by the Company	Sales	Providing services, selling products, commercial goods	Reference market price; Agreed on price	4	0.00%	100	No	Payment on delivery		
Zhiguang Hailian Big Data Technology Ltd.	A joint venture affiliated business held by the Company	Sales	Providing services, selling products, commercial goods	Reference market price; Agreed on price	126	0.00%	0		Payment on delivery	--	--
Total				--	117,387	--	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)	1) The part of the actual related party transaction amount with Wuhu Sensor Tech that exceeds the projected amount has been approved by the chairman of the board according to the Company's *Related Transaction Management System*. 2) The amount of related party transactions with Zhiguang Hailian has not been reviewed, and has been approved by the chairman of the board according to the Company's *Related Transaction Management System.*
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

Pursuant to the *Proposal on Capital Increase and Related Transactions to Hangzhou HIK Automotive Technology Ltd. and Hangzhou HIK Robotics Technology Ltd.* approved by the 5th meeting of the 4th session of the Board of Directors held on August 27th 2018, the Company and Hangzhou Hikvision Equity Investment Partnership (hereinafter refers to Innovative Co-investment Partnership) jointly increased the capital of Hikvision's innovative business subsidiaries: 1) Hikvision and the Innovative Co-investment Partnership jointly increased the capital of Hikvision Automotive Electronics with a cash payment of RMB 48 million and a cash payment of RMB 32 million, respectively, with a total capital increase of RMB 80 million. 2) Hikvision and the Innovative Co-investment Partnership jointly increased the capital of Hikvision Robotics with a cash payment of RMB 30 million and cash of RMB 20 million respectively, with a total capital increase of RMB 50 million. The amount of this related transaction totaled RMB 78 million. In addition, reviewed and proved by the second meeting of Strategy Committee of the 3rd Board of Directors in 2018 (March 9th 2018), Hikvision and the Innovative Co-investment Partnership jointly established Hangzhou HIK Huiying Technology Ltd. (Hikvision's invested RMB 48 million), for 12 consecutive months, the cumulative amount of related transactions between Hikvision and the Innovative Co-investment Partnership was RMB 126 million, accounting for 0.42% of the latest audited net assets of the Company. As of the end of the reporting period, the Company and the Innovative Co-investment Partnership have completed the establishment and registration of changes related to the subsidiaries of the innovative businesses.

Disclosure website for provisional reports on significant related transactions:

Title of provisional reports	Disclosure date	Disclosure website
Proposal on Capital Increase and Related Transactions to Hangzhou HIK Automotive Technology Ltd. and Hangzhou HIK Robotics Technology Ltd.	August 28th 2018	www.cninfo.com.cn

XVII. Significant contracts and their execution

1. Trusteeship, contracting and leasing

(1) Trusteeship

□ Applicable √ Inapplicable

No such case in the reporting period.

(2) Contracting

□ Applicable √ Inapplicable

No such case in the reporting period.

(3) Leasing

□ Applicable √ Inapplicable

No significant leasing during the reporting period.

2. Significant guarantees

√Applicable □ Inapplicable

(1) Details of guarantees

Unit: RMB'0000

Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosure date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date	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 12th 2018	670,000	December 6th 2016	358,291.00	Joint guarantee	2016.12.06-2020.12.31	No	Yes
Hangzhou Hikvision System Technology Ltd	May 12th 2018	80,000	October 10th 2017	6,764.32	Joint guarantee	2017.10.10-2020.12.31	No	Yes
HIKVISION INTERNATIONAL CO., LTD.	May 12th 2018	350,000	December 27th 2017	34,559.38	Joint guarantee	2017.12.27-2019.04.5	No	Yes
Hangzhou Hikvision Electronics Ltd.	May 12th 2018	370,000	October 19th 2018	5,297.92	Joint guarantee	2018.10.19-2019.10.19	No	Yes
Hangzhou Haikang Zhicheng Investment and Development Ltd.	May 12th 2018	10,000	July 30th 2018	1,200	Joint guarantee	2018.07.30-2019.07.19	No	Yes
Chongqing Hikvision Science and Technologies Ltd.	May 12th 2018	110,000	Not happened during the reporting period					
Chongqing Hikvision System Technology Ltd.	May 12th 2018	50,000	Not happened during the reporting period					
Chengdu Hikvision Digital Technology Ltd.	May 12th 2018	80,000	Not happened during the reporting period					
Urumchi HaiShi Xin'An Electronic Technology Ltd.	May 12th 2018	50,000	Not happened during the reporting period					
Mo Yu Hai Shi Electronic Technology Ltd.	May 12th 2018	30,000	Not happened during the reporting period					
Pi Shan Hai Shi Yong An Electronic Technology Ltd.	May 12th 2018	35,000	Not happened during the reporting period					
Luo Pu Hai Shi Ding Xin Electronic Science and Technology Ltd.	May 12th 2018	30,000	Not happened during the reporting period					
Yu Tian Hai Shi Mei Tian Electronic Technology Ltd.	May 12th 2018	30,000	Not happened during the reporting period					
Wuhan Hikvision Technology Ltd.	May 12th 2018	120,000	Not happened during the reporting period					
Wuhan Hikvision Science and Technology Ltd.	May 12th 2018	120,000	Not happened during the reporting period					
Hikvision Xi'an Xueliang Construction Project Management Ltd.	May 12th 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	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 12th 2018	50,000	Not happened during the reporting period					

Total guarantee cap for subsidiaries approved during the reporting period(B1)	2,245,000.00	Total actual guarantee amount for subsidiaries during the reporting period(B2)	533,369.81
Total approved guarantee cap for subsidiaries at the end of the reporting period(B3)	2,245,000.00	Total actual guarantee balance for subsidiaries at the end of the reporting period(B4)	406,112.62

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)	2,245,000.00	Total actual guarantee amount during the reporting period (A2+B2+C2)	533,369.81
Total approved guarantee cap at the end of reporting period (A3+B3+C3)	2,245,000.00	Total actual guarantee balance at the end of the reporting period (A4+B4+C4)	406,112.62
Portion of the total actual guarantee amount (A4+B4+C4) in net assets of the Company		10.80%	
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)		392,850.38	
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)		392,850.38	

Illustration of compound method guarantee

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

(2) Illegal provision of guarantees for external parties

□ Applicable √ Inapplicable

No such case in the reporting period.

3. Entrusting others to execute any cash asset management

(1) Entrusted finances

√Applicable □ Inapplicable

Entrusted finance during the reporting period

Unit: 0,000 RMB

Type	Capital Source	Actual Amount	Undue Balance	Amount overdue
Bank Financial Products	Self-fund	110,000	0	0
Total		110,000	0	0

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

□ Applicable √ Inapplicable

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

□ Applicable √ Inapplicable

(2) Entrusted loans

□ Applicable √ Inapplicable

No such case in the reporting period.

4. Other significant contracts

□ Applicable √ Inapplicable

No such case in the reporting period.

XVIII. Social responsibility

1. Fulfillment of social responsibilities

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

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

For details, please refer to the Company's *2018 Annual Social Responsibility Report* disclosed on CNINFO (www.cninfo.com.cn)

2. Fulfillment of the social responsibility of targeted poverty alleviation

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

3. Environmental protection

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

XIX. Other significant events

□ Applicable √ Inapplicable

XX. Significant events of the Company's subsidiaries

□ Applicable √ Inapplicable

Section VI Changes in Shares and Information about Shareholders

I. Changes in Share Capital

1. Table of changes in share capital

Unit: Share

	Before the change		Changes in the period (+, -)					After the change	
	Shares	Ratio	New Shares Issued	Bonus share	Share transferred from capital reserve	Others	Sub-total	Shares	Ratio
1. Shares subject to conditional restriction(s)	1,971,217,850	21.36%				-658,144,845	-658,144,845	1,313,073,005	14.23%
1)State holdings						0	0		
2)Shares held by State-owned corporate						0	0		
3) Other domestic shares	852,337,550	9.24%				-578,124,870	-578,124,870	274,212,680	2.97%
Including: held by domestic corporates	582,492,655	6.32%				-582,492,655	-582,492,655		
held by domestic natural person	269,844,895	2.92%				4,367,785	4,367,785	274,212,680	2.97%
4) Foreign shares	1,118,880,300	12.12%				-80,019,975	-80,019,975	1,038,860,325	11.26%
Including:held by overseas corporates						0	0		
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%				656,550,204	656,550,204	7,914,197,468	85.77%
1) RMB ordinary shares	7,257,647,264	78.64%				656,550,204	656,550,204	7,914,197,468	85.77%
2) Domestically listed foreign shares						0	0		
3) Foreign shares listed overseas						0	0		
4) Others						0	0		

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

(1) The second time repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme:

On December 15th 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 26th 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 27th 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

(1) The second time repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme:

On December 15th 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 26th 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

(1) The second time repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme:

On March 27th 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.

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	0	1,038,792,525	Executives locked shares	According to the relevant provisions of executives shares management
Xinjiang Weixun Investment Management Limited Partnership	438,232,500	438,232,500	0	0	Institution restricted share before IPO	March 19th 2018
Xinjiang Pukang Investment Limited Partnership	144,260,155	144,260,155	0	0	Institution restricted share before IPO	March 19th 2018
Grantees of restricted share incentive plan (consolidated)	147,820,996	33,803,907	0	112,422,448	Restricted incentive equity shares	January 8th 2018
Hu Yangzhong	91,793,982	0	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	0	41,176	8,301,742	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Jiang Haiqing	8,255,911	0	96,750	8,352,661	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Jia Yonghua	4,118,807	0	47,626	4,166,433	Executives locked shares	
Li Pan	4,042,926	0	122,625	4,165,551	Executives locked shares	
Huang Fanghong	70,875	0	74,250	145,125	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Jiang Yufeng	30,375	0	30,000	60,375	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
He Hongli	29,025	0	23,550	52,575	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	

Name of shareholder	Opening restricted shares	Vested in current period	Increased in current period	Closing restricted shares	Note for restricted shares	Date of unlocking
Fu Baijun	29,025	0	106,425	135,450	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Xu Lirong	29,025	0	30,675	59,700	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Wang Qiuchao	15,000	0	0	15,000	Executives locked shares	
Qu Liyang	0	0	11,812	11,812	As taking the Company's Director position, partial of the shares held were turning into executives locked shares.	
Zhou Zhiping	5,355,432	5,355,432	0	0	Shares locked up within six months after leaving his post	September 20th 2018
Zheng Yibo	30,375	30,375	0	0	Shares locked up within six months after leaving his post	September 20th 2018
Cai Dingguo	30,375	30,375			Shares locked up within six months after leaving his post	September 20th 2018
Total	1,971,217,850	701,732,719	45,182,515	1,313,073,005	--	--

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 27th 2018.

II. Issuance and listing of securities

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

□Applicable √Inapplicable

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

√ Applicable □ Inapplicable

During the reporting period, the Company completed the second repurchasing and cancelling shares for 2014

Restricted Share Incentive Scheme, the total capital shares were decreased by 1,594,641 shares from 9,228,865,114 shares to 9,227,270,473 shares; the structure of shareholder structure, assets and liabilities of the Company did not change significantly after the above mentioned items.

3. Existent shares held by internal staff of the Company

□ Applicable √ Inapplicable

III. Particulars about the shareholders and actual controller

1. Total number of shareholders and their shareholdings

Unit: Share

Total number of common shareholders at the end of the reporting period	194,110	The total number of common shareholders at the end of the previous month before the disclosure of the annual report	186,407

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 end of the reporting period	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	-	-	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	367,488,300
Hong Kong Securities Clearing Company Ltd.(HKSCC)	Overseas corporation	8.81%	812,892,497	-88,317,950	-	812,892,497	-	-
Xinjiang Weixun Investment Management Limited Partnership	Domestic non-state-owned corporation	4.89%	450,795,176	-78,925,700	-	450,795,176	Pledged	237,869,999
Xinjiang Pukang Investment Limited Partnership	Domestic non-state-owned corporation	1.98%	182,510,174	-9,836,700	-	182,510,174	Pledged	72,570,000
Hu Yangzhong	Domestic Individual	1.97%	182,186,477	59,400,000	136,639,858	45,546,619	Pledged	90,979,999
The 52nd Research Institute at	State-owned	1.96%	180,775,044	-	-	180,775,044	-	-

China Electronics Technology Group Corporation	corporation							
CITIC Securities Company Limited	Domestic non-state-owned corporation	0.88%	81,513,660	-74,468,969	-	81,513,660	-	-
UBS AG	Overseas corporation	0.72%	66,858,188	-42,065,262	-	66,858,188	-	-
Central Huijin Investment Ltd.	State-owned corporation	0.71%	65,818,800	-	-	65,818,800	-	--
Explanation on associated relationship or concerted actions among the above-mentioned shareholders:	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 Co. Ltd.. 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. 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 *Measures for Management of the Disclosure of the Shareholding Changes of Shareholders of the Listed Company*.							

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)	812,892,497	RMB ordinary shares	812,892,497
Xinjiang Weixun Investment Management Limited Partnership	450,795,176		450,795,176

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
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 Technology Group Co. Ltd.	180,775,044	RMB ordinary shares	180,775,044
CITIC Securities Company Limited	81,513,660	RMB ordinary shares	81,513,660
UBS AG	66,858,188	RMB ordinary shares	66,858,188
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	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 Co. Ltd. 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. 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 *Measures for Management of the Disclosure of the Shareholding Changes of Shareholders of the Listed Company*.		

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

□ Applicable √ Inapplicable

2. Particulars about controlling shareholder of the Company

Nature of the controlling shareholder: Central State-owned

Type of the actual controller: Corporation

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

Change of the controlling shareholder during the reporting period

□ Applicable √ Inapplicable

The Company's controlling shareholder has not changed during the reporting period.

3. Particulars about the Company's actual controller & concerted parties

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

Type of the actual controller: Corporation

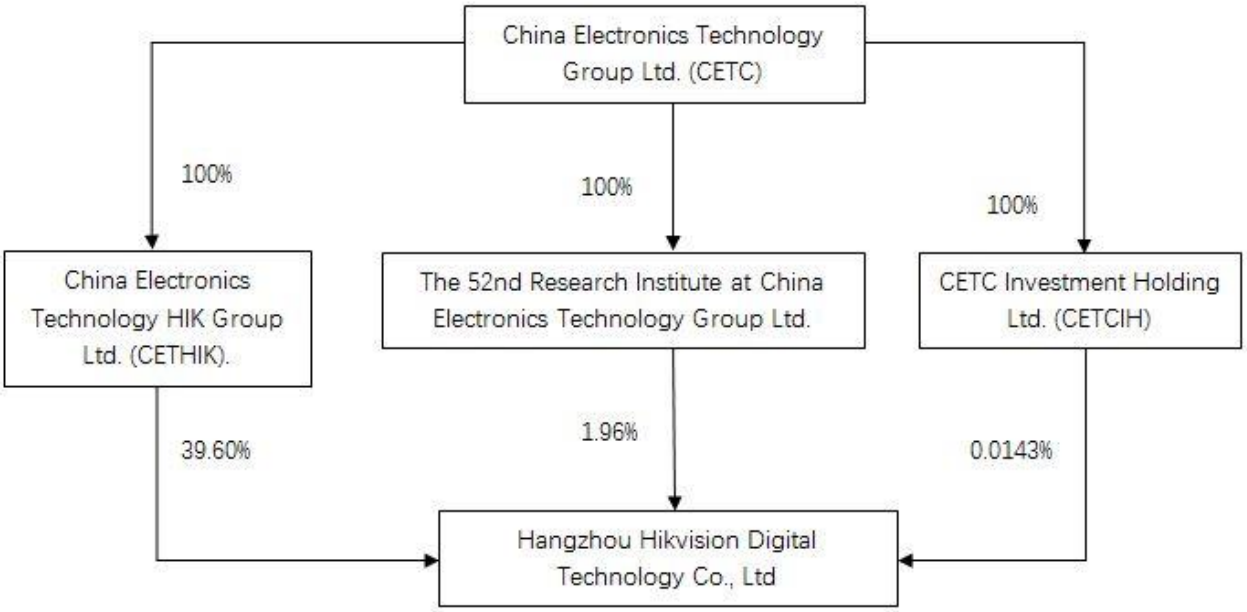
Name of the actual controller	Legal Representative	Date of establishment	Organization code	Business scope
China Electronics Technology Group Ltd.	Xiong Qunli	February 25th 2002	91110000710929498G	The Company is responsible for the development and manufacturing of military electronic equipment and systems integration, electronic equipment for weapon platform, military software and electronic basic products; and the construction of national defense electronic information infrastructure and safeguard conditions; construction of national major electronic information system; the research, development, production and sales of civil electronic information software, materials, components, equipment and system integration and related common technology; self-operated and agent import and export business of various commodities and technologies (except for goods and technologies that are restricted or restricted by the state-limited company); operating feed processing and

Name of the actual controller	Legal Representative	Date of establishment	Organization code	Business scope
				"three comes one supplement" business; operating counter trade and entrepot trade; Industrial investment; asset management; engaged in e-commerce information services; organization of enterprises in the industry to go abroad, participate in exhibitions.
Shares held by the actual controlling shareholder in other listed companies through controlling or holding during the reporting period	China Electronics Technology Group Ltd is the actual controller of eight domestic listed companies including An'hui Sun Create Electronic Co., Ltd, Shanghai East China Computer Co., Ltd, Chengdu Westone Information Industry Co., Ltd., GCI Science & Technology Co., Ltd., Tai'ji Computer Corporation Limited, GLARUN Technology Co., Ltd. , Phoenix Optics Co., Ltd., and CETC Microwave Communication (Shanghai) Co., Ltd., and etc.			

Change of the actual controller during the reporting period

□ Applicable √ Inapplicable

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



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

□ Applicable √ Inapplicable

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

□ Applicable √ Inapplicable

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

□ Applicable √ Inapplicable

Section VII Information of Preferred Shares

□ Applicable √ Inapplicable

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

Section VIII Information about Directors, Supervisors, Senior Management

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

√Applicable □ Inapplicable

Name	Title	Tenure status	Gender	Age	Commencement of term of office	Termination of term of office	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)
Chen Zongnian	Chairman	Incumbent	Male	54	June 19th 2008		0	0	0	0
Gong Hongjia	Vice Chairman	Incumbent	Male	54	June 19th 2008		1,385,056,700	0	130,000,000	1,255,056,700
Qu Liyang	Director	Incumbent	Male	55	March 7th 2018		15,750	0	0	15,750
Hu Yangzhong	Director, General Manager (CEO)	Incumbent	Male	54	December 28th 2001		122,786,477	59,400,000	0	182,186,477
Wu Weiqi	Director, Standing Deputy General Manager	Incumbent	Male	55	March 1st 2003		11,371,389	0	0	11,371,389
Cheng Tianzong	Independent Director	Incumbent	Male	67	March 6th 2015		0	0	0	0
Lu Jianzhong	Independent Director	Incumbent	Male	65	March 6th 2015		0	0	0	0

Name	Title	Tenure status	Gender	Age	Commencement of term of office	Termination of term of office	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)
Wang Zhidong	Independent Director	Incumbent	Male	52	March 6th 2015		0	0	0	0
Hong Tianfeng	Independent Director	Incumbent	Male	53	December 22nd 2016		0	0	0	0
Cheng Huifang	Supervisor Chairman	Incumbent	Female	66	March 6th 2015		0	0	0	0
Wang Qiuchao	Supervisor	Incumbent	Male	68	March 6th 2015		20,000	0	0	20,000
Xu Lirong	Supervisor; person in charge of internal audit	Incumbent	Male	56	March 21st 2018		303,000	0	0	303,000
Jiang Haiqing	Senior Deputy General Manager	Incumbent	Male	50	March 1st 2003		11,310,882	80,000	0	11,390,882
Jia Yonghua	Senior Deputy General Manager	Incumbent	Male	42	July 22nd 2015		5,601,244	100,000	0	5,701,244
Li Pan	Senior Deputy General Manager	Incumbent	Male	41	July 22nd 2015		5,500,068	200,000	0	5,700,068
He Hongli	Senior Deputy General Manager	Incumbent	Female	46	December 18th 2005		331,500	0	0	331,500
Fu Baijun	Senior Deputy General Manager	Incumbent	Male	47	January 20th 2009		390,000	0	0	390,000

Name	Title	Tenure status	Gender	Age	Commencement of term of office	Termination of term of office	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)
Cai Changyang	Senior Deputy General Manager	Incumbent	Male	48	April 8th 2016		109,500	0	0	109,500
Xu Ximing	Senior Deputy General Manager	Incumbent	Male	46	October 11th 2016		0	0	0	0
Bi Huijuan	Senior Deputy General Manager	Incumbent	Female	48	October 11th 2016		150,000	0	0	150,000
Jiang Yufeng	Senior Deputy General Manager	Incumbent	Male	48	December 18th 2005		325,500	0	0	325,500
Pu Shiliang	Senior Deputy General Manager	Incumbent	Male	42	March 21st 2018		293,900	0	0	293,900
Jin Duo	Senior Deputy General Manager	Incumbent	Male	54	March 10th 2015		109,500	0	0	109,500
Jin Yan	Senior Deputy General Manager, Person in charge of finance	Incumbent	Female	40	July 22nd 2015		174,000	0	0	174,000
Huang Fanghong	Senior Deputy General Manager, Board Secretary	Incumbent	Female	37	April 8th 2016		292,500	0	0	292,500
Chen Junke	Senior Deputy General Manager	Incumbent	Male	48	March 21st 2018		0	0	0	0

Name	Title	Tenure status	Gender	Age	Commencement of term of office	Termination of term of office	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)
Liu Xiang	Director	Left the post	Male	47	May 24th 2014	March 7th 2018	0	0	0	0
Chen Junke	Supervisor	Left the post	Male	48	June 19th 2008	March 21st 2018	0	0	0	0
Zheng Yibo	Deputy General Manager	Left the post	Male	57	June 30th 2004	March 21st 2018	168,900	0	60,750	108,150
Cai Dingguo	Deputy General Manager	Left the post	Male	52	December 18th 2005	March 21st 2018	312,000	0	0	312,000
Zhou Zhiping	Deputy General Manager	Left the post	Male	54	December 18th 2005	March 21st 2018	7,404,876	99,100	0	7,503,976
Xu Lirong	Deputy General Manager	Left the post	Male	56	March 1st 2007	March 21st 2018	303,000	0	0	303,000
Total	--	--					1,552,027,686	59,879,100	130,060,750	1,481,846,036

Note:

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

(2) During the reporting period, 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.

(3) Xu Lirong left the Company as a deputy general manager and was appointed as the employee supervisor. The number of the Company's shares held by him was only counted once in the total number of shares held at the beginning and the end of the reporting period.

II. Changes of directors, supervisors and senior management personnel

√Applicable □Inapplicable

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

III. Positions and Incumbency

1. Directors

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

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

Mr. Qu Liyang (屈力扬): Born in 1964, bachelor degree of engineering, researcher-level senior engineer. He served as the director, deputy director, party secretary and deputy director of the 52nd Research Institute, and chairman of the board of supervisors of CETHIK. He is currently the deputy director of the Reform and Development Committee of CETC's Strategy Committee, and serves as a director of the Company.

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

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

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

Mr. Lu Jianzhong (陆建忠): Born in 1954, holds bachelor degree in economics and CPA certificate. Lu served as a lecturer and an associate professor of finance and accounting department at Shanghai Maritime University (上

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

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

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

2. Supervisors

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

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

Mr. Xu Lirong (徐礼荣): Born in 1963, master degree of engineering, senior engineer. In January 2002, he joined Hikvision and served as manager of development division under the R&D center, secretary of the board of directors and deputy general manager of the Company. He is currently the employee representative supervisor and the person in charge of internal audit of the Company.

3. Senior management personnel

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

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

Mr. Jiang Haiqing (蒋海清): Born in 1969, bachelor degree in engineering, a senior engineer. He joined the Company in November 2001 and served as an assistant of the general manager and a deputy general manager. Mr. Jiang currently serves as a senior deputy general manager of the Company.

Mr. Jia Yonghua (贾永华): born in 1977, bachelor degree in engineering, a senior engineer. He joined Hikvision in January 2002 and held various positions at the Company, including director of Image Process and Analysis Division under the R&D Center, director of Strategy and Marketing Division, a deputy general manager of the Supply Chain Management Center, and a deputy general manager of the Company. Mr. Jia currently serves as a senior deputy general manager of the Company.

Mr. Li Pan (礼攀): born in 1978, master degree in engineering, and is a senior engineer. He served as an engineer of the 52nd Research Institute from August 2000 to December 2001. He joined Hikvision in December 2001 and held various positions at the Company, including engineer, product manager, R&D manager, the general manager of the Transportation Division, the general manager of Hangzhou Branch, a deputy general manager of the Company. Mr. Li currently serves as a senior deputy general manager of the Company.

Ms. He Hongli (何虹丽): Born in 1973, master degree in business administration. She joined Hikvision in December 2001 and served as an assistant to the general manager and a deputy general manager. Ms. He currently serves as a senior deputy general manager of the Company.

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

Mr. Cai Changyang (蔡昶阳): born in 1971, bachelor degree in engineering. He joined Hikvision in 2004, and held various positions of the Company, including general manager of Beijing branch, director for government and enterprise corporation department, director of investment department, director of strategy and marketing department, and a deputy general manager of the Company. Mr. Cai currently serves as senior deputy general

manager of the Company.

Mr. Xu Ximing (徐习明): born in 1973, bachelor degree in engineering. From July 1996 to September 2016, he held various positions in IBM, including engineer, department manager, director，partner of consulting service, senior partner of consulting service, and a vice president. He joined Hikvision in September 2016, and served as a deputy general manager of the Company. Mr. Xu currently serves as a senior deputy general manager of the Company.

Ms. Bi Huijuan (毕会娟): born in 1971, PhD in engineering, senior research engineer. From April 1999 to August 2016, she held various positions in the 15th Research Institute at China Electronics Technology Group Corporation (CETC), including engineer, senior engineer, senior research engineer, head of R&D department, vice chief engineer, and deputy director. She joined Hikvision in August 2016, and served as a deputy general manager of the Company. Ms. Bi currently serves as a senior deputy general manager of the Company.

Mr. Jiang Yufeng (蒋玉峰): born in 1971, bachelor degree of engineering, an engineer. He joined Hikvision in January 2005 and held various positions in the Company, including general manager of Beijing branch, marketing director, assistant to general manager, deputy general manager and marketing director, and deputy general manager. Mr Jiang currently serves as a senior deputy general manager of the Company.

Mr. Pu Shiliang (浦世亮): born in 1977, doctor of engineering, a senior engineer. He joined Hikvision in April 2006 and held various positions in the Company, including R&D engineer, R&D manager, R&D director, dean of the R&D institute, and chief expert. He currently serves as a senior deputy general manager of the Company.

Mr. Jin Duo (金铎): born in 1965, bachelor degree in engineering, a senior engineer. He served as a technician, assistant to engineers, an engineer and a senior engineer of the 52nd Research Institute from July 1986 to June 2004. He joined Hikvision in July 2004 and served as general manager of Hangzhou Branch, and a deputy general manager of the Company. Mr. Jin currently serves as a senior deputy general manager of the Company.

Ms. Jin Yan (金艳): born in 1979, master degree in management, an accountant. She joined Hikvision in 2004 and held various positions at the Company, including financial manager, the general manager of the Financial Management Center, and a deputy general manager and the person in charge of finance and accounting. Ms. Jin currently serves as a senior deputy general manager and the person in charge of finance and accounting of the Company.

Ms. Huang Fanghong (黄方红): born in 1982, master degree in law. She joined Hikvision in June 2009 and held various positions at the Company including legal department manager, internal audit manager, internal control director, and a deputy general manager and the board secretary. Ms. Huang currently serves as a senior deputy general manager, and board secretary of the Company.

