

Hangzhou Hikvision Digital Technology Co., Ltd.

2019 Interim Report

January to June 2019



July 20th 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.

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

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

Note:

This document is a translated version of the Chinese version 2019 Half Year Report (“2019 年半年度报告”), and the published announcements in the Chinese version shall prevail. The complete published Chinese 2019 Half Year 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

Section I Important Notes, Contents and Definitions	1
Section II Corporate Profile & Key Financial Data	7
Section III Corporate Business Summary	11
Section IV Operation Discussion and Analysis	12
Section V Significant Events	28
Section VI Changes in Shares and Information about Shareholders.....	48
Section VII Information of Preferred Shares	59
Section VIII Information about Directors, Supervisors, Senior Management	60
Section IX Corporate Bonds	64
Section X Financial Report	65
Section XI Documents Available for Reference	179
Section XII Other Disclosure Information	180

Definitions

Term	Definition
Reporting Period	From January 1 st 2019 to June 30 th 2019
Articles of Associations	<i>Articles of Associations for Hangzhou Hikvision Digital Technology Co., Ltd</i>
Hikvision, our Company, the Company	Hangzhou Hikvision Digital Technology Co., Ltd
CETHIK	CETHIK Group Co., Ltd. Controlling Shareholder of the Company
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 Robotics 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 Weiyang	Hangzhou Hikvision Weiyang Sensory 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 Huiyang	Hangzhou HIK Huiyang 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 <i>Announcement about the Company's Investment in Tonglu to Set up Wholly Owned Subsidiary and New Hikvision Security Industry Base (Tonglu) Project</i> (《关于在桐庐投资设立全资子公司及新建海康威视安防产业基地（桐庐）项目的公告》) (NO. 2014-044).
Internet Security Industry Base	Located in Binjiang district, Hangzhou, Zhejiang province, purposes for the office building. Initially disclosed in <i>Announcement about the Company's New Construction of Internet Security Industry Base Project</i> (《关于新建海康威视互联网安防产业基地项目的公告》) (NO. 2014-035).
Chongqing Manufacture Base	Located in Chongqing, purposes for manufacturing facility, initially disclosed in <i>Announcement about Resolution of the 20th Meeting of the 3rd Session Board</i> (No: 2016-068)
Innovative Business	<p>A long investment cycle, business prospects uncertain, has the high risk and uncertainty, in need for direct or indirect investment in exploration, in order for the Company to timely enter into new areas of business. Initially disclosed in <i>Announcement about Management Measures for Core Staff Investment in Innovative Business</i> (《核心员工跟投创新业务管理办法》) (www.cninfo.com.cn).</p> <p>In this report, innovative business also refers to EZVIZ, Hikvision Robotics, Hikvision Automotive Electronics, Hikvision Weiyang, Hikvision Storage, Hikvision Huiyang and</p>

Term	Definition
	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 18 th 2016. The Company completed the bond maturity payment on February 18 th 2019. For details, please refer to <i>Announcement on the completion of payment on overseas Eurobonds</i> (《关于境外欧元债券完成到期兑付的公告》) (NO. 2019-011)

Section II Corporate Profile & Key Financial Data

I. Corporate Information

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

II. Contacts and contact information

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

III. Other Relevant Information

1. Company's contact information

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

☐Applicable ☒Inapplicable

There is no change in the Company's registered address, office address, zip code, company website or company email address during the reporting period. Please refer to 2018 Annual Report for details.

2. Information disclosure and place of the report

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

☐Applicable ☒Inapplicable

The newspaper designated by the Company for information disclosure, website specified by CSRC for release of the half-year report, and the place where the half-year report is available for inspection have not changed during the reporting period, Please refer to 2018 Annual Report for details.

IV. Key accounting data and Financial Indicators

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

√Yes □No

Retrospective adjustment or restatement reasons: business merger under the common control; first implementation of New Financial Instrument Guidelines

Unit: RMB

	The first half of 2019	The first half of 2018		YoY Change (%)
		Before adjustments	After adjustments	After adjustments
Operating income (RMB)	23,923,273,424.50	20,875,758,224.63	20,875,758,224.63	14.60%
Net profits attributable to shareholders of the Company (RMB)	4,216,755,210.24	4,147,395,535.86	4,147,395,535.86	1.67%
Net profits attributable to shareholders of the Company excluding non-recurring gains and losses (RMB)	4,122,195,529.03	4,009,270,961.25	4,009,270,961.25	2.82%
Net cash flows from operating activities (RMB)	-431,063,793.18	-1,621,193,358.00	-1,621,193,358.00	73.41%
Basic earnings per share (RMB/share)	0.444	0.449	0.449	-1.11%
Diluted earnings per share (RMB/share)	0.444	0.449	0.449	-1.11%
Weighted average ROE	10.86%	13.08%	13.08%	-2.22%
	At June 30 th 2019	At December 31 st 2018		YoY Change (%)
		Before adjustments	After adjustments	After adjustments
Total assets (RMB)	64,344,901,612.62	63,484,352,233.42	63,465,019,931.22	1.39%
Net assets attributable to shareholders of the Company (RMB)	36,515,200,589.68	37,590,154,638.46	37,567,728,835.78	-2.80%

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)	9,347,956,306.00
Fully diluted earnings per share (RMB/share) calculated with the latest share capital	0.451

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

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

□ Applicable √ Inapplicable

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

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

☐ Applicable ☒ Inapplicable

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

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

☐ Applicable ☒ Inapplicable

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

☒ Applicable ☐ Inapplicable

Unit: RMB

Item	Amount
Profit or loss from disposal of non-current assets (including the write-off for the impairment provision of assets)	810,043.90
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.)	90,511,282.83
Net gains and losses from beginning of the reporting period to the merge date for the subsidiary merged involving enterprises under common control	-885,138.65
Profits and losses attributed to change in fair value for held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities, and derivative financial liabilities; and investment income from disposal of held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities, derivative financial liabilities and other debt investments, excluding the effective hedging business related to the regular business operation of the Company.	9,948,685.74
Other non-operating income and expenditures except the items mentioned above	29,742,814.57
Less: Impact of income tax	34,822,486.70
Impact of the minority interests (after tax)	745,520.48
Total	94,559,681.21

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

There was no significant change for the principal business of the Company during the reporting period. Please refer to 2018 Annual Report for details.

II. Significant changes in main assets

1. Major Changes in Main Assets

Major assets	Explanation on Major Changes
Equity Assets	No significant change
Fixed Assets	No significant change
Intangible Assets	Increased by 12.66%, mainly due to increase in intangible asseets for the acquisition of land in the second phase of Chongqing Science and Technology Base.
Construction in Progress	Increased by 25.93%, mainly due to increased investment in the construction of Chengdu Science and Technology Base.

2. Major Overseas Assets

☐ Applicable ☒ Inapplicable

III. Core Competitiveness

There was no significant change for the core competitiveness of the Company during the reporting period. Please refer to 2018 Annual Report for details.

Section IV Operation Discussion and Analysis

I. Overview

During the first half of 2019, the domestic economy was volatile, uncertainty risk in the overseas business environment was rising rapidly, and market demand was under dual impacts of economic and political influences. Facing such complexities in domestic and overseas environment, the Company adhered to its orientation guided by customer demands and driven by technological innovations to promote growth in scale while enhancing efficiency at the same time.

During the reporting period, the Company realized operating revenue of RMB 23.92 billion, representing a year-over-year growth of 14.60%. Net profit attributable to shareholders of the listed company was RMB 4.22 billion, representing a growth of 1.67% as compared to the corresponding period of the previous year. The Company's gross profit margin was 46.33% during the first half of 2019, representing an increase of 1.83% as compared to the corresponding period of the previous year.

1) Maintaining continuous investments in research and development (R&D) to consolidate the foundation of sustainable development

While continuous investments were made in the research and development of technologies and products relating to the traditional security business, the Company accelerated the continuous implementation of the computing structure of AI Cloud converging cloud and edge computing, and the data structure for the fusion of IoT (internet of things) and Information networks, to realize the data interaction between Intelligent IoT and information networks, and laid down the development infrastructure for various areas such as deep learning, big data, intelligent IoT and data application etc., so as to maintain our market leadership in technological innovation and product innovation.

2) Optimization and reorganization of business structure to realize efficient allocation of resources

Through optimization and reorganization of the three major business groups of the Company, namely, PBG (Public Business Group), EBG (Enterprise Business Group) and SMBG (Small and Medium Enterprise Business Group), internal resources were effectively coordinated, targeted customized solutions were provided to customers according to their different demands. Meanwhile, the Company's branches were transforming into provincial business centers by upgrading and re-allocating sales, R&D and technical resources to enhance our integrated marketing capabilities in the regional markets, generating differentiated collaboration with the headquarter to achieve efficient allocation of the Company's overall resources.

3) Maintaining stability while achieving progress in the global market to tackle changes in the business environment positively

The Company continued to develop overseas channels, reinforce the construction of local operation and service capabilities, and enhance the Company's brand influence. Business adjustments were made according to the specific conditions of various regions. By paying close attention to regions with rapidly rising uncertainty risk in the business environment, positive measures were adopted to secure the stable development of our business.

4) Operating innovative business in an orderly manner to create new landscape of target markets

The Company's smart home (EZVIZ) business and robotic business continued to make profits, other innovative businesses such as automobile electronics and storage business recorded rapid growth, gradually becoming the new engines for the Company's long-term development.

5) Making continuous progress in management reform to enhance efficiency in organizational operation

The Company continued to increase resources to enhance the establishment of management system, cultivate an equal, open and transparent business atmosphere, and enhance efficiency in organizational operation while focusing on quality and efficiency on an on-going basis. Meanwhile, the Company strengthened the establishment of human resources by adhering to the "talent-focused, growing together" employment concept, to realize mutual benefits and win-win between the Company and its employees

II. Core business analysis

Overview

Whether consistent with the overview disclosure under Operation Discussion and Analysis

√ yes □ no

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

Year-over-Year Changes in Key financial data

Unit: RMB

	2019 First Half Year	2018 First Half Year	YoY Change (%)	Note of Change
Operating Income	23,923,273,424.50	20,875,758,224.63	14.60%	Operating Income increased with the steady increase of market demands.
Operating costs	12,840,506,333.68	11,586,298,826.07	10.82%	Increase with the operating income growth
Selling expenses	3,213,260,109.16	2,649,393,264.42	21.28%	Selling expenses increase with the Company's continuous increasing investments on domestic and overseas sales network
Administrative expenses	731,110,243.76	590,848,451.85	23.74%	Increase with the expansion of the Company's business scale
Financial expenses	-129,943,427.26	-158,521,317.81	18.03%	Affected by fluctuation in foreign exchange rate, increase in foreign currency exchange losses
Income Tax Expenses	933,920,656.68	665,802,758.48	40.27%	The profit growth rate of some high-tax subsidiaries is higher than the overall profit growth rate of the Company.
R&D investments	2,504,800,049.71	1,912,682,599.24	30.96%	The Company continues to increase investments in R&D
Net cash flows from Operating Activities	-431,063,793.18	-1,621,193,358.00	73.41%	Increase in collection of accounts receivable for sales
Net cash flows from Investment Activities	-684,730,771.16	986,123,427.08	-169.44%	Significant amount of collection of matured principal-guaranteed financial products in 2018 first half year (prior year same period).
Net cash flows from Financing Activities	-3,567,621,483.18	-2,425,626,823.45	-47.08%	Increase in distribution of dividends
Net increase in cash and cash equivalents	-4,769,810,219.18	-3,062,665,051.63	-55.74%	Reduced cash inflows from investment activities and increased dividends distribution

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

☐ Applicable ☒ Inapplicable

There is no such case during the reporting period.

Operating income structure

Unit: RMB

	2019 First Half Year		2018 First Half Year		YoY Change (%)
	Amount	Proportion to operating income	Amount	Proportion to operating income	
Total operating income	23,923,273,424.50	100%	20,875,758,224.63	100%	14.60%
Classified by industry					
Video products and video services	23,923,273,424.50	100%	20,875,758,224.63	100%	14.60%
Classified by product					
Front-end equipment	11,399,609,062.38	47.65%	10,285,314,406.66	49.27%	10.83%
Back-end equipment	3,196,070,064.43	13.36%	2,994,583,467.04	14.34%	6.73%
Central control equipment	3,486,737,083.16	14.58%	2,798,476,654.30	13.41%	24.59%
Constructions	477,564,284.57	2.00%	1,077,104,977.68	5.16%	-55.66%
Others	3,634,923,501.63	15.19%	2,613,813,622.58	12.52%	39.07%
Subtotal	22,194,903,996.17	92.78%	19,769,293,128.26	94.70%	12.27%
Smart home business	1,139,058,349.43	4.76%	725,865,396.10	3.48%	56.92%
Other innovative businesses	589,311,078.90	2.46%	380,599,700.27	1.82%	54.84%
Subtotal	1,728,369,428.33	7.22%	1,106,465,096.37	5.30%	56.21%
Classified by region					
Domestic	16,980,210,416.78	70.98%	14,580,485,895.05	69.84%	16.46%
Overseas	6,943,063,007.72	29.02%	6,295,272,329.58	30.16%	10.29%

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

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

☒ Applicable ☐ Inapplicable

Unit: RMB

	Operating income	Operating cost	Gross margin	YoY Change (%) of operating income	YoY Change (%) of operating cost	YoY Change (%) of gross margin
Classified by industry						
Video products and video services	23,923,273,424.50	12,840,506,333.68	46.33%	14.60%	10.82%	1.83%
Classified by product						
Front-end equipment	11,399,609,062.38	5,514,282,317.87	51.63%	10.83%	6.62%	1.91%
Back-end equipment	3,196,070,064.43	1,622,327,866.91	49.24%	6.73%	0.22%	3.30%
Central control equipment	3,486,737,083.16	1,549,258,451.92	55.57%	24.59%	17.87%	2.54%
Constructions	477,564,284.57	348,868,121.15	26.95%	-55.66%	-62.13%	12.49%
Others	3,634,923,501.63	2,763,848,172.20	23.96%	39.07%	48.29%	-4.73%
Subtotal	22,194,903,996.17	11,798,584,930.05	46.84%	12.27%	8.34%	1.93%
Smart home business	1,139,058,349.43	699,890,662.72	38.56%	56.92%	51.45%	2.23%
Other innovative businesses	589,311,078.90	342,030,740.91	41.96%	54.84%	46.22%	3.42%
Subtotal	1,728,369,428.33	1,041,921,403.63	39.72%	56.21%	49.69%	2.63%
Classified by region						
Domestic	16,980,210,416.78	9,036,080,163.13	46.78%	16.46%	12.19%	2.02%
Overseas	6,943,063,007.72	3,804,426,170.55	45.21%	10.29%	7.72%	1.31%

In the case that the Company's main business data statistics are adjusted during the reporting period, the Company's main business data of the latest reporting period were adjusted according to the statistics at the end of the last reporting period

☐ Applicable ☒ Inapplicable

Operating cost structure

Unit: RMB

Cost Structure	2019 First Half Year		2018 First Half Year		Unit: RMB
	Amount	Proportion to operating cost	Amount	Proportion to operating cost	YoY Change (%)
Classified by industry					
Video products and video services	12,840,506,333.68	100%	11,586,298,826.07	100%	10.82%
Classified by product					
Front-end equipment	5,514,282,317.87	42.95%	5,171,808,124.76	44.64%	6.62%
Back-end equipment	1,622,327,866.91	12.63%	1,618,843,751.15	13.97%	0.22%
Central control equipment	1,549,258,451.92	12.07%	1,314,431,389.49	11.34%	17.87%
Constructions	348,868,121.15	2.72%	921,303,977.95	7.95%	-62.13%
Others	2,763,848,172.20	21.52%	1,863,871,939.74	16.09%	48.29%
Subtotal	11,798,584,930.05	91.89%	10,890,259,183.09	93.99%	8.34%
Smart home business	699,890,662.72	5.45%	462,125,654.34	3.99%	51.45%
Other innovative businesses	342,030,740.91	2.66%	233,913,988.64	2.02%	46.22%
Subtotal	1,041,921,403.63	8.11%	696,039,642.98	6.01%	49.69%
Classified by region					
Domestic	9,036,080,163.13	70.37%	8,054,514,491.59	69.52%	12.19%
Overseas	3,804,426,170.55	29.63%	3,531,784,334.48	30.48%	7.72%

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

√Applicable □Inapplicable

	YoY Change (%) of operating income	YoY Change (%) of operating cost	Note on YoY change (%) above 30%
Classified by product			
Constructions	-55.66%	-62.13%	Reduced revenue & cost of PPP projects in the current reporting period
Others	39.07%	48.29%	Revenues from products such as intelligent buildings and purchased goods are growing rapidly
Smart home business	56.92%	51.45%	The smart home business is developing rapidly, with revenue and cost increasing simultaneously
Other innovative businesses	54.84%	46.22%	Other innovative businesses are growing rapidly

III. Non-Core Business Analysis

□Applicable √Inapplicable

IV. Analysis of assets and liabilities

1. Material changes of asset items

Unit: RMB

	June 30 th 2019		December 31 st 2018		YoY Change (%)	Note of significant change
	Amount	Percentage of total assets	Amount	Percentage of total assets		
Cash and bank balances	21,845,904,274.19	33.95%	26,559,675,452.93	41.85%	-7.90%	Payment for purchases and increase in year-end bonus
Accounts receivable	19,126,324,207.05	29.72%	16,619,441,281.18	26.19%	3.53%	Increase as sales revenue grows
Inventory	8,611,208,963.08	13.38%	5,725,104,153.41	9.02%	4.36%	Inventory increases caused by increase in stocking due to increase in sales and production scale
Long-term equity investment	167,086,688.94	0.26%	163,301,844.56	0.26%	0.00%	No significant change
Fixed assets	5,316,389,046.77	8.26%	5,082,415,160.10	8.01%	0.25%	No significant change
Construction in process	523,989,072.99	0.81%	416,092,413.42	0.66%	0.15%	Increase in construction investment on Chengdu Science and Technology Base
Short-term loans	4,552,318,503.27	7.07%	3,465,655,688.29	5.46%	1.61%	Increase in demands for temporary capital turnover
Long-term loans	4,631,400,000.00	7.20%	440,000,000.00	0.69%	6.51%	Increase in foreign currency loans for long-term asset investment

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	Accumulated fair value changes booked into equity	Difference on translation of financial statements dominated in foreign currency	Provision for decline in value during the current period	Newly added during the current reporting period	Sales during the period	Closing balance
Financial Assets								
1. Derivative financial assets	1,860,050.59	586,934.12		193,575.54				2,640,560.25
2. Other non-current financial assets	290,966,813.00	2,153,238.50				2,884,220.00		296,004,271.50
3. Receivables for financing	2,247,357,583.28		14,124,975.09			-874,492,085.86		1,386,990,472.51
Subtotal of financial assets	2,540,184,446.87	2,740,172.62	14,124,975.09	193,575.54	-	-871,607,865.86	-	1,685,635,304.26
Financial Liabilities	290,998.43	-873,778.16		188,092.96				1,352,869.55

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

□ Yes √ No

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

Unit: RMB

Item	Closing Book Value	Reasons for being restricted
Monetary fund	584,702,759.48	Various cash deposits and other restricted funds
Receivables for financing	112,443,816.82	Pledge for issuance of bank acceptance
Accounts receivable	95,000,000.00	Pledge for short-term borrowings
Long-term receivables	460,793,612.55	Pledge for long-term borrowings

Item	Closing Book Value	Reasons for being restricted
Total	1,252,940,188.85	

V. Analysis of Investments

1. Overview

☒ Applicable ☐ Inapplicable

Investment during the first half of 2019 (RMB)	Investment during the first half of 2018 (RMB)	Fluctuation (%)
794,447,793.06	945,650,502.12	-15.99%