Mr. Chen Junke (陈军科): Born in 1971, bachelor degree in engineering, senior engineer. Chen held various positions in the 52nd Research Institute from 1994 to 2001, including assistant engineer, engineer and senior engineer. He joined the Company in 2001 and served as the technology director of the Digital Video Recorder (DVR) Division of the Technology Management Center, general manager of supply chain management center, employee representative supervisor. Chen currently serves as senior deputy general manager of the Company.

Position held in shareholders' entities

√Applicable □ Inapplicable

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

Positions held in other entities

√Applicable □ Inapplicable

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
Cheng Zongnian	Zhejiang *Intelligent IoT Technology* Magazine	Legal Representative	February 2004		N
Cheng Zongnian	CETC Finance Ltd.	Director	December 2012		N
Cheng Zongnian	Zhejiang Wuzhen Street Technology Ltd.	Chairman	May 2016	February 2019	N
Gong Hongjia	Furong Technology Ltd.	Director	October 1999		N
Gong Hongjia	Hangzhou FunVio Ltd.	Chairman	February 2004		N
Gong Hongjia	Funian Technology Ltd.	Chairman of the Board	October 2007		N
Gong Hongjia	Beijing Funian Technology Ltd.	Chairman	November 2011		N
Gong Hongjia	Shanghai Fullhan Microelectronics Co., Ltd.	Director	April 2013		N
Gong Hongjia	Shenzhen Innovation Valley Investment Management Ltd.	Director	July 2014		N
Gong Hongjia	Shanghai Pukun Information Technology	Director	September 2014		N

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
	Ltd.				
Gong Hongjia	FuCe Holdings Ltd.	Director	October 2014		N
Gong Hongjia	Chuangjia Venture Capital Investment Ltd	Director	October 2014		N
Gong Hongjia	Shenzhen Jiadao Valley Investment Management Ltd.	General Manager	October 2014		Y
Gong Hongjia	Shenzhen Jiadao Gongcheng Equity Investment Fund (Limited Partnership)	Executive Partner & delegate	November 2014		N
Gong Hongjia	JiuBaYi Health Technology Ltd.	Director	November 2014		N
Gong Hongjia	Beijing JiaBoWen Biotechnology Ltd.	Director	March 2015		N
Gong Hongjia	Wuhan YouXin Technology Co., Ltd.	Director	January 2016		N
Gong Hongjia	QingKe Management Consulting Group Ltd.	Director	February 2017		N
Gong Hongjia	Shenzhen JiadaoFangzhi Education Industry Investment Enterprise (Limited Partnership)	Executive Partner & delegate	June 2017		N
Gong Hongjia	Shenzhen Jiadao Successful Investment Enterprise (Limited Partnership)	Executive Partner & delegate	August 2017		N
Gong Hongjia	Shanghai AoYuan Medical Supplies Ltd.	Chairman	September 2017		N
Gong Hongjia	Sichuan JiaDao BoWen Ecological Technology Ltd.	Chairman	December 2017		N
Gong Hongjia	Beijing JiaDaoGu Management Consulting Ltd.	Supervisor	April 2018		N
Gong Hongjia	Core Microelectronics (Shanghai) Ltd.	Director	October 2018		N
Gong Hongjia	Sichuan Five-Plus-One Ecological Agriculture	Chairman	November 2018		N

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
	Technology Service Ltd.				
Gong Hongjia	Sichuan JiaBoWen Biological Technology Ltd.	Chairman	November 2018		N
Gong Hongjia	Shenzhen Zhongke Science and Technology Achievements Transformation Equity Investment Fund Management Ltd.	Chairman	December 2018		N
Gong Hongjia	ZhongYuan Concord Cell Genetic Engineering Co., Ltd.	Legal Representative Chairman	December 2018		N
Qu Liyang	Zhejiang Haikang Technology Ltd.	Director	April 2009		N
Qu Liyang	Zhejiang YiBo High Technology Ltd.	Director	August 2009		N
Wu Weiqi	Xinjiang Pukang Investment Management Limited Partnership	Executive Partner	May 2011		N
Wu Weiqi	Wuhu Sensor Tech Intelligent Technology Ltd.	Director	January 2017		N
Wu Weiqi	Maxio Technology (Hangzhou) Ltd.	Director	May 2017		N
Cheng Tianzong	Hechun Technology Co., Ltd.	Director	June 2014		Y
Cheng Tianzong	Zuozhen Co., Ltd.	Director	January 2015		Y
Cheng Tianzong	Wenhui Technology Co., Ltd.	Independent Director	June 2016		Y
Lu Jianzhong	Shanghai Jiao Tong University- Antai College of Management,	Mentor for enterprises	December 2013		N
Lu Jianzhong	Dahua Certificated Public Accountants LLP	Chartered Accountant	January 2016		N
Lu Jianzhong	ChangShu FengFan Electric Power Equipment Co., Ltd.	Independent Director	September 2015		Y
Lu Jianzhong	Ningbo Lehui International	Independent	March 2016		Y

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
	Construction Equipment Co., Ltd.	Director			
Lu Jianzhong	COSCO Maritime Transport Development Co., Ltd.	Independent Director	January 2018		Y
Lu Jianzhong	Shanghai Xinnanyang Angli Education Technology Co., Ltd.	Independent Director	January 2019		Y
Lu Jianzhong	Shanghai Mingzhi Electric Co., Ltd.	Independent Director	October 2017	March 2018	Y
Wang Zhidong	Beijing Yilian Yisheng Science and Technology Ltd.	Chairman, CEO	October 2013		Y
Hong Tianfeng	Shanghai Fangguang Investment Management Ltd.	Executive Director	February 2012		Y
Hong Tianfeng	Shanghai Fangguang Venture Investment Management Partnership Enterprise (Limited Partnership)	Managing Partner	February 2012		N
Hong Tianfeng	Shanghai Fangguang Venture Investment Partnership Enterprise (Limited Partnership)	Managing Partner	August 2012		N
Hong Tianfeng	Shanghai Fangguang Erqi Venture Investment Partnership Enterprise (Limited Partnership)	Managing Partner	September 2016		N
Hong Tianfeng	Suzhou Fangguang Venture Investment Management Partnership Enterprise (Limited Partnership)	Managing Partner	September 2012		N
Hong Tianfeng	Suzhou Fangguang Venture Investment Partnership Enterprise (Limited Partnership)	Managing Partner	September 2012		N
Hong Tianfeng	Suzhou Fangguang Venture Investment Phase 2 Partnership Enterprise	Managing Partner	July 2016		N

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
	(Limited Partnership)				
Hong Tianfeng	Shenzhen Pengfenghui Venture Investment Ltd.	Executive Director & General Manager	June 2014		N
Hong Tianfeng	Shenzhen Fangguang Enterprise Management Consulting Ltd.	Executive Director & General Manager	May 2016		N
Hong Tianfeng	Sannuo Biology Sensor Co., Ltd.	Director	September 2013		Y
Hong Tianfeng	Shenzhen YunZhiXun Network Technology Ltd.	Director	May 2014		N
Hong Tianfeng	Jiangsu JiTaiKe Electrics Co., Ltd.	Director	July 2015		N
Hong Tianfeng	Zhongwei Dahe Cloud Connection Network Technology Ltd.	Director	November 2016		N
Hong Tianfeng	Shenzhen DongFengMingTu Enterprise Management Ltd.	Supervisor	August 2016		N
Hong Tianfeng	CETC Huayun Information Technology Ltd.	Director	March 2017		N
Hong Tianfeng	Shanghai Chuangyuan Equipment Technology Co., Ltd.	Director	August 2014	December 2018	N
Hong Tianfeng	Shanghai Baishitong Information Technology Co., Ltd.	Director	September 2016	August 2018	N
Cheng Huifang	Zhejiang FuRun Co., Ltd	Independent Director	April 2014		Y
Cheng Huifang	Hangzhou HangYang Co., Ltd.	Independent Director	January 2016		Y
Cheng Huifang	Zhejiang HuaCe Media Co., Ltd.	Independent Director	February 2016		Y
Cheng Huifang	Zhejiang Commercial Bank Co., Ltd.	External Supervisor	June 2016		Y
Cheng Huifang	Quzhou NanGaoFeng Chemical Co., Ltd.	Independent Director	March 2017		Y

Name	Name of other Entity	Position in other entity	Commencement of the term	Termination of the term	Compensation and allowance from the other entities
Cheng Huifang	Kings Resources Group Co., Ltd	Independent Director	March 2014	December 2018	Y
Wang Qiuchao	Zhejiang T&C Law Firm	Partner	August 1993		Y
Wang Qiuchao	Zhejiang JingSheng Mechanical & Electrical Co.,ltd	Independent Director	April 2015		Y
Wang Qiuchao	Zhejiang KaiShan Compressor Co., Ltd.	Independent Director	May 2015		Y
Wang Qiuchao	Hanjia Design Group Co., Ltd.	Independent Director	July 2015		Y
Wang Qiuchao	SanBian Sci-Tech Co., Ltd.	External Supervisor	August 2014	August 2018	Y
Jia Yonghua	Hangzhou Confirmwaref Technology Co., Ltd.	Director	November 2016		N
Zheng Yibo	Zhejiang TuXun Technology Co., Ltd.	Director	December 2016		N
Liu Xiang	Xinjiang Weixun Investment Management Limited Partnership	Executive partner	May 2011		N
Liu Xiang	Phoenix Optical Co. LTD	Chairman	July 2015		N
Liu Xiang	Phoenix Optical Holding Co. LTD	Chairman	July 2015		N
Liu Xiang	Beijing LeiShengQiangShi Technology Ltd.	Director	January 2017		N
Liu Xiang	CETHIK Wuxi Technology Ltd.	Chairman	January 2018		N
Description of the status of employment in other units	Liu Xiang and Zheng Yibo have left their posts on March 7th 2018 and March 21st 2018 respectively when terms up.				

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

□ Applicable √ Inapplicable

IV. Remuneration of directors, supervisors and senior management personnel

The decision-making program, determination basis and actual remuneration payment of directors, supervisors and

senior management personnel:

The remuneration of directors, supervisors and senior management personnel will be received preliminarily by the Remuneration and Appraisal Committee of the Board, among them, remuneration of independent directors and external supervisors would be further reviewed and approved by general meeting of shareholders. As for those directors (exclude independent directors), supervisors (exclude external supervisors) and senior management personnel who receive remuneration from the Company directly, they will receive remuneration according to the Company's current Salary System and Performance Appraisal Schemes.

Remuneration of directors, supervisors and senior management personnel

Unit: RMB 0,000

Name	Title	Gender	Age	Tenure status	Total remuneration from the Company (RMB'0,000)	Remuneration from related parties (Y/N)
Chen Zongnian	Chairman	M	54	Incumbent	0	Y
Gong Hongjia	Vice Chairman	M	54	Incumbent	0	Y
Qu Liyang	Director	M	55	Incumbent	0	Y
Hu Yangzhong	Director, General Manager	M	54	Incumbent	308.79	N
Wu Weiqi	Director, Standing Deputy General Manager	M	55	Incumbent	293.64	N
Cheng Tianzong	Independent Director	M	67	Incumbent	27.5	N
Lu Jianzhong	Independent Director	M	65	Incumbent	27.5	N
Wang Zhidong	Independent Director	M	52	Incumbent	27.5	N
Hong Tianfeng	Independent Director	M	53	Incumbent	27.5	N
Cheng Huifang	Supervisor Chairman	F	66	Incumbent	18.33	N
Wang Qiuchao	External Supervisor	M	68	Incumbent	18.33	N
Xu Lirong	Employee Supervisor, Person in charge of internal audit	M	56	Incumbent	118.78	N
Jiang Haiqing	Senior Deputy General Manager	M	50	Incumbent	248.62	N
Jia Yonghua	Senior Deputy General Manager	M	42	Incumbent	238.20	N
Li Pan	Senior Deputy General Manager	M	41	Incumbent	238.17	N
He Hongli	Senior Deputy General Manager	F	46	Incumbent	278.43	N
Fu Baijun	Senior Deputy General Manager	F	47	Incumbent	248.32	N
Cai Changyang	Senior Deputy General	M	48	Incumbent	242.94	N

Name	Title	Gender	Age	Tenure status	Total remuneration from the Company (RMB'0,000)	Remuneration from related parties (Y/N)
	Manager					
Xu Ximing	Senior Deputy General Manager	M	46	Incumbent	418.20	N
Bi Huijuan	Senior Deputy General Manager	F	48	Incumbent	362.94	N
Jiang Yufeng	Senior Deputy General Manager	M	48	Incumbent	248.43	N
Pu Shiliang	Senior Deputy General Manager	M	42	Incumbent	208.66	N
Jin Duo	Senior Deputy General Manager	M	54	Incumbent	238.32	N
Jin Yan	Senior Deputy General Manager, person in charge of finance and accounting	F	40	Incumbent	238.21	N
Huang Fanghong	Senior Deputy General Manager Board Secretary Internal audit director	F	37	Incumbent	238.21	N
Chen Junke	Senior Deputy General Manager	M	48	Incumbent	178.69	N
Liu Xiang	Director	M	47	Left the post	0	Y
Chen Junke	Supervisor	M	48	Left the post	59.52	N
Zheng Yibo	Deputy General Manager	M	57	Left the post	44.66	N
Cai Dingguo	Deputy General Manager	M	52	Left the post	24.66	N
Zhou Zhiping	Deputy General Manager	M	54	Left the post	44.66	N
Xu Lirong	Deputy General Manager	M	56	Left the post	44.61	N
Total	--	--	--	--	4712.32	--

Note: The salary of the new appointed and adjusted directors, supervisors and executive management in the reporting period is the salary during the period in which they held the position.

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

√ Applicable □ Inapplicable

Unit: share

Name	Title	Restricted Shares held at the beginning of the period	Shares vested in the current period	Shares newly granted in the current period	Price for restricted shares granted (RMB per share)	Restricted Shares held at period-end
Hu Yangzhong	Director, General Manager	336,000	87,750	-	-	248,250
Wu Weiqi	Director, Standing Deputy General Manager	305,100	78,300	-	-	226,800
Jiang Haiqing	Senior Deputy General Manager	258,000	67,500	-	-	190,500
Zheng Yibo	Senior Deputy General Manager	121,500	60,750	-	-	60,750
Cai Dingguo	Senior Deputy General Manager	231,000	60,750	-	-	170,250
He Hongli	Senior Deputy General Manager	254,100	58,050	-	-	196,050
Fu Baijun	Senior Deputy General Manager	312,600	58,050	-	-	254,550
Xu Lirong	Supervisor, person in charge of internal audit	225,600	58,050	-	-	167,550
Zhou Zhiping	Senior Deputy General Manager	225,600	58,050	-	-	167,550
Jiang Yufen	Senior Deputy General Manager	244,500	60,750	-	-	183,750
Jin Duo	Senior Deputy General Manager	109,500	-	-	-	109,500
Jin Yan	Senior Deputy General Manager, person in charge of finance	174,000	-	-	-	174,000
Jia Yonghua	Senior Deputy General Manager	109,500	-	-	-	109,500
Li Pan	Senior Deputy General Manager	109,500	-	-	-	109,500
Cai Changyang	Senior Deputy General Manager	109,500	-	-	-	109,500
Bi Huijuan	Senior Deputy General Manager	150,000	-	-	-	150,000
Pu Shiliang	Senior Deputy General Manager	293,900	50,000			243,900
Huang Fanghong	Senior Deputy General Manager, Secretary of the	148,500	74,250			74,250

Name	Title	Restricted Shares held at the beginning of the period	Shares vested in the current period	Shares newly granted in the current period	Price for restricted shares granted (RMB per share)	Restricted Shares held at period-end
	board					
Total	--	3,718,400	772,250	-	-	2,946,150

Note:

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

(2) The 2018 restricted shares incentive plan is granted on December 20th 2018, and the listing date is January 18th 2019, which is not covered in the above form.

V. Staff in the Company

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

Number of incumbent employees in the parent Company	18137
Number of incumbent employees in major subsidiaries	16255
Number of incumbent employees	34392
Number of employees receiving salaries in current period	34392
Number of retired employees requiring the parent Company and its subsidiaries to bear costs	0
Professional structure	
Tier	Number of employees
Administrative staff	499
Engineers	16010
Sales staff	7482
Functional staff	1312
Production staff	9089
Total	34392
Educational background	
Education background	Number of employees
Master and/or doctor/or above	5570
Bachelor	18505
Junior College (professional training)	2115
Other	8202
Total	34392

2. Staff remuneration policy

Hikvision applies scientific talent cultivation methods, effective talent incentive mechanisms and fair competition platforms to recruit talents, and continuously optimizes the talent structure. The Company provides employees with remuneration packages which are competitive in the industry. In addition to endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing provident funds, the Company provides employees with the supplementary commercial insurance, medical subsidies, travel and communication allowances and other special allowances, in order to create a fairer and more humanized working environment for each employee; so that each employee is able to demonstrate his/her value, and creates value to satisfy increasing demands for a good life.

3. Staff training plans

The Company is committed to building a strategically oriented training model, formulating talent planning based on corporate strategy, and implementing it into a training program to help achieve business strategy through the development of the Company's talent.

In 2018, on the basis of the steady operation of key training systems such as new employees and management cadres, the Company made key construction and investment in the professional talent development system and cultural training system. The Company closely follows the strategic transformation of business and changes in the external environment, and cooperates with business experts and training experts to build a professional talent development system in six key business area; the cultural training system has clarified the methodology of the cultural work system through co-creation with senior executives, seminars with middle-level managers, and research and interviews with front-line employees. In addition, the new employee training, as an important input port of the cultural training system, has made a deeper link in the understanding, identification and integration of culture; and the coverage rate of new employee training has reached 99%. The tiered management training system was implemented across the Company, the implementation of the grassroots management cadre training program, the middle-level management cadre training project and the middle-to-high level leadership projects have fully promoted the capacity improvement of different levels of management cadres; and the cumulative coverage rate of management training projects reached 88% .

In 2019, the Company will continue to be strategically oriented, aim at improving business capabilities, strengthen the system operation of learning and development, and build a professional platform.

4. Labor outsourcing

□ Applicable √ Inapplicable

Section IX Corporate Governance

I. Basic situation of corporate governance

During the reporting period, in accordance relevant laws and regulations, and regulatory and regulatory documents from supervision department, i.e. *Company Law（公司法）*, *Securities Law（证券法）*, *Code of Corporate Governance for Listed Companies in China（上市公司治理规则）*, *Listing Rules of Shenzhen Stock Exchange Stock（深圳证券交易所股票上市规则）*, *Guidelines of the Shenzhen Stock Exchange for the Standard Operation of Listed Companies on the Small and Medium-sized Enterprise Board （深圳证券交易所中小板上市公司规范运作指引）*, the Company further improved its corporate governance structure and optimized the internal management system based on the actual situation; improved the standardized operation level; performed information disclosure obligations, disclose relevant information in a true, accurate, complete and timely manner, and maintained the legitimate rights and interests of investors.

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

1. The Company continuously optimizes its internal management systems.

In light of the current business development, the Company revised the *Authorization Management System* 《授权管理制度》 and the *General Manager's Working Rules* 《总经理工作细则》 to strengthen internal control and improve the standardized operation level. The Company revised the *Regulations on the Management of Fixed Assets and Low-Value Consumables* 《固定资产和低值易耗品管理规范》 to further strengthen assets management and improve the efficiency of asset use. The Company formulated the *Position Management System* 《岗位管理制度》 and the *Talent Selection and Promotion System* 《人才选拔与晋升降级制度》, in order to improve the post system, promote the construction of talent team, and support the sustainable development of the Company's business. In order to promote the Company's standardized operation in various countries and regions, the Company established the Compliance Department during the reporting period to strengthen the construction of compliance system and ensure the Company's standardized operation.

2. Continuously strengthen internal control and process management. During the reporting period, the

Company focused on supervising high-risk business processes, finding loopholes, and building a defense line for the Company's risk control. The Company conducted investigations related to reported complaints, convened anti-corruption conferences, and invited family members of key positions to participate in probity education. The Company's Change Management Steering Committee continued to build a flat organization by promoting decentralization, de-intermediation, and shifting decision-making downwards, and improved and optimized the Company's internal management by enhancing system construction.

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

The Company's information disclosure was approved by the regulatory authorities: the Company has been awarded the A-level evaluation of the information disclosure of small-and-medium sized listed companies by the Shenzhen Stock Exchange for 8 consecutive years. The Company has also won some honors in the capital market: Jin Junma's "*Technology Innovation Award for Listed Company*" selected by Securities Daily; "*The Top 50 Listed Companies of China's Small-and-Medium Sized Boards*" and "*Top Ten Management Teams of China's Small-and-Medium sized Listed Companies*" selected by Securities Times and New Fortune Magazine's 12th China Listed Company Value Selection; and "*Top 10 of the Top 50 China's Board of Directors*" selected by Fortune (Chinese version) and Aon Hewitt Management Consulting.

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

□ Yes √ No

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

The Company is completely independent in business, management, assets, organization, and finance from its shareholders. The Company has established a sound internal control system, being capable of operating independently with its complete and independent business.

(1) **Business independence:** The Company has its own production, purchases and sales systems, which are completely independent from controlling shareholders. Therefore, there is no competition among the Company, controlling shareholders, and related parties.

(2) **Personnel independence:** The Company has independent personnel. The management has set up various independent departments, including R&D, production, administration, finance and operation management divisions, etc., and established complete management methods for labor, personnel, and salary management. Personnel of the Company are independent from controlling shareholders, e.g. the Chairman is elected through the general meetings of the Board. In addition, the General Manager, Senior Deputy General Managers, the Secretary of the Board, CFO, and other senior management personnel of the Company are only employed and remunerated by the Company, and do not hold any position in controlling shareholders and is not remunerated by controlling shareholders. Directors, Supervisors and Senior Management Personnel are appointed through legal procedures strictly in accordance with relevant regulations stipulated in *Company Law* and *Articles of Association.* There is no controlling shareholder intervention in the Company's personnel decisions in general meetings of the Board or shareholders.

(3) **Asset Completeness:** The property rights of assets are explicitly between the Company and the controlling shareholders, and no assets, funds, or other resources owned by the Company are illegally and irregularly occupied or controlled by the controlling shareholders. Assets of the Company are integrated, including complete property rights of fixed assets for production, supporting assets for production, and intangible assets of patents, etc. The Company has the full control and ownership of all assets.

(4) **Independence in organizations:** The Company's Board, Supervisor Committee, Management and other internal organizations operates independently, and each functional department is independent from controlling shareholders in duty and personnel. There is no superior-subordinate relation between functional departments of controlling shareholders and those of the Company, which would have an impact on the Company's independent operations.

(5) **Financial Independence:** The Company has established an independent financial department, as well as a sound and independent financial and accounting system. The Company makes financial decisions independently. There is no controlling shareholder intervention in the Company's financial

and accounting activities. The Company has maintained accounts with banks independently of and do not share any bank account with our Controlling Shareholders. The Company has undertaken independent tax registration in accordance with applicable laws, and paid tax independently.

III. Horizontal competition

□ Applicable √ Inapplicable

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

1. Annual General Meeting convened during the reporting period

Meeting	Nature	Proportion of participating investors	Convened Date	Disclosure Date	Disclosure Index
2018 First Extraordinary General Meeting	Extraordinary General Meetings	70.80%	March 7th 2018	March 8th 2018	Public Announcement: No. 2018-011
2017 Annual General Meeting	Annual General Meeting	73.66%	May 11th 2018	May 12th 2018	Public Announcement: No. 2018-032
2018 Second Extraordinary General Meeting	Extraordinary General Meetings	73.11%	December 19th 2018	December 20th 2018	Public Announcement: No. 2018-065

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

□ Applicable √ Inapplicable

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

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

Attendance of independent directors in board meetings and general meetings							
Name of Independent Director	Board meeting presence required in the reporting period (times)	Board meeting presence on site (times)	Board meeting presence by telecom-communication (times)	Board meeting presence through a proxy (times)	Board meeting absence (times)	Board meeting not attend in person for two consecutive times	Presence of independent directors in general meetings (times)
Cheng Tianzong	10	1	9	0	0	N	0
Lu Jianzhong	10	1	9	0	0	N	1
Wang Zhidong	10	1	9	0	0	N	0
Hong Tianfeng	10	0	9	1	0	N	1

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

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

□ Yes √ No

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

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

√ Yes □ No

Details: During the Reporting Period, independent directors strictly followed related rules, regulations, including *Company Act*(《公司法》), *Guidance of Board of Directors for Listed Compaies* (《关于在上市公司建立独立董事的指导意见》), *Shenzhen Stock Exchange Place Standardized Operational Guidance on Small-and-Medium Size Listed companies* (《深圳证券交易所中小企业板上市公司规范运作指引》), *the Articles Association* (《公司章程》), and *Regulations on Independent Directors* (《独立董事工作条例》). They focused on the Company operation, carried out their duties independently and imparted considerable professional advice on improving the Company's systems, daily operations and decision making. They provided fair advice during the Reporting Period and played an effective role in improving the Company supervisory systems and protecting the legal rights of the Company and the shareholders as a whole. For details, please refer to *Independent Directors' 2018 Debriefings* disclosed on www.cninfo.com.cn.

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

1. Strategy Committee

During the reporting period, the Strategy Committee has researched, studied and put forward proposals regarding significant investment decisions, considering the domestic and international situation and the characteristics of the Industry in which the Company operated, and carried out inspection and evaluation on the implementation situation of the above matters. Meanwhile, the Strategy Committee listened carefully to the senior management's report on the operation and development of each business module, actively discussed long-term future strategic development plans of the Company considering the industrial characteristics and developmental stage of the Company, and provided valuable suggestions for sustainable, steady and healthy development of the Company.

2. Audit Committee

The Audit Committee is primarily responsible for the communication, supervision and inspection of internal and external audits. During the reporting period, the Audit Committee carefully reviewed the Company's financial information and its disclosure, reviewed the annual audit work summary report of the external audit institution, listened to the relevant internal audit department's report, and made comments and suggestions on the selection and appointment of the external audit institution. At the same time, the Audit Committee also organized a special work meeting to track the implementation of major issues in the financial center and internal control department, and put forward relevant requirements for internal control of the Company.

3. Nomination Committee

During the reporting period, the Nomination Committee carefully studied the selection criteria and procedures of the Company's directors and senior management personnel, conducted a review of the resume and qualifications of the new directors and senior executives through communication with relevant departments of the Company, and actually fulfilled the duties of the Nominating Committee.

4. Remuneration and Appraisal Committee

During the reporting period, the Remuneration and Appraisal Committee carefully studied and reviewed the

remuneration policies and plans for senior management personnel and for the company overall, and made professional recommendations on the assessment criteria of the above-mentioned personnel, and tracked and supervised the implementation of the previous year's programs; reviewed and provided guidance for the granting of 2018 restricted shares, the 3rd unlocking of 2014 restricted stocks and the 1st unlocking of 2016 restricted stocks.

VII. Performance of duties by the Supervisory Committee

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

□ Yes √ No

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

In 2018, the Company's Board of Supervisors convoked a total of 9 meetings, and reviewed a total of 29 proposals which mainly involved in aspects of the Company's daily operation, financial information and its disclosure, and vesting of restricted incentive share plan, and etc., for details or Supervisory Committee resolutions, please refer to www.cninfo.com.cn. Meanwhile, the Company's Supervisory Committee also organized on-site special working meetings, listened to the senior management's report on the operation and development of each module of the Company, deeply understood the measures of Company's operational and financial situation, the establishment and implementation of internal control system, and protection of employees' rights and interests, etc.