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
Hangzhou Innovation Industry Base	Self-built	YES	Video product and video service	0.00	50,840,516.83	Loan	4.96%
Chengdu Science and Technology Base Project	Self-built	YES	Video product and video service	53,291,108.38	59,868,555.12	Self-fund	4.43%
Chongqing Science and Technology Base Project-phase 2	Self-built	YES	Video product and video service	5,324,733.35	7,582,145.40	Self-fund	1.00%
Xi'an Science and Technology Base Project	Self-built	YES	Video product and video service	1,667,334.41	3,331,402.09	Loan	0.29%
Wuhan Science and Technology Base Project	Self-built	YES	Video product and video service	2,698,113.21	4,339,622.64	Self-fund	0.17%

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
Wuhan Intelligence Industry Base Project	Self-built	YES	Video product and video service		934,836.51	Self-fund	0.04%
Total	--	--	--	62,981,289.35	126,897,078.59	--	--

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	1,013,306,062.25	-286,844.04		314,008,941.68		8,082,291.28	460,004,441.68	Company's own funds
Other non-current financial assets	290,966,813.00	2,153,238.50		2,884,220.00			296,004,271.50	Company's own funds
Receivables for financing	2,247,357,583.28		14,124,975.09				1,386,990,472.51	Company's own funds
Total	3,551,630,458.53	1,866,394.46	14,124,975.09	316,893,161.68		8,082,291.28	2,142,999,185.69	--

5. Securities Investments

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

6. Derivatives Investments

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

7. Use of raised funds

☐ Applicable ☒ Inapplicable

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

8. Non-fundraising investment in significant projects during the reporting period

☐ Applicable ☒ Inapplicable

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

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

☐ Applicable ☒ Inapplicable

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

2. Sale of significant equity:

☐ Applicable ☒ Inapplicable

VII. Analysis of major subsidiaries and investees

√ Applicable □ Inapplicable

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

Unit: RMB

Company name	Company type	Principal business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Hangzhou Hikvision System Technology Co., Ltd.	Subsidiary	<u>Manufacturing</u> : video surveillance system; <u>Technology development and service</u> : computer system integration, electronic product, communication product, transmission and display equipment, big data and IoT software and hardware products, intelligent systems, real-time communication systems, servers and supporting software and hardware products; <u>Service</u> : the installation of electric security engineering; steel structure engineering contracting and construction, electronic engineering; the design, construction and maintenance of intelligent system (based on qualification for operation); sales of its self-produced products, import and export goods and technology.	600 million	3,562,290,529.42	1,531,065,156.88	745,333,628.81	19,814,109.05	17,909,378.40
Hangzhou Hikvision Science and Technology Co. Ltd.	Subsidiary	Technology development, technology consulting, results transferring; computer software, electronic product, communication product, digital security product, fire-control products; production and 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, fire-control products, 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	32,403,612,964.35	3,209,849,943.70	22,292,486,713.77	678,426,841.30	512,891,418.64

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
Hangzhou Kuangxin Technology Ltd.	Business merger not involving enterprises under the common control	Business development
Hangzhou EZVIZ Science and Technology Ltd.	Business merger under the common control	Business development
Shijiazhuang Hikvision Technology Ltd.	Cash contribution	Business development
Zhengzhou Hikvision Digital Technology Ltd.	Cash contribution	Business development
Hikvision Central America S.A.	Cash contribution	Expand overseas sales channels
Hikvision West Africa Limited	Cash contribution	Expand overseas sales channels
Hikvision Technology Egypt JSC	Cash contribution	Expand overseas sales channels
Beijing Brainaire Storage Technology Ltd.	Liquidation and Cancellation	Adjustments of organizational framework

VIII. Structural entities controlled by the Company

☐ Applicable ☒ Inapplicable

IX. Guidance on the Company's operational result from January 1st 2019 to September 30th 2019

The estimated year-over-year change (%) range of net profits attributable to shareholders of the Company from January 1st 2019 to September 30th 2019 is from 0% to 15%

X. Risks of the Company and risk response solutions

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

(1) **Risk of technology upgrade:** The Company continues to maintain R&D investments, investigates frontier technologies and keeps its competitiveness in core technology. Through steady and reliable R&D management, the Company has developed an efficient R&D system that addresses market needs, can rapidly respond to market demand for products and technologies, and achieve sustainable development.

(2) **Domestic macro-economy fluctuation risk:** The Company is closely tracking the latest movements in the macro-economy, industrial policies and development of the industry and adjusted the operating strategies specifically. While consolidating our existing advantageous markets, we also strive to develop the business and technological deployment through active explorations, implementing pilot programs of new businesses and new business modules.

(3) **Trade protectionism risks in developed countries:** The Company strengthens its understanding and adaptability to the laws, regulations, political environment and economic environment of the regions where we operate our business, and formulated specific strategies and deployed businesses based on different nations. Meanwhile, we also strive to take precautions actively, make timely judgment and formulate responsive measures.

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

(5) **Risk of internal management:** The Company continues to implement management reforms. In the course of adhering to existing practice and making innovations, we accumulated our experience bit by bit to drive the

continuous improvements in our corporate organizing capabilities. During the reporting period, the Company continued to learn from outstanding enterprises by making reference to successful experience in management practice to optimize our organizing capabilities. Meanwhile, our organizing and operating efficiency was enhanced through internal potential mining, and our internal risk resistance ability was also improved to tackle market and future uncertainties.

(6) **Legal compliance risk:** The Company continues to strengthen the establishment of the compliance risk control system to perform risk supervision and control, as well as follow-up actions, on business timely, in order to enhance the legal compliance capability of the Company. Meanwhile, awareness on the prevention and control of compliance risk was firmly established, through better understanding and mastering of national laws, regulations, regional rules and corporate rules and regulations, the orderly operation of business activities was ensured.

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

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

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

Section V Significant Events

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

1. Annual General Meeting convened during the current reporting period

Meeting	Nature	Proportion of participating investors	Convened Date	Disclosure Date	Disclosure Index
2017 Annual General Meeting of Shareholders	Annual General Meeting of Shareholders	74.61%	May 10 th 2019	May 11 th 2019	No. 2019-032; www.cninfo.com.cn

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

☐ Applicable ☒ Inapplicable

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

☐ Applicable ☒ Inapplicable

The Company did not plan to distribute cash dividends, send bonus shares, or convert capital reserve into share capital during the first half of 2019.

III. 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.	October 29 th 2013	Long-term	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
		<p>2. Commitments in decrease and regulation of transactions with related party: Zhejiang Haikang Group Co., Ltd (hereinafter referred to as Haikang Group or actual controller) as the controlling shareholders of Hangzhou Hikvision Digital Technology Co., Ltd (hereinafter referred to as "Hikvision" or "Listed Company") are committed as below for the transactions with Hikvision:</p> <p>(1) Haikang Group will not make use of the controlling power to offer more favorable conditions to Hikvision than those to any independent third party in any fair market transactions in the cooperation with Hikvision.</p> <p>(2) Haikang Group will not make use of the controlling power to obtain the prior right to complete the transaction with Hikvision.</p> <p>(3) Haikang Group will not deal with Hikvision in not fair terms comparing to the market prices to prejudice the Company's interests.</p> <p>For unavoidable related transactions, the Company will observe the principles of justice and fairness to determine prices according to the market on the basis of equality, voluntarily. The Company will obey the Articles of Association and other regulatory documents related to the avoiding of issues about related transactions. The related transactions will go through approval procedures in accordance with related rules and complete legal procedures, fulfilling the information disclosure obligations in respect to the related transactions</p> <p>3. Commitment to the maintenance of the independence of the listed Company</p> <p>3.1 Commitment to Personnel Independence of the listed Company</p> <p>(1) Commitment that our general manager, deputy general manager, chief financial officer, secretary of the board and other members of senior management shall not assume any positions other than directors and supervisors or get any remuneration in CETHIK and/or any of its controlled entities; (2) Commitment in keeping the</p>			

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

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

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
	Investment Management Limited Partnership)	Xiang, Wang Ruihong, Chen Junke's tenure of the Company's board of directors, supervisors and senior management personnel, the annual transfer of Hikvision's total shares should not exceed 25% of total number of shares held under Weixun; within 6 months after abovementioned personnel's dimission, should not transfer Hikvision's shares held under Weixun.			
	Hangzhou Pukang Investment Limited Partnership (later renamed as Xinjiang Pukang Investment Limited Partnership)	During Hu Yangzhong, Wu Weiqi, Gong Hongjia's tenure of the Company's board of directors, supervisors and senior management personne, the annual transfer of Hikvision's total shares should not exceed 25% of total number of shares held under Pukang; whithin 6 months after abovementioned personnel's dimission, should not transfer Hikvision's shares held under Pukang.	May 17 th 2010	Long term	Strict performance
	The Company's directors, supervisors and executive: HuYangzhong, Wu Weiqi, Jiang Haiqing, Zhou Zhiping, Xu Lirong, Cai Dingguo, He Hongli, Zheng Yibo, Hu Dan, Jiang Yufeng, Liu Xiang, Wang Ruihong, Chen Junke	During their tenure of the Company's board of directors, supervisors and senior management personnel, the annual shares transfer should not exceed 25% of total number of shares held under Weixun; whthin 6 months after their dimission, they should not transfer their shares held under Weixun.	May 17 th 2010	Long term	Strict performance
	Directors, executive officers of the Company: Hu Yangzhong, Wu Weiqi	During their tenure of the Company's board of directors, supervisors and senior management personnel, the annual shares transfer should not exceed 25% of total number of shares held under Pukang; whthin 6 months after their dimission, they should not transfer their shares held under Pukang.	May 17 th 2010	Long term	Strict performance
	The Company's director	During Gong Hongjia's tenure of the		Long-term	Strict

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
	Gong Hongjia's spouse, Chen Chunmei	Company's board of directors, supervisors and senior management personnel, Chen's annual shares transfer should not exceed 25% of total number of shares held under Pukang; within 6 months after the dimission of Gong Hongjia, Chen should not transfer her shares held under Pukang.	May 17 th 2010		performance
	China Electronics Technology Group Corporation (later renamed as China Electronics Technology Group Co., Ltd.)	To avoid any loss of the Company and other shareholders arising from any competing business, China Electronics Technology Group Corporation, the actual controller of the Company, issued Letters of non-competition on 18 September, 2008.	September 18 th 2008	Long term	Strict performance
	Gong Hongjia; Hangzhou Weixun Investment Management Limited Partnership (later renamed as Xinjiang Weixun Investment Management Limited Partnership); Hangzhou Pukang Investment Limited Partnership (later renamed as Xinjiang Pukang Investment Limited Partnership); ZheJiang Orient Holdings Co., Ltd.	To avoid any loss of the Company and other shareholders arising from any competing business, Gong Hongjia, Hangzhou WeiXun Investment Management Limited Partnership, ZheJiang Orient Holdings Co., Ltd and Hangzhou KangPu Investment Management Limited Partnership, the promoters of the Company, issued <i>Commitment Letters of non-competition in the same industry</i> on 10 July, 2008.	July 10 th 2008	Long term	Strict performance
Other commitments to the Company's minority shareholders	CETC Investment Holding 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 23 rd 2018) and the statutory period, CETCIH will not reduce its shareholdings of Hikvision	October 23 rd 2018	Within 6 months from October 23 rd 2018	Strict performance
	CETC Investment Holding Co., Ltd (CETCIH); The 52nd Research Institute at China Electronics Technology Group Corporation; China Electronics Technology	Within six months from the date of completion of the implementation of increasing shareholding of Hikvision plan, CETCIH will not reduce its shareholdings of Hikvision.	April 24 th 2019	Within 6 months from April 24 th 2019	Strict performance

Commitments	Giver of commitments	Details of commitments	Date of commitments	Term of commitments	Performance
	Group Co., Ltd.				
Whether the commitments is fulfilled in time	Yes				

IV. Engagement and disengagement of the CPA firm

Whether the half year report was audited

☐ Yes ☒ No

The Company's half year report was not audited.

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

☐ Applicable ☒ Inapplicable

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

☐ Applicable ☒ Inapplicable

VII. Bankruptcy and restructuring

☐ Applicable ☒ Inapplicable

No such case during the reporting period.

VIII. Material litigation and arbitration

☐ Applicable ☒ Inapplicable

No such case during the reporting period.

Other litigations

☐ Applicable ☒ Inapplicable

IX. Media queries

☐ Applicable ☒ Inapplicable

There was no prevalent media query during the reporting period.

X. Punishments and rectifications

☐ Applicable ☒ Inapplicable

No such case during the reporting period.

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

☐ Applicable ☒ Inapplicable

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

☒ Applicable ☐ Inapplicable

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

On December 3rd 2018, *Resolution for the Fulfillment of the Unlocking Conditions of the Third Unlock Period for the 2014 Restricted Share Incentive Schemes* and the *Resolution for the Third Repurchase and Cancellation of the Locked shares that Already Granted for 2014 Restricted Share Incentive Schemes* were approved by the 7th meeting of the fourth Board. Authorized by the first extraordinary general meeting for 2014, a total of 33,422,536 restricted shares of 1055 grantees were vested and circulated on January 8th 2019. Meanwhile, 509,625 restricted shares held by a portion of grantees not fulfilling the incentive conditions were repurchased and cancelled. On June 26th 2019, repurchase and cancellation process of the restricted shares was complete.

For details, please refer to in the *Indicative Notice of Listing the Unlocked Shares during the Third Unlocking Period of 2014 Restricted Share Incentive Schemes* (No. 2019-002) and the *Notice of the Completion of Third Repurchase and Cancellation of Locked Shares that Already Granted for 2014 Restricted Share Incentive Schemes* (No. 2019-035) issued on January 7th 2019 and June 27th 2019 respectively.

2. During the reporting period, the Company has completed the grants of 2018 Restricted Share Incentive Scheme

On December 20th 2018, *Resolution for Granting Restricted Shares to Planned Grantees for 2018 Restricted Shares Incentive Scheme* was approved by the 8th Meeting of the fourth board. According to the *Listed Company Equity Incentive Measures* and other administration or relevant laws, regulations and departmental

rules and regulated documents, as well as *2018 Restricted Shares Incentive Scheme (edited draft)* and authorizations approved by the 2018 2nd extraordinary general meeting, the Company has completed granting and registration of 2018 Restricted Shares Incentive Scheme, with 6095 granted personnel, and 121,195,458 granted shares which were listed on January 18th 2019.

For details, please refer to *Indicative Notice of Completion of Granting of 2018 Restricted Share Incentive Schemes* (No. 2019-004) issued on January 17th 2019.

3. During the reporting period, the Company completed the first time unlocking shares for 2016 Restricted Share Incentive Scheme.

On December 26th 2018, *Resolution for the Fulfillment of the Unlocking Conditions of the First Unlock Period for the 2016 Restricted Share Incentive Schemes* was approved by the 9th meeting of the fourth Board. Authorized by the second extraordinary general meeting for 2016, a total of 30,140,165 restricted shares of 2822 grantees were vested and circulated on January 21st 2019.

For details, please refer to in the *Indicative Notice of Listing the Unlocked Shares during the First Unlocking Period of 2016 Restricted Share Incentive Schemes* (No. 2019-007) issued on January 18th 2019.

By the end of the reporting period, the Company has a total of 169,545,580 granted and restricted shares, accounts for 1.81% of the Company's total share capital.

XIII. Significant related-party transaction

1. Related-party transactions arising from routine operation

√ Applicable □ Inapplicable

Related party	Relationship	Type of related transaction	Content of related transaction	Valuation	Trading Amount (0'000 RMB)	Proportion to the amount of similar transactions.	Approved trading quota (0'000 RMB)	Whether above approved quota	Settlement method	Disclosure date	Disclosure reference
Subsidiaries 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	10,130.72	0.59%	60,000	No	Payment on delivery	April 20 th 2019	Announcement on projections on 2019 related-party transactions (No: 2019-020)
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	14,252.68	0.84%	45,000	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	2,702.91	0.16%	10,000	No	Payment on delivery		
Maxio Technology and its subsidiaries	A joint venture affiliated business held by the Company	Procurement	Purchase materials, receiving services	Reference market price; Agreed on price	744.59	0.04%	10,000	No	Payment on 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	25,910.03	1.08%	70,000	No	Payment on delivery
Zhejiang Tuxun	The Company's senior executive left his post from the Company in March 2018; the year of 2019 is one year after his departure; therefore, Zhejiang Tuxun remained a related party of the Group in the current reporting period.	Sales	Providing services, selling products, commercial goods	Reference market price; Agreed on price	2.31	0.00%	500	No	Payment on delivery
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	26.25	0.00%	2,500	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	Reference market price; Agreed on price	2.39	0.00%	200	No	Payment on delivery

			goods							
Sanmenxia Xiaoyun Vision Technology Ltd.	A joint venture affiliated business held by the Company	Sales	Providing services, selling products, commercial goods	Reference market price; Agreed on price	597.31	0.02%	0	No	Payment on delivery	Has not been reviewed, but has been approved by the chairman of the board according to the Company's <i>Related-Party Transaction Management System</i>
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	32.03	0.00%	2,000	No	Payment on delivery	Announcement on projections on 2019 related-party transactions (No: 2019-020)
Jiaxin Haishi JiaAn Zhicheng Technology Ltd.	A joint venture affiliated business held by the Company	Sales	Providing services, selling products, commercial goods	Reference market price; Agreed on price	8.14	0.00%	0	No	Payment on delivery	Has not been reviewed, but has been approved by the chairman of the board according to the Company's <i>Related-Party Transaction Management System</i>

Maxio Technology (Hangzhou) Ltd. 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	0	0.00%	200	No	Payment on delivery		Announcement on projections on 2019 related-party transactions (No: 2019-020)
Total				--	54,409.36	--	200,400	--	--	--	--
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)				The amount of related party transactions with Sanmenxia Xiaoyun Vision Technology Ltd. and Jiaxin Haishi JiaAn Zhicheng Technology Ltd. has not been reviewed, but has been approved by the chairman of the board according to the Company's <i>Related-Party Transaction Management System</i> .							
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 credit and debt transactions

☐Applicable ☒Inapplicable

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

5. Other significant related party transactions

☒Applicable ☐Inapplicable

On December 3rd 2018, the *Resolution on the Commencement of Financial Leasing Related-Party Transactions between Controlled Subsidiaries of Innovative Business and China Electronics Technology Leasing Co. Ltd.* was considered and approved by the Company at the seventh meeting of the fourth session of the Board, pursuant to which consent was given to subsidiaries of innovative business controlled by the Company (including Hangzhou EZVIZ Network Co., Ltd., Hangzhou HIK Robotic Technology Co., Ltd., Hangzhou HIK Automobile Technology Co., Ltd., Hangzhou HIK Weiying Sensory Technology Co., Ltd., Wuhan HIK Storage Technology Co., Ltd. and Hangzhou HIK Huiying Technology Co., Ltd.) to commence financial leasing related-party transactions with China Electronics Technology Leasing Co., Ltd. (CETL) in 2019, which mainly covered financial leasing business for machinery and equipment of the Company, and the expected annual total amount would be capped at RMB 200 million (excluding tax). On January 11th 2019, Hangzhou HIK Weiying Sensory Technology Co., Ltd., a subsidiary of the Company engaging in innovative business, entered into a financial leasing contract with China Electronics Technology Leasing Co. Ltd. to conduct sale and lease back business with CETL on some of its self-owned equipment, the financing amount was RMB 50 million, the leasing term was 48 months, and the leasing interest rate was 3.8% per annum.

On April 19th 2019, China Electronics Technology HIK Group Co., Ltd. (CETHIK), the parent company of the Company, entered into an Entrusted Management Agreement with Hangzhou EZVIZ Network Co., Ltd., a

subsidiary of the Company. Pursuant to the agreement, CETHIK entrusted EZVIZ Network to exercise de facto operation and management rights in EZVIZ Technology to fully oversee the production, operation and management of EZVIZ Science and Technology. EZVIZ Network would not collect any fixed amount of entrusted management fees from CETHIK, but EZVIZ Network would be entitled to 100% distributable profit of EZVIZ Science and Technology under the entrusted management relationship. At the same time, EZVIZ Network would pay an amount of capital occupation costs to CETHIK according to a certain fee rate for capital occupation based on the amount of paid-up capital in EZVIZ Science and Technology (up to a maximum of RMB 20 million). Thus, EZVIZ Network became the de facto controller of EZVIZ Science and Technology.