Supervisory Committee's opinions on relevant matters in 2018:

1. Normative Operation Conditions of the Company

During the reporting period, the Supervisory Committee members have supervised the Company's daily operation situation by means of attending the board meeting and the shareholders' meeting, listening to and review special report, interview and other forms. The Board of Supervisors believes that the Company has established a fairly sophisticated internal control system, all significant decisions are scientific and reasonable, and

decision-making processes are legal. Directors and senior management personnel of the Company are diligent and responsible when executing duties; and behaviors of violating laws and regulations, damaging interests of the Company and legitimate rights and interests of shareholders were not found.

2. Checking the financial situation of the Company

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

3. Self-evaluation report about internal control of year 2018

During the reporting period, the Supervisory Committee has listened to reports regarding construction and implementation situations for the internal control system of the Company and its branches and subsidiaries by Internal Audit Department, Process Management Department and other relevant departments. After a careful study and discussion, the Supervisory Committee believes that the Company has established a fairly sophisticated internal control system which conforms to relevant national laws and regulations and fulfills the actual demand of the Company's production and operation management, obtained effective implementation, and has played a role in risk prevention and control effect on each section of the Company's production and operation management. The Board of Directors' 2018 self-evaluation report about internal control can truthfully and objectively reflect the internal control system construction and operation conditions of the Company.

4. External Guarantee Situation of the Company

During the reporting period, the Supervisory Committee has carefully listened to the reports by the person in charge of finance and accounting, understood about demand of guarantees items and relevant implementation situations of the Company and its subsidiaries, and researched and reviewed relevant proposals regarding guarantees provided for subsidiaries by the Company. The Supervisory Committee believes that: The Company provides guarantees for subsidiaries, which fully meets fund demand for its production and management, and is beneficial to further improve its production and operation abilities. The financial risk of the guarantee provided by

the Company is in the controllable scope of the Company, and has no significant impact on normal operation of the Company. For guarantees provided to subsidiaries not wholly-owned by the Company, the minority shareholders will not provide proportional guarantees, however, those subsidiaries all have good business prospects and the Company has control power on the subsidiaries' operation and finance, So there's basically no risk in providing a guarantee. There is no contravention between relevant provisions of CSRC and *Articles of Association*. The guarantee conforms to interests of the Company and general shareholders, and won't have any adverse effect on the Company.

5. Related-party transactions of the Company

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

6. Implementation of resolutions of shareholders' meeting

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

7. Restricted share plan of the Company

During the reporting period, the Supervisory Committee has researched and reviewed relevant proposals of unlocking 2014 & 2016 restricted incentive shares plan, and the implementation of 2018 Restricted Incentive Shares Plan. The Supervisory Committee considered that the company's restricted stock plan implementation procedures are legal and effective; the introduction of restrictive stock plans is conducive to further improve the corporate governance structure, and to form a sound and balanced value distribution system; fully motivate the enthusiasm of core employees, support the Company's strategic realization and long-term sustainable development; attract and retain core employees to ensure the Company's long-term development and competitive advantage. At

the same time, the Board of Supervisors conducted a special review of the "List of Incentives for the 2018 Restricted Share Plan", and considered that the incentive targets included in the company's 2018 Restricted Share Plan are in compliance with the conditions of incentives specified in laws, regulations and regulatory documents, in line with the scope and conditions of incentives specified in the 2018 Restricted Share Plan, and are legal and valid as the subject of the 2018 Restricted Share Plan.

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

VIII. Assessment and incentive mechanism for the senior management

The Company has established a fairly sophisticated mechanism on employees' evaluation and incentive restraint, and has established a fair and transparent appraisal and incentive mechanism on senior management personnel and other various level management personnel and employees. The Company's board of directors has carried out annual appraisals of senior management members mainly based on annual target achievement index. The Board is responsible for appraisals of the general manager on the general manager's duty, capacity and performance of operation; and the general manager carried out appraisals of other senior management members on their operational management and implementation of relevant assignments. In the year 2018, senior management personnel carried out their duties diligently with good performance, and fairly completed their objectives and missions set out at the beginning of the year.

IX. Evaluation report on internal control

1. Any significant internal control deficiencies during the reporting period

□ Yes √ No

2. Self-evaluation report on internal control

Disclosure date of full text of self-evaluation report on internal control			April 20th 2019
Disclosure index of full text of self-evaluation report on internal control			www.cninfo.com.cn
Proportion of assets evaluated in total assets			100.00%
Proportion of revenue evaluated in total revenue per consolidated financial statement			100.00%
Recognition standard of deficiencies			
Nature	Financial report level		Non-financial report level
Qualitative criteria	Significant deficiency: A deficiency or a combination of deficiencies in internal control may prevent significant errors in financial reports from being identified or prevented, e.g.: A. Invalid internal control environment; B. Fraud of directors, supervisors and senior management personnel on the financial report ; C. Significant errors identified by external auditors but not identified during the Company is operating; D. Invalid supervision of audit committee and internal audit system; E. Other deficiencies that may lead to the wrong judgement of financial statement reporter. Important deficiency: A deficiency or a combination of deficiencies in internal control may prevent errors in financial report from being identified or prevented, although such deficiency is not significant, but require attention of the Board and Management, e.g.: A. Application of accounting policies does not follow the enterprise accounting standard; B. No internal control systems for fraud; C. No control systems or system not effective for unusual or special transactions or no compensatory relevant control; D. One or more deficiencies which prevent the preparation of true and fair financial statements. Normal deficiency: Not significant and not important deficiency.		Internal control deficiencies at non-financial report level are mainly identified by the likelihood of occurrence and the extent of impacts on operating effective in business. Significant deficiency: the high likelihood leading to significant reduction of working efficiency, or significant increase of uncertainty, or significant deviation from the expected target; Important deficiency: a higher likelihood leading to remarkable reduction of working efficiency, or remarkable increase of uncertainty, or remarkable deviation from the expected target; Normal deficiency: a low likelihood leading to reduction of working efficiency, or increase of uncertainty, or deviation from the expected target;
Quantitative criteria	Significant deficiency	potential errors 5% or more of total profits	direct losses of assets is 5% or more of total profits
	Important deficiency:	potential errors 2% or more but below 5% of total profits	direct losses of assets is over 2% but below 5% of total profits

	Normal deficiency:	potential errors is 2% or less of total profits	direct losses of assets is below 2% of total profits
Number of significant deficiencies in financial report level			0
Number of significant deficiencies in non-financial report level			0
Number of important deficiencies in financial report level			0
Number of important deficiencies in non-financial report level			0

X. Audit report or assurance report on internal control

□ Applicable √ Inapplicable

Section X Corporate Bonds

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

Section XI Financial Report

I. Audit report

Audit Opinion	Unmodified unqualified audit opinion
Audit Report sign-off Date	April 18th 2019
Audit Institution Name	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Audit Report Number	Deloitte Auditors' Report (Audit) No. 19-P02882
Certified Public Accounts Name	Mou Zhengfei, Zhang Shushu

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

I. Audit Opinion

We have audited the accompanying financial statements of Hangzhou Hikvision Digital Technology Co., Ltd. (hereinafter referred to as "Hikvision"), including consolidated and parent company's balance sheet as of December 31st 2018, consolidated and parent company's income statement, cash flow statement and statement of changes in owners' equity of 2018 as well as relevant financial notes to financial statements.

In our opinion, the financial statements annexed have been prepared in accordance with Accounting Standards for Business Enterprises in all material respects and they present fairly the consolidated and parent company's financial position of Hikvision as of December 31st 2018 and consolidated and parent company's financial performance and cash flows of 2018.

II. Basis of Opinion

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

III. Key Matters

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

(I) Recognition of Sales Revenues

Description:

As shown in Note (V) (37) and Note (XIV) (1), the operating revenue in 2018 in the consolidated financial statements of the Group for the year ended December 31st 2018 is RMB 49,837.13 million. The product sales revenue, a key performance indicator, reaches RMB 47,552.07 million, accounting for 95.41% of the operating revenue, which is a significant amount and has a significant influence on results of operations. The product sales revenue models include internal and external sales of products, etc. There may be relevant risks of revenue recognition, as the point in time at which risks and rewards are transferred is different under different revenue models. Therefore, we treat sales revenue occurrence and cutoff as key audit matters.

Audit Measures:

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

(1) Understanding and evaluating design and implementation of key internal control in relation to revenue recognition, and testing the effectiveness of its operation;

(2) For revenues under different sales models, selecting a sample to check a sales contract, reviewing its main transaction terms, evaluating whether revenue recognition complies with requirements of accounting policies of the Group and the Accounting Standards for Business Enterprises; conducting a background investigation of important customers to check whether there is any indication of existence of abnormal customers or transactions;

(3) Analyzing revenues and gross profits, based on product types, to understand whether there are abnormal fluctuations in the revenues and gross profits for the year, and conducting a test of details for identified specific transactions, through systematic analysis of revenue data, and reviewing relevant supporting documents;

(4) Selecting sample(s) from product sales revenues recorded for the year, checking invoices, sales contracts or orders, shipping orders, signature forms or customs declarations and other supporting documents; carrying out an additional check of sample(s) under the selected external sales model for customs declaration records; critically focusing on occurrence of sales revenue recognition and whether they are recorded in the correct accounting period.

(5) Sampling review the sales revenue of products for a certain period before the end of the year, check the relevant supporting documents, and confirm whether the sales revenue is booked in the correct accounting period.

(II) Provision for Decline in Value of Inventories

Description:

As shown in Note (V) (6), as of December 31st 2018, the carrying amount of inventories in the consolidated financial statements of the Group was RMB 5,842.85 million (excluding completed but unsettled assets formed by construction contracts), and the provision for diminution in value of inventories was RMB 321.61 million. The carrying value of the Group's inventories is relatively high, so the provision for diminution in value of inventories has a relatively significant influence on the financial statements. As shown in Note (III) 11.3 and Note (III) 26 to the financial statements,

inventories are measured at the lower of cost and net realizable value, on the balance sheet date. The provision for impairment of inventories is made when the net realizable value is lower than the cost. Net realizable value is the estimated selling price for inventories less estimated costs of completion to be incurred, estimated costs to make the sale and relevant taxes. As the management needs to use critical accounting estimates in determining the net realizable value of inventories and the amount is significant, we treat the provision for diminution in value of inventories as a key audit matter.

Audit Measures

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

(1) Understanding and evaluating design and implementation of key internal control in relation to provision for diminution in value of inventories by the Company's management, and testing the effectiveness of its operation;

(2) Understanding the Group's accounting policies for the provision for diminution in value of inventories, evaluating whether identification of inventories by the management for which the provision for diminution in value of inventories should be made is appropriate, and evaluating the reasonableness of the estimated net realizable value by the management;

(3) Testing the completeness and accuracy of data in the list of inventories for which the provision for diminution in value of inventories should be made, based on which the Company's management estimates the provision for diminution in value of inventories, and recalculating the provision for diminution in value of inventories;

(4) Selecting sample(s) from inventories to test the net realizable value. For the finished product selected as a sample, comparing the book cost of the finished product with recent or subsequent actual selling price; for raw materials and unfinished products selected as samples, comparing costs of completion for the same type of raw materials and unfinished products and costs to make the sale for the period, and evaluating the reasonableness of estimated cost of completion to be incurred, costs to make the sale and relevant taxes;

(5) Performing the supervision and selective examination procedure for inventory-taking of the Group, with focus on defective, obsolete or slow-moving inventories, and checking whether there are inventories with an indication of impairment which are not recorded.

IV. Other Information

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

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

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

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

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

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

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

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

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

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

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

(1) Identify and evaluate the risk of material misstatement of financial statements due to fraud or error; design and implement audit procedures to cope with these risks, and obtain adequate and appropriate audit evidence as the basis for expressing audit opinions. As fraud may involve collusion, forgery, willful omission, misrepresentation or override of internal control, the risk of not discovering a material misstatement due to fraud is higher than the risk of not discovering a material misstatement due to error.

(2) Understand the internal control related to auditing as a way to design appropriate audit procedures. However, the purpose is not to comment on the effectiveness of internal controls.

(3) Evaluate the properness of accounting policy selected by the management and the rationality of accounting estimate and related disclosure.

(4) Reach a conclusion on whether the going concern assumption adopted by the management is appropriate. Meanwhile, based on the audit evidence obtained, reach a conclusion on whether there are material uncertainties in the events or conditions that may cast significant doubts on Hikvision's ability to continue as a going concern. If we reach a conclusion that there is a material uncertainty, the Auditing Standards require us to call the attention of the users of the report to the relevant disclosures in the financial statements in the audit report. If the disclosure is insufficient, we should issue modified audit opinions. Our conclusion is based on the information available up to the date of the audit report. However, future events or conditions may result in the failure of Hikvision to continue as a going concern.

(5) Evaluate the overall presentation, structure and content (including the disclosure) of the financial statements and evaluate whether the financial statements fairly reflect the related transactions and events.

(6) Obtain adequate and appropriate audit evidence on the financial information of entity or business activities of Hikvision so as to express audit opinions on the financial statements. We are responsible for directing, supervising and executing the audit on the Group, and assume full responsibility for the audit opinions.

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

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

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

At December 31st 2018

Consolidated Balance Sheet

Unit: RMB

Item	Notes	Closing balance	Opening balance
Current Assets:			
Cash and bank balances	(V)1	26,552,402,711.23	16,468,430,702.64
Financial assets at fair value through profit or loss	(V)2	1,860,050.59	4,100,657.54
Notes receivable & Accounts receivable	(V)3	19,188,886,471.10	18,342,171,688.84
Including : Notes receivable	(V)3.2	2,569,445,189.92	3,636,961,616.03
Accounts receivable	(V)3.3	16,619,441,281.18	14,705,210,072.81
Prepayments	(V)4	460,304,219.65	527,576,857.11
Other receivables	(V)5	586,748,265.21	583,681,240.81
Inventories	(V)6	5,725,104,153.41	4,940,332,311.65
Non-current assets due within one year	(V)7	380,795,020.47	66,566,230.12
Other current assets	(V)8	730,682,813.14	3,720,449,532.88
Total Current Assets		**53,626,783,704.80**	**44,653,309,221.59**
Non-current Assets:			
Available-for-sale financial assets	(V)9	290,966,813.00	287,466,813.00
Long-term receivables	(V)10	705,512,368.17	23,375,680.61
Long-term equity investment	(V)11	163,301,844.56	130,474,733.58
Fixed assets	(V)12	5,082,415,160.10	3,024,025,496.31
Construction in progress	(V)13	416,092,413.42	1,436,319,118.30
Intangible assets	(V)14	869,913,050.09	429,160,982.63
Goodwill	(V)15	212,269,337.23	248,964,102.97
Deferred tax assets	(V)16	534,346,941.25	479,070,649.49
Other non-current assets	(V)17	1,582,750,600.80	858,796,668.13
Total Non-current Assets		**9,857,568,528.62**	**6,917,654,245.02**
Total Assets		**63,484,352,233.42**	**51,570,963,466.61**

At December 31st 2018

Consolidated Balance Sheet - continued

Unit: RMB

Item	Notes	Closing balance	Opening balance
Current Liabilities:			
Short-term borrowings	(V)18	3,465,655,688.29	97,114,655.91
Financial liabilities at fair value through profit or loss	(V)19	290,998.43	15,946,836.46
Notes payable & Accounts payable	(V)20	10,765,145,485.74	10,885,340,440.18
Receipts in advance	(V)21	641,430,490.22	570,573,208.60
Payroll payable	(V)22	1,921,608,104.04	1,391,291,256.90
Taxes payable	(V)23	1,418,921,664.57	1,453,515,065.77
Other payables	(V)24	2,953,203,190.99	496,718,217.83
Including： Dividend payable	(V)24.2	119,917,640.92	94,857,139.16
Non-current liabilities due within one year	(V)25	3,178,171,147.16	1,546,407,270.89
Other current liabilities	(V)26	364,984,759.94	744,583,627.22
Total Current Liabilities		**24,709,411,529.38**	**17,201,490,579.76**
Non-current Liabilities:			
Long-term borrowings	(V)27	440,000,000.00	490,000,000.00
Bonds payable	(V)28	-	3,120,920,000.00
Long-term payables		-	2,437,038.62
Provisions	(V)29	77,625,238.49	63,068,638.49
Deferred income	(V)30	293,179,089.13	88,925,771.65
Total non-current liabilities		**810,804,327.62**	**3,765,351,448.76**
Total liabilities		**25,520,215,857.00**	**20,966,842,028.52**
Owners' Equity			
Share capital	(V)31	9,227,270,473.00	9,228,865,114.00
Capital reserves	(V)32	1,956,139,660.52	1,819,397,715.63
Less: Treasury shares	(V)33	364,984,759.94	744,583,627.22
Other comprehensive income	(V)34	(49,576,351.10)	(27,677,939.35)
Surplus reserves	(V)35	4,460,712,358.45	3,483,742,918.53
Retained earnings	(V)36	22,360,593,257.53	16,598,328,692.63
Total owners' equity attributable to owner of the Company		37,590,154,638.46	30,358,072,874.22
Minority equity		373,981,737.96	246,048,563.87
Total owners' equity		**37,964,136,376.42**	**30,604,121,438.09**
Total liabilities and owners' equity		**63,484,352,233.42**	**51,570,963,466.61**

The accompanying notes form part of the financial statements.
The financial statements were signed by the following:
Legal Representative: Chen Zongnian； Person in charge of the accounting work: Jin Yan;
Person in Charge of the Accounting Department: Zhan Junhua

At December 31st 2018

Balance sheet of the parent company

Unit: RMB

Item	Notes	Closing balance	Opening balance
Current Assets:			
Cash and bank balances		19,192,461,228.22	12,304,090,713.99
Notes receivable & Accounts receivable	(XV)1	15,556,312,793.95	12,851,334,929.89
Including : Notes receivable	(XV)1.2	351,793,632.24	345,651,612.11
Accounts receivable	(XV)1.3	15,204,519,161.71	12,505,683,317.78
Prepayments		132,344,929.55	94,545,948.67
Other receivables	(XV)2	522,987,955.34	712,142,493.72
Including : Dividend receivables	(XV)2	2,550,000.00	2,550,000.00
Inventories		168,885,723.93	376,776,045.69
Other current assets		93,661,315.14	3,296,055,941.42
Total Current Assets		**35,666,653,946.13**	**29,634,946,073.38**
Non-current Assets:			
Available-for-sale financial assets		290,956,813.00	287,456,813.00
Long-term equity investment	(XV)3	4,361,147,395.90	3,367,076,734.95
Fixed assets		2,844,176,300.34	1,757,777,870.77
Construction in progress		65,156,482.70	914,859,063.00
Intangible assets		197,147,608.73	154,604,755.69
Deferred tax assets		221,779,547.02	200,147,031.89
Other non-current assets		14,601,579.55	16,925,712.83
Total Non-current Assets		**7,994,965,727.24**	**6,698,847,982.13**
Total Assets		**43,661,619,673.37**	**36,333,794,055.51**

At December 31st 2018

Balance sheet of the company - continued

Unit: RMB

Item	Notes	Closing balance	Opening balance
Current Liabilities:			
Notes payable & Accounts payable		356,787,605.91	286,629,255.35
Receipts in advance		204,337,524.21	216,747,866.68
Payroll payable		1,272,626,004.95	946,587,240.01
Taxes payable		987,057,652.70	1,219,102,007.88
Other payables		2,529,600,057.31	800,458,183.20
Including : Dividends payable		117,467,640.92	92,407,139.16
Non-current liabilities due within one year		3,172,727,888.37	33,614,018.51
Other current liabilities		364,984,759.94	744,583,627.22
Total Current Liabilities		**8,888,121,493.39**	**4,247,722,198.85**
Non-current Liabilities:			
Bonds payable		-	3,120,920,000.00
Provisions		52,956,535.09	43,024,784.70
Deferred Income		186,747,708.01	62,903,600.00
Total non-current liabilities		**239,704,243.10**	**3,226,848,384.70**
Total liabilities		**9,127,825,736.49**	**7,474,570,583.55**
Owners' Equity			
Share capital		9,227,270,473.00	9,228,865,114.00
Capital reserves		1,883,262,407.46	1,742,755,331.51
Less: Treasury shares		364,984,759.94	744,583,627.22
Surplus reserves		4,460,712,358.45	3,483,742,918.53
Retained earnings		19,327,533,457.91	15,148,443,735.14
Total owners' equity		**34,533,793,936.88**	**28,859,223,471.96**
Total liabilities and owners' equity		**43,661,619,673.37**	**36,333,794,055.51**

For the reporting period from January 1st 2018 to December 31st 2018

Consolidated Income Statement

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Total operating income	(V)37	49,837,132,481.61	41,905,476,572.07
Less：Total operating costs	(V)37	27,483,469,555.24	23,467,310,590.76
Business taxes and surcharges	(V)38	418,323,053.64	370,993,824.45
Selling expenses	(V)39	5,892,500,406.52	4,430,220,065.13
Administrative expenses	(V)40	1,376,013,682.79	1,011,214,457.29
Research and Development (R&D) expenses	(V)41	4,482,780,693.41	3,194,223,108.16
Financial expenses	(V)42	(424,257,896.76)	265,411,287.66
Including：Interest expenses		154,599,429.03	99,488,392.12
Interest income		444,981,799.05	216,789,778.20
Impairment losses of assets	(V)43	426,949,023.05	484,568,899.16
Add: Other Income	(V)44	2,083,997,067.37	1,673,251,852.26
Investment income	(V)45	51,929,640.63	44,650,105.12
Including: Investment gains (losses) in associated enterprise and joint-venture enterprise		(9,072,889.02)	(2,525,266.42)
Gains (losses) from changes in fair values	(V)46	13,406,932.17	42,090,091.11
Asset disposal income (loss)		4,975,825.83	1,585,222.50
II. Operating profit		12,335,663,429.72	10,443,111,610.45
Add: Non-operating income	(V)47	111,362,918.34	46,729,250.63
Less: Non-operating expenses	(V)48	8,593,484.58	3,020,378.72
III. Total profit		12,438,432,863.48	10,486,820,482.36
Less: Income tax expenses	(V)49	1,056,739,998.82	1,109,318,842.54
IV. Net profit		11,381,692,864.66	9,377,501,639.82
4.1 Classification by continuous operation			
(a) Net profit on continuous operation		11,381,692,864.66	9,377,501,639.82
(b) Net loss on terminated operation		-	-
4.2 Classification by attribution of ownership			
(a) Profit or loss attributable to minority shareholders		28,823,623.34	(33,353,445.00)
(b) Net profit attributable to owners of parent company		11,352,869,241.32	9,410,855,084.82
V. Other comprehensive income, net of income tax		(24,062,992.06)	13,852,652.33
Other comprehensive income attributable to owners of the Company, net of tax		(21,898,411.75)	13,552,837.86
(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		(21,898,411.75)	13,552,837.86
1. Exchange differences arising on conversion of financial statements denominated in foreign currencies		(21,898,411.75)	13,552,837.86
Other comprehensive income attributable to minority interests, net of tax		(2,164,580.31)	299,814.47
VI. Total comprehensive income		11,357,629,872.60	9,391,354,292.15

Item	Notes	Amount for the current period	Amount for the prior period
Total comprehensive income attributable to owners of the parent company		11,330,970,829.57	9,424,407,922.68
Total comprehensive income attributable to minority shareholders		26,659,043.03	(33,053,630.53)
VII. Earnings per share			
(I) Basic earnings per share	(XVI)2	1.240	1.030
(II) Diluted earnings per share	(XVI)2	1.234	1.024

For the reporting period from January 1st 2018 to December 31st 2018

Income statement of the parent company

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Total operating income	(XV)4	22,288,214,116.66	19,167,979,291.38
Less: Operating Cost	(XV)4	6,599,669,485.30	6,100,951,920.79
Business taxes and surcharges		284,413,700.01	258,550,741.27
Selling expenses		2,758,483,789.96	1,987,923,082.04
Administrative expenses		625,098,237.96	375,734,883.68
Research and Development (R&D) expenses		3,502,168,162.60	2,531,443,228.88
Financial expenses		(180,009,521.00)	(187,143,169.54)
Including : Interest expenses		92,955,424.65	36,221,864.47
Interest income		394,158,854.37	193,381,088.48
Impairment losses of assets		226,183,330.78	107,602,826.75
Add: Other income		1,814,462,323.26	1,467,905,996.67
Investment income	(XV)5	82,844,595.18	34,502,356.33
Including: Investment gain (loss) in associated enterprise and joint-venture enterprise		(4,200,612.39)	(2,525,266.42)
Gains (losses) from changes in fair values		-	53,573,806.57
Asset disposal income (loss)		4,138,938.48	2,755,085.52
II. Operating profit		10,373,652,787.97	9,551,653,022.60
Add: Non-operating income		56,661,310.97	18,333,263.62
Less: Non-operating expenses		1,444,733.80	1,489,124.20
III. Total profit		10,428,869,365.14	9,568,497,162.02
Less: Income tax expenses		659,174,965.95	885,446,198.25
IV. Net profit		9,769,694,399.19	8,683,050,963.77
V. Other comprehensive income, net of income tax		-	-
VI. Total comprehensive income		9,769,694,399.19	8,683,050,963.77

For the reporting period from January 1st 2018 to December 31st 2018

Consolidated Cash Flow Statement

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		51,986,564,929.24	42,136,145,087.13
Receipts of tax refunds		3,721,596,390.15	2,733,759,603.00
Other cash receipts relating to operating activities	(V)50(1)	1,623,810,261.97	533,929,235.33
Sub-total of cash inflows from operating activities		**57,331,971,581.36**	**45,403,833,925.46**
Cash payments for goods purchased and services received		32,254,846,787.67	25,634,553,120.83
Cash paid to and on behalf of employees		7,091,219,541.27	5,036,917,567.98
Payments of various types of taxes		4,362,658,730.44	3,557,905,236.73
Other cash payments relating to operating activities	(V)50(2)	4,509,233,235.92	3,801,297,749.24
Sub-total of cash outflows from operating activities		**48,217,958,295.30**	**38,030,673,674.78**
Net Cash Flow from Operating Activities	(V)51(1)	**9,114,013,286.06**	**7,373,160,250.68**
II. Cash Flows from Investing Activities:			
Cash receipts from recovery of investments		10,684,968,183.97	10,300,303,620.25
Cash receipts from investment income		101,672,000.39	31,290,097.01
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		17,971,830.99	23,086,294.46
Other cash receipts relating to investing activities	(V)50(3)	89,505,228.62	63,364,669.30
Sub-total of cash inflows from investing activities		**10,894,117,243.97**	**10,418,044,681.02**
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		2,055,859,307.21	1,692,193,203.99
Cash paid to acquire investments		7,367,537,654.71	9,921,049,145.72
Other cash payments relating to investing activities	(V)50(4)	20,000,000.00	13,500,000.00
Sub-total of cash outflows from investing activities		**9,443,396,961.92**	**11,626,742,349.71**
Net Cash Flow from Investing Activities		**1,450,720,282.05**	**(1,208,697,668.69)**
III. Cash flows from financing activities:			
Cash receipts from capital contributions		97,509,000.00	92,089,826.67
Including: cash receipts from capital contributions from minority owners of subsidiaries		97,509,000.00	92,089,826.67
Cash receipts from borrowings		10,338,144,732.55	3,550,599,109.39
Other cash receipts relating to financing activities	(V)50(5)	2,057,898,876.84	-
Sub-total of cash inflows from financing activities		**12,493,552,609.39**	**3,642,688,936.06**
Cash repayments of borrowings		8,590,620,738.17	3,205,532,364.13
Cash payments for distribution of dividends or profits or settlement of interest expenses		4,701,738,534.32	3,800,451,724.80
Including : Dividends and profits paid by subsidiaries to minority shareholders		-	3,062,500.00
Other cash payments relating to financing activities	(V)50(6)	6,555,746.33	38,451,500.00
Sub-total of cash outflows from financing activities		**13,298,915,018.82**	**7,044,435,588.93**
Net Cash Flow from Financing Activities		**(805,362,409.43)**	**(3,401,746,652.87)**
IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents		**235,182,564.34**	**(255,868,357.23)**
V. Net Increase in Cash and Cash Equivalents	(V)51(1)	**9,994,553,723.02**	**2,506,847,571.89**
Add: Opening balance of Cash and Cash Equivalents	(V)51(1)	16,029,185,269.17	13,522,337,697.28
VI. Closing Balance of Cash and Cash Equivalents	(V)51(2)	**26,023,738,992.19**	**16,029,185,269.17**