Disclosure website for provisional reports on significant related-party transactions:

Title of provisional reports	Disclosure date	Disclosure website
<i>Announcement on the Commencement of Financial Leasing Related-Party Transactions between Controlled Subsidiaries of Innovative Business and China Electronics Technology Leasing Co. Ltd.</i> (No. 2018-062)	December 4 th 2018	www.cninfo.com.cn
Announcement on signing the <i>Entrusted Management Agreement</i> and related-party transactions with the controlling shareholder (Announcement No. 2019-026)	April 19 th 2019	www.cninfo.com.cn

The Company did not occur any significant related-party transaction during the current reporting period.

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

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

(2) Contracting

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

(3) Leasing

☐ Applicable ☒ Inapplicable

No significant leasing during the reporting period.

2. Significant guarantees

☒ Applicable ☐ Inapplicable

(1) Details of guarantees

Unit: RMB'0000

Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosure date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date (date of signing agreement)	Actual guaranteed amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Hangzhou Hikvision Science and Technology Ltd.	April 18 th 2019	700,000	December 6 th 2016	480,870.71	Joint guarantee	2016/12/06--2020/01/18	No	Yes
Hangzhou Hikvision System Technology Ltd	April 18 th 2019	80,000	October 10 th 2017	11,000.00	Joint guarantee	2018/2/2--2020/9/30	No	Yes
Hikvision International co. ltd.	April 18 th 2019	400,000	December 27 th 2017	20,984.66	Joint guarantee	2017/10/09--2019/09/20	No	Yes
Hangzhou Haikang Zhicheng Investment and Development Ltd.	April 18 th 2019	10,000	July 30 th 2018	1,200.00	Joint guarantee	2018/7/30-2019/7/19	No	Yes
Hangzhou Hikvision Electronics Ltd.	April 18 th 2019	500,000	October 19 th 2018	9,052.01	Joint guarantee	2018/10/19-2019/10/19	No	Yes
Mo Yu Hai Shi Electronic Technology Ltd.	April 18 th 2019	30,000	March 26 th 2019	18,560	Joint guarantee	2019/3/26-2035/03/26	No	Yes
Yu Tian Hai Shi Mei Tian Electronic Technology Ltd.	April 18 th 2019	30,000	March 26 th 2019	8,000	Joint guarantee	2019/3/26-2034/03/26	No	Yes
Pi Shan Hai Shi Yong An Electronic Technology Ltd.	April 18 th 2019	35,000	March 26 th 2019	17,600	Joint guarantee	2019/3/26-2040/03/26	No	Yes
Luo Pu Hai Shi Ding Xin Electronic Science and Technology Ltd.	April 18 th 2019	30,000	March 26 th 2019	14,400	Joint guarantee	2019/3/26-2035/03/26	No	Yes

Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosure date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date (date of signing agreement)	Actual guaranteed amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
Urumchi HaiShi Xin’An Electronic Technology Ltd.	April 18 th 2019	50,000	March 29 th 2019	16,000	Joint guarantee	2019/3/29-2028/06/20	No	Yes
Chongqing Hikvision Science and Technologies Ltd.	April 18 th 2019	60,000	Not happened during the reporting period					
Chongqing Hikvision System Technology Ltd.	April 18 th 2019	60,000	Not happened during the reporting period					
Chengdu Hikvision Digital Technology Ltd.	April 18 th 2019	50,000	Not happened during the reporting period					
Wuhan Hikvision Technology Ltd.	April 18 th 2019	50,000	Not happened during the reporting period					
Wuhan Hikvision Science and Technology Ltd.	April 18 th 2019	50,000	Not happened during the reporting period					
Hikvision Xi’an Xueliang Construction Project Management Ltd.	April 18 th 2019	67,000	Not happened during the reporting period					
Xi’An Hikvision Digital Technology Ltd.	April 18 th 2019	30,000	Not happened during the reporting period					
Pyronix Limited	April 18 th 2019	10,082	Not happened during the reporting period					
Total guarantee cap for subsidiaries approved during the reporting period(B1)		2,242,082.00	Total actual guarantee amount for subsidiaries during the reporting period(B2)					630,380.86
Total approved guarantee cap for subsidiaries at the end of the reporting period(B3)		2,242,082.00	Total actual guarantee balance for subsidiaries at the end of the reporting period(B4)					597,667.38
Total guarantee amount provided by the Company								
Total guarantee cap approved during the reporting period		2,242,082.00	Total actual guarantee amount during the reporting period					630,380.86
Total approved guarantee cap at the end of reporting period		2,242,082.00	Total actual guarantee balance at the end of the reporting period					597,667.38
Portion of the total actual guarantee amount in net assets of the Company			16.37%					
Of which								

Guarantees provided by the Company for subsidiaries								
Guaranteed party	Disclosure date of announcement of the guarantee cap	Guarantee Cap	Actual occurrence date (date of signing agreement)	Actual guaranteed amount	Type of guarantee	Term of guarantee	Due or not	Guarantee for a related party or not
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)					501,855.37			
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)					501,855.37			

Illustration of compound method guarantee

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

(2) Illegal provision of guarantees for external parties

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

3. Other significant contracts

☐ Applicable ☒ Inapplicable

No such case in the reporting period.

XV. Social responsibility

1. Significant environmental problems

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

No

2. Fulfillment of the social responsibility of targeted poverty alleviation

☐ Applicable ☒ Inapplicable

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

XVI. Other significant events

☐ Applicable ☒ Inapplicable

There was no other significant issues that need to be explained during the current reporting period.

XVII. Significant events of the Company's subsidiaries

☐ Applicable ☒ Inapplicable

Section VI Changes in Shares and Information about Shareholders

I. Changes in Share Capital

1. Table of changes in share capital

Unit: Share

	Before the change		Changes in the period (+, -)					After the change	
	Shares	Ratio	New Shares Issued	Bonus share	Share transferred from capital reserve	Others	Sub-total	Shares	Ratio
1. Shares subject to conditional restriction(s)	1,313,073,005	14.23%	121,195,458			-160,318,941	-39,123,483	1,273,949,522	13.63%
3) Other domestic shares	274,212,680	2.97%	120,971,358			-62,791,821	58,179,537	332,392,217	3.56%
held by domestic natural person	274,212,680	2.97%	120,971,358			-62,791,821	58,179,537	332,392,217	3.56%
4) Foreign shares	1,038,860,325	11.26%	224,100			-97,527,120	-97,303,020	941,557,305	10.07%
held by overseas natural person	1,038,860,325	11.26%	224,100			-97,527,120	-97,303,020	941,557,305	10.07%
2. Shares without restriction	7,914,197,468	85.77%				159,809,316	159,809,316	8,074,006,784	86.37%
1) RMB ordinary shares	7,914,197,468	85.77%				159,809,316	159,809,316	8,074,006,784	86.37%
3. Total	9,227,270,473	100.00%	121,195,458			-509,625	120,685,833	9,347,956,306	100.00%

Reason for the changes in share capital

√ Applicable □ Inapplicable

(1) Grants of 2018 Restricted Share Incentive Scheme

On December 20th 2018, *Resolution for Granting Restricted Shares to Planned Grantees for 2018 Restricted Shares Incentive Scheme* was approved by the 8th meeting of the fourth board. According to the *Listed Company Equity Incentive Measures* and other administration or relevant laws, regulations and departmental rules and regulated documents, as well as *2018 Restricted Shares Incentive Scheme (edited draft)* and authorizations approved by the 2018 2nd extraordinary general meeting, the Company has completed granting and registration of 2018 Restrictred Shares Incentive Sheme, with 6095 granted personnel, and 121,195,458 granted shares which were listed on January 18th 2019. The Company's total capital share increased from 9,227,270,473 shares to 9,348,465,931 shares.

(2) The third time repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme:

On December 3rd 2018, *Resolution for the Third Repurchase and Cancelation of the Locked Shares that Already Granted for 2014 Restricted Share Incentive Schemes* was approved by the 7th meeting of the fourth Board. Authorized by the first extraordinary general meeting for 2014, the board agreed to repurchase and cancel a total of 509,625 restricted shares held by a portion of grantees not fulfilling the incentive conditions. On June 26th 2019, repurchase and cancelation process of the restricted shares was complete. The Company's total share capital decreased from 9,348,465,931 shares to 9,347,956,306.

Approval for changes in share capital

√ Applicable □ Inapplicable

(1) Grants of 2018 Restricted Share Incentive Scheme

On December 20th 2018, *Resolution for Granting Restricted Shares to Planned Grantees for 2018 Restricted Shares Incentive Scheme* was approved by the 8th

meeting of the fourth board. Authorized by the 2018 2nd extraordinary general meeting, the board agreed to grant 126,518,281 shares to 6341 grantees as planned in 2018 Restricted Shares Incentive Scheme, the granting date was December 20th 2018. In the payment process of capital, part of the grantees partially or completely renounce the subscription of the incentive shares, resulted in an actual grantees of 6095 personnels, with 121,195,458 actual granted shares.

(2) The third time repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme:

On December 3rd 2018, *Resolution for the Third Repurchase and Cancellation of the Locked Shares that Already Granted for 2014 Restricted Share Incentive Schemes* was approved by the 7th meeting of the fourth Board. Authorized by the first extraordinary general meeting for 2014, the board of directors agreed to repurchase and cancel 509,625 restricted shares held by a portion of grantees not fulfilling the incentive conditions. On June 26th 2019, repurchase and cancellation process of the restricted shares was complete. The Company's total share capital decreased from 9,348,465,931 shares to 9,347,956,306.

Transfer for changes in share capital

√ Applicable □ Inapplicable

(1) Grants of 2018 Restricted Share Incentive Scheme

2018 granted restricted incentive shares were listed on January 18th 2019. The Company's total capital shares were increased by 121,195,458 shares to 9,348,465,931 shares from 9,227,270,473 shares.

(2) The third time repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme:

On June 26th 2019, the process of the third time repurchasing and cancelling shares for 2014 Restricted Share Incentive Scheme was complete. The Company's total share capital decreased from 9,348,465,931 shares to 9,347,956,306 shares by 509,625 shares.

Information about the implementation of share repurchase

☐Applicable ☒Inapplicable

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

☐Applicable ☒Inapplicable

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

☐ Applicable ☒ Inapplicable

2. Changes in restricted shares

☒Applicable ☐ Inapplicable

Unit: Share

Name of shareholder	Opening restricted shares	Vested in current period	Increased in current period	Closing restricted shares	Note for restricted shares	Date of unlocking
Gong Hongjia	1,038,792,525	97,500,000	0	941,292,525	Executives locked shares	According to the relevant provisions of executives shares management
Grantees of restricted share incentive plan (consolidated)	112,422,448	63,562,701	121,195,458	169,545,580	Restricted incentive equity shares	January 8th 2019 and January 21st 2019
Hu Yangzhong	136,391,608	0	151,950	136,543,558	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Wu Weiqi	8,301,742	0	137,700	8,439,442	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
Jiang Haiqing	8,352,661	0	116,700	8,469,361	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	According to the relevant provisions of executives shares management
Jia Yonghua	4,166,433	0	43,800	4,210,233	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Li Pan	4,165,551	0	43,800	4,209,351	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Huang Fanghong	145,125	0	74,250	219,375	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Jiang Yufeng	60,375	0	109,950	170,325	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
He Hongli	52,575	0	113,250	165,825	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Fu Baijun	135,450	0	136,650	272,100	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Xu Lirong	59,700	0	101,850	161,550	Executives locked shares+ partial of the unlocked restricted shares turning into executives locked shares	
Wang Qiuchao	15,000	0	11,250	26,250	Executives locked shares+ partial of the unlocked	

Name of shareholder	Opening restricted shares	Vested in current period	Increased in current period	Closing restricted shares	Note for restricted shares	Date of unlocking
					restricted shares turning into executives locked shares	
Qu Liyang	11,812	0	0	11,812	As taking the Company's Director position, partial of the shares held were turning into executives locked shares.	
Pu Shiliang	0	0	130,785	130,785	Partial of the unlocked restricted shares turning into executives locked shares	
Jin Duo	0	0	16,425	16,425	Partial of the unlocked restricted shares turning into executives locked shares	
Cai Changyang	0	0	16,425	16,425	Partial of the unlocked restricted shares turning into executives locked shares	
Bi Huijuan	0	0	22,500	22,500	Partial of the unlocked restricted shares turning into executives locked shares	
Jin Yan	0	0	26,100	26,100	Partial of the unlocked restricted shares turning into executives locked shares	
Total	1,313,073,005	161,062,701	122,448,843	1,273,949,522	--	

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 second row.
2. The difference of 509,625 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 509,625 shares on June 26th 2019.

3. Issuance and listing of securities

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

√Applicable □Inapplicable

Stock and the name of its derivatives	Issuance date	Issuance price (or interest rate)	Issuance amount	Date of listing	Amount that approved for listings	Date of transaction termination
Restricted shares	December 20 th 2018	16.98 RMB	126,518,281	January 18 th 2019	121,195,458	--

Issuance of securities (excluding preferred shares) during the current reporting period:

On December 20th 2018, *Resolution for Granting Restricted Shares to Planned Grantees for 2018 Restricted Shares Incentive Scheme* was approved by the 8th meeting of the fourth board. According to the *Listed Company Equity Incentive Measures* and other administration or relevant laws, regulations and departmental rules and regulated documents, as well as *2018 Restricted Shares Incentive Scheme (edited draft)* and authorizations approved by the 2018 2nd extraordinary general meeting, the Company has completed granting and registration of 2018 Restricted Shares Incentive Scheme, with 6095 granted personnel, and a total of 121,195,458 granted shares which were listed on January 18th 2019.

For details, please refer to *Indicative Notice of Completion of Granting of 2018 Restricted Share Incentive Schemes* (No. 2019-004) issued on January 17th 2019.

II. Total number of shareholders and their shareholdings

Unit: Share

Total number of common shareholders at the end of the reporting period	298,994	Total number of preferred shareholders (if any) whose voting rights have been recovered at the end of the reporting period	0
--	---------	--	---

Particulars about shares held by shareholders with a shareholding percentage over 5% or the Top 10 of them								
Name of shareholder	Nature of shareholder	Share-holding percentage (%)	Total shares held at the 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	39.09%	3,653,674,956	0	0	3,653,674,956	Pledged	50,000,000
Gong Hongjia	Overseas individual	13.43%	1,255,056,700	0	941,292,525	313,764,175	Pledged	476,885,300
Hong Kong Securities Clearing Company Ltd.(HKSCC)	Overseas corporation	7.19%	671,737,077	-141,155,420	0	671,737,077	-	-
Xinjiang Weixun Investment Management Limited Partnership	Domestic non-state-owned corporation	4.82%	450,795,176	0	0	450,795,176	Pledged	175,833,000
Xinjiang Pukang Investment Limited Partnership	Domestic non-state-owned corporation	1.95%	182,510,174	0	0	182,510,174	Pledged	72,570,000
Hu Yangzhong	Domestic Individual	1.95%	182,186,477	0	136,639,858	45,546,619	Pledged	62,910,469
The 52nd Research Institute at China Electronics Technology Group Corporation	State-owned corporation	1.93%	180,775,044	0	0	180,775,044	-	-
CITIC Securities Company Limited	Domestic non-state-owned corporation	0.93%	87,171,196	5,657,536	0	87,171,196	-	-
Central Huijin Investment Ltd.	State-owned corporation	0.70%	65,818,800	0	0	65,818,800	-	-
Guo Minfang	Domestic Individual	0.41%	38,474,700	1,712,500	0	38,474,700	-	-

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 <i>Measures for Management of the Disclosure of the Shareholding Changes of Shareholders of the Listed Company</i> .		
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)	671,737,077	RMB ordinary shares	671,737,077
Xinjiang Weixun Investment Management Limited Partnership	450,795,176	RMB ordinary shares	450,795,176
Gong Hongjia	313,764,175	RMB ordinary shares	313,764,175
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	87,171,196	RMB ordinary shares	87,171,196
Central Huijin Investment Ltd.	65,818,800	RMB ordinary shares	65,818,800
Hu Yangzhong	45,546,619	RMB ordinary shares	45,546,619
Guo Minfang	38,474,700	RMB ordinary shares	38,474,700
Explanation on associated relationship and concerted actions among top ten common shareholders without trading	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		

<p>restrictions, and among top ten common shareholders and top ten common shareholders without trading restrictions</p>	<p>Pukang Investment Limited Partnership, is the spouse of Mr. Gong Hongjia, foreign individual shareholder of the Company. Hu Yangzhong, domestic individual, is holding shares in both Xinjiang Weixun Investment Management Limited Partnership and Xinjiang Pukang Investment Limited Partnership.</p> <p>Except for these, the Company does not know whether the other shareholders are related parties or whether they are acting-in-concert parties in accordance with the <i>Measures for Management of the Disclosure of the Shareholding Changes of Shareholders of the Listed Company</i>.</p>
---	---

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

☐ Applicable ☒ Inapplicable

No such cases during the current reporting period.

III. Particulars about change in controlling shareholder or actual controller

Change of the controlling shareholder during the current reporting period

☐ Applicable ☒ Inapplicable

No such cases in the reporting period.

Change of the actual controller during the reporting period

☐ Applicable ☒ Inapplicable

No such cases in the current reporting period.

Section VII Information of Preferred Shares

☐ Applicable ☒ Inapplicable

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

Section VIII Information about Directors, Supervisors, Senior Management

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

√Applicable □ Inapplicable

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Number of restricted shares held at the beginning of the period (shares)	Number of restricted shares granted during the period (shares)	Number of restricted shares held at the end of the period (shares)
Chen Zongnian	Chairman	Incumbent	0	0	0	0	0	0	0
Gong Hongjia	Vice Chairman	Incumbent	1,255,056,700	0	0	1,255,056,700	0	0	0
Qu Liyang	Director	Incumbent	15,750	0	0	15,750	0	0	0
Hu Yangzhong	Director, General Manager (CEO)	Incumbent	182,186,477	0	0	182,186,477	248,250	0	96,300
Wu Weiqi	Director, Standing Deputy General Manager	Incumbent	11,371,389	0	0	11,371,389	226,800	0	89,100
Cheng Tianzong	Independent Director	Incumbent	0	0	0	0	0	0	0

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Number of restricted shares held at the beginning of the period (shares)	Number of restricted shares granted during the period (shares)	Number of restricted shares held at the end of the period (shares)
Lu Jianzhong	Independent Director	Incumbent	0	0	0	0	0	0	0
Wang Zhidong	Independent Director	Incumbent	0	0	0	0	0	0	0
Hong Tianfeng	Independent Director	Incumbent	0	0	0	0	0	0	0
Cheng Huifang	Supervisor Chairman	Incumbent	0	0	0	0	0	0	0
Wang Qiuchao	Supervisor	Incumbent	20,000	15,000	0	35,000	0	0	0
Xu Lirong	Supervisor; person in charge of internal audit	Incumbent	303,000	0	0	303,000	167,550	0	65,700
Jiang Haiqing	Senior Deputy General Manager	Incumbent	11,390,882	0	0	11,390,882	190,500	0	73,800
Jia Yonghua	Senior Deputy General Manager	Incumbent	5,701,244	0	0	5,701,244	109,500	0	65,700
Li Pan	Senior Deputy General Manager	Incumbent	5,700,068	0	0	5,700,068	109,500	0	65,700
He Hongli	Senior Deputy General Manager	Incumbent	331,500	0	0	331,500	196,050	0	82,800

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Number of restricted shares held at the beginning of the period (shares)	Number of restricted shares granted during the period (shares)	Number of restricted shares held at the end of the period (shares)
Fu Baijun	Senior Deputy General Manager	Incumbent	390,000	105,000	0	495,000	254,550	105,000	222,900
Cai Changyang	Senior Deputy General Manager	Incumbent	109,500	0	0	109,500	109,500	0	65,700
Xu Ximing	Senior Deputy General Manager	Incumbent	0	197,000	0	197,000	0	197,000	197,000
Bi Huijuan	Senior Deputy General Manager	Incumbent	150,000	123,000	0	273,000	150,000	123,000	213,000
Jiang Yufeng	Senior Deputy General Manager	Incumbent	325,500	0	0	325,500	183,750	0	67,050
Pu Shiliang	Senior Deputy General Manager	Incumbent	293,900	100,000	0	393,900	243,900	100,000	189,640
Jin Duo	Senior Deputy General Manager	Incumbent	109,500	0	0	109,500	109,500	0	65,700
Jin Yan	Senior Deputy General Manager, Person in charge of finance	Incumbent	174,000	110,000	0	284,000	174,000	110,000	214,400
Huang Fanghong	Senior Deputy General Manager, Board Secretary	Incumbent	292,500	110,000	0	402,500	74,250	110,000	110,000

Name	Title	Tenure status	Shares held at the beginning of the Period (Shares)	Shares increased during the Period (shares)	Shares decreased during the Period (Shares)	Shares held at the end of the Period (Shares)	Number of restricted shares held at the beginning of the period (shares)	Number of restricted shares granted during the period (shares)	Number of restricted shares held at the end of the period (shares)
Chen Junke	Senior Deputy General Manager	Incumbent	0	0	0	0	0	0	0
Total	--	--	1,473,921,910	760,000	0	1,474,681,910	2,547,600	745,000	1,884,490

Note:

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

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

II. Changes of directors, supervisors and senior management personnel

☐Applicable ☒Inapplicable

The Company's directors, supervisors and senior management personnel did not change during the current reporting period. For details, please refer to the 2018 annual report.

Section IX Corporate Bonds

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

☐Yes ☒No

Section X Financial Report

I. Audit report

Whether audit has been performed on this interim financial report

☐ Yes ☒ No

The Company's 2019 Half Year Report has not been audited

At June 30th 2019

Consolidated Balance Sheet

Unit: RMB

Item	Notes	Closing balance	Opening balance (restated)
Current Assets:			
Cash and bank balances	(V)1	21,845,904,274.19	26,559,675,452.93
Held-for-trading financial assets	(V)2	2,640,560.25	1,860,050.59
Notes receivable	(V)3	365,698,673.52	295,598,790.07
Accounts receivable	(V)4	19,126,324,207.05	16,619,441,281.18
Receivables for financing	(V)5	1,386,990,472.51	2,247,357,583.28
Prepayments	(V)6	657,396,916.33	460,304,219.65
Other receivables	(V)7	540,162,933.69	586,594,721.43
Including: Dividends receivable	(V)7.2	17,357,220.31	-
Inventories	(V)8	8,611,208,963.08	5,725,104,153.41
Non-current assets due within one year	(V)9	350,602,927.53	380,795,020.47
Other current assets	(V)10	976,030,945.94	730,720,129.59
Total Current Assets		53,862,960,874.09	53,607,451,402.60
Non-current Assets:			
Long-term receivables	(V)11	841,966,899.45	705,512,368.17
Long-term equity investment	(V)12	167,086,688.94	163,301,844.56
Other non-current financial assets	(V)13	296,004,271.50	290,966,813.00
Fixed assets	(V)14	5,316,389,046.77	5,082,415,160.10
Construction in progress	(V)15	523,989,072.99	416,092,413.42
Intangible assets	(V)16	980,053,270.73	869,913,050.09
Goodwill	(V)17	263,264,328.19	212,269,337.23
Long-term deferred expenses	(V)18	32,406,169.67	-
Deferred tax assets	(V)19	602,529,537.21	534,346,941.25
Other non-current assets	(V)20	1,458,251,453.08	1,582,750,600.80
Total Non-current Assets		10,481,940,738.53	9,857,568,528.62
Total Assets		64,344,901,612.62	63,465,019,931.22

At June 30th 2019

Consolidated Balance Sheet - continued

Unit: RMB

Item	Notes	Closing balance	Opening balance (restated)
Current Liabilities:			
Short-term borrowings	(V)21	4,552,318,503.27	3,465,655,688.29
Held-for-trading financial liabilities	(V)22	1,352,869.55	290,998.43
Notes payable	(V)23	804,615,788.76	463,479,760.54
Accounts payable	(V)24	10,137,582,130.28	10,301,665,725.20
Receipts in advance	(V)25	671,206,927.56	641,430,490.22
Payroll payable	(V)26	1,255,053,620.27	1,921,741,131.63
Taxes payable	(V)27	1,600,199,856.93	1,418,921,664.57
Other payables	(V)28	1,012,155,039.59	2,953,454,987.95
Including : Dividends payable	(V)28.2	145,445,815.24	119,917,640.92
Non-current liabilities due within one year	(V)29	15,842,344.30	3,178,171,147.16
Other current liabilities	(V)30	2,320,850,513.78	364,984,759.94
Total Current Liabilities		22,371,177,594.29	24,709,796,353.93
Non-current Liabilities:			
Long-term borrowings	(V)31	4,631,400,000.00	440,000,000.00
Long-term payables	(V)32	30,924,471.16	-
Provisions	(V)33	84,529,179.89	77,625,238.49
Deferred income	(V)34	294,503,518.74	293,179,089.13
Total non-current liabilities		5,041,357,169.79	810,804,327.62
Total liabilities		27,412,534,764.08	25,520,600,681.55
Owners' Equity			
Share capital	(V)35	9,347,956,306.00	9,227,270,473.00
Capital reserves	(V)36	4,127,737,176.28	1,960,939,660.52
Less: Treasury shares	(V)37	2,320,850,513.78	364,984,759.94
Other comprehensive income	(V)38	(71,142,360.83)	(76,065,167.67)
Surplus reserves	(V)39	4,460,712,358.45	4,460,712,358.45
Retained earnings	(V)40	20,970,787,623.56	22,359,856,271.42
Total owners' equity attributable to owner of the Company		36,515,200,589.68	37,567,728,835.78
Minority equity		417,166,258.86	376,690,413.89
Total owners' equity		36,932,366,848.54	37,944,419,249.67
Total liabilities and owners' equity		64,344,901,612.62	63,465,019,931.22

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 June 30th 2019

Balance sheet of the parent company

Unit: RMB

Item	Notes	Closing balance	Opening balance (restated)
Current Assets:			
Cash and bank balances		16,830,967,951.30	19,192,461,228.22
Notes receivable		184,987,466.87	121,404,793.77
Accounts receivable	(XV)1	19,304,623,092.71	15,204,519,161.71
Receivables for financing		110,384,318.45	228,210,299.95
Prepayments		109,880,681.78	132,344,929.55
Other receivables	(XV)2	592,770,043.60	522,987,955.34
Including: Dividends receivables	(XV)2.2	19,907,220.31	2,550,000.00
Inventories		187,764,707.08	168,885,723.93
Other current assets		31,707,803.15	93,661,315.14
Total Current Assets		37,353,086,064.94	35,664,475,407.61
Non-current Assets:			
Long-term equity investment	(XV)3	4,529,528,742.40	4,361,147,395.90
Other non-current financial assets		293,110,051.50	290,956,813.00
Fixed assets		2,806,709,795.09	2,844,176,300.34
Construction in progress		69,557,314.65	65,156,482.70
Intangible assets		201,596,788.27	197,147,608.73
Deferred tax assets		134,005,079.74	221,779,547.02
Other non-current assets		10,748,834.08	14,601,579.55
Total Non-current Assets		8,045,256,605.73	7,994,965,727.24
Total Assets		45,398,342,670.67	43,659,441,134.85

At June 30th 2019

Balance sheet of the company - continued

Unit: RMB

Item	Notes	Closing balance	Opening balance (restated)
Current Liabilities:			
Short-term borrowings		600,000,000.00	
Accounts payable		275,094,219.09	356,787,605.91
Receipts in advance		176,830,166.10	204,337,524.21
Payroll payable		949,285,270.07	1,272,626,004.95
Taxes payable		1,210,856,933.79	987,057,652.70
Other payables		3,045,131,065.31	2,529,600,057.31
Including : Dividends payable		142,995,815.24	117,467,640.92
Non-current liabilities due within one year		-	3,172,727,888.37
Other current liabilities		2,320,850,513.78	364,984,759.94
Total Current Liabilities		8,578,048,168.14	8,888,121,493.39
Non-current Liabilities:			
Long-term borrowings		3,126,800,000.00	-
Provisions		61,415,503.32	52,956,535.09
Deferred Income		149,273,043.01	186,747,708.01
Total non-current liabilities		3,337,488,546.33	239,704,243.10
Total liabilities		11,915,536,714.47	9,127,825,736.49
Owners' Equity			
Share capital		9,347,956,306.00	9,227,270,473.00
Capital reserves		4,068,508,960.64	1,883,262,407.46
Less: Treasury shares		2,320,850,513.78	364,984,759.94
Other comprehensive income		(1,015,309.11)	(2,178,538.52)
Surplus reserves		4,460,712,358.45	4,460,712,358.45
Retained earnings		17,927,494,154.00	19,327,533,457.91
Total owners' equity		33,482,805,956.20	34,531,615,398.36
Total liabilities and owners' equity		45,398,342,670.67	43,659,441,134.85

For the reporting period from January 1st 2019 to June 30th 2019

Consolidated Income Statement

Unit: RMB

Item	Notes	Amount for the current period	Amount for the prior period
I. Total operating income	(V)41	23,923,273,424.50	20,875,758,224.63
Less: Total operating costs	(V)41	12,840,506,333.68	11,586,298,826.07
Business taxes and surcharges	(V)42	167,547,905.92	177,890,618.60
Selling expenses		3,213,260,109.16	2,649,393,264.42
Administrative expenses		731,110,243.76	590,848,451.85
Research and Development (R&D) expenses		2,504,800,049.71	1,912,682,599.24
Financial expenses	(V)43	(129,943,427.26)	(158,521,317.81)
Including: Interest expenses		93,002,377.62	62,554,282.07
Interest income		293,012,529.35	201,752,441.15
Credit impairment losses	(V)44	134,526,432.57	-
Impairment losses of assets	(V)45	80,143,742.65	325,897,698.19
Add: Other Income	(V)46	722,566,221.54	837,626,393.59
Investment income	(V)47	21,224,355.97	78,267,116.16
Including: Investment gains (losses) in associated enterprise and joint-venture enterprise		(4,215,155.62)	2,538,090.69
Gains (losses) from changes in fair values	(V)48	1,866,394.46	(6,102,548.02)
Asset disposal income (loss)		810,043.90	3,763,578.84
II. Operating profit		5,127,789,050.18	4,704,822,624.64
Add: Non-operating income	(V)49	38,307,078.60	73,150,373.86
Less: Non-operating expenses	(V)50	8,414,181.91	4,584,127.20
III. Total profit		5,157,681,946.87	4,773,388,871.30
Less: Income tax expenses	(V)51	933,920,656.68	665,802,758.48
IV. Net profit		4,223,761,290.19	4,107,586,112.82
4.1 Classification by continuous operation			
(a) Net profit on continuous operation		4,223,761,290.19	4,107,586,112.82
(b) Net loss on terminated operation			-
4.2 Classification by attribution of ownership			
(a) Profit or loss attributable to minority shareholders		7,006,079.95	(39,809,423.04)
(b) Net profit attributable to owners of parent company		4,216,755,210.24	4,147,395,535.86
V. Other comprehensive income, net of income tax		5,491,667.93	(14,284,828.74)
Other comprehensive income attributable to owners of the Company, net of tax		4,922,806.84	(12,898,545.71)
(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		4,922,806.84	(12,898,545.71)

Item	Notes	Amount for the current period	Amount for the prior period
1. Gains and losses from changes in fair value of other current assets		14,124,975.09	-
2. Exchange differences arising on conversion of financial statements denominated in foreign currencies		(9,202,168.25)	(12,898,545.71)
Other comprehensive income attributable to minority interests, net of tax		568,861.09	(1,386,283.03)
VI. Total comprehensive income		4,229,252,958.12	4,093,301,284.08
Total comprehensive income attributable to owners of the parent company		4,221,678,017.08	4,134,496,990.15
Total comprehensive income attributable to minority shareholders		7,574,941.04	(41,195,706.07)
VII. Earnings per share			
(I) Basic earnings per share	(XVI)2	0.444	0.449
(II) Diluted earnings per share	(XVI)2	0.444	0.449

For the reporting period from January 1st 2019 to June 30th 2019

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	10,434,243,978.59	9,137,644,216.56
Less: Total operating Cost	(XV)4	3,079,780,648.92	2,610,963,590.76
Business taxes and surcharges		111,602,431.74	122,576,976.71
Selling expenses		1,500,387,153.95	1,238,887,252.96
Administrative expenses		346,843,922.68	274,520,392.25
Research and Development (R&D) expenses		1,779,985,365.59	1,529,377,718.18
Financial expenses		(74,584,512.33)	(8,819,870.56)
Including : Interest expenses		61,705,246.69	24,990,620.80
Interest income		268,165,821.94	187,046,767.71
Impairment losses of assets		(49,569,282.84)	280,443,036.30
Credit impairment losses		(653,420,471.92)	
Add: Other income		635,767,724.45	766,533,199.09
Investment income	(XV)5	17,050,928.15	68,579,010.57
Including: Investment gain (loss) in associated enterprise and joint-venture enterprise		(2,874,991.72)	1,630,985.74
Gains (losses) from changes in fair values		2,153,238.50	-
Asset disposal income (loss)		181,748.65	3,744,349.94
II. Operating profit		5,048,372,362.55	3,928,551,679.56
Add: Non-operating income		8,215,858.64	40,362,676.29
Less: Non-operating expenses		5,237,082.32	856,317.26
III. Total profit		5,051,351,138.87	3,968,058,038.59
Less: Income tax expenses		845,566,584.68	548,124,895.23
IV. Net profit		4,205,784,554.19	3,419,933,143.36
V. Other comprehensive income, net of income tax		1,163,229.41	-
VI. Total comprehensive income		4,206,947,783.60	3,419,933,143.36

For the reporting period from January 1st 2019 to June 30th 2019

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		25,100,138,387.74	22,109,383,677.92
Receipts of tax refunds		1,342,631,486.14	1,773,794,015.21
Other cash receipts relating to operating activities	(V)52(1)	584,492,082.01	450,666,762.39
Sub-total of cash inflows from operating activities		27,027,261,955.89	24,333,844,455.52
Cash payments for goods purchased and services received		18,092,259,319.13	17,665,339,796.23
Cash paid to and on behalf of employees		4,629,022,309.36	3,584,062,421.13
Payments of various types of taxes		2,602,541,375.69	2,477,876,007.17
Other cash payments relating to operating activities	(V)52(2)	2,134,502,744.89	2,227,759,588.99
Sub-total of cash outflows from operating activities		27,458,325,749.07	25,955,037,813.52
Net Cash flows from Operating Activities	(V)53(1)	(431,063,793.18)	(1,621,193,358.00)
II. Cash flows from Investing Activities:			
Cash receipts from recovery of investments		-	3,590,000,000.00
Cash receipts from investment income		8,076,808.70	75,731,655.76
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		84,652,360.44	6,667,459.97
Other cash receipts relating to investing activities	(V)52(3)	-	1,190,562.94
Sub-total of cash inflows from investing activities		92,729,169.14	3,673,589,678.67
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		730,479,938.23	1,573,966,251.59
Cash paid to acquire investments		2,884,220.00	1,100,000,000.00
Net cash paid to acquire subsidiaries and other business units		44,095,782.07	-
Other cash payments relating to investing activities	(V)52(4)	-	13,500,000.00
Sub-total of cash outflows from investing activities		777,459,940.30	2,687,466,251.59
Net cash flows from Investing Activities		(684,730,771.16)	986,123,427.08
III. Cash flows from financing activities:			
Cash receipts from capital contributions		18,220,262.17	12,289,000.00
Including: cash receipts from capital contributions from minority owners of subsidiaries		18,220,262.17	12,289,000.00
Cash receipts from borrowings		6,827,958,906.73	3,982,689,336.94
Other cash receipts relating to financing activities		-	-
Sub-total of cash inflows from financing activities		6,846,179,168.90	3,994,978,336.94
Cash repayments of borrowings		1,598,774,442.94	1,726,234,534.31
Cash repayments of bonds		3,079,240,000.00	-
Cash payments for distribution of dividends or profits or settlement of interest expenses		5,704,495,352.39	4,687,814,879.75
Including : Dividends and profits paid by subsidiaries to minority shareholders		600,000.00	-
Other cash payments relating to financing activities	(V)52(5)	31,290,856.75	6,555,746.33
Sub-total of cash outflows from financing activities		10,413,800,652.08	6,420,605,160.39
Net cash flows from Financing Activities		(3,567,621,483.18)	(2,425,626,823.45)
IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents		(86,394,171.66)	(1,968,297.26)
V. Net Increase in Cash and Cash Equivalents	(V)53(1)	(4,769,810,219.18)	(3,062,665,051.63)
Add: Opening balance of Cash and Cash Equivalents	(V)53(1)	26,031,011,733.89	16,029,185,269.17
VI. Closing Balance of Cash and Cash Equivalents	(V)53(2)	21,261,201,514.71	12,966,520,217.54

For the reporting period from January 1st 2019 to June 30th 2019

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		8,172,744,128.12	7,318,348,837.09
Receipts of tax refunds		587,302,186.13	766,533,199.09
Other cash receipts relating to operating activities		363,699,162.54	305,846,876.05
Sub-total of cash inflows from operating activities		9,123,745,476.79	8,390,728,912.23
Cash payments for goods acquired and services received		3,620,127,267.15	3,109,703,886.15
Cash payments to and on behalf of employees		2,711,649,012.33	1,929,734,291.07
Payments of various types of taxes		1,427,332,880.19	1,772,764,658.71
Other cash payments relating to operating activities		849,540,447.05	1,359,620,072.28
Sub-total of cash outflows from operating activities		8,608,649,606.72	8,171,822,908.21
Net Cash flows from Operating Activities		515,095,870.07	218,906,004.02
II. Cash flows from Investing Activities:			
Cash receipts from recovery of investments		-	3,550,000,000.00
Cash receipts from investment income		2,568,699.00	76,942,053.30
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets		3,679,476.09	8,508,255.52
Net cash receipts from disposals of subsidiaries and other business units		-	5,971.53
Other cash receipts relating to investing activities		2,561,153,903.93	454,032,282.20
Sub-total of cash inflows from investing activities		2,567,402,079.02	4,089,488,562.55
Cash payments to acquire or construct fixed assets, intangible assets and other long-term assets		148,098,627.08	411,154,554.19
Cash payments to acquire investments		-	1,100,000,000.00
Net cash paid to acquire subsidiaries and other business units		171,600,000.00	630,150,000.00
Other cash payments relating to investing activities		45,079,102.37	515,046,698.74
Sub-total of cash outflows from investing activities		364,777,729.45	2,656,351,252.93
Net Cash flows from Investing Activities		2,202,624,349.57	1,433,137,309.62
III. Cash flows from Financing Activities			
Cash receipts from borrowings		3,679,240,000.00	700,000,000.00
Other cash receipts relating to financing activities		-	-
Sub-total of cash inflows from financing activities		3,679,240,000.00	700,000,000.00
Cash repayments of borrowings			500,000,000.00
Cash repayments of bonds		3,079,240,000.00	
Cash payments for distribution of dividends or profits or settlement of interest expenses		5,643,872,935.64	4,643,329,229.19
Other cash payments relating to financing activities		2,095,080.00	6,555,746.33
Sub-total of cash outflows from financing activities		8,725,208,015.64	5,149,884,975.52
Net Cash flows from Financing Activities		(5,045,968,015.64)	(4,449,884,975.52)
IV. Effect of foreign exchange rate changes on Cash and Cash Equivalents		(34,135,897.31)	(4,714,994.16)
V. Net increase in cash and cash equivalents		(2,362,383,693.31)	(2,802,556,656.04)
Add: Beginning balance of cash and cash equivalents		18,998,934,287.59	12,304,082,533.11
VI. Closing Balance of Cash and Cash Equivalents		16,636,550,594.28	9,501,525,877.07