For the reporting period from January 1st 2018 to December 31st 2018

Cash Flow Statements of the parent company

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Cash Flows from Operating Activities::			
Cash receipts from the sale of goods and the rendering of services		22,847,371,972.05	19,722,915,694.68
Receipts of tax refunds		1,651,607,032.63	1,439,270,404.56
Other cash receipts relating to operating activities		796,433,730.94	339,663,486.81
Sub-total of cash inflows from operating activities		**25,295,412,735.62**	**21,501,849,586.05**
Cash payments for goods acquired and services received		7,541,359,566.51	7,025,548,254.61
Cash payments to and on behalf of employees		3,610,460,282.38	2,598,154,101.03
Payments of all types of taxes		3,556,689,194.01	2,868,678,724.73
Other cash payments relating to operating activities		2,871,618,240.21	1,742,871,959.31
Sub-total of cash outflows from operating activities		**17,580,127,283.11**	**14,235,253,039.68**
Net Cash Flow from Operating Activities	(XV)8(1)	**7,715,285,452.51**	**7,266,596,546.37**
II. Cash Flows from Investing Activities:			
Cash receipts from recovery of investments		4,350,005,971.53	5,279,892,396.70
Cash receipts from investment income		97,039,236.04	34,474,342.25
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		13,852,133.88	18,569,173.19
Other cash receipts relating to investing activities		15,536,557,642.39	8,014,628,629.24
Sub-total of cash inflows from investing activities		**19,997,454,983.84**	**13,347,564,541.38**
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		604,984,875.82	612,742,341.37
Cash payments to acquire investments		2,131,183,014.00	6,280,754,974.91
Other cash payments relating to investing activities		15,385,247,510.53	8,280,364,802.77
Sub-total of cash outflows from investing activities		**18,121,415,400.35**	**15,173,862,119.05**
Net Cash Flow from Investing Activities		**1,876,039,583.49**	**(1,826,297,577.67)**
III. Cash Flows from Financing Activities			
Cash receipts from borrowings		700,000,000.00	300,000,000.00
Other cash receipts relating to financing activities		4,988,766,432.46	2,415,734,336.55
Sub-total of cash inflows from financing activities		**5,688,766,432.46**	**2,715,734,336.55**
Cash repayments of borrowings		700,000,000.00	300,000,000.00
Cash payments for distribution of dividends or profits or settlement of interest expenses		4,640,094,529.94	3,734,122,697.15
Other cash payments relating to financing activities		3,422,541,181.42	1,855,669,510.90
Sub-total of cash outflows from financing activities		**8,762,635,711.36**	**5,889,792,208.05**
Net Cash Flow from Financing Activities		**(3,073,869,278.90)**	**(3,174,057,871.50)**
IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents		**177,395,997.38**	**(208,127,567.22)**
V. Net increase in cash and cash equivalents	(XV)8(1)	**6,694,851,754.48**	**2,058,113,529.98**
Add: Beginning balance of cash and cash equivalents	(XV)8(1)	12,304,082,533.11	10,245,969,003.13
VI. Closing Balance of Cash and Cash Equivalents	(XV)8(2)	**18,998,934,287.59**	**12,304,082,533.11**

For the reporting period from January 1st 2018 to December 31st 2018

Consolidated Statement of Changes in Owners' Equity

Unit: RMB

Item	Amount for the 2018							
	Owner's Equity Attributable to owners of the Company						Minority interests	Total owners' equity
	Share capital	Capital reserves	Less: Treasury share	Other comprehensive income	Surplus reserve	Retained profits		
I. Opening balance of the current period	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
II. Increase or decrease in the current period	(1,594,641.00)	136,741,944.89	(379,598,867.28)	(21,898,411.75)	976,969,439.92	5,762,264,564.90	127,933,174.09	7,360,014,938.33
(I) Total comprehensive income	-	-	-	(21,898,411.75)	-	11,352,869,241.32	26,659,043.03	11,357,629,872.60
(II) Owners' contributions and reduction in capital	(1,594,641.00)	136,741,944.89	(323,387,643.28)	-	-	-	101,274,131.06	559,809,078.23
1. Capital contribution from shareholders	-	-	-	-	-	-	97,509,000.00	97,509,000.00
2. Share-based payment recognized in owners' equity	-	141,703,050.22	-	-	-	-	3,765,131.06	145,468,181.28
3. Others	(1,594,641.00)	(4,961,105.33)	(323,387,643.28)	-	-	-	-	316,831,896.95
(III) Profit distribution	-	-	(56,211,224.00)	-	976,969,439.92	(5,590,604,676.42)	-	(4,557,424,012.50)
1. Transfer to surplus reserve	-	-	-	-	976,969,439.92	(976,969,439.92)	-	-
2. Distributions to shareholders	-	-	(56,211,224.00)	-	-	(4,613,635,236.50)	-	(4,557,424,012.50)
3. Others	-	-	-	-	-	-	-	-
III. Closing balance of the current period	**9,227,270,473.00**	**1,956,139,660.52**	**364,984,759.94**	**(49,576,351.10)**	**4,460,712,358.45**	**22,360,593,257.53**	**373,981,737.96**	**37,964,136,376.42**

For the reporting period from January 1st 2018 to December 31st 2018

Consolidated Statement of Changes in Owners' Equity-continued

Unit: RMB

Item	Amount for 2017							
	Owner's Equity Attributable to owners of the Company						Minority interests	Total owners' equity
	Share capital	Capital reserves	Less: Treasury share	Other comprehensive income	Surplus reserve	Retained profits		
I. Closing balance of the preceding period	6,102,706,885.00	1,045,440,853.66	300,177,750.17	(41,230,777.21)	2,615,437,822.15	14,866,457,856.65	198,039,035.07	24,486,673,925.15
Add: Business merger under common control	-	2,880,000.00	-	-	-	(5,807,678.26)	(5,204,761.36)	(8,132,439.62)
II. Opening balance of the current period (restated)	6,102,706,885.00	1,048,320,853.66	300,177,750.17	(41,230,777.21)	2,615,437,822.15	14,860,650,178.39	192,834,273.71	24,478,541,485.53
III. Increase or decrease in the current period	3,126,158,229.00	771,076,861.97	444,405,877.05	13,552,837.86	868,305,096.38	1,737,678,514.24	53,214,290.16	6,125,579,952.56
(I) Total comprehensive income	-	-	-	13,552,837.86	-	9,410,855,084.82	(33,053,630.53)	9,391,354,292.15
(II) Owners' contributions and reduction in capital	49,869,858.00	771,076,861.97	536,813,016.21	-	-	-	91,780,420.69	375,914,124.45
1. Capital contribution from shareholders	52,326,858.00	608,561,358.54	660,888,216.54	-	-	-	92,089,826.67	92,089,826.67
2. Share-based payment recognized in owners' equity	-	186,951,885.95	-	-	-	-	4,248,711.50	191,200,597.45
3. Others	(2,457,000.00)	(24,436,382.52)	(124,075,200.33)	-	-	-	(4,558,117.48)	92,623,700.33
(III) Profit distribution	3,076,288,371.00	-	(92,407,139.16)	-	868,305,096.38	(7,673,176,570.58)	(5,512,500.00)	(3,641,688,464.04)
1. Transfer to surplus reserve	-	-	-	-	868,305,096.38	(868,305,096.38)	-	-
2. Distributions to shareholders	-	-	(92,407,139.16)	-	-	(3,728,583,103.20)	(5,512,500.00)	(3,641,688,464.04)
3. Others	3,076,288,371.00	-	-	-	-	(3,076,288,371.00)	-	-
IV. Closing balance of the current period (restated)	**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**

For the reporting period from January 1st 2018 to December 31st 2018

Statement of Changes in Owners' Equity of the parent company

Unit: RMB

Item	Amount for 2018					
	Share capital	Capital	Less: Treasury share	Surplus reserve	Retained profits	Total owners'
I. Opening balance of the current period	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
II. Increase or decrease in the current period	(1,594,641.00)	140,507,075.95	(379,598,867.28)	976,969,439.92	4,179,089,722.77	5,674,570,464.92
(I) Total comprehensive income	-	-	-	-	9,769,694,399.19	9,769,694,399.19
(II) Owners' contributions and reduction in capital	(1,594,641.00)	140,507,075.95	(323,387,643.28)	-	-	462,300,078.23
1. Capital contribution from shareholders	-	-	-	-	-	-
2. Share-based payment recognized in owners' equity	-	145,468,181.28	-	-	-	145,468,181.28
3. Others	(1,594,641.00)	(4,961,105.33)	(323,387,643.28)	-	-	316,831,896.95
(III) Profit distribution	-	-	(56,211,224.00)	976,969,439.92	(5,590,604,676.42)	(4,557,424,012.50)
1.Transfer to surplus reserve	-	-	-	976,969,439.92	(976,969,439.92)	-
2. Distributions to shareholders	-	-	(56,211,224.00)	-	(4,613,635,236.50)	(4,557,424,012.50)
3. Others	-	-	-	-	-	-
III. Closing balance of the current period	**9,227,270,473.00**	**1,883,262,407.46**	**364,984,759.94**	**4,460,712,358.45**	**19,327,533,457.91**	**34,533,793,936.88**

Item	Amount for 2017					
	Share capital	Capital	Less: Treasury share	Surplus reserve	Retained profits	Total owners'
I. Opening balance of the current period	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
II. Increase or decrease in the current period	3,126,158,229.00	787,067,455.99	444,405,877.05	868,305,096.38	1,009,874,393.19	5,346,999,297.51
(I) Total comprehensive income	-	-	-	-	8,683,050,963.77	8,683,050,963.77
(II) Owners' contributions and reduction in capital	49,869,858.00	787,067,455.99	536,813,016.21	-	-	300,124,297.78
1. Capital contribution from shareholders	52,326,858.00	608,561,358.54	660,888,216.54	-	-	-
2. Share-based payment recognized in owners' equity	-	191,200,597.45	-	-	-	191,200,597.45
3. Others	(2,457,000.00)	(12,694,500.00)	(124,075,200.33)	-	-	108,923,700.33
(III) Profit distribution	3,076,288,371.00	-	(92,407,139.16)	868,305,096.38	(7,673,176,570.58)	(3,636,175,964.04)
1.Transfer to surplus reserve	-	-	-	868,305,096.38	(868,305,096.38)	-
2. Distributions to shareholders	-	-	(92,407,139.16)	-	(3,728,583,103.20)	(3,636,175,964.04)
3. Others	3,076,288,371.00	-	-	-	(3,076,288,371.00)	-
III. Closing balance of the current period	**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**

I. Basic Information about the Company

Hangzhou Hikvision Digital Technology Co., Ltd. (hereinafter referred to as "Company" or "the Company" or “Hikvision”), is a Sino-foreign equity joint venture company, formerly known as "Hangzhou Hikvision Digital Technology Ltd", established on November 30th 2001 in Hangzhou upon the approval letter of Hangzhou High-tech No. 604 [2001] issued by Hangzhou High-tech Industrial Development Zone Management Committee. On June 25th 2008, with approval of 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 28th 2010, the Company was listed on the Shenzhen Stock Exchange.

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

On April 27th 2017, authorized by the Company’s first Extraordinary General Meeting in 2014, the Company completed procedures of repurchase and cancellation of some of the 2,457,000.00 restricted stocks that did not meet the incentive conditions, and the total share capital of the Company was adjusted to 6,152,576,743 shares.

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

On March 27th 2018, according to the authorization of the Company's first extraordinary shareholders meeting in 2014, the Company completed the procedures of repurchase and cancellation of some of the 1,594,641 restricted stocks that did not meet the incentive conditions, and the share capital of the Company was changed to 9,227,270,473 shares. For details of the share capital, please refer to Notes (V) 31.

As of December 31st 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 1,313,073,005 shares, A-shares without restriction are 7,914,197,468 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), fire control products, 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 10th meeting of the fourth session Board of Directors of the Company on April 18th 2019.

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)*.

Going concern

The Group has evaluated its going concern for 12 months going forward starting from December 31st 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.

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.

When measuring non-financial assets at fair value, the assets shall be measured considering the ability of market participants to use the assets for optimal use to generate economic benefits, or to sell the assets to other market participants to use the assets for optimal use to generate economic benefits.

For the financial assets measured with transaction price at the initial recognition, and the use of valuation techniques involving unobservable inputs in the subsequent fair value measurement, the valuation technique is corrected in the valuation process in order to make the initial recognition results confirmed by valuation techniques equal to the transaction price.

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.

III. Significant accounting policies and accounting estimates

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

The financial statements of the Company have been prepared in accordance with ASBE, and present truly and completely, the Company's and consolidated financial position as of December 31st 2018; and the Company's and consolidated results of operations, the Company’s and consolidated changes in shareholders' equity, and the Company’s and consolidated cash flows for the year of 2018.

2. Accounting Period

The Group has adopted the calendar year as its accounting year from January 1st to December 31st 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.

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.

For the purchase or sale of financial assets in the regular method, the assets and the corresponding undertaken liabilities are recognized when the assets are received on the trading day, or the assets sold are derecognized on the trading day.

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 that meet one of the following conditions can be initially designated as financial assets at fair value through profit or loss: (1) The designation may eliminate or significantly reduce the inconsistency in the recognition or measurement of the relevant gains or losses resulting from the different measurement basis of the financial asset; (2) The formal written documents of the Group's risk management or investment strategy have stated that the financial asset portfolio or financial assets and financial liabilities in which the financial assets are located are managed, evaluated and reported to key management personnel on the basis of fair value; (3) Eligible hybrid tools with embedded derivatives

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

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

9.8 Offsetting financial assets and financial liabilities

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

9.9 Equity instrument

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

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

10. Receivables

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

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

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

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

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

Portfolios that aging analysis is used for bad debt provision:

Aging	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 proving 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.

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 Valuation Method and Service Life

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	40 or 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, 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.]

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 for 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 and etc. are 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.

On the balance sheet date, the deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rates in the period in which the related assets are recovered or the related liabilities are recovered in accordance with the tax laws.

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 the Company's shares

The consideration and transaction costs paid to repurchase the Company's shares 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 reporting 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.

Long-term equity investment impairment

The Group judges whether there is any possibility of impairment of long-term equity investments on the balance sheet date. When there is an indication that the carrying amount is not recoverable, the impairment test is carried out, and the impairment provision is measured at the lower of the carrying amount and the recoverable amount. The recoverable amount of an asset or asset group is determined by the higher of the fair value of the asset or asset group less the disposal expense and the present value of the estimated future cash flows of the asset or asset group. When estimating the present value of future cash flows, management needs to estimate the future cash flows of the asset or asset group and select an appropriate discount rate to determine the present value of future cash flows. When calculating the net amount for the fair value less disposal costs to sell, the fair value is the price that the market participant can receive when selling an asset in an orderly transaction that occurs on the measurement date. If the reassessed recoverable amount is lower than the current estimate, the difference will affect the book value of the asset during the change.

Goodwill impairment

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

27. Significant alternation in accounting policy and accounting estimations

Changes in accounting policies and reasons	Approval Procedures	Notes
The Group has implemented the *Notice on Amending the 2018 Annual Financial Statements of General Enterprises* issued by the Ministry of Finance on June 15th 2018 starting from the preparation of the 2018 financial statements (Accounting Council (2018) No. 15, hereinafter referred to as *Financial Accounting No. 15 Document*). The Financial Accounting No. 15 Document revised the presentation items on the balance sheet and the income statement, and added new items such as "receivable notes and accounts receivable", "payable notes and accounts payable" and "research and development expenses"; revised contents of line items such as "other receivables", "fixed assets", "construction in progress", "other payables" and "long-term payables" and "management expenses"; reduced line items such as "receivable notes", "accounts receivable", "dividends receivable", "interests receivable", "fixed assets clearance", "engineering materials", "payable notes", "accounts payable", "interest payable", "dividends payable" and the "special payables"; Under the "Financial Expenses" item, the "Including: Interest Expenses" and "Interest Income" lines were added to report, and the presentation position of some items in the income statement were adjusted. For the above-mentioned changes in the listed items, the company adopted the retrospective adjustment method for accounting treatment, and made retrospective adjustments to the comparative data of the previous year.	Such alternations in accounting policy were approved by the Group at board of director general meeting.	None

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 *Letter of Reply 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 15th 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 reporting period.

According to the *Notice on Printing and Distributing the List of Key Software Enterprises and IC Design Enterprises in the National Planning Layout for 2013-2014* (Development and Reform High Technology [2013] No. 2458), in 2013, the Company was recognized as a national key software

company. According to the *Notice on Issues Related to Enterprise Income Tax Preferential Policies for Software and Integrated Circuit Industry* (Finance and Tax [2016] No. 49), the Company was approved by the tax authorities in August 2018 to pay the 2017 annual corporate income tax at the rate of 10%. As of the approval date of this report, the Company's 2018 income tax concessions have not been filed; therefore, the Company's 2018 corporate income tax is still paid at the rate of 15%.

(2) In accordance with the *Letter of Reply on Publishing the Registration of First Batch of High-Tech Enterprises of Zhejiang Province in 2016* (GuoKeHuoZi [2016] No. 149) issued by leading group office of Zhejiang high-tech enterprise identification management work on December 9th 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 reporting 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 reporting 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 15th 2017, the Company's joint-venture subsidiary, Hangzhou HIK Robotic Technology Co., Ltd. (Hangzhou Robotic Technology) were identified as the high-tech enterprises with a valid term of 3 years, from 2017 to 2019. Therefore, the enterprise income tax in the current reporting period shall be calculated and paid according to tax rate of 15%.

(5) 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 15th 2017, Hangzhou EZVIZ Network Co., Ltd. (Hangzhou EZVIZ), a joint venture subsidiary of the Company, was recognized as a high-tech enterprise and was valid for 3 years from 2017 to 2019. This year, Hangzhou EZVIZ Company has separated the sales and R&D functions and did not meet the high-tech enterprise certification. Therefore, the corporate income tax is paid at the rate of 25% this year.

(6) 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 reporting period.

(7) In accordance with the *Replies on Publishing the List of First Batch of identified High-tech Enterprises of Zhejiang Province in 2018* (GuoKeHuoZi [2019] No. 70) issued by the leading group

office of Zhejiang high-tech enterprise identification management work on February 20th 2019, the Company's joint venture subsidiary, Hangzhou Fuyang Baotai Security Technology Service Co., Ltd. (Fuyang Baotai), was recognized as a high-tech enterprise and was valid for 3 years from 2018 to 2020. Therefore, this year's corporate income tax is reduced at a rate of 15%.

Note 2: 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.

Note 3: According to Finance and Tax [2018] No. 32, since May 1st 2018, taxpayers are subject to VAT taxable sales or imported goods, and the VAT rate is adjusted from 17%, 11% and 6% to 16%, 10% and 6% respectively.

V. Notes to items in the consolidated financial statements

1. Cash and bank balances

	Closing Balance			Opening Balance		
Item	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
Cash:						
RMB	-	-	79,737.43	-	-	130,403.91
USD	24,087.34	6.8632	165,316.26	35,098.97	6.5342	229,343.66
EUR	9,765.86	7.8473	76,635.60	15,918.33	7.8023	124,199.58
GBP	8,927.97	8.6762	77,460.86	7,396.17	8.7792	64,932.46
ZAR	17,034.95	0.4735	8,066.05	19,530.51	0.5277	10,306.25
INR	2,000,830.71	0.0980	196,081.41	1,222,954.96	0.1019	124,619.11
RUB	13,899.49	0.0986	1,370.49	22,805.81	0.1135	2,588.46
AED	585.76	1.8688	1,094.68	35,070.03	1.7790	62,389.59
HKD	697.90	0.8762	611.50	3,072.66	0.8359	2,568.44
BRL	8,697.30	1.7569	15,280.29	9,297.27	1.9641	18,260.77
Bank balance:						
RMB	-	-	20,217,862,141.55	-	-	10,082,944,463.42
USD	707,524,091.98	6.8632	4,855,879,348.05	822,098,082.75	6.5342	5,371,753,292.29
EUR	51,833,430.49	7.8473	406,752,479.11	36,681,727.64	7.8023	286,201,843.60
GBP	4,918,810.45	8.6762	42,676,583.25	1,171,110.92	8.7792	10,281,416.98
JPY	407.98	0.0619	25.25	408.00	0.0579	23.62
ZAR	22,340,466.04	0.4735	10,578,210.66	11,105,021.55	0.5277	5,860,119.88
INR	3,438,377,221.94	0.0980	336,960,967.75	1,604,304,664.42	0.1019	163,478,645.31
RUB	534,613,774.24	0.0986	52,712,918.14	431,796,810.54	0.1135	49,008,937.99
HKD	1,837,365.44	0.8762	1,609,899.60	147,865.08	0.8359	123,600.42
AUD	1,821,443.30	4.8250	8,788,463.91	1,110,556.92	5.0928	5,655,844.28
AED	7,944,928.08	1.8688	14,847,550.81	5,099,038.05	1.7790	9,071,188.69
BRL	8,376,095.19	1.7569	14,715,961.64	4,579,468.83	1.9641	8,994,534.73
SGD	102,603.21	5.0062	513,652.19	35,788.26	4.8831	174,757.65
PLN	489,691.46	1.8269	894,617.32	338,408.19	1.8680	632,146.48
KRW	845,397,940.00	0.0061	5,178,062.38	461,310,471.00	0.0061	2,818,145.67
CAD	828,274.50	5.0381	4,172,929.76	824,149.98	5.2009	4,286,321.63
KZT	25,306,904.92	0.0183	463,116.36	43,256,830.49	0.0195	843,508.19
COP	441,460,035.46	0.0021	921,371.24	150,707,765.53	0.0022	328,799.13
TRY	371.19	1.2962	481.14	46,834.84	1.7291	80,982.11
THB	13,527,107.82	0.2110	2,854,219.75	4,267,411.59	0.1998	852,750.61
HUF	2,372,916.62	0.0244	57,888.25	57,206,835.37	0.0250	1,430,205.20
NZD	77,267.45	4.5954	355,074.84	106,049.60	4.6327	491,295.98
CZK	245,451.93	0.3029	74,347.39	1,701,256.64	0.3057	520,074.15
KES	923,936.07	0.0671	61,996.11	23,771,784.15	0.0630	1,497,622.40
UZS	330,724,362.57	0.0008	271,094.76	260,975,830.78	0.0008	208,597.98
IDR	4,324,868,647.85	0.0005	2,037,445.62	-	-	-
MYR	337,537.88	1.6479	556,228.67	-	-	-
PHP	7,098,709.59	0.1304	925,671.73	-	-	-
VND	2,400,000,000.00	0.0003	706,800.00	-	-	-
QAR	92,830.45	1.8378	170,603.80	-	-	-

	Closing Balance			Opening Balance		
Item	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
Other currency funds:						
RMB	-	-	530,958,544.17	-	-	459,284,934.33
USD	5,130,938.50	6.8632	35,214,593.87	7,768.39	6.5342	50,760.21
EUR	140,937.52	7.8473	1,105,979.01	100,775.09	7.8023	786,277.48
BRL	498,949.67	1.7569	876,604.67	-	-	-
INR	119,281.00	0.0980	11,689.54	-	-	-
ZAF	28,499.20	0.4735	13,494.37	-	-	-
Total			26,552,402,711.23			16,468,430,702.64
including: deposited in overseas banks			1,071,979,704.80			788,391,050.26

Details of other currency funds:

	Closing Balance			Opening Balance		
Item	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
Capitals with limitations:						
Deposits for letter of Credit in RMB	-	-	60,199,342.63	-	-	-
Bank acceptance bill	-	-	52,522,279.43	-	-	204,607,890.97
Deposits for letter of guarantee	-	-	41,428,996.22	-	-	20,379,624.20
Deposits for letter of Credit in EUR	137,209.86	7.8473	1,076,726.94	74,056.26	7.8023	577,809.16
Deposits for letter of Credit in BRL	498,949.67	1.7569	876,604.67	-	-	-
Deposits for letter of Credit in USD	5,133.88	6.8632	35,234.78	5,133.72	6.5342	33,544.74
Tax Operation Margin for India	119,281.00	0.0980	11,689.54	-	-	-
Other security deposit	-	-	504,195.08	-	-	502,664.40
Deposits pledged for long-term borrowing	-	-	-	-	-	35,000,000.00
Other capitals with limitations	-	-	372,008,649.75	-	-	178,143,900.00
Subtotal			528,663,719.04			439,245,433.47
Capitals without limitations:						
Other currency funds in USD	5,127,923.38	6.8632	35,193,900.56	2,634.67	6.5342	17,215.47
Deposit in Alipay, Tenpay, etc.	-	-	4,280,539.59	-	-	20,650,854.76
Other currency funds in EUR	3,727.66	7.8473	29,252.07	26,718.83	7.8023	208,468.32
Other currency funds in ZAR	28,499.20	0.4735	13,494.37	-	-	-
Subtotal			39,517,186.59			20,876,538.55
Total			568,180,905.63			460,121,972.02

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

Unit: RMB

Item	Closing Balance	Opening Balance
Held-for-trading financial assets	1,860,050.59	4,100,657.54
including: derivative financial assets	1,860,050.59	4,100,657.54
Total	1,860,050.59	4,100,657.54

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

3. Notes receivable & Accounts receivable

3.1 Categories of notes receivable & accounts receivable

Unit：RMB

Category	Closing Balance	Opening Balance
Notes receivable	2,569,445,189.92	3,636,961,616.03
Accounts receivable	16,619,441,281.18	14,705,210,072.81
Total	19,188,886,471.10	18,342,171,688.84

3.2 Notes receivable

(1) Categories of notes receivable

Unit：RMB

Category	Closing Balance	Opening Balance
Bank acceptance bill	2,273,846,399.85	3,513,890,558.68
Commercial acceptance bill	295,598,790.07	123,071,057.35
Total	2,569,445,189.92	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 December 31st 2018
Bank acceptance bill	412,061,782.74
Commercial acceptance bill	-
Total	412,061,782.74

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

Unit：RMB

Category	Derecognized amount by December 31st 2018 (Note)	Not Derecognized amount by December 31st 2018
Bank acceptance bill	2,370,887,528.74	-
Commercial acceptance bill	32,316,962.85	94,097,879.36
Total	2,403,204,491.59	94,097,879.36

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

(4) As of December 31st 2018, the Group transferred the defaulted notes receivable into accounts receivable.

Unit: RMB

Category	Amounts transferred into accounts receivable by December 31st 2018
Bank acceptance bill	207,600,000.00
Commercial acceptance bill	-
Total	207,600,000.00

3.3 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	17,878,831,244.30	100.00	1,259,389,963.12	7.04	16,619,441,281.18	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 but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	17,878,831,244.30	100.00	1,259,389,963.12	7.04	16,619,441,281.18	15,839,958,044.79	100.00	1,134,747,971.98	7.16	14,705,210,072.81

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.