For the reporting period from January 1st 2019 to June 30th 2019

Consolidated Statement of Changes in Owners' Equity

Unit: RMB

Item	Amount for the 2019 first half year							
	Owner's Equity Attributable to owners of the Company						Minority interests	Total owners' equity
	Share capital	Capital reserves	Less: Treasury share	Other comprehensive income	Surplus reserve	Retained profits		
I. Closing balance of the preceding 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
Add: Changes in accounting policies				(26,488,816.57)				(26,488,816.57)
Business merger under common control		4,800,000.00				(736,986.11)	2,708,675.93	6,771,689.82
II. Opening balance of the current period	9,227,270,473.00	1,960,939,660.52	364,984,759.94	(76,065,167.67)	4,460,712,358.45	22,359,856,271.42	376,690,413.89	37,944,419,249.67
III. Increase or decrease in the current period	120,685,833.00	2,166,797,515.76	1,955,865,753.84	4,922,806.84		(1,389,068,647.86)	40,475,844.97	(1,012,052,401.13)
(I) Total comprehensive income				4,922,806.84		4,216,755,210.24	7,574,941.04	4,229,252,958.12
(II) Owners' contributions and reduction in capital	120,685,833.00	2,166,797,515.76	1,955,865,753.84				33,500,903.93	365,118,498.85
1. Capital contribution from shareholders	121,195,458.00	1,936,703,418.84	2,057,898,876.84				23,254,887.07	23,254,887.07
2. Share-based payment recognized in owners' equity		231,679,551.92					10,246,016.86	241,925,568.78
3. Others	(509,625.00)	(1,585,455.00)	(102,033,123.00)				-	99,938,043.00
(III) Profit distribution						(5,605,823,858.10)	(600,000.00)	(5,606,423,858.10)
1. Transfer to surplus reserves								-
2. Distributions to shareholders						(5,605,823,858.10)	(600,000.00)	(5,606,423,858.10)
3. Others								-
IV. Closing balance of the current period	9,347,956,306.00	4,127,737,176.28	2,320,850,513.78	(71,142,360.83)	4,460,712,358.45	20,970,787,623.56	417,166,258.86	36,932,366,848.54

For the reporting period from January 1st 2019 to June 30th 2019

Consolidated Statement of Changes in Owners' Equity-continued

Unit: RMB

Item	Amount for 2018 first half year							
	Owner's Equity Attributable to owners of the Company						Minority interests	Total owners' equity
	Share capital	Capital reserves	Less: Treasury share	Other comprehensive income	Surplus reserve	Retained profits		
I. Closing balance of the preceding 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)	73,411,691.39	(62,766,970.33)	(12,898,545.71)	-	(466,239,700.64)	(26,780,702.29)	(371,334,927.92)
(I) Total comprehensive income	-	-	-	(12,898,545.71)	-	4,147,395,535.86	(41,195,706.07)	4,093,301,284.08
(II) Owners' contributions and reduction in capital	(1,594,641.00)	73,411,691.39	(6,555,746.33)	-	-	-	14,415,003.78	92,787,800.50
1. Capital contribution from shareholders	-	-	-	-	-	-	12,289,000.00	12,289,000.00
2. Share-based payment recognized in owners' equity	-	78,372,796.72	-	-	-	-	2,126,003.78	80,498,800.50
3. Others	(1,594,641.00)	(4,961,105.33)	(6,555,746.33)	-	-	-	-	-
(III) Profit distribution	-	-	(56,211,224.00)	-	-	(4,613,635,236.50)	-	(4,557,424,012.50)
1. Transfer to surplus reserves	-	-	-	-	-	-	-	-
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	1,892,809,407.02	681,816,656.89	(40,576,485.06)	3,483,742,918.53	16,132,088,991.99	219,267,861.58	30,232,786,510.17

For the reporting period from January 1st 2019 to June 30th 2019

Statement of Changes in Owners' Equity of the parent company

Unit: RMB

Item	Amount for 2019 first half year						
	Share capital	Capital reserves	Less: Treasury share	Other comprehensive income	Surplus reserve	Retained profits	Total owners' equity
I. Closing balance of the preceding 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
Add: changes in accounting policies				(2,178,538.52)			(2,178,538.52)
II. Opening balance of the current period	9,227,270,473.00	1,883,262,407.46	364,984,759.94	(2,178,538.52)	4,460,712,358.45	19,327,533,457.91	34,531,615,398.36
III. Increase or decrease in the current period	120,685,833.00	2,185,246,553.18	1,955,865,753.84	1,163,229.41		(1,400,039,303.91)	(1,048,809,442.16)
(I) Total comprehensive income				1,163,229.41		4,205,784,554.19	4,206,947,783.60
(II) Owners' contributions and reduction in capital	120,685,833.00	2,185,246,553.18	1,955,865,753.84				350,066,632.34
1. Capital contribution from shareholders	121,195,458.00	1,936,703,418.84	2,057,898,876.84				-
2. Share-based payment recognized in owners' equity		250,128,589.34					250,128,589.34
3. Others	(509,625.00)	(1,585,455.00)	(102,033,123.00)				99,938,043.00
(III) Profit distribution						(5,605,823,858.10)	(5,605,823,858.10)
1. Transfer to surplus reserve							
2. Distributions to shareholders						(5,605,823,858.10)	(5,605,823,858.10)
3. Others							
III. Closing balance of the current period	9,347,956,306.00	4,068,508,960.64	2,320,850,513.78	(1,015,309.11)	4,460,712,358.45	17,927,494,154.00	33,482,805,956.20

Item	Amount for 2018 first half year						
	Share capital	Capital reserves	Less: Treasury share	Other comprehensive income	Surplus reserve	Retained profits	Total owners' equity
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	693,720,939.82	553,329,577.38	-	-	(3,704,013,060.76)	(437,463,469.32)
(I) Total comprehensive income	-	-	-	-	-	3,100,858,413.44	3,100,858,413.44
(II) Owners' contributions and reduction in capital	49,869,858.00	693,720,939.82	645,736,716.54	-	-	-	97,854,081.28
1. Capital contribution from shareholders	52,326,858.00	608,561,358.54	660,888,216.54	-	-	-	-
2. Share-based payment recognized in owners' equity	-	97,854,081.28	-	-	-	-	97,854,081.28
3. Others	(2,457,000.00)	(12,694,500.00)	(15,151,500.00)	-	-	-	-
(III) Profit distribution	3,076,288,371.00	-	(92,407,139.16)	-	-	(6,804,871,474.20)	(3,636,175,964.04)
1. Transfer to surplus reserve	-	-	-	-	-	-	-
2. Distributions to shareholders	-	-	(92,407,139.16)	-	-	(3,728,583,103.20)	(3,636,175,964.04)
3. Others	3,076,288,371.00	-	-	-	-	(3,076,288,371.00)	-
III. Closing balance of the current period	9,228,865,114.00	1,649,408,815.34	853,507,327.55	-	2,615,437,822.15	10,434,556,281.19	23,074,760,705.13

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.

On December 20th 2018, pursuant to the Articles of Association of the Company revised by the resolution of 8th Meeting of the fourth session Board of Directors authorized by the 2nd extraordinary general meeting in 2018, the Company granted 121,195,458 restricted incentive shares to the incentive grantees, The Company completed the registration procedure for business changes on January 17th 2019, adjusted the Company's total capital share to 9,348,465,931 shares.

On May 9th 2019, authorized by the Company's first Extraordinary General Meeting in 2014, the Company completed procedures of repurchase and cancellation of some of the 509,625 restricted stocks that did not meet the incentive conditions, and the total share capital of the Company was adjusted to 9,347,956,306 shares. For details of the

share capital, please refer to Notes (V) 31.

As of June 30th 2019, the Company's total registered capital is RMB 9, 347,956,306, with total capital shares of 9,347,956,306 shares (face value RMB 1per share), of which restricted A-shares were 1,273,949,522 shares, A-shares without restriction are 8,074,006,784 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 11th meeting of the fourth session Board of Directors of the Company on July 19th 2019.

For consolidation scope of the financial statements of the current reporting period, please refer to Note (VII) "Interest in other entities". For changes in consolidation scope of the financial statements during the current reporting period, 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 June 30th 2019, 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 June 30th 2019; 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 first half year of 2019.

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) 55. 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 flows 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 flows and cash flows of overseas subsidiaries adopt the exchange rate similar to the spot rate at the date of cash flows 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 of 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

The Group recognizes a financial asset or a financial liability when it becomes a party to a contract of financial instrument.

For the purchase or sale of a financial asset in conventional manner, the asset to be received and the liability to be assumed will be recognized on the trading day, or the asset sold will be derecognized on the trading day.

Financial assets and financial liabilities are measured by fair value upon initial recognition. For financial assets and financial liabilities at fair value through profit and loss, the relevant trading costs will be directly charged to profit and loss of the current period. For other types of financial assets and financial liabilities, the relevant trading costs will be booked into the initial recognition amount. Upon initial recognition of accounts receivable which have no material financing components or have not taken into consideration the financing components in contracts with a term not exceeding one year according to Accounting Standards for Business Enterprise No. 14 – Revenue ("Revenue Standard"), such initial amount is measured by the transaction price as defined under the Revenue Standard.

Effective interest rate method refers to the method of calculating the amortized cost of financial asset or financial liability and apportioning interest income or interest expenses to each accounting period.

Effective interest rate refers to the interest rate used for discounting the estimated future cash flows of a financial asset or a financial liability for an expected subsisting period into the balance of book value of the financial asset or the amortized cost of the financial liability. When determining the effective interest rate, the expected cash flows are estimated on the basis of considering all contractual terms of the financial asset or financial liability (such as early repayment, extended term, call option or other similar option) but without considering the expected credit loss.

The amortized cost of a financial asset or a financial liability refers to the initial recognition amount of such financial asset or financial liability, less the repaid amount of principal, plus or minus the accrued amortized amount calculated by amortization of the difference between the initial recognition amount and the amount on maturity by using the effective interest rate method, and then deducts the accrued provision for losses (only applicable to financial assets).

9.1 Classification and Measurement of Financial Assets

After initial recognition, the Group will adopt amortized cost, fair value through other comprehensive income, or fair value through profit and loss for subsequent measurement depending on different categories of financial assets.

The Group will classify a financial asset into a financial asset measured by amortized cost if the cash flows generated on a particular date as provided under the contractual terms of a financial asset are only confined to interest payments based on the principal and the outstanding amount of principal, and the Group's business model of managing such financial asset aims at receiving the contractual cash flows. This category of financial assets mainly includes monetary funds, bills receivables and accounts receivable, other receivables and long-term receivables.

The Group will classify a financial asset into a financial asset measured by fair value through other comprehensive income if the cash flows generated on a particular date as provided under the contractual terms of a financial asset are only confined to interest payments based on the principal and the outstanding amount of principal, and the Group's business model of managing such financial asset aims at receiving the contractual cash flows as well as the sale of such financial asset. This category of financial assets mainly includes financial assets with a maturity of more than one year from the date of acquisition and which are presented under other debt investments, financial assets maturing within one year (inclusive) from the balance sheet date and which are presented under non-current assets maturing within one year, as well as financial assets with a maturity of less than one year (inclusive) at the time of acquisition and which are presented under other current assets.

Financial assets at fair value through profit and loss include financial assets which are classified as financial assets at fair value through profit and loss and financial assets designated at fair value through profit and loss, which are presented as held-for-trading financial assets. If such financial assets have a maturity of more than one year from the balance sheet date (or without a fixed maturity) and which are expected to be held for more than one year, they will be presented under other non-current financial assets.

- Financial assets which do not satisfy the conditions of being classified as financial assets measured at amortized cost or as financial assets at fair value through other comprehensive income, they will be classified as financial assets at fair value through profit and loss.
- At the time of initial recognition, in order to eliminate or substantially reduce mismatch in accounting, the Group may irrevocably designate a financial asset as a financial asset measured at fair value with changes through profit and loss.

At the time of initial recognition, the Group may, on the basis of a single financial asset, irrevocably designate an investment in an equity instrument held for non-trading purpose recognized or without consideration in a business merger not under common control as a financial asset at fair value through other comprehensive income. This type of financial assets is presented as investment in other equity instruments.

Financial assets which have satisfied one of the following conditions indicate that such financial assets are held for trading purpose by the Group:

- The purpose of acquiring the relevant financial asset is mainly for sale in recent period.

- At the time of initial recognition, the relevant financial asset is a part of an identifiable portfolio of financial instruments under collective management, and there is objective evidence showing a recent and actual existence of short-term profitable mode.
- The relevant financial assets are derivatives, excluding derivatives which satisfy the definition under financial guarantee contracts and derivatives which are designated as effective hedging instruments.

9.1.1 Financial assets measured at amortized cost

Financial assets measured at amortized cost adopt the effective interest rate method for subsequent measurement according to amortized cost, the profit or loss when impairment occurs or upon derecognition will be accounted in profit and loss of the current period.

The Group recognizes interest income by using effective interest rate method for financial assets measured at amortized cost. The Group determines interest income by multiplying the balance of book value of financial assets with the effective interest rate except under the following circumstances:

- For acquired or generated financial assets which incurred credit impairment already, their interest income will be determined by using the amortized cost of such financial asset calculated with the credit adjusted effective interest rate.
- For acquired or generated financial assets which have not incurred credit impairment but incur credit impairment in the subsequent period, the Group will determine their interest income by using the amortized cost of such financial assets multiplied with the effective interest rate in the subsequent period. If such financial asset ceases to have credit impairment due to improvement in credit risk in the subsequent period, and such improvement may be related to a certain event occurred after the application of the aforesaid rule, then the Group should change to multiply the effective interest rate with the balance of book value of such financial asset instead to determine the interest income.

9.1.2 Classified as financial asset at fair value through other comprehensive income

The impairment loss or profit, or interest income calculated by using the effective interest rate method, relating to financial asset at fair value through other comprehensive income should be accounted in the profit and loss of the current period, and other changes in fair value of such financial assets will be accounted in other comprehensive income. The amount charged by such financial asset to the profit and loss of each period is deemed to be equal to the amount which has been measured by amortized cost and charged to the profit and loss of each period. Upon derecognition of such financial asset, the accumulated profit or loss previously charged to other comprehensive income will be reversed from other comprehensive income and charged to profit and loss of the current period.

9.1.3 Financial asset designated at fair value through other comprehensive income

After investment in equity instrument held for non-trading purpose has been designated as financial asset at fair value through other comprehensive income, the changes in fair value of such financial asset will be recognized in other comprehensive income. Upon derecognition of such financial asset, the accumulated profit or loss charged to other comprehensive income will be reversed from other comprehensive income and charged to retained earnings. During the period when such investment in equity instruments for non-trading purpose are held by the Group, the right to receive dividends by the Group has been established, and economic benefits related to dividends are likely to flow into the Group, and if the amount of dividends may be measured reliably, the dividend income is recognized and accounted in the profit and loss of the current period.

9.1.4 Financial asset at fair value through profit and loss

For financial asset at fair value through profit and loss, subsequent measurement will be calculated at fair value, the profit or loss arising from changes in fair value and the dividend and interest income relating to such financial asset will be accounted in the profit and loss of the current period.

9.2 Impairment of Financial Assets

For financial assets measured at amortized cost, the Group will handle impairment on the basis of expected credit loss

and recognize loss provision.

For other financial instruments, other than acquired or generated financial assets which have incurred credit impairment already, the Group will assess on each balance sheet date the changes in credit risk of the relevant financial instruments since initial recognition. If the credit risk of such financial asset has significantly increased after initial recognition, the Group will calculate its loss provision based on the amount equivalent to the expected credit loss for the entire subsisting period. If the credit risk of such financial asset since initial recognition has not increased significantly, the Group will calculate its loss provision according to the expected credit loss amount of such financial asset for the next 12 months.

The amount of increase or reversal in the provision for credit loss, apart from financial assets classified as financial asset at fair value through other comprehensive income, is accounted in the profit and loss of the current period. For financial asset classified as measured at fair value through other comprehensive income, the Group will recognize its credit loss provision in other comprehensive income and charged the impairment loss or gain to the profit and loss of the current period, and will not decrease the book value of such financial asset presented in the balance sheet.

The Group has calculated the loss provision equivalent to the expected credit loss amount for the entire subsisting period of the financial instrument in the preceding accounting period, but at the balance sheet date of the current period, such financial instrument is no longer under the condition of significant increase in credit risk since initial recognition, the Group calculates the loss provision for such financial instrument on the balance sheet date of the current period according to an amount equivalent to the expected credit loss for the next 12 months, and the resulting loss provision reversal amount will be counted as impairment gain and booked into the profit and loss of the current period.

9.2.1 Significant increase in credit risk

The Group uses available and reasonable forward-looking information with justification, by comparing the default risk of the financial instrument at the balance sheet date with the default risk on the initial recognition date, to confirm whether the credit risk of the financial instrument has significantly increased after initial recognition.

The Group considers the following factors when assessing whether the credit risk has significantly increased:

- (1) Whether a significant change has been caused to the internal price indicator due to changes in credit risk.
- (2) If an existing financial instrument is generated or issued on the balance sheet date as a new financial instrument, whether the interest rate or other terms of such financial instrument has changed significantly (such as more stringent contractual terms, an increase in collateral or security or a higher yield, etc.).
- (3) Whether the external market indicators of credit risk for the same financial instrument or similar financial instruments with the same expected subsisting period have changed significantly. Such indicators include: credit spread, swap price of credit default by borrower, the length of duration and shortfall of fair value of financial asset below its amortized cost, and other market information relevant to the borrower (such as price changes in the debt instrument or equity instrument of the borrower).
- (4) Whether the external credit rating of financial instrument has actual or expected significant changes.
- (5) Whether the actual or expected internal credit rating of the debtor has been downgraded.
- (6) Whether adverse changes have occurred in the business, finance or economic conditions which are expected to cause significant changes in the capability of the debtor to perform debt repayment obligations.
- (7) Whether actual or expected significant changes have occurred in the operating results of the debtor.
- (8) Whether the credit risk of other financial instruments issued by the same debtor has significantly increased.
- (9) Whether significant adverse changes have occurred in the supervision, economic or technical environment in which the debtor operates.
- (10) Whether significant changes have occurred in the value of security pledged for the debt or the quality of guarantee or credit enhancement provided by third parties. Such changes are expected to reduce the debtor's economic motivation of repayment according to contractual term or influence the probability of default.
- (11) Whether significant changes have occurred in the economic motivation which will lower the expectation of repayment by the borrower according to the contractual term.
- (12) Whether significant changes have occurred in the expected performance and repayment behavior of the debtor.
- (13) Whether changes have occurred in the Group's credit management method for financial instruments.

9.2.2 Financial assets which have incurred credit impairment already

When one or more events which will have adverse effect on the expected future cash flows from the financial asset of the Group have occurred, such financial asset will become a financial asset which have incurred credit impairment already. The evidence of credit impairment occurred in a financial asset includes the following observable information:

- (1) Material financial difficulties have occurred in the issuer or debtor;
- (2) Breach of contract by the debtor, such as default or overdue in the payment of interest or repayment of principal;
- (3) Due to economic or contractual considerations relating to financial difficulties of the debtor, the creditor has granted concession to the debtor under no other circumstances;
- (4) The debtor is likely to go bankrupt or carry out other financial restructuring;
- (5) The financial difficulties of the issuer or debtor have caused the disappearance of the active market for the financial asset;
- (6) The purchase or generation of a financial asset at a large discount, such discount reflects the fact of occurrence of credit loss.