In the portfolio, bad debt provision of accounts receivable by aging analysis:

Unit: RMB

Aging	Closing Balance		
	Carrying amount	Bad debt provision	Proportion (%)
Within 1 year	15,987,369,870.28	799,368,493.51	5.00
1-2 years	1,146,177,216.01	114,617,721.60	10.00
2-3 years	417,396,769.58	125,219,030.87	30.00
3-4 years	194,009,612.97	97,004,806.49	50.00
4-5 years	53,489,324.04	42,791,459.23	80.00
Over 5 years	80,388,451.42	80,388,451.42	100.00
Subtotal	17,878,831,244.30	1,259,389,963.12	7.04

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

In the current reporting period, the Company recorded a bad debt allowance of RMB 131,669,945.21, bad debt allowance balance increased for RMB 6,296,818.63 due to conversion of financial reports prepared in foreign currency. No reversal of bad debts during the year.

(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 13,324,772.70.

(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	545,951,381.97	28,351,499.31	3.05
Company A	Third party	174,862,609.67	8,743,130.48	0.98
Company B	Third party	138,877,590.52	8,136,252.19	0.78
Company C	Third party	105,757,148.26	5,287,857.41	0.59
Company D	Third party	90,662,456.71	4,533,122.84	0.51
Total		1,056,111,187.13	55,051,862.23	5.91

(5) As of December 31st 2018, there is no termination of accounts receivable booking due to transfer of a financial asset.

(6) As of December 31st 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.

4. Prepayments

(1) Prepayments by aging analysis

Unit: RMB

Aging	Closing Balance		Opening Balance	
	Carrying amount	Proportion (%)	Carrying amount	Proportion (%)
Within 1 year	371,339,135.76	80.67	481,603,579.15	91.29
1-2 years	87,446,891.75	19.00	38,258,814.47	7.25
2-3 years	1,219,965.56	0.27	7,480,653.49	1.42
Over 3 years	298,226.58	0.06	233,810.00	0.04
Total	460,304,219.65	100.00	527,576,857.11	100.00

(2) Closing balances of top five prepayments parties

As of December 31st 2018, the Group's top five balances of prepayments amounted to RMB 160,994,485.73, accounting for 34.98% of total closing balance of prepayments.

5. 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	656,516,001.11	100.00	69,767,735.90	10.63	586,748,265.21	641,690,488.45	100.00	58,009,247.64	9.04	583,681,240.81
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	656,516,001.11	100.00	69,767,735.90	10.63	586,748,265.21	641,690,488.45	100.00	58,009,247.64	9.04	583,681,240.81

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.

In the portfolio, bad debt provision of other receivables by aging analysis

Unit: RMB

Aging	Closing Balance		
	Carrying amount	Bad debt provision	Proportion (%)
Within 1 year	361,469,319.94	18,073,466.44	5.00
1-2 years	217,350,403.34	21,735,040.33	10.00
2-3 years	51,754,285.72	15,526,285.72	30.00
3-4 years	21,211,001.97	10,605,500.99	50.00
4-5 years	4,517,736.72	3,614,189.00	80.00
Over 5 years	213,253.42	213,253.42	100.00
Total	656,516,001.11	69,767,735.90	10.63

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

During the reporting period, the Company recorded a bad debt allowance of RMB 21,082,073.23; bad debt allowance amount increased by RMB 2,261,415.03 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 the current reporting period, the actual write-off of other receivables is RMB 11,585,000.00.

(4) Nature of other receivables

Unit: RMB

Nature of other receivables	Closing balance	Opening balance
Other receivables for interim payments	354,225,077.10	365,413,004.37
Guarantee deposits	185,672,767.89	199,237,401.53
Tax rebates for export	30,189,439.56	28,195,951.27
Acquisition of asset group	-	19,053,271.93
Investment intention fund	20,000,000.00	13,500,000.00
Others	66,428,716.56	16,290,859.35
Total	656,516,001.11	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
Tax authorities	Tax rebates	30,000,000.00	Within 1 year	4.57	1,500,000.00
The company E	Intentional payments for investment	20,000,000.00	Within 1 year	3.05	1,000,000.00
Hangzhou customs of the People's Republic of China.	Guarantee deposits	9,444,600.00	Within 2 year	1.44	550,635.00
The company F	Guarantee deposits	9,064,435.00	Within 2 year	1.38	556,905.75
The company G	Temporary payments for receivables	8,096,878.80	Within 1 year	1.23	404,843.94
Total		76,605,913.80		11.67	4,012,384.69

(6) As of December 31st 2018, the Group does not have other receivables related to government subsidies.
(7) As of December 31st 2018, there is no termination of other receivables booking due to transfer of a financial asset.

(8) As of December 31st 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.

6. 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	1,558,519,309.65	4,736,249.82	1,553,783,059.83	1,279,086,935.83	4,092,497.08	1,274,994,438.75
Work-in-progress	415,593,344.57	-	415,593,344.57	196,583,804.97	-	196,583,804.97
Finished goods	3,868,735,444.19	316,870,213.78	3,551,865,230.41	3,598,361,044.81	190,211,526.56	3,408,149,518.25
Completed but unsettled assets formed by construction contracts	203,862,518.60	-	203,862,518.60	60,604,549.68	-	60,604,549.68
Total	6,046,710,617.01	321,606,463.60	5,725,104,153.41	5,134,636,335.29	194,304,023.64	4,940,332,311.65

(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	2,542,286.05	-	1,898,533.31	-	4,736,249.82
Finished goods	190,211,526.56	228,959,145.12	-	107,143,721.89	4,843,263.99	316,870,213.78
Subtotal	194,304,023.64	231,501,431.17	-	109,042,255.20	4,843,263.99	321,606,463.60

Net realizable value of inventory is calculated based on estimated selling price less all estimated cost of completion, estimated sales expenses, and related tax fees. The write-offs of provision for inventories in the current reporting period are due to use or sale of inventories.

(3) Completed but unsettled assets formed by construction contracts at the end of December 31st 2018.

Unit: RMB

Item	Amount
Accumulated occurred costs of construction	3,951,469,639.19
Accumulated booked gross profit margin	262,224,571.96
Less: estimated losses	-
Settled amounts	2,756,423,950.27
Completed but unsettled assets formed by construction contracts	1,457,270,260.88
Including: other non-current assets (Note (V) 17)	1,253,407,742.28
Inventories	203,862,518.60

7. Non-current assets due within one year

Unit: RMB

Item	Closing Balance	Opening Balance
Long-term receivables due within one year (Note (V) 10)	380,795,020.47	66,566,230.12
Total	380,795,020.47	66,566,230.12

8. Other current assets

Unit: RMB

Item	Closing balance	Opening balance
Principal-guaranteed bank finance products	-	3,390,000,000.00
Deductible VAT input	608,132,453.24	286,332,435.43
Withhold and remit individual income tax	71,402,966.15	-
Prepaid corporate income tax	31,542,797.57	42,645,678.02
Prepaid tariff	12,880,594.90	-
Others	6,724,001.28	1,471,419.43
Total	730,682,813.14	3,720,449,532.88

9. Available-for-sale financial assets

(1) Available-for-sale financial assets

Unit: RMB

Item	Closing Balance			Opening Balance		
	Carrying amount	Provision for decline in value	Carrying Value	Carrying amount	Provision for decline in value	Carrying Value
Available-for-sale equity instruments	290,966,813.00	-	290,966,813.00	287,466,813.00	-	287,466,813.00
Measured by cost method	290,966,813.00	-	290,966,813.00	287,466,813.00	-	287,466,813.00
Total	290,966,813.00	-	290,966,813.00	287,466,813.00	-	287,466,813.00

(2) Closing balance of available-for-sale financial assets by 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.	32,430,800.00	-	-	32,430,800.00	-	-	-	-	8.1318	-
Hangzhou Confirmware Technology Co., Ltd.	26,629,200.00	-	-	26,629,200.00	-	-	-	-	9.5238	-
Nanwang Information Industry Group Ltd.	604,313.00	-	-	604,313.00	-	-	-	-	0.2518	-
Hangzhou Hikvision Equity Investment Partnership (Limited Partnership)	10,000.00	-	-	10,000.00	-	-	-	-	0.0017	-
CETC Finance Ltd. (Note 2)	227,792,500.00	-	-	227,792,500.00	-	-	-	-	3.8300	12,256,000.00
Zhengzhou Guokong Smart City Technology Ltd.	-	3,500,000.00	-	3,500,000.00	-	-	-	-	7.0000	-
Total	287,466,813.00	3,500,000.00	-	290,966,813.00	-	-	-	-	-	12,256,000.00

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.

10. Long-term receivables

(1) Details of long-term receivables

Unit: RMB

Item	Closing balance			Opening balance			Range of discount rate
	Carrying amount	Provision for decline in value	Carrying value	Carrying amount	Provision for decline in value	Carrying value	
Financial leases receivables	100,574,420.65	-	100,574,420.65	89,941,910.73	-	89,941,910.73	0.54% ~ 6.05%
Including: Unrealized income from financing	4,218,121.83	-	4,218,121.83	2,516,655.49	-	2,516,655.49	-
Installments for selling goods	985,732,967.99	-	985,732,967.99	-	-	-	4.24% ~ 6.45%
Including: Unrealized income from financing	167,871,990.88		167,871,990.88				-
Less: Non-current assets due within one year (Note (V) 7)	380,795,020.47	-	380,795,020.47	66,566,230.12	-	66,566,230.12	-
Total	705,512,368.17	-	705,512,368.17	23,375,680.61	-	23,375,680.61	-

(2) As of December 31st 2018,there is no termination of long-term receivables booking due to transfer of a financial asset.

(3) As of December 31st 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.

11. Long-term equity investment

Unit: RMB

The invested entity	Opening Balance	Decrease/Increase in the current reporting 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	-	-	3,563,480.71	-	-	-	-	-	41,771,440.45	-
Maxio Technology (Hangzhou) Ltd. (Note 1)	92,266,773.84	27,000,000.00	-	(12,615,600.21)	-	-	-	-	-	106,651,173.63	-
Zhiguang Hailian Big Data Technology Ltd. (Note 2)	-	10,000,000.00	-	-	-	-	-	-	-	10,000,000.00	-
Sanmenxia Xiaoyun Vision Technology Ltd. (Note 3)	-	4,900,000.00	-	(20,769.52)	-	-	-	-	-	4,879,230.48	-
Subtotal	130,474,733.58	41,900,000.00		(9,072,889.02)	-	-	-	-	-	163,301,844.56	-
Total	130,474,733.58	41,900,000.00	-	(9,072,889.02)	-	-	-	-	-	163,301,844.56	-

Note 1: According to the *Equity Capital Increase Agreements* signed between the Group and Maxio Technology (Hangzhou) Ltd. (hereinafter referred to Maxio Technology) and its shareholders, the Company increased capital investment of RMB 27 million on Maxio Technology, and increased capital has been paid by the end of the reporting year. 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.

Note 2: The Group signed an agreement with independent third party Tianjin Xinzhi Video Technology Co., Ltd. and Guizhou Province Radio and Television Information Network Co., Ltd. on the establishment of Zhiguang Hailian Big Data Technology Ltd. (hereinafter referred to as "Zhiguang Hailian"). According to the agreement, the Company invested RMB 20 million and the equity ratio obtained was 20%. As of the reporting year end, the Company has actually paid over RMB 10 million. The board of directors of Zhiguang Hailian consists of five directors, of which one director is appointed by the Company, who exerts a significant influence on Zhiguan Hailian.

Note 3: This year, the Group signed an agreement with the independent third party Sanmenxia Xiaoyun Information Service Co., Ltd. on the establishment of Sanmenxia Xiaoyun Vision Technology Ltd. (hereinafter referred to as "Vision Technology"). The Company's subsidiary, Hangzhou Hikvision System Technology Ltd. (hereinafter referred to as "Hangzhou System"), contributed RMB 4.90 million, which was paid in full by Hangzhou System by the end of the year, and the proportion of equity acquired was 49%. The board of directors of Vision Technology consists of three directors, of which one director is appointed by Hangzhou System, who exerts a significant influence on Vision Technology.

12. Fixed Assets

(1) Details of fixed assets

Unit: RMB

Items	Building and construction	General-purpose equipment	Special-purpose equipment	Transportation vehicles	Total
Total original carrying amount					
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 current reporting period	2,034,093,829.56	258,239,589.14	169,061,686.04	23,736,103.76	2,485,131,208.50
1) purchase	1,883,571.53	255,563,691.31	158,636,847.84	23,736,103.76	439,820,214.44
2) transferred from construction in progress	2,032,210,258.03	2,675,897.83	10,424,838.20	-	2,045,310,994.06
3.Decrease in the current reporting period	14,085,354.76	9,617,141.57	3,323,406.36	7,323,639.79	34,349,542.48
1) disposal or write-off	14,085,354.76	9,617,141.57	3,323,406.36	7,323,639.79	34,349,542.48
4. Effect of foreign currency exchange difference	2,290,994.48	(238,678.93)	(400,631.58)	(65,436.92)	1,586,247.05
5.Closing Balance	4,657,871,649.90	480,490,219.61	1,093,093,470.72	78,724,224.02	6,310,179,564.25
Accumulated depreciation					
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 current reporting period	164,921,860.14	56,852,833.36	187,839,213.02	7,904,995.06	417,518,901.58
(1) provided	164,921,860.14	56,852,833.36	187,839,213.02	7,904,995.06	417,518,901.58
3.Decrease in the current reporting period	3,629,580.00	10,257,335.50	2,821,773.06	6,599,778.84	23,308,467.40
(1) disposal or write-off	3,629,580.00	10,257,335.50	2,821,773.06	6,599,778.84	23,308,467.40
4. Effect of foreign currency exchange difference	76,627.53	(226,067.98)	(51,700.61)	(31,043.84)	(232,184.90)
5.Closing balance	549,468,936.19	131,087,047.49	504,998,831.89	42,209,588.58	1,227,764,404.15
Provision for decline in value					
1.Opening balance	-	-	-	-	-
2.Increase in the current reporting period	-	-	-	-	-
3. Decrease in the current reporting period	-	-	-	-	-
4.Closing balance	-	-	-	-	-
Total carrying value					
1. Closing balance	4,108,402,713.71	349,403,172.12	588,094,638.83	36,514,635.44	5,082,415,160.10
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 December 31st 2018, the Group did not have any significant idle fixed assets.
(3) As of December 31st 2018, the Group had not leased any fixed asset through financial leasing.
(4) As of December 31st 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 December 31st 2018.

Unit: RMB

Item	Carrying amount	Reason for certificates of title not granted
Office building for branches	38,620,111.22	In the process of obtaining the real estate certificates
Phase I Plant of Chongqing Production Base	277,289,173.62	In the process of obtaining the real estate certificates after transferred from construction in process to fixed assets
Total	315,909,284.84	

13. Construction in progress

(1) Details of construction in progress

Unit: RMB

Item	Closing balance			Opening balance		
	Carrying amount	Provision	Carrying value	Carrying amount	Provision	Carrying value
Security industrial base (Tonglu) -Phase 2	-	-	-	300,688,913.96	-	300,688,913.96
Internet Video Industry Base	-	-	-	914,014,265.08	-	914,014,265.08
Public Security Monitoring Site Project	291,404,089.32	-	291,404,089.32	105,039,082.92	-	105,039,082.92
Hangzhou Innovation Industrial Base	50,840,516.83	-	50,840,516.83	-	-	-
Others	73,847,807.27	-	73,847,807.27	116,576,856.34	-	116,576,856.34
Total	416,092,413.42	-	416,092,413.42	1,436,319,118.30	-	1,436,319,118.30

(2) Changes in significant construction in progress during the current reporting period

Unit: RMB

Item	Budget (RMB 0,000)	Opening balance	Increase in the current reporting period	Transferred to fixed assets during the current reporting period	Effect of foreign currency exchange difference	Other Reductions (Note 1)	Closing balance	Amount invested as a proportion of budget amount (%)	Construction in Progress (%)	Accumulated capitalized interest and profit/loss on exchange (Note 2)	Including: capitalized interest and profit/loss on exchange for the current reporting period	Capitalization rate for interest in the current reporting period (%)	Source of funds
Internet Video Industry Base	108,000.00	914,014,265.08	171,166,453.22	1,085,180,718.30	-	-	-	100%	100%	231,020,655.04	24,249,143.13	1.25%	Bond
Security industrial base (Tonglu) project-Phase 2	64,000.00	300,688,913.96	341,337,980.27	642,026,894.23	-	-	-	100%	100%	(87,331,908.38)	(87,331,908.38)	1.25%	Bond
Chongqing Manufacture Base	27,700.00	89,393,611.81	187,895,561.81	277,289,173.62	-	-	-	100%	100%	-	-	-	Self-financing
Hangzhou Innovation Industry Base	102,600.00	-	50,840,516.83	-	-	-	50,840,516.83	4.96%	4.96%	-	-	-	Self-financing
Chengdu Science and Technology Base Project	135,100.00	-	6,577,446.74	-	-	-	6,577,446.74	0.49%	0.49%	-	-	-	Self-financing
Chongqing Science and Technology	76,200.00	-	2,257,412.05	-	-	-	2,257,412.05	0.30%	0.30%	-	-	-	Self-financing

Item	Budget (RMB 0,000)	Opening balance	Increase in the current reporting period	Transferred to fixed assets during the current reporting period	Effect of foreign currency exchange difference	Other Reductions (Note 1)	Closing balance	Amount invested as a proportion of budget amount (%)	Construction in Progress (%)	Accumulated capitalized interest and profit/loss on exchange (Note 2)	Including: capitalized interest and profit/loss on exchange for the current reporting period	Capitalization rate for interest in the current reporting period (%)	Source of funds
Base project-phase 2													
Xi'an Science and Technology Base project	113,400.00	-	1,664,067.68	-	-	-	1,664,067.68	0.15%	0.15%	-	-	-	Self-financing
Wuhan Science and Technology Base project	254,200.00	-	1,641,509.43	-	-	-	1,641,509.43	0.06%	0.06%	-	-	-	Self-financing
Wuhan Intelligent Industry Base project	238,700.00	-	934,836.51	-	-	-	934,836.51	0.04%	0.04%	-	-	-	Self-financing
Others	-	132,222,327.45	316,625,325.55	40,814,207.91	1,145,681.50	57,002,502.41	352,176,624.18	-	-	-	-	-	Self-financing
Total	1,119,900.00	1,436,319,118.30	1,080,941,110.09	2,045,310,994.06	1,145,681.50	57,002,502.41	416,092,413.42	-	-	143,688,746.66	(63,082,765.25)	-	-

Note 1：Other reductions during the current reporting period were completed construction of assets under financial leasing project that transferred into long-term receivables.

Note 2: This amount is calculated by interest expense for specific foreign currency borrowings, less interest income for unused borrowing fund and profit/loss on exchange rate difference.

As of December 31st 2018, the Group did not have any sign of impairment of projects under construction; therefore, no provision for impairment loss was booked.

14. Intangible assets

(1) Details of Intangible assets

Unit: RMB

Item	Land use right	Intellectual property right	Application Software	Total
Total original carrying amount				
1.Opening balance	324,362,066.44	39,269,042.11	182,640,105.31	546,271,213.86
2. Increased	451,227,259.69	106,965.02	53,278,481.88	504,612,706.59
(1) Purchase	451,227,259.69	106,965.02	53,278,481.88	504,612,706.59
3.Decreased	-	106,965.02	3,201,729.94	3,308,694.96
(1)Disposal or write-off	-	106,965.02	3,201,729.94	3,308,694.96
4.Effect of foreign currency exchange difference	-	1,755.77	409,263.61	411,019.38
5.Closing balance	775,589,326.13	39,270,797.88	233,126,120.86	1,047,986,244.87
Total accumulated amortization				
1.Opening balance	18,571,240.39	12,058,812.00	86,480,178.84	117,110,231.23
2.Increased	16,295,483.25	7,207,993.49	38,657,773.85	62,161,250.59
(1)Provided	16,295,483.25	7,207,993.49	38,657,773.85	62,161,250.59
3.Decreased	-	66,848.75	1,286,916.13	1,353,764.88
(2)Disposal or write-off	-	66,848.75	1,286,916.13	1,353,764.88
4.Effect of foreign currency exchange difference	-	1,112.73	154,365.11	155,477.84
5. Closing balance	34,866,723.64	19,201,069.47	124,005,401.67	178,073,194.78
Provision for decline in value				
1.Opening balance	-	-	-	-
2.Increased	-	-	-	-
3. Decreased	-	-	-	-
4.Closing balance	-	-	-	-
Total carrying value				
Closing carrying value	740,722,602.49	20,069,728.41	109,120,719.19	869,913,050.09
Opening carrying value	305,790,826.05	27,210,230.11	96,159,926.47	429,160,982.63

15. 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.	42,695,573.44	-	-	-	42,695,573.44
Henan HuaAn Intelligence Development Ltd. and its subsidiaries	61,322,871.63	-	-	-	61,322,871.63
Hundure Technology (Shanghai) Ltd.	13,774,405.88	-	-	-	13,774,405.88
Hangzhou Haikang Zhicheng Investment and Development Ltd.	12,573.42	-	-	-	12,573.42
Secure Holdings Limited (SHL)	131,091,328.96	-	-	6,000,807.70	137,092,136.66
Total	248,964,102.97	-	-	6,000,807.70	254,964,910.67

(2) Provision of impairment in goodwill

Unit: RMB

Invested Company	Opening balance	Increased	Decrease	Effect of foreign currency exchange difference	Closing Balance
		Provision	Disposal		
Beijing Bangnuo Storage Technology Ltd.	-	42,695,573.44	-	-	42,695,573.44
Total	-	42,695,573.44	-	-	42,695,573.44

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 2019-2023 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.

During the current reporting year, the Group assessed the recoverable amount of goodwill and determined that the goodwill related to Beijing Bangnuo Storage Technology Ltd. was impaired. Therefore, goodwill in the relevant asset group was fully provided with impairment provision amounting to RMB 42,695,573.44. As of the year end, Beijing Bangnuo Storage Technology Ltd. has entered the cancellation process.

16. 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	1,364,242,526.16	322,143,179.09	1,162,036,595.26	252,830,021.37
Payroll payables	220,173,893.79	33,026,084.07	253,384,576.51	38,007,686.48
Share-based compensation	115,893,666.94	18,240,425.31	208,856,209.85	32,070,672.55
Provisions	52,956,535.09	7,943,480.27	43,024,784.70	6,453,717.71
Expenditure without invoice	113,835,410.80	17,075,311.62	-	-
Unrealized profit from inter-group transactions	892,163,728.04	133,824,559.21	978,313,377.64	146,747,006.65
Changes in the fair value of derivative financial instruments	275,080.00	68,770.00	15,946,836.46	3,986,709.12
Deferred income	186,747,708.01	28,012,156.20	-	-
Total	2,946,288,548.83	560,333,965.77	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	1,482,366.03	370,591.51	4,100,657.54	1,025,164.39
Difference in fixed asset depreciation	170,081,176.39	25,512,176.46	-	-
Difference in amortization of intangible assets	695,043.70	104,256.55	-	-
Total	172,258,586.12	25,987,024.52	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 at the end of the reporting period	Deferred tax assets or liabilities at the net amount after offset	Offset amount at the beginning of the reporting period	Deferred tax assets or liabilities at the net amount after offset
Deferred tax assets	25,987,024.52	534,346,941.25	1,025,164.39	479,070,649.49
Deferred tax liabilities	25,987,024.52	-	1,025,164.39	-

(4) Unrecognized deferred income tax assets

Unit: RMB

Item	Closing balance	Opening balance
Deductible temporary difference	811,602,394.93	628,129,115.31
Deductible losses	935,162,077.25	520,259,773.50
Total	1,746,764,472.18	1,148,388,888.81

(5) Deductible losses of unrecognized deferred income tax assets that will expire in the following years

Unit: RMB

Year	Closing balance	Opening balance
2018	-	6,269,195.05
2019	5,645,442.54	5,645,442.54
2020	3,636,058.38	3,636,058.38
2021	103,268,429.06	172,921,472.26
2022	331,787,605.27	331,787,605.27
2023	490,824,542.00	-
Total	935,162,077.25	520,259,773.50

17. Other non-current assets

Unit: RMB

Item	Closing balance	Opening balance
Completed but unsettled assets formed by construction contracts (Note (V) 6)	1,253,407,742.28	488,178,801.99
Prepayments for equipment	196,992,554.09	52,356,860.27
Prepayments for acquisition of land	98,000,000.05	314,410,044.45
Prepayments for infrastructure	32,759,311.95	3,850,961.42
Prepayments for purchase of property	1,590,992.43	-
Total	1,582,750,600.80	858,796,668.13

18. Short-term borrowings

(1) Categories of short-term loans

Unit: RMB

Item	Closing balance	Opening balance
Guaranteed loans	3,166,655,588.29	74,622,548.39
Fiduciary loan	247,000,100.00	10,492,107.52
Pledged loans	52,000,000.00	12,000,000.00
Total	3,465,655,688.29	97,114,655.91

(2) As of December 31st 2018, the Group did not have any overdue short-term loans that were failed to repay.

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

Unit: RMB

Item	Closing balance	Opening balance
Held-for-trading financial liabilities	290,998.43	15,946,836.46
Including: derivative financial liabilities	290,998.43	15,946,836.46
total	290,998.43	15,946,836.46

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

20. Notes payable & Accounts payable

20.1 Categories

Unit: RMB

Item	Closing balance	Opening balance
Notes payable	463,479,760.54	845,397,427.92
Accounts payable	10,301,665,725.20	10,039,943,012.26
Total	10,765,145,485.74	10,885,340,440.18

20.2 Notes payable

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance Bill	463,479,760.54	845,397,427.92
Total	463,479,760.54	845,397,427.92

As of December 31st 2018, the Group did not have any unpaid matured notes payable.

20.3 Accounts payable

(1) List of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Payments for goods	10,208,299,054.08	9,948,393,218.09
Payables on equipment	93,366,671.12	91,549,794.17
Total	10,301,665,725.20	10,039,943,012.26

As of December 31st 2018, the Group did not have any significant accounts payable with aging above one year.

21. Receipts in advance

(1) List of receipts in advance

Unit: RMB

Item	Closing balance	Opening balance
Advanced receipts from sales of goods	449,150,259.60	417,208,664.56
Advanced receipts from construction contracts	192,280,230.62	153,364,544.04
Total	641,430,490.22	570,573,208.60

(2) As of December 31st 2018, the Group did not have any significant receipts in advance with aging above one year

22. Payroll payable

(1) Details of payroll payable

Unit: RMB

Item	Opening balance	Increase in the current reporting period	Decrease in the current reporting period	Closing balance
1.Short-term remuneration	1,387,542,162.19	7,163,307,772.49	6,635,595,690.55	1,915,254,244.13
2. Termination benefits – defined contribution scheme	3,749,094.71	458,228,615.92	455,623,850.72	6,353,859.91
Total	1,391,291,256.90	7,621,536,388.41	7,091,219,541.27	1,921,608,104.04

(2) List of Short-term remuneration

Unit: RMB

Item	Opening balance	Increase in the current reporting period	Decrease in the current reporting period	Closing balance
1.Wages or salaries, bonuses, allowances and subsidies	1,317,396,875.01	6,240,288,518.67	5,763,694,461.00	1,793,990,932.68
2.Staff welfare	5,090,949.83	186,948,698.09	191,146,525.46	893,122.46
3.Social insurance contributions	3,010,470.90	326,976,000.47	326,752,046.83	3,234,424.54
Including: medical insurance	2,966,831.43	285,393,088.52	285,372,431.39	2,987,488.56
Injury insurance	9,592.94	12,634,957.38	12,587,146.82	57,403.50
Maternity insurance	34,046.53	28,947,954.57	28,792,468.62	189,532.48
4.Housing funds	109,455.82	290,592,426.25	290,654,271.67	47,610.40
5.Labor union and education fund	61,934,410.63	118,502,129.01	63,348,385.59	117,088,154.05
subtotal	1,387,542,162.19	7,163,307,772.49	6,635,595,690.55	1,915,254,244.13

(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	442,866,778.48	440,126,577.04	6,270,825.40
Unemployment insurance	218,470.75	15,361,837.44	15,497,273.68	83,034.51
Subtotal	3,749,094.71	458,228,615.92	455,623,850.72	6,353,859.91

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.