9.2.3 Confirmation of expected credit loss

The Group adopts the impairment matrix based on the composition of receivables to confirm the credit loss of the relevant financial instrument. The common features of credit risk used by the Group include: credit risk rating, date of initial recognition, remaining contractual period, industry in which the debtor operates and geographical location of the debtor, etc.

The Group confirms the expected credit loss of the relevant financial instrument according to the following method:

- In respect of a financial asset, the credit loss is the present value of the difference between the contractual cash flows receivable and the cash flows expected to receive by the Group.
- In respect of a financial guarantee contract, the credit loss is the present value of the difference between Group's expected payment amount for the compensation made to the contract holder due to the occurrence of credit loss and the amount expected to be received by the Group from such contract holder, debtor or any other parties.
- In respect of financial assets with credit impairment on the balance sheet date but they are not acquired or generated financial assets with credit impairment, the credit loss represents the difference between the balance of the book value of such financial asset and the present value of the estimated future cash flows discounted by the original effective interest rate.

The factors reflected by the method used for calculating expected credit loss of financial instruments by the Group include: an unbiased weighted average amount determined by assessing a series of probable outcomes; time value of currency; reasonable and justifiable information relating to past events, prevailing conditions and forecast of future economic conditions obtained on the balance sheet date without incurring unnecessary additional cost or effort.

9.2.4 Write-off on financial asset

When the Group ceases to have reasonable expectation on the possible collection of all or part of the contractual cash flows from the financial asset, the balance of book value of such financial asset will be written off directly. Such a write-off constitutes a de-recognition of the relevant financial asset.

9.3 Transfer of financial asset

A financial asset that fulfills one of the following conditions will be de-recognized: (1) termination of contractual rights to receive cash flows from the financial asset; (2) upon transfer of such financial asset and transfer of substantially all the risks and rewards in respect of the ownership of such financial asset to the transferee; (3) upon transfer of such financial asset, though the Group has not transferred nor retained substantially all the risks and rewards in respect of the ownership of such financial asset, yet it has not retained the control over such financial asset.

If the Group has not transferred nor retained substantially all the risks and rewards in respect of the ownership of such financial asset, and has retained the control over such financial asset, then such transferred financial asset will continue to be recognized, and the relevant liabilities will continue to be recognized, according to the level of the Group's

continuous involvement in such transferred financial asset. The relevant liabilities will be measured by the Group according to the following method:

- If the transferred financial asset is measured by amortized cost, the book value of the relevant liabilities is equivalent to the book value of the transferred asset of continuous involvement less the amortized cost of the rights retained by the Group (if the Group has retained the relevant rights due to transfer of the financial asset) and plus the amortized cost of the obligations undertaken by the Group (if the Group has undertaken the relevant obligations due to transfer of the financial asset), and the relevant liabilities are not designated as financial liabilities at fair value through profit and loss of the current period.
- If the transferred financial asset is measured by fair value, the book value of the relevant liabilities is equivalent to the book value of the transferred asset of continuous involvement less the fair value of the rights retained by the Group (if the Group has retained the relevant rights due to transfer of the financial asset) and plus the fair value of the obligations undertaken by the Group (if the Group has undertaken the relevant obligations due to transfer of the financial asset), and the fair value of the rights and obligations shall be measured at the fair value on a separate basis.

For full transfer, which satisfies the conditions of derecognition, of the financial assets, the difference between the sum of the book value of the transferred financial assets as at the date of derecognition and the consideration received from such transfer and the accumulated amount of change in fair value originally included in other comprehensive income, which corresponds to the amount in respect of derecognition, shall be recognized in the profit and loss for the current period. If the transfer of the financial assets by the Group is designated as investment in equity instrument held for non-trading purpose measured at fair value through other comprehensive income, the accumulated gains or losses previously included in other comprehensive income shall be transferred out from other comprehensive income and be included in retained earnings.

For transfer in part, which satisfies the conditions of derecognition, of the financial assets, the book value of the entire financial assets before the transfer shall be shared between the derecognized portion and the continuous recognition portion at their respective relative fair value on the date of transfer, and the difference between the sum of the consideration received from derecognition and the accumulated amount of change in fair value originally included in other comprehensive income, which corresponds to the amount in respect of derecognition, and the book value of the derecognized portion as at the date of derecognition shall be included in the profit and loss of the current period. If the transfer of the financial assets by the Group is designated as investment in equity instrument for non-trading purpose measured at fair value through other comprehensive income, the accumulated gains or losses previously included in other comprehensive income shall be transferred out from other comprehensive income and be included in retained earnings.

For full transfer, which does not satisfy the conditions of derecognition, of the financial assets, the Group will continue to recognize the entire financial assets transferred and the consideration received will be recognized as financial liabilities.

9.4 Classification of financial liabilities and equity instruments

Pursuant to the contractual terms of the issued financial instruments and the substantive economic condition as reflected, but not in legal terms only, combined with the definitions of financial liabilities and equity instruments, the Group has classified such financial instruments or the components thereof as financial liabilities or equity instruments upon initial recognition.

9.4.1 Classification and measurement of financial liabilities

Financial liabilities are classified into financial liabilities at fair value through profit and loss of the current period and other financial liabilities upon initial recognition.

9.4.1.1 Financial liabilities at fair value through profit and loss of the current period

Financial liabilities at fair value through profit and loss of the current period comprise of financial liabilities held for trading purpose (including derivatives of financial liabilities) and financial liabilities designated as measured at fair value through profit and loss of the current period. Except for derivatives of financial liabilities, which are presented separately, financial liabilities at fair value through profit and loss of the current period are presented as financial

liabilities held for trading.

Financial liabilities that fulfill one of the following conditions suggest that the Group assumes such financial liabilities for trading purpose:

- Assumption of the relevant financial liabilities is mainly for the purpose of the recent repurchases.
- The relevant financial liabilities, upon initial recognition, are part of a portfolio of identifiable financial instruments under centralized management, and available objective evidence shows the recent and actual existence of a short-term profit-making model.
- The relevant financial liabilities are derivatives, except derivatives which satisfy the definition of financial guarantee contract and derivatives designated as effective hedging instruments.

Financial liabilities can be designated, upon initial recognition, by the Group as financial liabilities at fair value through profit and loss of the current period, provided that they have satisfied one of the following conditions: (1) such designation can eliminate or substantially reduce accounting mismatches; (2) managing and evaluating the performance of portfolios of financial liabilities, or portfolios of financial assets and financial liabilities, on fair value basis and reporting internally to key personnel of the Group on this basis in accordance with the risk management or investment strategies specified in formal written documents of the Group; (3) hybrid contracts, with embedded derivatives, have satisfied the conditions.

Financial liabilities held for trading purpose use fair value for subsequent measurement, gains or losses arise from changes in fair value and the dividends or interest expenses relating to such financial liabilities are accounted in the profit and loss of the current period.

For financial liabilities designated at fair value through profit and loss of the current period, changes in fair value of such financial liabilities caused by changes in the Group's own credit risks shall be included in other comprehensive income, and other changes in fair value shall be included in the profit and loss of the current period. On derecognition of such financial liabilities, the accumulated amount of changes in fair value as a result of changes in our own credit risk included previously in other comprehensive income shall be transferred to retained earnings. Dividends or interest expenses relating to such financial liabilities shall be included in the profit and loss of the current period. If handling the effect of changes in credit risk of such financial liabilities according to the aforesaid method would cause or magnify the accounting mismatches in profit and loss, the Group will include all gains or losses of those financial liabilities (including the amount affected by changes in their own credit risk) in the profit and losses of the current period.

9.4.1.2 Other financial liabilities

Excluding transfer of financial assets not complying with derecognition conditions, or financial liabilities or financial guarantee contracts as a result of continuous involvement in transferred financial assets, the other financial liabilities will be classified as financial liabilities measured at amortized cost, subsequent measurement will be based on amortized cost, gains or losses on derecognition or amortization will be accounted in the profit and loss of the current period.

If the Group and the counterparty have revised or renegotiated the contract, this has not resulted in the derecognition of financial liabilities measured at amortized cost for subsequent measurement, but has caused changes in the contractual cash flows, then the Group should recalculate the book value of such financial liabilities, and the relevant gains or losses shall be accounted in the profit and loss of the current period. The recalculated book value of such financial liabilities will be determined by the Group by discounting the cash flows from the renegotiated or revised contract with the original effect interest rate of the financial liabilities. All costs or expenses incurred in the revision or renegotiation of the contract will be reflected in the adjusted book value of financial liabilities after such revision, and will be amortized during the remaining period of the revised financial liabilities.

9.4.1.2.1 Financial guarantee contract

Financial guarantee contract refers to a contract that requests the issuer to provide a specific amount of compensation to the contract holder who suffers losses when a specific debtor fails to repay the debt on due date according to the initial or revised terms of the debt instrument. In respect of financial liabilities which are not designated at fair value through profit and loss of the current period, or in respect of financial guarantee contract for financial liabilities arising from transfer of financial assets not complying with derecognition conditions or continuous involvement in the transferred financial assets, the measurement after initial recognition will be based on the amount of provision for losses, or the

balance of initial recognized amount after deducting the accumulated amortized amount confirmed in accordance with the relevant provisions of the Revenue Standard, whichever the higher.

9.4.2 Derecognition of financial liabilities

When the existing obligations of a financial liability have been wholly or partially discharged, such financial liability or such part of it will be derecognized. When the Group (as borrower) and the lender enter into an agreement to undertake new financial liabilities for replacing the original financial liabilities, if substantive difference exists in the contractual terms between the new financial liabilities and the original financial liabilities, the Group should derecognize the original financial liabilities while at the same time recognizes the new financial liabilities.

When a financial liability is wholly or partially derecognized, the difference between the book value of the derecognized portion and the consideration paid (including non-cash asset transferred out or new financial liabilities undertaken) will be accounted in the profit and loss of the current period.

9.4.3 Equity instrument

Equity instrument refers to a contract which can prove the ownership of remainder interest in assets after deducting all liabilities of the Group. The Group issues (including refinances), repurchases, sells or cancels equity instruments for treatment of changes in equity. The Group will not recognize changes in the fair value of equity instruments. Trading expenses relating to equity transactions will be deducted from equity.

The Group's distribution to holder of equity instrument is treated as profit distribution, the share dividends paid out will not affect the total equity of shareholders.

9.5 Derivatives and embedded derivatives

Derivatives include foreign exchange forward contract, currency exchange rate swap contract, interest rate swap contract and foreign exchange option contract, etc. Derivatives are measured at fair value initially on the date of signing the relevant contract and will be measured at fair value for subsequent measurement.

For a hybrid contract constituted by an embedded derivative and a master contract, if the master contract is in respect of a financial asset, the Group will not split the embedded derivative from the hybrid contract, but will consider such hybrid contract as a whole unit to which the accounting standards and rules for classification of financial assets are applicable.

If the master contract included in the hybrid contract is not in respect of a financial asset, and fulfills the following conditions at the same time, the Group will split the embedded derivative from the hybrid contract to be treated as a separate subsisting derivative.

- (1) The economic characteristics and risks of the embedded derivative are not closely connected to the economic characteristics and risks of the master contract.
- (2) A separate instrument containing the same terms as the embedded derivative fits the definition of a derivative.
- (3) The hybrid contract is not measured at fair value and changes in fair value are accounted through profit and loss of the current period.

If an embedded derivative is split from the hybrid contract, the accounting treatment adopted by the Group for the master contract within the hybrid contract will be in accordance with the applicable accounting standards and rules. If the Group is unable to measure the fair value of the embedded derivative reliably according to the terms and conditions of the embedded derivative, the fair value of such embedded derivative will be determined by the difference between the fair value of the hybrid contract and the fair value of the master contract. After adoption of the above method, if the fair value of such embedded derivative is still unable to be measured separately on the acquisition date or subsequent balance sheet date, the Group will designate the entire hybrid contract as a financial instrument measured at fair value through profit and loss of the current period.

9.6 Offsetting between financial assets and financial liabilities

When the Group has legal right to offset the amounts of recognized financial assets and financial liabilities, and such

legal right is enforceable currently, while at the same time the Group plans to perform netting settlement, or to liquidate the financial asset and repay the financial liability at the same time, the amount after offsetting between the financial asset and financial liability will be presented in the balance sheet. Save as said above, the financial asset and financial liability are presented separately in the balance sheet without offsetting each other.

10. Receivables

Receivables include notes receivable, accounts receivable, receivables for financing, other receivables, and long-term receivables. Please refer to Note 9 of this section for details on the method of determination and accounting treatment for expected credit loss of receivables of the Group, starting from January 1st 2019 onwards.

11. Inventories

11.1 Categories of inventories

The Group's inventories mainly include finished goods or commodities held for sale in the daily activities, completed outstanding assets formed in the construction contract, products in the production process, materials and supplies used in the production process or in the process of providing labor service. Inventories are initially measured at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other expenditures incurred in bringing the inventories to their present location and condition.

11.2 Valuation method of inventories upon delivery

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

11.3 Basis for determining net realizable value of inventories

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

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

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

11.4 Inventory count system

The perpetual inventory system is maintained for stock system.

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

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

12. Long-term Equity Investment

12.1 Basis for determining joint control and significant influence over investee

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

12.2 Determination of initial investment cost

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

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

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

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

12.3 Subsequent measurement and recognition of profit or loss

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

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

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

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

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

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

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

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

12.4 Disposal of long-term equity investments

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

13. Fixed Assets

13.1 Recognition criteria for fixed assets

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

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

13.2 Depreciation of each category of fixed assets

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

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

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

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

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

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

13.4 Other explanations

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

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

14. Construction in Process

Construction in progress is measured at its actual costs. The actual costs include various construction expenditures during the construction period, borrowing costs capitalized before it is ready for intended use and other relevant costs. Construction in progress is not depreciated. Construction in progress is transferred to a fixed asset when it is ready for intended use.

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 flows 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 flows (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 book 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 flows of relevant asset group or asset group portfolio included the goodwill need to be calculated, the future cash flows 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

27.1 Significant changes in accounting policies

Changes in accounting policies and reasons	Approval Procedures	Notes
<p><u>New Standards for Financial Instruments</u></p> <p>The Group has implemented the <i>Accounting Standards for Business Enterprise No. 22 – Recognition and Measurement of Financial Instruments</i>, the <i>Accounting Standards for Business Enterprise No. 23 – Transfer of Financial Assets</i>, the <i>Accounting Standards for Business Enterprise No. 24 – Hedging Accounting</i> and the <i>Accounting Standards for Business Enterprise No. 37 – Presentation of Financial Instruments</i> (hereinafter referred to as “New Standards for Financial Instruments”) revised in 2017 by the Ministry of Finance, effective from January 1st 2019.</p> <p>In the classification and measurement of financial assets, the New Standards for Financial Instruments require the classification of financial assets based on their characteristics of contractual cash flows and the business models for management of such assets by enterprises into the three main categories of “financial assets measured at amortized cost”, “financial assets at fair value through other comprehensive income” and “financial assets at fair value through profit and loss of current period”, and cancel the categories of loans and receivables, investment held to maturity and available-for-sale financial assets in the former standards for financial instruments. Investments in equity instruments are generally classified into financial assets at fair value through profit and loss of current period, and investments in equity instruments for non-trading purpose are also allowed to be designated as financial assets at fair value through other comprehensive income, but such designation is irrevocable, and at the time of disposal, the accumulated amount of fair value changes previously included in other comprehensive income must not be transferred to profit and loss of current period.</p> <p>In respect of value impairment, the New Standards for Financial Instruments relating to impairment requirements are applicable to financial assets measured at amortized cost, financial assets at fair value through other comprehensive income, lease receivables and financial guarantee contracts. The New Standards for Financial Instruments require the adoption of the expected credit loss model to recognize the provision for credit loss for replacing the former model of credit loss occurred. The new impairment model adopts a three-stage model depending on whether credit risk of the relevant project has increased significantly after initial recognition, provision for credit loss is made according to the expected credit loss within 12 months or the expected credit loss during the entire subsisting period. All receivables and long-term receivables of the Group generated from transactions governed by the Revenue Standard and finance lease receivables of the Group generated from transactions governed by the <i>Accounting Standards for Business Enterprise No. 21 - Leases</i> should make provision for losses according to the equivalent amount of expected credit loss in the entire subsisting period.</p> <p>Recognition and measurement of financial instruments prior to January 1st 2019 were inconsistent with the New Standards for Financial Instruments, the Group has made retrospective adjustments according to the requirements of the New Standards for Financial Instruments. The Group will not adjust the data involved in financial statements for comparison in preceding periods which are not consistent with the requirements of the New Standards for Financial Instruments. The difference between the original book value of financial instruments and the new book value on the date of implementation</p>	<p>Such alternations in accounting policy were approved by the Group at board of director general meeting.</p>	<p>None</p>

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

of the New Standards for Financial Instruments will be accounted under retained earnings or other comprehensive income on January 1st 2019. For details on the effects of adoption of the New Standards for Financial Instruments by the Group on January 1st 2019, please refer to Notes (III) 27.2.

Amendments to the format of financial statements

The Group began to implement the *Circular on Revising and Issuing the Format of General Enterprise Financial Statements for the Year of 2019* (Finance and Accounting [2019] No. 6) promulgated by the Ministry of Finance on April 30th 2019 (hereinafter referred to as "Finance and Accounting No. 6") in the preparation of its interim financial statements for the first half year of 2019. Finance and Accounting No. 6 made amendments to the format of general enterprise financial statements by dividing the "accounts receivable and notes receivable" item into "accounts receivable" and "notes receivable" and dividing the "accounts payable and notes payable" item into "accounts payable" and "notes payable" and clarified or revised the presentation contents of the items of "other receivables", "non-current assets due within one year", "other payables", "deferred income", "R&D expenditure", "interest income" under "financial expenses", "other income", "assets disposal income", "non-operating income" and "non-operating expenses". For enterprises that have implemented the New Standards for Financial Instruments, a new item of "receivables for financing" shall be added to reflect the notes receivable and accounts receivable measured at fair value through other comprehensive income under the New Standards for Financial Instruments; and a new item of "gains on derecognition of financial assets measured at amortized cost" shall be added to reflect the gains or losses arising from the derecognition of financial assets measured at amortized costs due to transfers, etc. For the changes in the items mentioned above, the Company adopted retrospective adjustment method to reflect changes in accounting treatments and made retrospective adjustments to the data of the comparable accounting periods.

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

27.2. Adjustment to relevant items in financial statement at the beginning of the year of first implementation upon first implementation of the New Standards for Financial Instruments
Consolidated Balance Sheet

Unit: RMB

	Book value presented according to former standard for financial instruments as at December 31 st 2018	Reclassification	Re-measurement	Book value presented according to the New Standards for Financial Instruments as at January 1 st 2019
Financial assets held for trading (Note 1)	-	1,860,050.59		1,860,050.59
Financial assets at fair value through profit and loss of current period (Note 1)	1,860,050.59	(1,860,050.59)		-
Notes receivable and accounts receivable (Note 2)	19,188,886,471.10	(2,273,846,399.85)		16,915,040,071.25
Receivables for financing (Note 2)	-	2,273,846,399.85	(26,488,816.57)	2,247,357,583.28
Other comprehensive income (Note 2)	(49,576,351.10)		(26,488,816.57)	(76,065,167.67)
Available-for-sale financial assets (Note 3)	290,966,813.00	(290,966,813.00)		-
Other non-current financial assets (Note 3)	-	290,966,813.00		290,966,813.00
Held-for-trading financial liabilities (Note 4)	-	290,998.43		290,998.43
Financial liabilities at fair value through profit and loss of current period (Note 4)	290,998.43	(290,998.43)		-

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Balance Sheet of Parent Company

Unit: RMB

	Book value presented according to former standard for financial instruments as at December 31 st 2018	Reclassification	Re-measurement	Book value presented according to the New Standards for Financial Instruments as at January 1 st 2019
Notes receivable and accounts receivables (Note 2)	15,556,312,793.95	-230,388,838.47		15,325,923,955.48
Receivables for financing (Note 2)	-	230,388,838.47	-2,178,538.52	228,210,299.95
Other comprehensive income (Note 2)	-		-2,178,538.52	-2,178,538.52
Available-for-sale financial assets (Note 3)	290,956,813.00	-290,956,813.00		-
Other non-current financial assets (Note 3)	-	290,956,813.00		290,956,813.00

Note 1: The derivative financial assets held by the Group include forward foreign exchange contracts, foreign exchange option contracts and interest rate swap contracts, which are not designated as hedging instruments. Gains or losses arising from changes in fair value of the derivative financial assets were directly recognized in profit or loss of the current period. Financial assets measured at fair value through current profit and loss were reclassified to held-for-trading financial assets on January 1st 2019.