The Group shall pay a total of RMB 442,866,778.48 and RMB 15,361,837.44 (2017: RMB 293,546,430.53 and RMB 13,341,057.64) to the pension insurance and unemployment insurance schemes respectively. On December 31st 2018, the Group still had RMB 6,270,825.40 and RMB 83,034.51 (December 31st 2017: RMB 3,530,623.96 and RMB 218,470.75) payable expenses for pension insurance and unemployment insurance plans that were due during the reporting period but were not paid. The relevant dues have been paid off after the reporting period.

23. Taxes payable

Unit: RMB

Item	Closing balance	Opening balance
Enterprise income tax	1,085,546,102.66	1,099,786,533.85
Value-added tax	242,237,174.61	281,447,062.92
City construction and maintenance tax	26,667,741.79	19,789,046.85
Education surcharges	11,563,769.42	8,501,502.81
Local education surcharges	7,686,512.17	5,666,165.96
Others	45,220,363.92	38,324,753.38
Total	1,418,921,664.57	1,453,515,065.77

24. Other payables

24.1 Categories

Unit: RMB

Item	Closing balance	Opening balance
Dividend payable	119,917,640.92	94,857,139.16
Other payables	2,833,285,550.07	401,861,078.67
Total	2,953,203,190.99	496,718,217.83

24.2 Dividend payable

Unit: RMB

Item	Closing balance	Opening balance
Dividends of restricted shares	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

24.3 Other payables

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

Unit: RMB

Item	Closing balance	Opening balance
Share incentive funds (Note)	2,057,898,876.84	-
Accrued expenses	297,778,297.42	149,359,652.21
Guarantee and deposit fees	212,959,951.64	145,730,079.74
Collection and payment on behalf	124,191,240.27	87,921,755.93
Unexpired commercial acceptance bills that were endorsed	94,097,879.36	-
Other expense payable	46,359,304.54	18,849,590.79
Total	2,833,285,550.07	401,861,078.67

Note: As of December 31st 2018, the restricted stock funds received by the Group for 2018 share incentive scheme amounted to RMB 2,057,898,876.84 (see Note XI for details), and the stock registration was not completed. This part of the stock has completed the equity registration work on January 18th 2019.

(2) As of December 31st 2018, the Group does not have any significant other payables aging over one year.

25. Non-current liabilities due within one year

Unit：RMB

Item	Closing balance	Opening balance
Bonds Payable due within one year (Note (V) 28)	3,172,727,888.37	33,614,018.51
Long-term borrowings due within one year (Note (V) 27)	2,984,575.25	1,512,793,252.38
Long-term payables due within one year	2,458,683.54	-
Total	3,178,171,147.16	1,546,407,270.89

26. Other current liabilities

Unit: RMB

Item	Closing balance	Opening balance
Subscription payment of restricted shares	364,984,759.94	744,583,627.22
Total	364,984,759.94	744,583,627.22

27. Long-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Pledged loan (Note 1)	251,000,000.00	310,473,667.00
Fiduciary loan	1,984,575.25	2,319,585.38
Guaranteed loans	-	1,500,000,000.00
Other borrowing (Note 2)	190,000,000.00	190,000,000.00
Less：Long-term loans due within one year (Note (V) 25)	2,984,575.25	1,512,793,252.38
Total	440,000,000.00	490,000,000.00

As of December 31st 2018, the GBP loans with carrying value of RMB 857,412.45, carry annual interest rate of 2.40% to 2.50% (December 31st 2017: 2.40% to 2.50%); the RMB loan, with carrying value RMB 442,127,162.80, carry annual interest rate ranging from 4.445% to 4.900% (December 31st 2017: 2.65% to 5.00%).

Note 1: As of December 31st 2018, the pledged loan was obtained by the Group with all the rights and benefits pledged under the *Public Security Video Surveillance Network Application Construction-Public-Private Partnership (PPP) Project Agreement*; the maturity date is November 5th 2031. Among them, the annual interest rate of RMB 250,000,000.00 is 4.445%, and the annual interest rate of RMB 1,000,000.00 is 4.900%.

As of December 31st 2017, the Group's RMB 300,000,000.00 pledged loan was pledged by VAT Rebate Account under the Company's wholly-owned subsidiary, Hangzhou HIK Science and Technology Ltd., the balance of VAT Rebate Account is not less than RMB 5,000,000.00 according to the contract, maturity date is February 16th 2019, annual interest rate is 2.65%; this loan was returned in advance in 2018. Besides, the Company bear joint liability guarantee for the loan. As of December 31st 2017, The RMB borrowings with a carrying amount of RMB 10,473,667.00 under the pledged loan were obtained by the Group with a pledge of accounts receivable with a book value of RMB 60,646,697.33; the maturity date is September 21st 2018, and the annual interest rate is 5.00%.

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 reporting period by installments each year from 2021 to 2024. Therefore, the capital injection by CDBDF is treated as a

long-term loan. As of December 31st 2018, CDBDF has aggregately invested RMB 190 million (December 31st 2017: RMB 190 million).

28. 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	Issued in the current reporting period	Effects of changes in Foreign exchange	Interests expenses accrued based on the principal amount	Repayments in the current reporting period	Less: Amount due within one year (Note (V) 25)	Closing balance
Irish Euro Bond (Note)	Euro 400,000,000.00	February 18th 2016	3 years	2,903,120,000.00	3,154,534,018.51	-	18,319,994.86	38,982,875.00	39,109,000.00	3,172,727,888.37	-
Total	Euro 400,000,000.00			2,903,120,000.00	3,154,534,018.51	-	18,319,994.86	38,982,875.00	39,109,000.00	3,172,727,888.37	-

Note: On February 3rd, 2016, the Company publically issued the bond with nominal value amounting to Euro 400 million ("Euro Bond"); and the bond was settled, listed and traded on the Irish Stock Exchange on February 18th, 2016. The Euro Bond has a maturity term for 3 years, maturity date is February 18th, 2019, the issuance price of the bond is 99.959% of the principal value, and coupon rate is 1.25%, with interest payment date of February 18th 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. On February 18th 2019, the Company had fully repaid the principal and interest of the bonds.

29. Provisions

Unit: RMB

Item	Closing balance	Opening balance
Product warranty	77,625,238.49	63,068,638.49
Total	77,625,238.49	63,068,638.49

30. Deferred income

Unit: RMB

Item	Opening balance	Increase in current reporting period	Decrease in current reporting period	Closing balance	Details
Cloud storage service income	26,022,171.65	127,494,411.81	94,825,957.09	58,690,626.37	Note 1
Government Subsidies	62,903,600.00	221,389,300.00	49,804,437.24	234,488,462.76	Note 2
Total	88,925,771.65	348,883,711.81	144,630,394.33	293,179,089.13	

As of December 31st 2018, the deferred income related to government subsidies:

Unit: RMB

Liability Items	Opening Balance	Increase in current reporting period	Amounts booked into other income during the current reporting period	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	136,074,800.00	43,222,036.99	-	131,567,063.01	Related to incomes
Chongqing Manufacture Base construction	24,189,300.00	24,189,300.00	403,155.00	-	47,975,445.00	Related to assets
Other special subsidies	-	33,384,445.24	1,415,094.30	-	31,969,350.94	Related to incomes
Other special subsidies	-	27,740,754.76	4,764,150.95	-	22,976,603.81	Related to assets
Subtotal	62,903,600.00	221,389,300.00	49,804,437.24	-	234,488,462.76	

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, Chongqing Manufacture Base construction, and other projects; Actual expenses occurred in the current year for projects of core electronic devices, high-end universal chips and basic software products and other special subsidies related to incomes were recognized in other income; and relevant assets for Chongqing Manufacture Base construction and other special subsidies related to assets were amortized averagely in other income within the assets' useful lives.

31. Share capital

Unit: RMB

	Opening balance	Changes for the period					Closing balance
		New issue of shares (Note 1)	Bonus issue (Note 2)	Transfer from Capital Reserve (Note 2)	Others (Note 3)	Subtotal	
2018							
Total shares	9,228,865,114.00	-	-		(1,594,641.00)	(1,594,641.00)	9,227,270,473.00
2017							
Total shares	6,102,706,885.00	52,326,858.00	3,076,288,371.00		(2,457,000.00)	3,126,158,229.00	9,228,865,114.00

Note 1: On December 23rd 2016, pursuant to the *Articles of Association* of the Company revised by the resolution of 20th Meeting of the 3rd session Board of Directors authorized by the 2nd extraordinary general meeting in 2016, the company was approved to grant 52,326,858 shares RMB common shares to 2,936 grantees, with face value of RMB 1.00 per share and issuing price of RMB 12.63 per share. Equity registration for those granted shares were completed on January 20th 2017, which increased the paid-in capital of RMB 52,326,858.00 in the current year and resulted in capital reserve of RMB 608,561,358.54.

Note 2：Pursuant to shareholder's resolution of 2016 annual General Meeting dated on May 4th 2017, based upon the total capital share of 6,152,576,743.00 shares on equity distribution date, the company distributed 5 bonus shares for each 10 common shares (tax inclusive), resulted in 3,076,288,371 shares increase in total shares, with face value of RMB 1.00 per share, and a total increase in capital share of RMB 3,076,288,371.00.

Note 3：On December 15th 2017, pursuant to the *Articles of Association* of the Company revised by the resolution of 26th General Meeting of 3rd 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 27th 2018.

On December 6th 2016, pursuant to the *Articles of Association* of the Company revised by the resolution of 19th General Meeting of 3rd session Board of Directors authorized by the first Extraordinary General Meeting in 2014, the Company repurchased and cancelled 2,457,000 granted but restricted treasury shares by cash, and the total share capital of the Company decreased by RMB 2,457,000.00, capital reserve decreased by RMB 12,694,500.00. The registration procedures were completed on April 27th 2017.

32. Capital reserves

Unit: RMB

Item	Opening balance	Increase in the current reporting period (Note 1)	Decrease in the current reporting period (note 2)	Closing balance
2018				
Share premium	1,594,317,396.71	243,326,385.07	8,726,236.39	1,828,917,545.39
Other capital reserves	225,080,318.92	145,468,181.28	243,326,385.07	127,222,115.13
Total	1,819,397,715.63	388,794,566.35	252,052,621.46	1,956,139,660.52
2017				
Share premium	906,039,832.49	716,962,658.24	28,685,094.02	1,594,317,396.71
Other capital reserves	142,281,021.17	191,200,597.45	108,401,299.70	225,080,318.92
Total	1,048,320,853.66	908,163,255.69	137,086,393.72	1,819,397,715.63

Note 1：This increase in share premium during the current reporting period was due to the share distributions by equity settlements for stock exercise, transferring other capital reserves into share premium of RMB 243,326,385.07.

During the current reporting period, the increase of RMB 145,468,181.28 in other capital reserves is due to recognition of equity investment payments into capital reserve; please refer to Note (XI).

Note 2：The decrease of RMB 4,961,105.33 in share premium during the current reporting period was due to the Company's repurchase of 1,594,641 granted but restricted RMB treasury shares by cash, please refer to Note (V) 31-Note 3; The decrease of RMB 3,765,131.06 in share premium during the current reporting period was due to share distributions by equity settlements to minority shareholders.

33. Treasury shares

Unit: RMB

Item	Opening Balance	Increase in the current reporting period (Note 1)	Decrease in the current reporting period (Note 2)	Closing balance
2018				
Restricted shares incentive scheme	744,583,627.22	-	379,598,867.28	364,984,759.94
Total	744,583,627.22	-	379,598,867.28	364,984,759.94
2017				
Restricted shares incentive scheme	300,177,750.17	660,888,216.54	216,482,339.49	744,583,627.22
Total	300,177,750.17	660,888,216.54	216,482,339.49	744,583,627.22

Note 1：The increase of treasury shares was due to granting 52,326,858 shares RMB common shares to 2,936 grantees, with issuing price of RMB 12.63 per share on December 23rd 2016. Please refer to Note (V) 31-Note 1.

Note 2: During the current year, the decreased amounts of treasury shares includes a decrease of RMB 5,452,943.05 due to the repurchase and cancellation of 1,594,641 restricted RMB ordinary shares of 2014 Restricted Share Incentive Scheme; a decrease of RMB 56,211,224.00 due to provision of cash dividend allocated to restricted shareholders; a decrease of RMB 91,280,659.43 due to the vesting and exercising of 33,422,536 shares for the maturity of 3rd vesting period of 2014 Restricted Share Incentive Scheme; and a decrease of RMB 226,654,040.80 due to the vesting and exercising of 30,140,165 shares for the maturity of 1st vesting period of 2016 Restricted Share Incentive Scheme.

During the prior year, the decreased amounts in treasury shares includes a decrease of RMB 15,151,500.00 due to the repurchase and cancellation of 2,457,000 restricted ordinary shares of 2014 Restricted Share Incentive Scheme; a decrease of RMB 92,407,139.16 due to provision of cash dividend allocated to restricted shareholders; and a decrease of RMB 108,923,700.33 due to the vesting and exercising of 33,803,907 shares for the maturity of 2nd vesting period of 2014 Restricted Share Incentive Scheme.

34. Other comprehensive income

Unit: RMB

Item	Opening balance	Change for the current reporting 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							
Other incomes that may be reclassified subsequently to profit or loss	(27,677,939.35)	(24,062,992.06)	-	-	(21,898,411.75)	(2,164,580.31)	(49,576,351.10)
Included: Effect on conversion of financial statements denominated in foreign currencies	(27,677,939.35)	(24,062,992.06)	-	-	(21,898,411.75)	(2,164,580.31)	(49,576,351.10)
Other comprehensive income	(27,677,939.35)	(24,062,992.06)	-	-	(21,898,411.75)	(2,164,580.31)	(49,576,351.10)
2017							
Other incomes that may be reclassified subsequently to profit or loss	(41,230,777.21)	13,852,652.33	-	-	13,552,837.86	299,814.47	(27,677,939.35)
Included: Effect on conversion of financial statements denominated in foreign currencies	(41,230,777.21)	13,852,652.33	-	-	13,552,837.86	299,814.47	(27,677,939.35)
Other comprehensive income	(41,230,777.21)	13,852,652.33	-	-	13,552,837.86	299,814.47	(27,677,939.35)

35. Surplus reserves

Unit: RMB

Item	Surplus reserve	Increase in the current reporting period	Decrease in the current reporting period	Closing balance
2018				
Statutory surplus reserves (Note)	3,483,742,918.53	976,969,439.92	-	4,460,712,358.45
Total	3,483,742,918.53	976,969,439.92	-	4,460,712,358.45
2017				
Statutory surplus reserves (Note)	2,615,437,822.15	868,305,096.38	-	3,483,742,918.53
Total	2,615,437,822.15	868,305,096.38	-	3,483,742,918.53

Note: According to the *Company Law* and the *Articles of Association* of the Company, the Group shall make statutory surplus reserves for 10% of the parent company's net profit.

36. Retained earnings

Unit: RMB

Item	2018	2017
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	-	(5,807,678.26)
Adjusted retained earnings at the beginning of the period	16,598,328,692.63	14,860,650,178.39
Add: Net profit attributable to owners of the Company for the current period	11,352,869,241.32	9,410,855,084.82
Less: Appropriation to statutory surplus reserve	976,969,439.92	868,305,096.38
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	22,360,593,257.53	16,598,328,692.63

Note: According to the resolution of 2017 annual General Meeting dated on May 11th 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.

37. Operating income/operating cost

Unit: RMB

Item	2018		2017	
	Revenue	Cost	Revenue	Cost
Operating income	49,295,187,751.22	27,196,229,537.02	41,433,492,971.64	23,281,637,281.80
Other operating income	541,944,730.39	287,240,018.22	471,983,600.43	185,673,308.96
Total	49,837,132,481.61	27,483,469,555.24	41,905,476,572.07	23,467,310,590.76

38. Business Taxes and Surcharges

Unit: RMB

Items	2018	2017
City construction and maintenance tax	211,078,359.19	184,178,487.72
Education surcharges	90,741,825.21	79,171,750.66
Local education surcharges	60,416,824.31	52,554,052.44
Stamp duty	23,480,129.33	21,204,038.05
Real estate tax	22,533,688.75	27,313,836.21
Tax on use of land	5,802,424.47	3,809,143.26
Vehicle and vessel tax	230,511.99	359,385.12
Others	4,039,290.39	2,403,130.99
Total	418,323,053.64	370,993,824.45

39. Selling expenses

Unit：RMB

Items	2018	2017
Payroll	3,042,017,625.28	2,059,369,959.77
Marketing Expenses	1,009,897,096.88	989,796,431.96
Shipping, transportation, and vehicle expense	615,804,479.82	524,069,679.12
Travelling expenses	361,180,853.78	237,314,257.81
Business entertainment	160,025,004.46	125,379,736.40
Office expenses	169,194,478.31	170,953,756.11
Professional Intermediary expenses	142,079,756.94	61,246,276.11
Rental expenses	139,899,056.72	114,093,486.77
Depreciation and amortization expenses	79,460,744.36	71,891,477.67
Others	172,941,309.97	76,105,003.41
Total	5,892,500,406.52	4,430,220,065.13

40. Administrative Expenses

Unit：RMB

Items	2018	2017
Payroll	820,726,311.40	603,359,766.87
Office expenses	136,511,246.38	94,520,352.22
Depreciation and amortization expenses	91,425,634.46	65,761,526.31
Travelling expenses	64,067,674.29	62,187,444.48
Shipping, transportation, utility expense	46,011,849.69	31,626,528.25
Professional Intermediary expenses	42,816,965.71	27,989,898.95
Rental expenses	22,313,258.20	37,430,367.92
Business entertainment	5,186,034.09	13,092,056.07
Others	146,954,708.57	75,246,516.22
Total	1,376,013,682.79	1,011,214,457.29

41. R&D Expenses

Unit：RMB

Items	2018	2017
Payroll	3,259,555,224.24	2,389,327,036.58
Consumables and service fees	455,302,393.17	271,984,271.83
Office expenses	155,140,877.67	140,334,835.75
Depreciation and amortization expenses	152,029,898.69	115,713,790.11
New product design fees	132,612,918.48	21,670,917.63
Travelling expenses	124,739,331.81	80,919,135.10
Intermediate testing fees	117,034,981.47	86,804,811.03
Rental expenses	26,312,384.22	11,800,310.70
Others	60,052,683.66	75,667,999.43
Total	4,482,780,693.41	3,194,223,108.16

42. Financial Expenses

Unit: RMB

Items	2018	2017
Interest expenses	176,236,038.18	144,540,387.42
Less：Interest income	476,088,318.21	270,155,908.15
Effect on changes in foreign exchange	(208,897,575.81)	685,439,581.63
Less：Foreign exchange differences on specific loan and the capitalized specific loan interests	(63,082,765.25)	311,771,511.91
Others	21,409,193.83	17,358,738.67
Total	(424,257,896.76)	265,411,287.66

43. Impairment losses of assets

Unit: RMB

Items	2018	2017
Inventory devaluation	231,501,431.17	160,349,172.37
Bad debt	152,752,018.44	324,219,726.79
Goodwill devaluation	42,695,573.44	-
Total	426,949,023.05	484,568,899.16

44. Other income

Unit: RMB

Item	2018	2017	Amounts booked into current year non-recurring gains and losses
VAT Rebates	1,772,810,771.85	1,503,184,391.37	-
Special subsidies	295,650,812.88	146,314,453.00	295,650,812.88
Tax refunds	15,535,482.64	23,753,007.89	15,535,482.64
Total	2,083,997,067.37	1,673,251,852.26	311,186,295.52

45. Investment income

(1) Details of investment income

Unit: RMB

Item	2018	2017
Long-term equity investment losses based on equity method	(9,072,889.02)	(2,525,266.42)
Investment income (losses) on disposal of financial assets at fair value through profits and losses	(40,669,470.74)	15,885,274.53
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	89,416,000.39	22,784,254.59
Total	51,929,640.63	44,650,105.12

46. Profits (losses) from changes in fair values

Unit: RMB

Sources of gains/losses from changes in fair values	2018	2017
Financial assets at fair value through profits and losses	(2,249,271.02)	(11,752,575.40)
Including: Profits (losses) on the changes in fair value of derivative financial instruments	(2,249,271.02)	(11,752,575.40)
Financial liabilities at fair value through profits and losses	15,656,203.19	53,842,666.51
Including: Profits (losses) on the changes in fair value of derivative financial instruments	15,656,203.19	53,842,666.51
Total	13,406,932.17	42,090,091.11

47. Non-operating income

Unit: RMB

Item	2018	2017	The amount booked into current period non-recurring profits and looses
Fines and confiscations	88,125,508.92	28,955,431.80	88,125,508.92
Special subsidies	7,622,573.32	9,456,852.87	7,622,573.32
Tax reduction	495,446.66	5,032,729.51	495,446.66
Others	15,119,389.44	3,284,236.45	15,119,389.44
Total	111,362,918.34	46,729,250.63	111,362,918.34

Government subsidies included in current profit and loss:

Unit: RMB

Item	2018	2017	Related to assets/Related to incomes
Other special subsidies	7,622,573.32	9,456,852.87	Related to incomes
Tax reduction	495,446.66	5,032,729.51	Related to incomes
Total	8,118,019.98	14,489,582.38	

48. Non-operating expenses

Unit: RMB

Item	2018	2017	Amount recorded into the current period non-recurring profits (losses)
Local water conservancy construction fund	755,016.33	825,530.98	755,016.33
Others	7,838,468.25	2,194,847.74	7,838,468.25
Total	8,593,484.58	3,020,378.72	8,593,484.58

49. Income tax expenses

(1) Details of Income tax expenses

Unit: RMB

Item	2018	2017
Current income tax	1,533,491,545.29	1,564,816,313.41
Deferred income tax	(55,276,291.76)	(103,759,710.79)
Previous year's income tax filing and payment difference	(421,475,254.71)	(351,737,760.08)
Total	1,056,739,998.82	1,109,318,842.54

(2) Reconciliation of income tax expenses to the accounting profit

Unit: RMB

	2018	2017
Total profit	12,438,432,863.48	10,486,820,482.36
Income tax expenses calculated at applicable tax rates of 15%	1,865,764,929.52	1,573,023,072.35
Impact of non-deductible costs, expenses and losses	14,328,775.33	9,131,011.50
Tax effect of non-taxable income	(3,329,287.02)	(2,382,834.30)
Impact of deductible temporary differences or deductible losses for which no deferred income tax assets is recognized for the current period	113,046,478.04	101,441,652.47
Impact of deductible temporary differences or deductible losses for which no deferred income tax assets is recognized for the prior periods	(21,330,045.22)	(4,975,770.84)
Differences of income tax annual filing (Note)	(421,475,254.71)	(351,737,760.08)
Impact by different tax rates applicable to different subsidiaries	129,320,046.84	91,779,869.98
Impact of additional deduction of R&D expenses	(474,764,267.90)	(209,272,075.55)
Others	(144,821,376.06)	(97,688,322.99)
Income tax expenses	1,056,739,998.82	1,109,318,842.54

Note: Pursuant to the *Notice on Printing the List of Key Software Enterprises and Integrated Circuit Design Enterprises under the National Planning Layout between 2013 and 2014* (Fa Gai Gao Ji [2013] No. 2458) , the Company was identified as a national key software enterprise in December 2013. Pursuant to the *Notice on Relevant Issues Concerning the Preferential Policies for Enterprise Income Tax on Software and Integrated Circuit Industry* (Finance and Taxation [2016] No. 49), the Company was approved by the tax authorities in August 2018 to apply enterprise income tax of 10% for 2017, therefore, the enterprise's 2018 income tax expenses was reduced by RMB 421,475,254.71.

50. Notes to consolidated cash flow statement

(1) Other cash receipts relating to operating activities

Unit: RMB

Item	2018	2017
Interest income	476,088,318.21	270,155,908.15
Government subsidies	475,057,090.12	194,485,605.87
Others	672,664,853.64	69,287,721.31
Total	1,623,810,261.97	533,929,235.33

(2) Other cash payments relating to operating activities

Unit: RMB

Item	2018	2017
Office expenses and business expenses	982,457,628.37	813,083,186.67
Advertising and Selling services	760,259,932.32	762,346,850.11
Shipping and transportation expense	673,183,441.02	566,519,922.42
R&D expense	641,409,412.08	403,860,343.28
Travelling expense	515,750,188.76	380,420,837.39
Outsourced service expenses, professional Intermediary expenses, and etc.	421,095,361.96	218,848,220.03
Deposits to restricted monetary funds	276,503,897.11	348,737,496.48
Rental expense	188,524,699.14	163,324,165.39
Others	50,048,675.16	144,156,727.47
Total	4,509,233,235.92	3,801,297,749.24

(3) Other cash receipts relating to investing activities

Unit: RMB

Item	2018	2017
Receipts of financing leases	89,505,228.62	21,175,369.30
Government subsidies received related to assets	-	24,189,300.00
Withdrawal of project loans	-	18,000,000.00
Total	89,505,228.62	63,364,669.30

(4) Other cash payments related to investing activities

Unit: RMB

Item	2018	2017
Cash payments for investment intention funds	20,000,000.00	13,500,000.00
Total	20,000,000.00	13,500,000.00

(5) Other cash receipts relating to financing activities

Unit: RMB

Item	2018	2017
Receipts of subscriptions for share incentives	2,057,898,876.84	-
Total	2,057,898,876.84	-

(6) Other cash payments relating to financing activities

Unit: RMB

Item	2018	2017
Repurchase of restricted shares	6,555,746.33	15,151,500.00
Payments for temporary borrowing	-	7,000,000.00
Payments for acquiring minority shareholders' equity	-	6,520,000.00
Payments for business merger involving enterprises under the common control in cash consideration	-	9,780,000.00
Total	6,555,746.33	38,451,500.00

51. Supplementary information about cash flow statement

(1) Supplementary information about cash flow statement

Unit: RMB

Supplementary information	2018	2017
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	11,381,692,864.66	9,377,501,639.82
Add: Impairment of assets	426,949,023.05	484,568,899.16
Fixed assets depreciation	417,518,901.58	301,861,330.86
Amortization of intangible assets	62,161,250.59	39,412,000.70
Gains on disposal of fixed assets, intangible assets and other long-term assets	(4,975,825.83)	(1,585,222.50)
Gains from changes in fair value	(13,406,932.17)	(42,090,091.11)
Financial expenses	81,142,249.58	272,067,756.32
Investment income	(51,929,640.63)	(44,650,105.12)
Share-based payment based on equity settlement	145,468,181.28	191,200,597.45
Changes in restricted fund	(89,418,285.57)	(323,504,991.19)
Increase in deferred income tax assets	(55,276,291.76)	(103,759,710.79)
Increase in inventories	(1,021,116,536.92)	(1,269,276,296.32)
Increase in operating other non-current assets	(765,228,940.29)	(488,178,801.99)
Increase in operating receivables	(2,355,926,510.27)	(4,734,950,220.76)
Increase in operating payables	752,106,461.28	3,660,640,740.49
Increase in deferred income	204,253,317.48	53,902,725.66
Net cash flow from operating activities	**9,114,013,286.06**	**7,373,160,250.68**
2. Significant investing and financing activities not involving cash receipts and payments:		
3. Net changes in cash and cash equivalents:		
Ending balance of cash	26,023,738,992.19	16,029,185,269.17
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	-	-
Net increase in cash and cash equivalents	**9,994,553,723.02**	**2,506,847,571.89**

(2) Constituents of cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
Cash	26,023,738,992.19	16,029,185,269.17
Including: Cash on hand	621,654.57	769,612.23
Bank deposit for payment at any time	25,983,600,151.03	16,007,539,118.39
Other monetary capital for payment at any time	39,517,186.59	20,876,538.55
Cash equivalents	-	-
Ending balance of cash and cash equivalents	26,023,738,992.19	16,029,185,269.17

Among the total balance of RMB 568,180,905.63 of the other monetary fund(s) at the end of the reporting period (December 31st 2017: RMB 460,121,972.02), RMB 528, 663,719.04 are various guarantee deposits and other restricted funds, etc. (December 31st 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)	528,663,719.04	Various guarantee deposits and other restricted funds
Notes receivable	412,061,782.74	Pledged for issuing bank acceptance bill
Total	940,725,501.78	

53. Monetary items of foreign currencies

(1) foreign currencies

Item	Balance in foreign currency at the end of the reporting period	Exchange rate for conversion	Balance of RMB converted at the end of the reporting period
Monetary funds			
Including: USD	700,987,933.45	6.8632	4,811,020,384.85
EUR	44,084,093.34	7.8473	345,941,105.67
GBP	63,379.22	8.6762	549,890.79
RUB	215,795,923.95	0.0986	21,277,478.10
AED	7,945,514.19	1.8688	14,848,646.14
Accounts receivable			
Including: USD	326,728,855.58	6.8632	2,242,405,481.62
EUR	5,745,656.80	7.8473	45,087,892.61
Short-term borrowing			
Including: GBP	10,564,000.00	8.6762	91,655,376.80
Accounts Payable			
Including: USD	222,426,824.52	6.8632	1,526,559,782.05
Bonds payable			
Including: EUR	404,308,219.18	7.8473	3,172,727,888.37

(2) Details of Overseas Operational Entities

Name of overseas subsidiaries	Main overseas operational office	Recording Currency	Basis of selection
HDT International Ltd.	Hongkong	HKD	Selection based on local economic environment
Hikvision Europe BV	Netherlands	EUR	Selection based on local economic environment
Prama Hikvision Indian Private Limited	India	INR	Selection based on local economic environment
Hikvision Uk Limited	UK	GBP	Selection based on local economic environment
Hikvision Italy (S.R.L.)	Italy	EUR	Selection based on local economic environment
Hikvision International Co., Limited	Hongkong	HKD	Selection based on local economic environment
Hikvision Australia PTY Ltd.	Australia	AUD	Selection based on local economic environment
Hikvision Spain, S.L.	Spain	EUR	Selection based on local economic environment
Hikvision France SAS	France	EUR	Selection based on local economic environment
Hikvision Singapore Pte. Ltd	Singapore	SGD	Selection based on local economic environment
Hikvision South Africa (Pty) Ltd.	South Africa	ZAR	Selection based on local economic environment
Hikvision FZE	Dubai	USD	Selection based on local economic environment
Hikvision Poland Spolka Z ograniczona Odpowiedzialnoscia.	Poland	PLN	Selection based on local economic environment
Hikivision do Brasil Comercio de Equipamentos de Segurança 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
Hikvision Mexico S.A.de C.V.	Mexico	MXN	Selection based on local economic environment
Hikvision Panama Commercial S.A.	Panama	USD	Selection based on local economic environment
Hikvision Pakistan (SMC-Private) Limited	Pakistan	PKR	Selection based on local economic environment
Hikvision Peru Closed Stock Company	Peru	PEN	Selection based on local economic environment
Hikvision Technology Israel Ltd.	Israel	ILS	Selection based on local economic environment

54. Government Subsidies

(1) Categories

Unit: RMB

Category	Amount	Financial Report Items	Amount booked in current profit and loss
VAT Rebate	1,772,810,771.85	Other Income	1,772,810,771.85
Special subsidies			
Including: other special subsidies	314,594,148.96	Deferred income / Other income/ Non-operating income	259,648,194.21
Subsidies for core electronic devices, high-end universal chip and basic software product projects	136,074,800.00	Deferred income / Other income	43,222,036.99
Chongqing Manufacture Base construction subsidies	24,189,300.00	Deferred income / Other income	403,155.00
Tax Reduction	16,030,929.30	Other income/ Non-operating income	16,030,929.30
Total	2,263,699,950.11		2,092,115,087.35

(2) There was no refund of government subsidies during the reporting period.

VI. Changes in consolidation scope

1. Business mergers involving enterprises under the common control

(1) Business mergers involving enterprises under common control during last year

Hangzhou Haikang Ximu Intelligent Technology Co., Ltd. ("Haikang Ximu")

Pursuant to the resolution approved by the Company's 21st meeting of the 3rd session of the Board of Directors held on January 18th 2017, the Company's subsidiary Hangzhou Automotive Technology, CETHIK and 7 individual shareholders including Yang Feng signed the agreement to acquire CETHIK's subsidiary Hangzhou Haikang Ximu Intelligent Technology Co., Ltd., of which RMB 9.78 million was for acquiring 60% shares of Haikang Ximu held by CETHIK, and RMB 6,520,000.00 was for acquiring 40% shares of Haikang Ximu held by 7 individual shareholders including Yang Feng. The aforementioned acquisition was completed on April 30th 2017 and May 24th 2017 respectively. CETHIK is the controlling shareholder of Haikang Ximu, therefore, this acquisition of 60% shares of Haikang Ximu is categorized as business merger involving enterprises under common control

Unit：RMB

Name of the acquiree	Equity acquisition ratio (%)	Basis for Business merger under common control	Date of acquisition	Basis for determining date of acquisition	Income of acquiree from beginning of the year to the date of acquisition	Net profit of acquiree from beginning of the year to the date of acquisition	Income of acquiree from beginning of the prior year to the date of acquisition in prior comparative period	Net profit of acquiree from beginning of the prior year to the date of acquisition in prior comparative period
HIK Ximu	60%	Both parties are under the common control of CETHIK before and after the business combination, which is not temporary	April 30th 2017	Equity transfer date of acquiring the control of acquiree	-	(42,070.90)	10,523,216.38	3,949,939.20

(2) Cost of business merger

Unit：RMB

Cost of business merger	HIK Ximu
– Cash	9,780,000.00

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

Unit: RMB

	HIK Ximu	
	On the date of acquisition	Ending balance at the end of prior year of the acquistiiton
Assets:		
Cash and bank balances	2,462,383.90	3,084,985.38
Accounts receivable	919,422.04	1,030,422.04
Inventories	4,788,664.47	4,788,664.47
Other assets	386,806.71	516,863.68
Liabilities:		
Other payables	15,927,658.68	15,995,583.60
Other liabilities	804,128.96	1,557,791.59
Net assets (liabilities)	(8,174,510.52)	(8,132,439.62)
less: minority interests	(3,269,804.21)	(3,252,975.85)
Net assets (liabilities) acquired	(4,904,706.31)	(4,879,463.77)

2. Changes of consolidation scope due to other causes

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

Company Name	Time of establishment	Registered capital	Amount of contribution of the Company	Ratio of contribution (%)
Hikvision Xi'an Xueliang Construction Project Management Ltd. (Hikvision Xi'an Xueliang Construction)	February 2018	RMB 216.16 million	RMB 213.99 million	99
Luo Pu District Hai Shi Ding Xin Electronic Technology Ltd. (Luopu Haishi) (Note 1)	April 2018	RMB 71.33 million	RMB 64.20 million	90
Yu Tian Hai Shi Mei Tian Electronic Technology Ltd. (Yutian Haishi) (Note 2)	March 2018	RMB 73.65 million	RMB 72.18 million	98
Xi'An Hikvision Digital Technology Ltd. (Xi'An Hikvision) (Note 3)	January 2018	RMB 200 million	RMB 200 million	100
Wuhan Hikvision Technology Ltd. (Wuhan Hikvision) (Note 4)	January 2018	RMB 200 million	RMB 200 million	100
Wuhan Hikvision Science and Technology Ltd. (Wuhan Science and Technology) (Note 5)	January 2018	RMB 200 million	RMB 200 million	100
Wuhan Hikvision Fire Control Technology Ltd. (Wuhan Fire Control) (Note 6)	July 2018	RMB 50 million	RMB 50 million	100
Hainan Hikvision System Technology Ltd. (Hainan System) (Note 6)	July 2018	RMB 10 million	RMB 10 million	100
Hangzhou HIK Huiying Science and Technology Ltd. (Hangzhou Huiying Science and Technology)	March 2018	RMB 80 million	RMB 48 million	60
Hikvision Mexico S.A.de C.V. (Mexico Subsidiary) (Note 6)	July 2018	MXN 6.70 million	MXN 6.70 million	100
Guizhou Hikvision Transportation Big Data Ltd. (Guizhou Big Data)	August 2018	RMB 80.00 million	RMB 44.00 million	55
Xinjiang CET Yihai Information Technology Ltd. (Xinjiang CET Yihai) (Note 7)	August 2018	RMB 200.00 million	RMB 120.00 million	60
Hikvision Panama Commercial S.A. (Panama Subsidiary) (Note 6)	August 2018	USD 300,000	USD 300,000	100

Company Name	Time of establishment	Registered capital	Amount of contribution of the Company	Ratio of contribution (%)
Hikvision Pakistan (SMC-Private) Limited (Pakistan Subsidiary) (Note 6)	August 2018	PKR 11.00 million	PKR 11.00 million	100
Hikvision Peru Closed Stock Company (Peru Subsidiary) (Note 6)	October 2018	PEN 800,000	PEN 800,000	100
Hikvision Technology Israel Ltd. (Israel Subsidiary) (Note 6)	December 2018	ILS 550,000	ILS 550,000	100
Nanjing Hikvision Digital Technology Ltd. (Nanjing Hikvision) (Note 6)	December 2018	RMB 80 million	RMB 80 million	100

Note 1: 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.

Note 2: 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 3: At the end of the reporting period, the actual paid-up capital of Xi'an Hikvision was RMB 50,000,000.00, entirely contributed by the Group.

Note 4: At the end of the reporting period, the actual paid-up capital of Wuhan Hikvision was RMB 12,600,000.00, entirely contributed by the Group.

Note 5: At the end of the reporting period, the actual paid-up capital of Wuhan Science and Technology was RMB 65,250,000.00, entirely contributed by the Group.

Note 6: At the end of the reporting period, Wuhan Fire Control, Nanjing System, Mexico Subsidiary, Panama Subsidiary, Pakistan Subsidiary, Peru Subsidiary, Israel Subsidiary, and Nanjing Hikvision have not completed capital contribution yet; therefore, its actual paid-up capital was nil.

Note 7: At the end of the reporting period, the actual paid-up capital of Xinjiang CET Yihai was RMB 24,000,000.00, 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

VII. Interest in other entities

1. Equity in subsidiaries

(1) Composition of the 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

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
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
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 Segurança 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
Beijing Hikvision Security and Protection Technology Service Ltd. (Note 4)	Beijing	Beijing	Services	100.00	-	Establishment
Cooperative Hikvision Europe U.A.	Netherlands	Netherlands	Sales	99.00	1.00	Establishment
Hikvision Canada Inc.	Canada	Canada	Sales	100.00	-	Establishment
Hikvision LLC	Moscow	Moscow	Sales	100.00	-	Establishment
Hikvision Korea Limited	Korea	Korea	Sales	100.00	-	Establishment
Hangzhou EZVIZ Network Ltd.	Hangzhou	Hangzhou	Technology development	60.00	-	Establishment
EZVIZ Inc.	USA	Los Angeles	Sales	-	60.00	Establishment
Hangzhou Haikang Zhicheng Investment	Hangzhou	Hangzhou	System integration	80.00	-	Business

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
Development Ltd						combination not involving enterprises under common control
Hangzhou Hikvision Robtics 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 Weiying 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
Tianjin Hikvision System Technology Ltd.	Tianjin	Tianjin	Construction	100.00	-	Establishment
Hikvision Hungary Limited	Hungary	Hungary	Sales	-	100.00	Establishment
Hikvision New Zealand Limited	New Zealand	Auckland	Sales	-	100.00	Establishment
Wuhan HIK Storage Technology Ltd.	Wuhan	Wuhan,Hubei	Technology Development	60.00	-	Establishment
Urumqi Hai Shi Xin An Electronic Technology Ltd.	Urumqi	Urumqi, Xinjiang	Construction	-	90.00	Establishment
Hangzhou Ximu Intelligent Technology Ltd.	Hangzhou	Hangzhou, Zhejiang	Manufacture	-	60.00	Business combination involving enterprises under common control
LLC Hikvision Tashkent	Uzbekistan	Tashkent	Sales	100.00	-	Establishment
Hikvision Kenya (Pty) Ltd	Kenya	Kenya	Sales	-	100.00	Establishment
Hangzhou HIK Automotive Software Ltd.	Hangzhou	Hangzhou, Zhejiang	Technology Development	-	60.00	Establishment
Hangzhou Intelligent Technology Ltd.	Hangzhou	Hangzhou, Zhejiang	Technology Development	-	60.00	Establishment
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

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
Hikvision Deutschland GmbH	Germany	Germany	Sales	-	100.00	Establishment
Hikvision Xi'an Xueliang Construction Project Management Ltd.	Xi'an	Xi'an, Shanxi	Construction		99.00	Establishment
Luo Pu District Hai Shi Ding Xin Electronic Technology Ltd.	Hetian	Xinjiang Hetian	System integration	-	90	Establishment
Yu Tian Hai Shi Mei Tian Electronic Technology Ltd.	Hetian	Xinjiang Hetian	System integration		98	Establishment
Xi'An Hikvision Digital Technology Ltd.	Xi'An	Xi'An	Technology development	100.00	-	Establishment
Wuhan Hikvision Technology Ltd.	Wuhan	Wuhan, Hubei	Technology development	100.00	-	Establishment
Wuhan Hikvision Science and Technology Ltd.	Wuhan	Wuhan, Hubei	Sales	100.00	-	Establishment
Wuhan Hikvision Fire Control Technology Ltd.	Wuhan	Wuhan, Hubei	Sales	100.00	-	Establishment
Hainan Hikvision System Technology Ltd.	Hainan	Hainan	System integration	100.00	-	Establishment
Hangzhou HIK Huiying Technology Ltd.	Hangzhou	Hangzhou, Zhejiang	Technology development	60.00	-	Establishment
Hikvision Mexico S.A.de C.V.	Mexico	Mexico	Sales		100.00	Establishment
Guizhou Hikvision Transportation Big Data Ltd.	Guiyang	Guiyang, Guizhou	Technology development	55.00		Establishment
Xinjiang CET Yihai Information Technology Ltd.	Urumqi	Urumqi, Xinjiang	System integration	60.00		Establishment
Hikvision Panama Commercial S.A	Panama	Panama	Sales	100.00		Establishment
Hikvision Pakistan (SMC-Private) Limited	Pakistan	Pakistan	Sales		100.00	Establishment
Hikvision Peru Closed Stock Company	Peru	Peru	Sales	95.00	5.00	Establishment
Hikvision Technology Israel Ltd.	Israel	Israel	Sales		100.00	Establishment
Nanjing Hikvision Digital Technology Ltd.	Nanjing	Nanjing, Jiangsu	Sales	100.00		Establishment

Note 1: Hangzhou Fuyang HIK Baotai Security Technology Services Ltd. is a subsidiary controlled by Hangzhou System, who holds 51% equity interests. According to the *Articles of Association* of the Company, Hangzhou System 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) 27 for details.

Note 4: Beijing Hikvision Security and Protection Technology Service Ltd. has completed Industrial and Commercial cancellation 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	Opening balance / Amount for 2017
Associates：		
The aggregate carrying amount of investments in associates	174,900,000.00	133,000,000.00
The aggregate amount of the following items calculated based on the Company's equity share percentage of the associates		
--Net loss and total comprehensive loss	(11,598,155.44)	(2,525,266.42)

VIII. Risks associated with financial instrument

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

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

1. Objectives and policies of risk management

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

1.1 Market risks

1.1.1. Foreign exchange risks

Foreign exchange risks refer to the risk that losses will occur because of changes in foreign exchange rates. The Company is primarily exposed to risks relating to the currencies such as USD and EUR. The Group's subsidiaries in the mainland of China whose procurement, sales and financing are denominated in RMB, USD and EUR, other principal activities are settled in RMB. The Group's subsidiaries in Hong Kong and outside China are principally engaged in procurement, sales, financing and other major business activities in local currencies such as USD, EUR, GBP, RUB, and etc.

As of December 31st 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 generate significant impact on the operating results of the Group.

Unit: RMB

Currencies	Assets		Liabilities	
	Closing balance	Opening balance	Closing balance	Opening balance
USD	7,053,425,866.47	6,919,071,811.35	1,526,559,782.05	1,336,240,339.97
EUR	391,028,998.28	288,885,022.47	3,172,727,888.37	3,154,534,018.51

The Group 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		2017	
	Effect on profit	Effect on shareholders' equity	Effect on profit	Effect on shareholders' equity
5% appreciation of USD against functional currency	276,343,304.22	276,343,304.22	279,141,573.57	279,141,573.57
5% depreciation of USD against functional currency	(276,343,304.22)	(276,343,304.22)	(279,141,573.57)	(279,141,573.57)
5% appreciation of EUR against functional currency	(139,084,944.50)	(139,084,944.50)	(143,282,449.80)	(143,282,449.80)
5% depreciation of EUR against functional currency	139,084,944.50	139,084,944.50	143,282,449.80	143,282,449.80

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.

The Group's amount of borrowings with floating interest rate at the end of the year was not significant, and the risk of changes in cash flows of financial instruments due to changes in interest rates was relatively low. Therefore, Interest rate risk sensitivity analysis was not conducted.

1.2 Credit risk

As of December 31st 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.

1.3. Liquidity risk

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

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

Unit：RMB

December 31st 2018				
	Within one year	1-5 years	More than five years	Total
Non-derivative financial liabilities				
Short-term borrowings	3,574,343,151.20	-	-	3,574,343,151.20
Notes payable & Accounts payable	10,765,145,485.74	-	-	10,765,145,485.74
Other payables	2,953,203,190.99	-	-	2,953,203,190.99
Other current liabilities	364,984,759.94	-	-	364,984,759.94
Bonds payable	3,178,156,500.00	-	-	3,178,156,500.00
Long-term borrowings	16,269,458.68	301,148,355.56	192,697,383.33	510,115,197.57
Long-term payables	2,458,683.54	-	-	2,458,683.54
Derivative financial liabilities				
Forward foreign exchange contracts-settled in the gross amount				
- Cash inflow	181,663,617.62	-	-	181,663,617.62
- Cash outflow	181,954,616.05	-	-	181,954,616.05
- Net cash outflow	290,998.43	-	-	290,998.43

IX. Fair value disclosure

1. The financial assets and financial liabilities measured at fair value at the end of the reporting period

Unit：RMB

Items	Closing fair value			
	Level 1	Level 2	Level 3	Total
I. Continuous fair value measurement	-	1,569,052.16	-	1,569,052.16
(I) Financial assets at fair value through profit and loss				
1. Tradable Financial Assets	-	1,860,050.59	-	1,860,050.59
-- Derivative financial assets	-	1,860,050.59	-	1,860,050.59
Total assets measured continuously at fair value	-	1,860,050.59	-	1,860,050.59
(II) Tradable Financial Liabilities				
- Derivative financial liabilities	-	290,998.43	-	290,998.43
Total liabilities measured continuously at fair value	-	290,998.43	-	290,998.43

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

Unit: RMB

	Fair value at December 31st 2018	Estimation technique	Inputs
Forward Foreign Exchange Contracts (Assets)	1,860,050.59	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties
Forward Foreign Exchange Contracts (Liabilities)	(187,498.43)	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties
Foreign Exchange Structured Options (Liabilities)	(103,500.00)	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 Co., Ltd. ("CETE").

2. Information on the subsidiaries of the Company

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

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

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

4. Information on other related parties

Name	Relationship
Gong Hongjia	Director of the company, holds 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 Group's senior management serve(s) as director(s) of this company (Note 1)
Confirmware Technology(Hangzhou) Co., Ltd. (Hangzhou Confirmware)	The Group's senior management serve(s) as director(s) of this company
Beijing Woqi Co., Ltd.(Beijing Woqi)	Gong Hongjia or his relative(s) serve(s) as the director(s) (Note 2)
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
Zhiguang Hailian Big Data Technology Ltd. (Zhiguang Hailian)	Associated company of the Group
Subsidiaries of CETE (Note 3)	Under common control of the ultimate controlling party of the Company

Note 1: Due to the departure of the senior management of the Group, and this reporting year is the year of departure, Zhejiang Tuxun was still identified as a related party of the Group for the current reporting year.

Note 2: Mr Gong Hongjia left Beijing Woqi as a director in November 2016. The year of 2017 is the subsequent one year after Gong left his post; therefore, Beijing Woqi was still regarded as the Group's related party in 2017. It was no longer regarded as the Group's related party in the current reporting period.

Note 3: 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	Amount for 2017
Subsidiaries of CETE	Purchase of materials and receiving of services	300,540,055.04	215,050,909.52
Shanghai Fullhan Micro	Purchase of materials and receiving of services	268,000,337.28	219,306,864.78
Maxio Technology and its subsidiaries	Purchase of materials and receiving of services	52,129,576.75	23,702,468.99
Wuhu SensorTech	Purchase of materials and receiving of services	45,607,202.32	31,125,042.77
Beijing Woqi	Purchase of materials	Not applicable	4,441,973.51
Total		666,277,171.39	493,627,259.57

Sales of commodities / rendering of services:

Unit: RMB

Related party	Transaction content	Amount for 2018	Amount for 2017
Subsidiaries of CETE	Sales of products and rendering of services	501,207,585.45	796,423,974.48
Wuhu Sensor Tech	Sales of products	2,934,921.28	985,868.39
Zhejiang Tuxun	Sales of products	1,368,910.39	1,474,411.13
Zhiguang Hailian	Sales of products	1,259,520.66	-
Hangzhou Confirmware	Sales of products	779,678.00	370,341.82
Maxio Technology and its subsidiaries	Sales of products	39,051.29	7,068.37
Total		507,589,667.07	799,261,664.19

Statement of capital deposits:

Unit: RMB

Related Party	Content of related party transaction	Amount occurred in 2018	Balance at the end of the current period	Amount occurred in 2017	Opening Balance
Subsidiaries of CETE (Note)	Deposit into fixed deposits	3,000,000,000.00	4,000,000,000.00	1,000,000,000.00	1,000,000,000.00
Subsidiaries of CETE (Note)	Deposit into call deposits	(500,000,000.00)	-	500,000,000.00	500,000,000.00
Total		2,500,000,000.00	4,000,000,000.00	1,500,000,000.00	1,500,000,000.00

Note: the fixed deposits and call deposits that the Group deposited into China Electronic Technology Finance Co., Ltd.

The above transactions are executed at market prices.

(2) Guaranteed by the related party

As required by the project owner, China Electronics Technology Group Co., Ltd. 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 Co., Ltd.

(3) Remuneration of key management personnel

Unit: RMB

Item	Amount for the current year	Amount for the prior year
Compensation of key management personnel	45,672,000.00	43,518,890.00

(4) Other related party transactions

Prior reporting year:

Pursuant to resolution of the Company's 21st meeting of the 3rd session of the Board on January 18th 2017, the Company's subsidiary Hangzhou Hikvision Automotive Electronics acquired the parent company CETHIK's asset group with RMB 79.41 million in cash, including RMB 32,700,579.89 in inventories, net of RMB 37,747,049.94 in credit and debt, RMB 3,966,381.68 in fixed assets, and RMB 5,000,000.00 in prepaid expenses

6. Receivables from related parties and payables to related parties

(1) Receivables from related parties

Unit: RMB

Item	Related Party	Closing balance		Opening balance	
		Carrying balance	Bad debt provision	Carrying balance	Bad debt provision
Accounts receivable	Subsidiaries of CETE	707,471,470.74	38,564,084.85	764,292,224.05	39,661,148.57
Accounts receivable	Zhejiang Tuxun	345,738.04	17,286.90	833,986.98	41,699.35
Accounts receivable	Hangzhou Confirmware	298,619.99	15,611.00	21,219.99	1,197.00
Accounts receivable	Zhiguang Hailian	986,160.75	49,308.04	-	-
Total		709,101,989.52	38,646,290.79	765,147,431.02	39,704,044.92
Notes receivable	Subsidiaries of CETE (Note)	60,983,163.83	-	-	-
Notes receivable	Hangzhou Confirmware	150,000.00	-	-	-
Total		61,133,163.83	-	-	-
Other receivables	Maxio Technology and its subsidiaries	-	-	13,500,000.00	675,000.00
Total		-	-	13,500,000.00	675,000.00
Prepayments	Subsidiaries of CETE	13,328,415.31	-	-	-
Prepayments	Maxio Technology and its subsidiaries	-	-	5,201,444.41	-
Total		13,328,415.31	-	5,201,444.41	-

Note: the RMB 30,440,529.78 portion of the notes receivable is the acceptance note of the related party, who is the issuer of the note, and the former endorser is a non-associated third party.

(2) Payables to related parties

Unit: RMB

Item	Related Party	Closing balance	Opening balance
Accounts payable	Subsidiaries of CETE	166,845,140.44	160,186,487.11
Accounts payable	Shanghai Fullhan Micro	106,744,509.28	103,732,194.30
Accounts payable	Wuhu Sensor Tech	5,944,535.61	14,496,160.00
Accounts payable	Beijing Woqi	Not applicable	1,301,025.64
Accounts payable	Maxio Technology and its subsidiaries	-	117,563.33
Total		279,534,185.33	279,833,430.38

Item	Related Party	Closing balance	Opening balance
Notes Payable	Shanghai Fullhan Micro	13,838,900.00	-
Total		13,838,900.00	-
Receipts in advance	Subsidiaries of CETE	2,306,953.47	1,647,988.21
Total		2,306,953.47	1,647,988.21
Other payables	Subsidiaries of CETE	63,683,807.94	73,881,697.00
Other payables	Shanghai Fullhan Micro	100,000.00	100,000.00
Other payables	Wuhu Sensor Tech	50,000.00	-
Other payables	Zhejiang Tuxun	9,290.00	-
Other payables	Beijing Woqi	Not applicable	150,000.00
Total		63,843,097.94	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 25th 2012 and the first extraordinary general meeting for 2012 on August 13th 2012, whereat the Proposal Relating to the Restrictive Share Scheme (Amendments to the Draft) of the Company and Highlights was reviewed and passed. The purpose of the Share Incentive Scheme is to: further improve the Company's governance structure to establish a good and balanced value allocation system; establish a profit-sharing and restriction mechanism among shareholders, the Company and its employees, so as to provide shareholders with sustainable return; fully mobilize the positivity of core employees to support the Company in realizing its strategies and long-term sustainable development; attract and retain core employees to ensure the Company's long-term development.

The Scheme shall be effective for a term of 10 years commencing from the date of approval by general meeting of the Company, during which the Company may grant restricted shares to 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 23rd 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 31st 2016, the 2012 restricted incentive shares scheme had been completed.

On October 24th 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. As of December 31st 2018, the restricted stock granted in 2014 has all vested.