Note 2: In its daily capital management, the Group endorses or discounts some of its bank acceptance notes. The business model for managing the aforesaid notes receivable is for the purposes of obtaining contractual cash flows and sale. Therefore, on January 1st 2019, the Group reclassified such notes receivable as financial assets at fair value through other comprehensive income, and presented as receivables for financing.

Note 3: On January 1st 2019, some of the equity investments held by the Group were reclassified as financial assets at fair value through profit and loss of current period and presented as other non-current financial assets.

Note 4: The derivative financial liabilities held by the Group include forward foreign exchange contracts and foreign exchange option contracts, which are not designated as hedging instruments. Gains or losses arising from changes in fair value of the derivative financial liabilities were directly recognized in profit or loss of the current period. Financial liabilities measured at fair value through current profit and loss were reclassified to held-for-trading financial liabilities on January 1st 2019.

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%, 9%, 10%, 13%, 16% and simple collection rate of 3% for housing leases (Note 2)
City maintenance and construction tax	Actual payable turnover tax	7%, 5%
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.
- (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. According to the *Announcement of the State Administration of Taxation on the Implementation of the High-Tech Enterprise Income Tax Preferential Policies*, during the period of expiration of the high-tech enterprise qualification, before the re-certification was obtained, the enterprise income tax could be temporarily paid at the rate of 15%, so the Company's current corporate income tax shall be calculated and paid according to a reduced tax rate of 15%.
- (3) 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 a reduced tax rate of 15%.
- (4) 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 a reduced tax rate of 15% in the current reporting period.
- (5) 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, the enterprise income rate shall be calculated and paid on the basis of a reduced tax rate of 15% in the current reporting period.

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 Hangzhou System, as well as the Company's joint-venture subsidiaries such as Hangzhou EZVIZ Software Ltd., Wuhan HIK Storage Technology Ltd., Hangzhou Robotic Technology, Hangzhou HIK Huiying Technology Ltd., and Hangzhou HIK Automotive Software Ltd., 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 State Administration of Taxation (SAT) reviews.

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.

According to the Ministry of Finance, the State Administration of Taxation, and the General Administration of Customs Announcement No. 39 of 2019, since April 1st 2019, taxpayers are subject to VAT taxable sales or imported goods, and the VAT rate is adjusted from 16%, 10% and 6% to 13%, 9%, and 6%, respectively.

V. Notes to items in the consolidated financial statements

1. Cash and bank balances

Item	Closing Balance			Opening Balance		
	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
Cash:						
RMB	-	-	54,053.78	-	-	79,737.43
USD	16,054.34	6.8747	110,368.80	24,087.34	6.8632	165,316.26
EUR	6,544.88	7.8170	51,161.29	9,765.86	7.8473	76,635.60
GBP	8,393.42	8.7113	73,117.59	8,927.97	8.6762	77,460.86
INR	1,382,411.14	0.0996	137,688.15	2,000,830.71	0.0980	196,081.41
Total other currencies			34,933.94			26,423.01
Bank balance:						
RMB			15,463,156,315.39	-	-	20,225,134,883.25
USD	728,446,874.56	6.8747	5,007,853,728.56	707,524,091.98	6.8632	4,855,879,348.05
EUR	26,630,893.16	7.8170	208,173,691.81	51,833,430.49	7.8473	406,752,479.11
GBP	5,588,032.55	8.7113	48,679,027.97	4,918,810.45	8.6762	42,676,583.25
INR	3,807,571,836.65	0.0996	379,234,154.93	3,438,377,221.94	0.0980	336,960,967.75
Total other currencies			123,700,026.04			123,468,631.32
Other currency funds:						
RMB			612,457,170.42	-	-	530,958,544.17
USD	83,009.20	6.8747	570,663.34	5,130,938.50	6.8632	35,214,593.87
EUR	145,077.33	7.8170	1,134,069.50	140,937.52	7.8473	1,105,979.01
INR	120,306.02	0.0996	11,982.48	119,281.00	0.0980	11,689.54
Total other currencies			472,120.20			890,099.04
Total			21,845,904,274.19			26,559,675,452.93
Including: deposited in overseas banks			840,871,524.98			1,071,979,704.80

Details of other currency funds:

Item	Closing Balance			Opening Balance		
	Foreign currency amount	Exchange rate for conversion	RMB amount	Foreign currency amount	Exchange rate for conversion	RMB amount
Capitals with limitations:						
Deposits for letter of Credit in RMB			-	-	-	60,199,342.63
Bank acceptance bill			167,772,399.32	-	-	52,522,279.43
Deposits for letter of guarantee			43,336,331.48	-	-	41,428,996.22
Deposits for letter of Credit in EUR	134,856.10	7.8170	1,054,170.14	137,209.86	7.8473	1,076,726.94
Deposits for letter of Credit in USD	-	-	-	5,133.88	6.8632	35,234.78
Tax Operation Margin for India	120,306.02	0.0996	11,982.48	119,281.00	0.0980	11,689.54
Other security deposit			977,076.06	-	-	1,380,799.75
Other capitals with limitations			371,550,800.00	-	-	372,008,649.75
Subtotal			584,702,759.48			528,663,719.04
Capitals without limitations:						
Other currency funds in USD	83,009.20	6.8747	570,663.34	5,127,923.38	6.8632	35,193,900.56
Deposit in Alipay, Tenpay, etc.	-	-	29,292,683.76	-	-	4,280,539.59
Other currency funds in EUR	10,221.23	7.8170	79,899.36	3,727.66	7.8473	29,252.07
Other capitals without limitations			-			13,494.37
Subtotal			29,943,246.46			39,517,186.59
Total			614,646,005.94			568,180,905.63

2. Held-for-trading financial assets

Unit: RMB

Item	Closing Balance	Opening Balance
Held-for-trading financial assets	2,640,560.25	1,860,050.59
Including: derivative financial assets	2,640,560.25	1,860,050.59
Total	2,640,560.25	1,860,050.59

Derivative financial assets, including forward foreign exchange contracts and foreign exchange option contracts that are not designated as hedging instruments, and gains or losses arising from changes in fair value are recognised directly in current profit or loss.

3. Notes receivable

3.1 Categories of notes receivable

Unit: RMB

Category	Closing Balance	Opening Balance
Commercial acceptance bill	365,698,673.52	295,598,790.07
Total	365,698,673.52	295,598,790.07

3.2 At the end of the current reporting period, the Group has no pledged commercial acceptance bills, and the pledge information of bank acceptance bills is detailed in Notes (V) 6.

3.3 Notes receivable discounted or endorsed by the Group at the closing of the reporting period

Unit: RMB

Category	Derecognized amount by June 30 th 2019	Amount not derecognized by June 30 th 2019
Commercial acceptance bill	32,316,962.85	105,737,777.22
Total	32,316,962.85	105,737,777.22

3.4 By the end of the reporting period, the Group did not have any commercial acceptance bills that were transferred to the accounts receivable due to the failure of the drawer to perform, as detailed in Notes (V) 5--bank acceptance bills transferred to accounts receivable due to the failure of the drawer to perform.

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

4. Accounts Receivable

4.1 Disclosure of accounts receivable by categories

Unit: RMB

Category	Closing Balance					Beginning Balance				
	Carrying amount		Bad debt provision		Book Value	Carrying amount		Bad debt provision		Book Value
	Amount	Proportion (%)	Amount	Proportion (%)	Amount	Amount	Proportion (%)	Amount	Proportion (%)	Amount
Provision for bad debts on a single basis						-	-	-	-	-
Provision for bad debts by portfolios	20,503,230,751.59	100.00	1,376,906,544.54	6.72	19,126,324,207.05	17,878,831,244.30	100.00	1,259,389,963.12	7.04	16,619,441,281.18
Total	20,503,230,751.59	100.00	1,376,906,544.54	6.72	19,126,324,207.05	17,878,831,244.30	100.00	1,259,389,963.12	7.04	16,619,441,281.18

Provision for bad debts by portfolios

Unit: RMB

Item	Closing Balance		
	Accounts receivable	Bad debt provision	Proportion (%)
Not overdue	11,153,958,310.65	57,764,473.10	0.52
Within 1 year after the overdue	7,758,195,937.46	506,717,605.22	6.53
1-2 years after the overdue	1,035,602,701.71	325,372,890.33	31.42
2-3 years after the overdue	319,658,430.98	251,236,205.10	78.60
Over 3 years after the overdue	235,815,370.79	235,815,370.79	100.00
Subtotal	20,503,230,751.59	1,376,906,544.54	6.72

4.2 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 115,422,011.62, including an increase of bad debt provision amount of RMB 1,402,922.12 due to business merger not under common control; bad debt allowance balance increased for RMB 1,583,673.90 due to conversion of financial reports prepared in foreign currency. No reversal of bad debts during the current reporting period.

4.3 Actual write-off of account receivable during current reporting period

In the current reporting period, the amount of accounts receivable write-off is RMB 892,026.22.

4.4 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	601,193,815.03	40,861,661.66	2.93
Company A	Third party	468,243,597.23	1,404,730.79	2.28
Company B	Third party	102,730,820.78	12,314,635.91	0.50
Company C	Third party	80,489,565.50	6,181,050.06	0.39
Company D	Third party	76,426,646.65	1,192,179.44	0.37
Total		1,329,084,445.19	61,954,257.86	6.47

4.5 As of June 30th 2019, there is no termination of accounts receivable booking due to transfer of a financial asset.

4.6 As of June 30th 2019, the Group has no assets/liabilities booked due to transferred accounts receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

5. Receivables for financing

Unit: RMB

Item	Closing Balance	Opening Balance
Notes receivable	1,386,990,472.51	2,247,357,583.28
Total-	1,386,990,472.51	2,247,357,583.28

5.1 Notes receivable by categories

Unit: RMB

Item	Closing Balance	Opening Balance
Bank acceptance bill	1,386,990,472.51	2,247,357,583.28
Total-	1,386,990,472.51	2,247,357,583.28

5.2 At the end of the reporting period, the Group's pledged notes receivable

Unit: RMB

Item	Pledged amounts at the end of the reporting period
Bank acceptance bill	112,443,816.82
Total-	112,443,816.82

5.3 At the end of the reporting period, notes receivable endorsed or discounted by the Group that have not yet expired on the balance sheet date.

Unit: RMB

Item	Derecognized amount by June 30 th 2019 (note)	Amount not derecognized by June 30 th 2019
Bank acceptance bill	1,192,931,667.52	-
Total-	1,192,931,667.52	-

Note: As the main risks and returns such as interest rate risk associated with these bank acceptance bills have been transferred to the bank or other parties, the Group derecognises the bank acceptance bills that have been discounted or endorsed.

5.4 At the end of the reporting period, the Group transferred the notes to the accounts receivable due to the failure of the drawer to perform.

Unit: RMB

Item	Amounts transferred to accounts receivable at the end of the reporting period
Bank acceptance bill	182,412,538.00
Total-	182,412,538.00

6. Prepayments

6.1 Prepayments by aging analysis

Unit: RMB

Aging	Closing Balance		Opening Balance	
	Carrying amount	Proportion (%)	Carrying amount	Proportion (%)
Within 1 year	625,081,109.57	95.08	371,339,135.76	80.67
1-2 years	29,588,062.23	4.50	87,446,891.75	19.00
2-3 years	1,879,650.44	0.29	1,219,965.56	0.27
Over 3 years	848,094.09	0.13	298,226.58	0.06
Total	657,396,916.33	100.00	460,304,219.65	100.00

6.2 Closing balances of top five prepayments parties

As of June 30th 2019, the Group's top five balances of prepayments amounted to RMB 386,944,074.86, accounting for 58.86% of total closing balance of prepayments.

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

7. Other receivables

7.1 Other receivables by categories

Unit: RMB

Item	Closing Balance	Opening Balance
Dividends receivable	17,357,220.31	-
Other receivables	522,805,713.38	586,594,721.43
Total	540,162,933.69	586,594,721.43

Note: The other receivables in the above table refer to other receivables after deducting interest receivable and dividends receivable.

7.2 Dividends receivable

Unit: RMB

Invested Unit	Closing Balance	Opening Balance
CETC subsidiary	17,357,220.31	-
Total	17,357,220.31	-

Note: The subsidiary of CETC are related party controlled by the ultimate controlling party of the Company. For details, please refer to Note (X).

7.3 Other receivables

(1) Other receivables by nature of the payment

Unit: RMB

Item	Closing Balance	Opening Balance
Other receivables for interim payments	299,752,349.98	354,225,077.10
Guarantee deposits	190,541,715.53	185,672,767.89
Tax rebates for export	2,036,475.05	30,189,439.56
Investment intention fund	-	20,000,000.00
Others	61,680,569.87	66,275,963.49
Total	554,011,110.43	656,363,248.04

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

(2) Provision for bed debts

bed debts allowance	Stage 1	Stage 2	Stage 3	Unit: RMB
	Expected credit losses in the next 12 months	Expected credit loss for the entire duration (credit impairment has not incurred)	Expected credit loss for the entire duration (credit impairment has occurred)	Total
Balance on January 1 st 2019	32,130,352.16	33,789,810.13	3,848,364.32	69,768,526.61
During the current reporting period, balance of other receivables on January 1 st 2019				
--transferred to stage 2	(3,155,230.17)	3,155,230.17		-
-transferred to stage 3		(2,022,195.18)	2,022,195.18	-
-transferred back stage 2				
-transferred back to stage 1				
Provision in the current reporting period			3,240,716.85	3,240,716.85
Reversal during the current reporting period	17,312,840.23	25,458,668.65		42,771,508.88
Resale during the current reporting peirod				
Wrtie-off during the current reporting period				
Other changes	912,352.50	28,203.01	27,106.96	967,662.47
Balance on June 30 th 2019	12,574,634.26	9,492,379.48	9,138,383.31	31,205,397.05

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

During the current reporting period, the Company provided RMB 3,240,716.8 for bed debt, reversed bad debt allowance of RMB 42,771,508.88; bad debt allowance amount increased by RMB 680,496.29 due to conversion of financial statements prepared in foreign currency; bad debt allowance amount increased by RMB 287,166.18 due to business merger not involving enterprises under the common ontrol.

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

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

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

(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	Guarantee deposits	9,444,600.00	Not overdue	1.70	59,500.98
The company E	Guarantee deposits	8,895,785.00	Within 1 year after overdue	1.61	418,105.54
The company F	Guarantee deposits	7,901,632.36	Not overdue	1.43	49,780.28
The company G	Guarantee deposits	6,858,813.80	Within 2-3 years after overdue	1.24	2,195,506.30
The company H	Temporary payments for receivables	6,469,840.96	Within 2-3 years after overdue	1.17	2,070,996.09
Total		39,570,672.12		7.15	4,793,889.19

(6) As of June 30th 2019, the Group does not have other receivables related to government subsidies.

(7) As of June 30th 2019, there is no termination of other receivables booking due to transfer of a financial asset.

(8) As of June 30th 2019, 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.

8. Inventories

(1) Categories of inventories

Unit: RMB

Category	Closing Balance			Opening Balance		
	Carrying amount	Provision for decline in value of inventories	Book value	Carrying amount	Provision for decline in value of inventories	Book value
Raw materials	3,022,239,098.32	31,075,530.00	2,991,163,568.32	1,558,519,309.65	4,736,249.82	1,553,783,059.83
Work-in-progress	502,293,785.36		502,293,785.36	415,593,344.57	-	415,593,344.57
Finished goods	5,060,108,008.37	330,386,767.71	4,729,721,240.66	3,868,735,444.19	316,870,213.78	3,551,865,230.41
Completed but unsettled assets formed by construction contracts	388,030,368.74		388,030,368.74	203,862,518.60	-	203,862,518.60
Total	8,972,671,260.79	361,462,297.71	8,611,208,963.08	6,046,710,617.01	321,606,463.60	5,725,104,153.41

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

(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	4,736,249.82	27,170,557.35		831,277.17		31,075,530.00
Finished goods	316,870,213.78	52,973,185.30		39,583,873.67	127,242.30	330,386,767.71
Subtotal	321,606,463.60	80,143,742.65		40,415,150.84	127,242.30	361,462,297.71

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 June 30th 2019

Unit: RMB

Item	Amount
Accumulated occurred costs of construction	4,153,190,521.94
Accumulated booked gross profit margin	202,630,340.55
Less: estimated losses	-
Settled amounts	2,782,911,966.21
Completed but unsettled assets formed by construction contracts	1,572,908,896.28
Including: other non-current assets (Note (V) 20)	1,184,878,527.54
Inventories	388,030,368.74

9. Non-current assets due within one year

Unit: RMB

Item	Closing Balance	Opening Balance
Long-term receivables due within one year (Note (V) 11)	350,602,927.53	380,795,020.47
Total	350,602,927.53	380,795,020.47

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

10. Other current assets

Unit: RMB

Item	Closing balance	Opening balance
Deductible VAT input	800,572,524.73	608,169,769.69
Withhold and remit individual income tax	1,156,658.18	71,402,966.15
Prepaid corporate income tax	101,657,006.65	31,542,797.57
Prepaid tariff	48,278,692.39	12,880,594.90
Others	24,366,063.99	6,724,001.28
Total	976,030,945.94	730,720,129.59

11. Long-term receivables

(1) Details of long-term receivables

Unit: RMB

Item	Closing balance			Opening balance			Range of discount rate
	Carrying amount	Provision for decline in value	Book value	Carrying amount	Provision for decline in value	Book value	
Financial leases receivables	113,106,711.00	15,423,196.78	97,683,514.22	100,574,420.65	-	100,574,420.65	0.43%-6.05%
Including: Unrealized income from financing	1,737,332.21	-	1,737,332.21	4,218,121.83	-	4,218,121.83	-
Installments for selling goods	1,138,098,328.96	43,212,016.20	1,094,886,312.76	985,732,967.99	-	985,732,967.99	4.24%-6.45%
Including: Unrealized income from financing	247,642,473.77	-	247,642,473.77	167,871,990.88	-	167,871,990.88	-
Less: Non-current assets due within one year (Note (V) 9)	402,464,403.37	51,861,475.84	350,602,927.53	380,795,020.47	-	380,795,020.47	-
Total	848,740,636.59	6,773,737.14	841,966,899.45	705,512,368.17	-	705,512,368.17	-

(2) As of June 30th 2019, there is no termination of long-term receivables booking due to transfer of a financial asset.

(3) As of June 30th 2019, the Group has no assets/liabilities booked due to any transferred long-term receivable that the Group still keep recourse or retain part of the corresponding rights or interests.