On December 23rd 2016, after consideration and approval by the general meeting, the Company granted 52,326,858 restricted shares to grantees at a grant price of RMB 12.63 per share ("2016 Share Incentive Scheme"). The Lock-up Period of the Subject Shares shall last for a period of 24 months commencing on the grant date, during which the Subject Shares granted to grantees under the scheme shall be subject to lock-up and shall not be transferable. The Unlocking Period shall be the 24 to 60 months following the grant of restricted shares (including Lock-up Period), during which grantees may, subject to unlocking conditions stipulated by the scheme being satisfied, apply for unlocking in 3 tranches: the first unlocking period shall be the 24 to 36 months following the grant date and the number of shares to be unlocked shall be 40% of the aggregate number of the Subject Shares granted; the second unlocking period shall be the 36 to 48 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted; the third unlocking period shall be the 48 to 60 months following the grant date and the number of shares to be unlocked shall be 30% of the aggregate number of the Subject Shares granted.

On December 20th 2018, authorized by the 2nd extraordinary general meeting of 2018 and reviewed by the board of directors, the Company granted 121,195,458 restricted shares to grantees at a grant price of RMB 16.98 per share ("2018 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 are not 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. The restricted shares of 2018 equity incentives have completed the share registration work in January 2019.

Unit: share

2014 Share Incentive Scheme	2018	2017
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	33,422,536	33,803,907
Total of equity instruments forfeited during the current reporting period (Note)	509,625	1,594,641
Total of equity instruments outstanding at the end of the reporting period	-	33,932,161
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 22 months

Note: on December 26th 2018, pursuant to the revised *Articles of Association* and resolutions of the 26th general meeting of 3rd session board, and approved by the 2nd extraordinary general meeting of 2016, the Company repurchased and cancelled 509,625 granted and unvested restricted RMB treasury shares in cash settlement. As of the reporting date, the Company has not completed the registration procedures for industrial and commercial changes.

On December 15th 2017, pursuant to the revised articles of association and resolutions of the 26th general meeting of 3rd session board, and approved by the 2nd 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 27th 2018.

Unit: share

2016 Share Incentive Scheme	2018	2017
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	30,140,165	-
Total of equity instruments forfeited during the current reporting period	2,945,610	-
Total of equity instruments outstanding at the end of the reporting period	45,404,512	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 36 months	RMB 8.42 per share and 48 months

Note: on December 26th 2018, pursuant to the revised *Articles of Association* and resolutions of the 26th general meeting of 3rd session board, and approved by the 2nd extraordinary general meeting of 2016, the Company repurchased and cancelled 2,945,610 granted and unvested restricted RMB treasury shares in cash settlement. As of the reporting date, the Company has not completed the registration procedures for industrial and commercial changes.

Unit: share

2018 Share Incentive Scheme	2018	2017
Total of equity instruments outstanding at the beginning of the reporting period	-	-
Total of equity instruments granted (share dividend) during the current reporting period	121,195,458	-
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	121,195,458	-
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 16.98 per share and 60 months	Not applicable

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

Unit: RMB

	2014 Share Incentive Scheme	2016 Share Incentive Scheme	2018 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	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	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	None
Accumulative amount of share-based payment through equity settlement and further included in the capital reserve	363,191,911.52	263,798,391.62	-
Total amount of the expenses recognized according to share-based payment through equity settlement in the current reporting period	20,516,570.66	124,951,610.62	-

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	10,420,984	11,641,286
Total	10,420,984	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	182,124	93,006
Second year subsequent to the balance sheet date	139,759	49,061
Third year subsequent to the balance sheet date	98,017	33,185
Subsequent years	117,099	72,516
Total	536,999	247,768

(3) As of December 31st 2018, the Group has no other significant commitments need to be disclosed.

2. Contingencies

The Group has no significant contingencies to be disclosed.

XIII. Events after the balance sheet date

1. Significant unadjusted events

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

2. Profit Distribution

Pursuant to the proposal of the 10th meeting of the 4th session Board of Directors on April 18th 2019, the Company proposed to distribute cash dividend of RMB 6 (tax inclusive) per each 10 shares to all shareholders, the above dividend distribution plan is still subject to the approval of the general meeting of shareholders.

XIV. Other significant events

1. Segment information

1.1 Report segment determining and accounting policy

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

1.2 Segment financial reporting

External revenue by product or business segments

Unit: RMB

Item		Amount for 2018	
		Operating income	Operating cost
Video Surveillance Products	Front-end equipment	24,083,382,887.01	12,054,070,919.03
	Back-end equipment	6,779,290,973.76	3,603,440,284.98
	Central control equipment	7,323,448,788.51	3,380,634,705.16
	Constructions	2,285,061,427.63	2,008,019,572.05
	Other products	6,126,744,641.73	4,563,387,865.73
Innovative Business Products	Smart home business products	1,636,697,390.22	997,681,210.62
	Other innovative business products	1,060,561,642.36	588,994,979.45
Total		**49,295,187,751.22**	**27,196,229,537.02**

Unit: RMB

Item		Amount for 2017	
		Operating income	Operating cost
Video Surveillance Products	Front-end equipment	21,090,230,299.49	10,354,906,543.30
	Back-end equipment	6,151,038,063.70	3,164,186,804.35
	Central control equipment	5,073,899,931.95	2,320,570,446.43
	Constructions	2,540,799,165.58	2,280,617,025.82
	Other products	4,922,315,386.82	4,107,887,599.67
Innovative Business Products	Smart home business products	1,090,629,830.13	708,022,298.25
	Other innovative business products	564,580,293.97	345,446,563.98
Total		**41,433,492,971.64**	**23,281,637,281.80**

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

Unit: RMB

Item	2018	2017
External revenue generated in domestic area	35,646,435,049.93	29,661,186,316.32
External revenue generated in overseas area	14,190,697,431.68	12,244,290,255.75
Total	49,837,132,481.61	41,905,476,572.07

Unit: RMB

Item (Note)	Closing balance	Opening balance
Non-current assets in domestic area	7,810,496,315.84	5,676,079,020.66
Non-current assets in overseas area	352,944,245.80	321,187,347.68
Total	8,163,440,561.64	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.

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

1. Notes receivable & Accounts receivable

1.1 Categories

Unit: RMB

Item	Closing balance	Opening balance
Notes payable	351,793,632.24	345,651,612.11
Accounts payable	15,204,519,161.71	12,505,683,317.78
Total	15,556,312,793.95	12,851,334,929.89

1.2 Notes receivable

(1) Notes receivable by categories

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance bill	230,388,838.47	342,025,770.11
Commercial acceptance bill	121,404,793.77	3,625,842.00
Total	351,793,632.24	345,651,612.11

(2) As of December 31st 2018, the Company does not have pledged notes receivable.

(3) Notes receivable endorsed or discounted by the Company at the closing of the reporting period.

Unit: RMB

Category	Derecognized amount by December 31st 2018	Not Derecognized amount by December 31st 2018
Bank acceptance bill	785,251,824.92	-
Commercial acceptance bill	-	94,097,879.36
Total	785,251,824.92	94,097,879.36

(4) As of December 31st 2018, the Company has no such case as transferring the defaulted notes receivable into accounts receivable.

1.3 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	Amount	Percentage (%)	Amount	Percentage (%)	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.	16,178,600,865.87	100.00	974,081,704.16	6.02	15,204,519,161.71	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 but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	16,178,600,865.87	100.00	974,081,704.16	6.02	15,204,519,161.71	13,338,459,657.76	100.00	832,776,339.98	6.24	12,505,683,317.78

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.

In the portfolio, bad debt provision of accounts receivable by aging analysis:

Unit: RMB

Aging	Closing balance		
	Amount	Bad debt provision	Percentage (%)
Within 1 year	15,618,344,356.51	780,917,217.81	5.00
1–2 years	282,387,660.08	28,238,766.01	10.00
2–3 years	106,736,251.95	32,020,875.59	30.00
3–4 years	62,667,629.31	31,333,814.66	50.00
4–5 years	34,469,689.66	27,575,751.73	80.00
Over 5 years	73,995,278.36	73,995,278.36	100.00
Total	16,178,600,865.87	974,081,704.16	6.02

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

The amount of bad debt provision in the current reporting period was RMB 147,157,266.25, and the reversed bad debt provision was nil.

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

The accounts receivable actually written off in the current reporting period was RMB 5,851,902.07.

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

Unit: RMB

Company name	Relationship with the Company	Carrying balance	Closing balance of bad debt provision	Proportion of closing balance of accounts receivables in total (%)
Subsidiary A	Subsidiary	13,264,295,223.05	663,214,761.15	81.99
Company H	Third party	54,576,118.62	38,356,947.73	0.34
Company I	Third party	52,537,683.78	3,792,132.07	0.32
Subsidiary J	Third party	46,042,296.46	2,337,255.32	0.28
Company K	Third party	43,853,937.29	2,372,390.05	0.27
Total		13,461,305,259.20	710,073,486.32	83.20

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

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

2. Other receivables

2.1 By categories

Unit：RMB

Category	Closing balance	Opening Balance
Dividends receivable	2,550,000.00	2,550,000.00
Other receivables	520,437,955.34	709,592,493.72
Total	522,987,955.34	712,142,493.72

2.2 Dividends receivable

Unit：RMB

Invested company	Closing balance	Opening Balance
Hikvision’s subsidiaries	2,550,000.00	2,550,000.00
Total	2,550,000.00	2,550,000.00

Note: Hikvision's subsidiaries are subsidiaries of the Company, as detailed in Note (VII).

2.3 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	Amount	Percentage (%)	Amount	Percentage (%)	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	571,652,208.08	100.00	51,214,252.74	8.96	520,437,955.34	764,252,803.59	100.00	54,660,309.87	7.15	709,592,493.72
Other receivables that are not individually significant but for which bad debt provision has been assessed individually	-	-	-	-	-	-	-	-	-	-
Total	571,652,208.08	100.00	51,214,252.74	8.96	520,437,955.34	764,252,803.59	100.00	54,660,309.87	7.15	709,592,493.72

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.

In the portfolio, bad debt provision of other receivables by aging analysis:

Unit: RMB

Aging	Closing balance		
	Carrying amount	Bad debt provision	Percentage of appropriation (%)
Within 1 year	404,261,570.98	20,213,078.55	5.00
1–2 years	116,909,408.52	11,690,940.85	10.00
2–3 years	34,670,896.40	10,401,268.92	30.00
3–4 years	12,485,671.08	6,242,835.54	50.00
4–5 years	3,292,661.10	2,634,128.88	80.00
Over 5 years	32,000.00	32,000.00	100.00
Total	571,652,208.08	51,214,252.74	8.96

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

The amount of bad debt reversed in the current reporting period was RMB 3,446,057.13, and the bad debt provision was nil in the current reporting period.

(3) The actual 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	254,412,122.73	425,722,254.59
Temporary payments for receivables	235,499,619.96	240,668,412.28
Guarantee deposit	59,549,614.46	82,796,114.04
Investment deposit	20,000,000.00	13,500,000.00
Others	2,190,850.93	1,566,022.68
Total	571,652,208.08	764,252,803.59

(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	Internal Payment	105,397,167.54	Within 1 year	18.44	5,269,858.38
Subsidiary C	Internal Payment	56,603,506.70	Within 1 year	9.90	2,830,175.34
Subsidiary D	Internal Payment	27,606,933.41	Within 1 year	4.83	1,380,346.67
Subsidiary E	Internal Payment	17,733,732.34	Within 1 year	3.10	886,686.62
Subsidiary F	Internal Payment	14,034,552.93	Within 1 year	2.46	701,727.65
Total		221,375,892.92		38.73	11,068,794.66

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

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

3. Long-term equity investment

单位：人民币元

Item	Closing Balance			Opening Balance		
	Book Balance	Provisions	Book Value	Book Balance	Provisions	Book Value
Investment in subsidiaries	4,317,555,407.77	73,816,351.77	4,243,739,056.00	3,282,467,782.66	-	3,282,467,782.66
Inestments in associated enterprises and joint ventures	117,408,339.90	-	117,408,339.90	84,608,952.29	-	84,608,952.29
Total	4,434,963,747.67	73,816,351.77	4,361,147,395.90	3,367,076,734.95	-	3,367,076,734.95

(1) Investment in subsidiaries

Unit：RMB

Name of investee	Opening balance	Increase during the current reporting period	Decrease during the current reporting period	Closing balance	Provision for impairment losses for the current reporting period	Blance of impairment loss provision at the end of the current reporting period
Hangzhou Hikvision System Technology Ltd.	719,263,965.23	25,955,856.57	-	745,219,821.80	-	-
Hangzhou Hikvision Security Equipment Leasing Services Ltd.	200,000,000.00	-	-	200,000,000.00	-	-
Shanghai Goldway Intelligent Traffic System Ltd.	23,000,000.00	-	-	23,000,000.00	-	-
Chongqing Hikvision System Technology Ltd.	200,000,000.00	500,000,000.00	-	700,000,000.00	-	-
Hundure Technology (Shanghai) Ltd.	37,247,790.28	-	-	37,247,790.28	-	-

Hangzhou EZVIZ Network Ltd.	6,040,138.16	601,537.44	-	6,641,675.60	-	-
Hangzhou Haikang Zhicheng Investment and Development Ltd.	24,000,000.00	-	-	24,000,000.00	-	-
Hangzhou Hik Robotic Technology Ltd.	54,825,970.00	32,576,855.23	-	87,402,825.23	-	-
Hangzhou Hikvision Investment Management Ltd.	100,000.00	-	-	100,000.00	-	-
Hangzhou Hik Automotive Technology Ltd.	92,346,510.60	48,467,007.52	-	140,813,518.12	-	-
Hangzhou Hikvision Communication Technology Ltd.	7,000,000.00	-	-	7,000,000.00	-	-
Hangzhou Hik Weiying Sensory Technology Ltd.	60,000,000.00	-	-	60,000,000.00	-	-
HDT International Ltd.	87,786.14	-	-	87,786.14	-	-
Prama Hikvision Indian Private Limited	1,585,696.80	-	-	1,585,696.80	-	-
Hikvision International Co., Limited	79,423.52	-	-	79,423.52	-	-
Hikvision Australia Pty Ltd.	2,866,850.00	-	-	2,866,850.00	-	-
Hikvision Singapore Pte. Ltd	1,900,590.00	-	-	1,900,590.00	-	-
Hikvision South Africa (Pty) Ltd.	1,578,650.00	-	-	1,578,650.00	-	-
Hikvision Dubai FZE	1,870,351.40	-	-	1,870,351.40	-	-
Hikvision Brazil Participacoes Ltda.	4,579,750.50	-	-	4,579,750.50	-	-
Hikvision Limited Liability Company	647,249.19	-	-	647,249.19	-	-
Coöperatief Hikvision Europe U.A.	65,485.53	-	-	65,485.53	-	-
Hikvision Korea Limited	1,535,850.00	-	-	1,535,850.00	-	-

Hikvision Colombia SAS	1,337,440.00	-	-	1,337,440.00	-	-
Hikvision Kazakhstan limited liability partnership	4,758.69	-	-	4,758.69	-	-
Hikvision Turkey Technology And Security Systems Commerce Corporation	1,148,115.83	-	-	1,148,115.83	-	
Chongqing Hikvision Science and Technology Ltd.	100,000,000.00	-	-	100,000,000.00	-	-
Hikvision USA, Inc.	1,546,160.00	-	-	1,546,160.00	-	-
Hikvision Canada, Inc.	994,442.54	-	-	994,442.54	-	-
Henan Hua'An Bao Quan Intelligent Development Ltd.	67,475,000.00	-	-	67,475,000.00	-	-
Beijing Hikvision Security and Protection Technology Service Ltd.	10,000,000.00	-	10,000,000.00	-	-	-
Henan Hik Hua'An Bao Quan Electronics Ltd.	510,000.00	-	-	510,000.00	-	-
Hangzhou Hikvision Science and Technology Ltd.	1,015,206,036.40	5,535,926.89	-	1,020,741,963.29	-	-
Hangzhou Hikvision Electronics Ltd.	397,745,645.00	-	-	397,745,645.00	-	-
Beijing Brainaire Storage Technology Ltd.	95,878,126.85	-	-	95,878,126.85	73,816,351.77	73,816,351.77
Tianjin Hikvision System Technology Ltd.	10,000,000.00	-	-	10,000,000.00	-	-
Wuhan HIK Storage Technology Ltd.	60,000,000.00	-	-	60,000,000.00	-	-
Chengdu Hikvision Digital Technology Ltd.	80,000,000.00	220,000,000.00	-	300,000,000.00	-	-
Hangzhou HIK Automotive Software Ltd.	-	1,589,417.56	-	1,589,417.56	-	-

Hangzhou Haikang Intelligent Technology Ltd.	-	438,438.67	-	438,438.67	-	-
Hangzhou EZVIZ Software Ltd.	-	3,739,571.23	-	3,739,571.23	-	-
LLC Hikvision Tashkent	-	833,014.00	-	833,014.00	-	-
Xi'an Hikvision Digital Technology Ltd.	-	50,000,000.00	-	50,000,000.00	-	-
Wuhan Hikvision Technology Ltd.	-	12,600,000.00	-	12,600,000.00	-	-
Wuhan Hikvision Science and Technology Ltd.	-	65,250,000.00	-	65,250,000.00	-	-
Hangzhou Huiying Technology Ltd.	-	48,000,000.00	-	48,000,000.00	-	-
Guizhou Haikang Transportation Big Data Ltd.	-	5,500,000.00	-	5,500,000.00	-	-
Xinjiang CET Yihai Information Technology Ltd.	-	24,000,000.00	-	24,000,000.00	-	-
Total	3,282,467,782.66	1,045,087,625.11	10,000,000.00	4,317,555,407.77	73,816,351.77	73,816,351.77

(2) Inestments in associated enterprises and joint ventures

Unit：RMB

Name of investee	Opening balance	Increase/Decrease during the current reporting period								Closing Balance	Blance of impairment loss provision at the end of the current reporting period
		Additional Investments	Reduce Investments	Investment income recognized under the equity method	Other comprehensive income adjustment	Other changes in equity	Declared cash dividends or profits	Provision for impairment	Others		
1.Joint Ventures											
2.Associated Enterprises											
Wuhu Sensor Tech Intelligent Technology Ltd.	38,207,959.74	-	-	3,563,480.71	-	-	-	-	-	41,771,440.45	-
Maxio Technology (Hangzhou) Ltd.	46,400,992.55	27,000,000.00	-	(7,764,093.10)	-	-	-	-	-	65,636,899.45	-
Zhiguang Hailian Big Data Technology Ltd.	-	10,000,000.00	-	-	-	-	-	-	-	10,000,000.00	-
Subtotal	84,608,952.29	37,000,000.00	-	(4,200,612.39)	-	-	-	-	-	117,408,339.90	-
Total	84,608,952.29	37,000,000.00	-	(4,200,612.39)	-	-	-	-	-	117,408,339.90	-

As of December 31st 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.

4. Operating income and operating cost

Unit: RMB

Item	2018		2017	
	Income	Cost	Income	Cost
Operating income	19,948,078,284.47	6,337,037,884.18	17,441,474,419.75	5,888,031,274.47
Other operating income	2,340,135,832.19	262,631,601.12	1,726,504,871.63	212,920,646.32
Total	22,288,214,116.66	6,599,669,485.30	19,167,979,291.38	6,100,951,920.79

5. Investment income

(1) Details of investment income

Unit: RMB

Item	2018	2017
Long-term equity investment income measured by cost method	-	5,737,500.00
Long-term equity investment losses (income) measured by equity method	(4,200,612.39)	1,608,952.29
Investment loss on disposal of long-term equity investment	(9,994,028.47)	(9,929,719.62)
Investment gains for available-for-sale financial assets during the holding period	12,256,000.00	8,505,842.42
Gain on disposal of financial assets at fair value through current profit and loss	-	5,798,781.41
Investment income from redemption of bank finance products upon expiry	84,783,236.04	22,780,999.83
Total	82,844,595.18	34,502,356.33

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	Amount for 2017
Subsidiaries of Hikvision (Note)	Purchase of materials and receiving of services	7,361,353,668.93	6,627,993,954.60
Maxio Technology and its subsidiaries	Purchase of materials and receiving of services	51,914,266.05	-
Subsidiaries of CETE	Purchase of materials and receiving of services	261,945.55	638,139.08
Wuhu Sensor Tech	Purchase of materials and receiving of services	-	158,974.36
Total		7,413,529,880.53	6,628,791,068.04

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

Sales of goods/rendering of services:

Unit：RMB

Related party	Transaction type	Amount for 2018	Amount for 2017
Subsidiaries of Hikvision	Sales of products and rendering of services	15,251,464,800.88	12,713,526,574.11
Subsidiaries of CETE	Sales of products	103,277,524.19	49,207,183.00
Zhiguang Hailian	Sales of products	1,259,520.66	-
Wuhu Sensor Tech	Sales of products	-	38,888.89
Total		15,356,001,845.73	12,762,772,646.00

Statement of capital deposits:

Unit: RMB

Related Party	Content of related party transaction	Amount occurred during the current reporting period	Closing balance at the end of the current reporting period	Amount occurred during the prior reporting period	Opening Balance at the beginning of the current reporting period
Subsidiaries of CETE (Note)	Deposit into fixed deposits	3,000,000,000.00	4,000,000,000.00	1,000,000,000.00	1,000,000,000.00
Subsidiaries of CETE (Note)	Deposit into call deposits	(500,000,000.00)	-	500,000,000.00	500,000,000.00
Total		2,500,000,000.00	4,000,000,000.00	1,500,000,000.00	1,500,000,000.00

Note: The Company had deposited fixed deposits and call deposits into China Electronic Science and Technology Finance Ltd.

Those transactions above were executed at market prices or at the prices agreed by both parties.

(2) Guarantees with related parties

During 2018, 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： RMB 14.05 billion, USD 250 million), including the joint liability guarantee for the payment obligations on purchase from suppliers in an amount not exceeding an equivalent of RMB 2.5 billion (2017: RMB 1.2 billion, USD 40 million), and the joint liability guarantee for the general credit limit applied from commercial banks and other financial institutions or other financing methods through agreed methods in an amount not exceeding an equivalent of RMB 19.95 billion (2017: RMB 12.85 billion, USD 210 million).

For details of the Company's guarantees on Safety Chongqing project, please refer to Note X (5).

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	13,281,977,578.40	664,098,878.92	10,839,522,465.63	542,196,076.58
Accounts receivable	Subsidiaries of CETE	77,379,251.13	4,303,331.24	24,170,969.21	1,526,150.68
Accounts receivable	Zhiguang Hailian	986,160.75	49,308.04	-	-
Total		13,360,342,990.28	668,451,518.20	10,863,693,434.84	543,722,227.26
Notes receivable	Subsidiaries of CETE	2,168,790.00	-	-	-
Total		2,168,790.00	-	-	-
Other receivables	Subsidiaries of Hikvision	254,412,122.73	12,720,606.14	425,722,254.59	21,286,112.72
Other receivables	Maxio Technology and its subsidiaries			13,500,000.00	675,000.00
Total		254,412,122.73	12,720,606.14	439,222,254.59	21,961,112.72
Prepayments	Subsidiaries of Hikvision	11,465,581.45	-	3,349,033.66	-
Prepayments	Subsidiaries of CETE	6,616,973.90	-	-	-
Total		18,082,555.35	-	3,349,033.66	-
Dividend receivables	Subsidiaries of Hikvision	2,550,000.00	-	2,550,000.00	-
Total		2,550,000.00	-	2,550,000.00	-

(2) payables to related parties

Unit：RMB

Item	Related party	Closing balance	Opening balance
Accounts payable	Subsidiaries of Hikvision	92,669,607.45	54,312,472.11
Accounts payable	Subsidiaries of CETE	168,726.74	1,314.27
Accounts payable	Shanghai Fullhan Micro		-
Total		92,838,334.19	54,313,786.38
Receipts in advance	Subsidiaries of Hikvision	8,276,019.65	1,228,879.80
Receipts in advance	Subsidiaries of CETE	555,320.76	47,751.41

Item	Related party	Closing balance	Opening balance
Total		8,831,340.41	1,276,631.21
Other payables	Subsidiaries of Hikvision	127,168,684.42	610,605,005.68
Other payables	Subsidiaries of CETE	180,520.00	150,000.00
Other payables	Shanghai Fullhan Micro	100,000.00	100,000.00
Other payables	Zhejiang Tuxun	9,290.00	
Total		127,458,494.42	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	2017
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	9,769,694,399.19	8,683,050,963.77
Add: Assets impairment	226,183,330.78	107,602,826.75
Depreciation of fixed assets	220,185,337.21	152,589,101.28
Amortization of intangible assets	36,076,412.59	23,332,836.62
Gains on disposal of fixed assets, intangible assets and other long-term assets	(4,138,938.48)	(2,755,085.52)
Gains from change in fair value	-	(53,573,806.57)
Financial expenses	32,451,328.20	176,050,487.00
Investment income	(82,844,595.18)	(34,502,356.33)
Share-based payment through equity settlement	104,563,570.17	137,918,045.21
Change in restricted funds	(193,518,759.75)	3,140,975.18
Decrease (Increase) in deferred income tax assets	(21,632,515.13)	(22,578,067.62)
Decrease of inventories	199,234,551.87	171,317,351.10
Decrease (Increase) in operating receivables	(2,909,749,021.26)	(2,617,942,969.04)
Increase (Decrease) in operating payables	214,936,244.29	504,231,944.54
Increase in deferred income	123,844,108.01	38,714,300.00
Net cash flow from operating activities	**7,715,285,452.51**	**7,266,596,546.37**
2. Major investing and financing activities not involving cash receipt and payment:		
3. Net change in cash and cash equivalents:		
Closing balance of cash	18,998,934,287.59	12,304,082,533.11

Supplementary information	2018	2017
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		-
Net increase in cash and cash equivalents	**6,694,851,754.48**	**2,058,113,529.98**

(2) Composition of cash and cash equivalents

Unit：RMB

Item	Closing balance	Opening balance
I. Cash	18,998,934,287.59	12,304,082,533.11
Including: Cash on hand	284,520.29	378,292.56
Bank deposit for payment at any time	18,997,620,001.15	12,303,704,240.55
Other monetary funds for payment at any time	1,029,766.15	-
II. Cash equivalents		-
III. Closing balance of cash and cash equivalents	18,998,934,287.59	12,304,082,533.11

On December 31st 2018, the Company's closing balance of other monetary funds was RMB 194,556,706.78 (December 31st 2017: RMB 8,180.88), of which RMB 193,526,940.63 were all various guarantee deposits (December 31st 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	4,975,825.83	/
The government subsidies 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 enjoyment according to the state industrial policy)	319,304,315.50	/
Net profit or loss of the subsidiary from the beginning of the reporting period to the merger date, for business combination involving enterprises under common control	-	/
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	62,153,461.82	/
Other non-operating income and expense except the items mentioned above	94,651,413.78	/
Impact of income tax	(84,510,487.85)	/
The impact of minority equity	(26,933,458.36)	/
Total	**369,641,070.72**	/

2. Return on net assets and earnings per share

The return on net assets and earnings per share have been prepared by Hangzhou Hikvision Digital Technology Co., Ltd. in accordance with the Information *Disclosure and Presentation Rules for Companies Making Public Offering of Securities No. 9 – Calculation and Disclosure of Return on Net Assets and Earnings per Share (Revised in 2010)* issued by China Securities Regulatory Commission.

Unit：RMB

Profit for the reporting period	Weighted average return on net assets (%)	Earnings per share	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	33.99%	1.240	1.234
Net profit excluding non-recurring items of profit or loss attributable to ordinary shareholders of the Company	32.88%	1.199	1.194

Section XII 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
April 20th 2019

Note:

This document is a translated version of the Chinese version 2018 Annual Report ("2018 年年度报告"), and the published announcements in the Chinese version shall prevail. The complete published Chinese 2018 Annual Report may be obtained at www.cninfo.com.cn.