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

12. Long-term equity investment

Unit: RMB

The invested entity	Opening Balance	Increase/Decrease 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.	41,771,440.45		-	348,945.40	-	-	-	-	-	42,120,385.85	-
Maxio Technology (Hangzhou) Ltd.	106,651,173.63		-	(3,080,885.99)	-	-	-	-	-	103,570,287.64	-
Zhiguang Hailian Big Data Technology Ltd.	10,000,000.00		-	(1,375,582.93)	-	-	-	-	-	8,624,417.07	-
Sanmenxia Xiaoyun Vision Technology Ltd.	4,879,230.48		-	(107,632.10)	-	-	-	-	-	4,771,598.38	-
Jiixin HaiShi JiaAn Zhicheng Technology Ltd. (Note 1)		8,000,000.00		-						8,000,000.00	
Subtotal	163,301,844.56	8,000,000.00		(4,215,155.62)	-	-	-	-	-	167,086,688.94	-
Total	163,301,844.56	8,000,000.00	-	(4,215,155.62)	-	-	-	-	-	167,086,688.94	-

Note 1: During the current reporting period, the Group signed an agreement with the independent third party Jiaxing City Investment Development Group Ltd. on the establishment of Jiixin HaiShi JiaAn Zhicheng Technology Ltd. (hereinafter referred to as “Jiixin Haishi”). The Company’s subsidiary, Hangzhou Hikvision System Technology Ltd. (hereinafter referred to as “Hangzhou System”), contributed RMB 8.00 million, which was paid in full by Hangzhou System by the end of the reporting period, and the proportion of equity acquired was 40%. The board of directors of Jiixin Haishi consists of three directors, of which one director is appointed by Hangzhou System, who exerts a significant influence on Jiixin Haishi.

13. Other non-current financial assets

Unit: RMB

Item	Closing balance	Opening balance
Financial assets measured at fair value through profit or loss	296,004,271.50	290,966,813.00
Total	296,004,271.50	290,966,813.00

14. 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	4,657,871,649.90	480,490,219.61	1,093,093,470.72	78,724,224.02	6,310,179,564.25
2. Increase in the current reporting period	134,393,110.43	107,700,780.84	268,470,350.04	9,792,206.10	520,356,447.41
1) purchase	133,240,882.63	106,095,953.28	255,854,439.15	9,579,361.27	504,770,636.33
2) transferred from construction in progress	1,152,227.80		12,615,910.89		13,768,138.69
3) business merger not under common control		1,604,827.56		212,844.83	1,817,672.39
3. Decrease in the current reporting period	4,731,074.20	10,678,125.63	23,592,496.67	2,049,441.19	41,051,137.69
1) disposal or write-off	4,731,074.20	10,678,125.63	23,592,496.67	2,049,441.19	41,051,137.69
4. Effect of foreign currency exchange difference	384,806.85	728,180.03	902,308.45	54,654.18	2,069,949.51
5. Closing Balance	4,787,918,492.98	578,241,054.85	1,338,873,632.54	86,521,643.11	6,791,554,823.48
Accumulated depreciation					
1. Opening balance	549,468,936.19	131,087,047.49	504,998,831.89	42,209,588.58	1,227,764,404.15
2. Increase in the current reporting period	108,564,039.09	44,594,052.12	111,288,494.18	4,893,534.95	269,340,120.34
(1) provided	108,564,039.09	43,665,309.84	111,288,494.18	4,855,622.00	268,373,465.11
(2) business merger not under common control		928,742.28		37,912.95	966,655.23
3. Decrease in the current reporting period	1,028,408.84	6,872,583.31	13,261,482.33	1,298,238.35	22,460,712.83
(1) disposal or write-off	1,028,408.84	6,872,583.31	13,261,482.33	1,298,238.35	22,460,712.83
4. Effect of foreign currency exchange difference	38,202.81	328,370.41	128,641.33	26,750.50	521,965.05
5. Closing balance	657,042,769.25	169,136,886.71	603,154,485.07	45,831,635.68	1,475,165,776.71
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 book value					
1. Closing balance	4,130,875,723.73	409,104,168.14	735,719,147.47	40,690,007.43	5,316,389,046.77
2. Opening balance	4,108,402,713.71	349,403,172.12	588,094,638.83	36,514,635.44	5,082,415,160.10

(2) As of June 30th 2019, the Group did not have any significant idle fixed assets.

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

- (3) As of June 30th 2019, the Group had not leased any fixed asset through financial leasing.
- (4) As of June 30th 2019, the Group had not rent out any fixed asset through operating leasing

- (5) Fixed assets of which certificates of title have not been granted as of June 30th 2019.

Unit: RMB

Item	Carrying amount	Reason for certificates of title not granted
Office building for branches	33,245,492.77	In the process of obtaining the real estate certificates
Total	33,245,492.77	

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

15. Construction in progress

(1) Details of construction in progress

Unit: RMB

Item	Closing balance			Opening balance		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Public Security Monitoring Site Project	300,739,645.62		300,739,645.62	291,404,089.32	-	291,404,089.32
Hangzhou Innovation Industrial Base	50,840,516.83		50,840,516.83	50,840,516.83	-	50,840,516.83
Others	172,408,910.54		172,408,910.54	73,847,807.27	-	73,847,807.27
Total	523,989,072.99		523,989,072.99	416,092,413.42	-	416,092,413.42

(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	Closing balance	Amount invested as a proportion of budget amount (%)	Construction in Progress (%)	Accumulated capitalized interest and profit/loss on exchange (Note 1)	Including: capitalized interest and profit/loss on exchange for the current reporting period	Capitalization rate for interest in the current reporting period (%)	Source of funds
Hangzhou Innovation Industry Base	102,600.00	50,840,516.83			-	-	50,840,516.83	4.96%	4.96%	(5,817,000.63)	(5,817,000.63)	0.85%	Loan
Chengdu Science and Technology Base Project	135,100.00	6,577,446.74	53,291,108.38		-	-	59,868,555.12	4.43%	4.43%	-	-	-	Self-financing
Chongqing Science and Technology Base project-phase 2	76,200.00	2,257,412.05	5,324,733.35		-	-	7,582,145.40	1.00%	1.00%	-	-	-	Self-financing

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Xi'an Science and Technology Base project	113,400.00	1,664,067.68	1,667,334.41	-	-	3,331,402.09	0.29%	0.29%	-	-	-	Loan
Wuhan Science and Technology Base project	254,200.00	1,641,509.43	2,698,113.21	-	-	4,339,622.64	0.17%	0.17%	-	-	-	Self-financing
Wuhan Intelligent Industry Base project	238,700.00	934,836.51		-	-	934,836.51	0.04%	0.04%	-	-	-	Self-financing
Others	-	352,176,624.18	58,568,282.80	13,768,138.69	115,226.11	397,091,994.40	-	-	-	-	-	Self-financing
Total	920,200.00	416,092,413.42	121,549,572.15	13,768,138.69	115,226.11	523,989,072.99	-	-	(5,817,000.63)	(5,817,000.63)	-	-

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

As of June 30th 2019, the Group did not have any sign of impairment of projects under construction; therefore, no provision for impairment loss was booked.

16. 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	775,589,326.13	39,270,797.88	233,126,120.86	1,047,986,244.87
2. Increased	109,591,327.57	3,689,474.92	43,962,562.09	157,243,364.58
(1) Purchase	109,591,327.57	3,689,474.92	43,962,562.09	157,243,364.58
3. Decreased		1,411,310.92	20,785,015.91	22,196,326.83
(1) Disposal or write-off		1,411,310.92	20,785,015.91	22,196,326.83
4. Effect of foreign currency exchange difference		(3,142.98)	76,453.87	73,310.89
5. Closing balance	885,180,653.70	41,545,818.90	256,380,120.91	1,183,106,593.51
Total accumulated amortization				
1. Opening balance	34,866,723.64	19,201,069.47	124,005,401.67	178,073,194.78
2. Increased	9,376,915.85	5,951,088.58	24,900,453.98	40,228,458.41
(1) Provided	9,376,915.85	5,951,088.58	24,900,453.98	40,228,458.41
3. Decreased		1,161,021.85	14,118,905.15	15,279,927.00
(2) Disposal or write-off		1,161,021.85	14,118,905.15	15,279,927.00
4. Effect of foreign currency exchange difference		(2,308.55)	33,905.14	31,596.59
5. Closing balance	44,243,639.49	23,988,827.65	134,820,855.64	203,053,322.78
Provision for decline in value				
1. Opening balance	-	-	-	-
2. Increased	-	-	-	-
3. Decreased	-	-	-	-
4. Closing balance	-	-	-	-
Total book value				
Closing book value	840,937,014.21	17,556,991.25	121,559,265.27	980,053,270.73
Opening book value	740,722,602.49	20,069,728.41	109,120,719.19	869,913,050.09

17. 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)	137,092,136.66	-	-	137,557.45	137,229,694.11
Hangzhou Kuangxin Technology Ltd.		50,857,433.51		-	50,857,433.51
Total	254,964,910.67	50,857,433.51	42,695,573.44	137,557.45	263,264,328.19

(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	-	-

18. Long-term deferred expenses

Unit: RMB

Invested unit	Opening Balance	Increased	Amortized	Difference of foreign currency translation	Closing balance
Decoration costs	-	38,281,263.77	6,022,357.25	147,263.15	32,406,169.67
Total	-	38,281,263.77	6,022,357.25	147,263.15	32,406,169.67

19. 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	1,620,597,908.94	360,596,486.51	1,364,242,526.16	322,143,179.09
Payroll payables	220,173,893.79	33,026,084.07	220,173,893.79	33,026,084.07
Share-based compensation	371,748,374.24	56,618,631.41	115,893,666.94	18,240,425.31
Provisions	61,415,503.32	9,212,325.50	52,956,535.09	7,943,480.27
Expenditure without invoice	-	-	113,835,410.80	17,075,311.62
Unrealized profit from inter-group transactions	943,471,294.14	141,520,694.12	892,163,728.04	133,824,559.21
Changes in the fair value of derivative financial instruments	1,061,871.12	265,467.78	275,080.00	68,770.00
Deferred income	149,273,043.01	22,390,956.44	186,747,708.01	28,012,156.20
Total	3,367,741,888.56	623,630,645.83	2,946,288,548.83	560,333,965.77

(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	780,509.66	195,127.42	1,482,366.03	370,591.51
Difference in fixed asset depreciation	139,027,372.75	20,854,105.90	170,081,176.39	25,512,176.46
Difference in amortization of intangible assets	345,835.30	51,875.30	695,043.70	104,256.55
Total	140,153,717.71	21,101,108.62	172,258,586.12	25,987,024.52

(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	21,101,108.62	602,529,537.21	25,987,024.52	534,346,941.25
Deferred tax liabilities	21,101,108.62	-	25,987,024.52	-

20. Other non-current assets

Unit: RMB

Item	Closing balance	Opening balance
Completed but unsettled assets formed by construction contracts (Note (V) 8)	1,184,878,527.54	1,253,407,742.28
Prepayments for equipment	253,382,792.72	196,992,554.09
Prepayments for acquisition of land	-	98,000,000.05
Prepayments for infrastructure	18,113,312.57	32,759,311.95
Prepayments for purchase of property	1,876,820.25	1,590,992.43
Total	1,458,251,453.08	1,582,750,600.80

21. Short-term borrowings

(1) Categories of short-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Guaranteed loans	4,283,318,403.27	3,166,655,588.29
Fiduciary loan	229,000,100.00	247,000,100.00
Pledged loans	40,000,000.00	52,000,000.00
Total	4,552,318,503.27	3,465,655,688.29

(2) As of June 30th 2019, the Group did not have any overdue short-term loans that were failed to repay.

22. Held-for-trading financial liabilities

Unit: RMB

Item	Closing balance	Opening balance
Held-for-trading financial liabilities	1,352,869.55	290,998.43
Including: derivative financial liabilities	1,352,869.55	290,998.43
total	1,352,869.55	290,998.43

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.

23. Notes payable

Unit: RMB

Item	Closing balance	Opening balance
Bank acceptance Bill	804,615,788.76	463,479,760.54
Total	804,615,788.76	463,479,760.54

As of June 30th 2019, the Group did not have any unpaid matured notes payable.

24. Accounts payable

(1) List of accounts payable

Unit: RMB

Item	Closing balance	Opening balance
Payments for goods	10,033,591,909.69	10,208,299,054.08
Payables on equipment	103,990,220.59	93,366,671.12
Total	10,137,582,130.28	10,301,665,725.20

As of June 30th 2019, the Group did not have any significant accounts payable with aging above one year.

25. Receipts in advance

(1) List of receipts in advance

Unit: RMB

Item	Closing balance	Opening balance
Advanced receipts from sales of goods	599,648,171.35	449,150,259.60
Advanced receipts from construction contracts	71,558,756.21	192,280,230.62
Total	671,206,927.56	641,430,490.22

(2) As of June 30th 2019, the Group did not have any significant receipts in advance with aging above one year

26. 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	1,915,387,271.72	3,896,371,264.08	4,559,035,610.81	1,252,722,924.99
2. Termination benefits – defined contribution scheme	6,353,859.91	229,879,226.76	233,902,391.39	2,330,695.28
Total	1,921,741,131.63	4,126,250,490.84	4,792,938,002.20	1,255,053,620.27

(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	1,794,117,599.34	3,447,213,054.70	4,127,468,839.05	1,113,861,814.99
2.Staff welfare	893,122.46	35,140,520.15	35,144,546.34	889,096.27
3.Social insurance contributions	3,234,424.54	177,576,873.54	174,753,743.38	6,057,554.70
Including: medical insurance	2,987,488.56	158,945,880.66	155,907,571.93	6,025,797.29
Injury insurance	57,403.50	4,994,132.64	5,034,220.61	17,315.53
Maternity insurance	189,532.48	13,636,860.24	13,811,950.84	14,441.88
4.Housing funds	47,610.40	176,198,436.10	176,139,560.00	106,486.50
5.Labor union and education fund	117,094,514.98	60,242,379.59	45,528,922.04	131,807,972.53
Subtotal	1,915,387,271.72	3,896,371,264.08	4,559,035,610.81	1,252,722,924.99

(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	6,270,825.40	222,692,998.59	226,648,564.08	2,315,259.91
Unemployment insurance	83,034.51	7,186,228.17	7,253,827.31	15,435.37
Subtotal	6,353,859.91	229,879,226.76	233,902,391.39	2,330,695.28

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.

27. Taxes payable

Unit: RMB

Item	Closing balance	Opening balance
Enterprise income tax	1,182,087,347.08	1,085,546,102.66
Value-added tax	225,631,618.80	242,237,174.61
Personal income tax	119,443,111.57	25,773,726.70
City construction and maintenance tax	14,833,402.30	26,667,741.79
Education surcharges	6,426,831.81	11,563,769.42
Local education surcharges	4,276,028.61	7,686,512.17
Others	47,501,516.76	19,446,637.22
Total	1,600,199,856.93	1,418,921,664.57

28. Other payables
28.1 Categories

Unit: RMB

Item	Closing balance	Opening balance
Dividend payable	145,445,815.24	119,917,640.92
Other payables	866,709,224.35	2,833,537,347.03
Total	1,012,155,039.59	2,953,454,987.95

28.2 Dividends payable

Unit: RMB

Item	Closing balance	Opening balance
Dividends of restricted shares	142,995,815.24	117,467,640.92
Dividends of ordinary shares	2,450,000.00	2,450,000.00
Total	145,445,815.24	119,917,640.92

28.3 Other payables

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

Unit: RMB

Item	Closing balance	Opening balance
Share incentive funds	-	2,057,898,876.84
Accrued expenses	248,984,068.03	297,778,297.42
Guarantee and deposit fees	263,244,589.61	212,959,951.64
Collection and payment on behalf	155,621,968.24	124,191,240.27
Unexpired commercial acceptance bills that were endorsed	105,737,777.22	94,097,879.36
Other expense payable	93,120,821.25	46,611,101.50
Total	866,709,224.35	2,833,537,347.03

(2) As of June 30th 2019, the Group does not have any significant other payables aging over one year.

29. Non-current liabilities due within one year

Unit: RMB

Item	Closing balance	Opening balance
Bonds Payable due within one year	-	3,172,727,888.37
Long-term borrowings due within one year (Note (V) 31)	1,344,620.38	2,984,575.25
Long-term payables due within one year	14,497,723.92	2,458,683.54
Total	15,842,344.30	3,178,171,147.16

30. Other current liabilities

Unit: RMB

Item	Closing balance	Opening balance
Subscription payment of restricted shares	2,320,850,513.78	364,984,759.94
Total	2,320,850,513.78	364,984,759.94

31. Long-term borrowings

Unit: RMB

Item	Closing balance	Opening balance
Pledged loan (Note 1)	1,315,600,000.00	251,000,000.00
Fiduciary loan	3,127,144,620.38	1,984,575.25
Other borrowing (Note 2)	190,000,000.00	190,000,000.00
Less: Long-term loans due within one year (Note (V) 29)	1,344,620.38	2,984,575.25
Total	4,631,400,000.00	440,000,000.00

As of June 30th 2019, the EURO loans with book value of RMB 3,126,800,000.00, carry annual interest rate of 0.85% (December 31st 2018: nil); the RMB loan, with book value of RMB 1,505,600,000.00, carry annual interest rate ranging from 4.445% to 4.900% (December 31st 2018: 4.445% to 4.900%); the INR loan, with book value of RMB 344,620.38, carry annual interest rate ranging from 8.65% to 9.65% (December 31st 2018: nil)

Note 1: As of June 30th 2019, RMB 570,000,000.00 of the pledged loan was obtained by the Group with all the rights and benefits pledged under the *Xi'an Public Security Video Surveillance Construction Network Application Construction--Public-Private Partnership (PPP) Project Agreement*; the maturity date is November 5th 2031. Among them, the annual interest rate of RMB 569,000,000.00 loan is 4.445%, and the annual interest rate of RMB 1,000,000.00 loan is 4.900%.

As of June 30th 2019, RMB 144,000,000.00 of the pledged loan was obtained by the Group with all the rights and benefits pledged under the *LuoPu Security Protection and Prevention Control System-- PPP Project Agreement*; the maturity date is March 26th 2035, the annual interest rate is 4.445%.

As of June 30th 2019, RMB 185,600,000.00 of the pledged loan was obtained by the Group with all the rights and benefits pledged under the *MoYu Security Protection and Prevention Control System-- PPP Project Agreement*; the maturity date is March 26th 2035, the annual interest rate is 4.445%.

As of June 30th 2019, RMB 176,000,000.00 of the pledged loan was obtained by the Group with all the rights and benefits pledged under the *PiShan Security Protection and Prevention Control System-- PPP Project Agreement*; the maturity date is March 26th 2040, the annual interest rate is 4.445%.

As of June 30th 2019, RMB 80,000,000.00 of the pledged loan was obtained by the Group with all the rights and benefits pledged under the *YuTian Safe City-- PPP Project Agreement*; the maturity date is March 26th 2034, the annual interest rate is 4.445%.

As of June 30th 2019, RMB 160,000,000.00 of the pledged loan was obtained by the Group with all the rights and benefits pledged under the *Urumqi High-tech Zone (New Urban Area) Safe City & Surveillance system for Social Comprehensive Management -- PPP Project Agreement*; the maturity date is June 20th 2018, the annual interest rate is 4.41%.

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 June 30th 2019, CDBDF has aggregately invested RMB 190 million (December 31st 2018: RMB 190 million).

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

32. Long-term payables

Unit: RMB

Item	Closing balance	Opening balance
Payables for financial leasing	45,422,195.08	-
Less: Long-term payables due within one year	14,497,723.92	-
Total	30,924,471.16	-

33. Provisions

Unit: RMB

Item	Closing balance	Opening balance
Product warranty	84,529,179.89	77,625,238.49
Total	84,529,179.89	77,625,238.49

34. Deferred income

Unit: RMB

Item	Opening balance	Increase in current reporting period	Decrease in current reporting period	Closing balance	Details
Cloud storage service income	58,690,626.37	104,893,206.51	75,927,333.87	87,656,499.01	Note 1
Government Subsidies	234,488,462.76	44,940,400.00	72,581,843.03	206,847,019.73	Note 2
Total	293,179,089.13	149,833,606.51	148,509,176.90	294,503,518.74	

As of June 30th 2019, 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	131,567,063.01	-	42,105,200.00	-	89,461,863.01	Related to incomes
Chongqing Manufacture Base construction	47,975,445.00		1,209,465.00	-	46,765,980.00	Related to assets
Other special subsidies	31,969,350.94	5,840,000.00	24,764,150.94	-	13,045,200.00	Related to incomes
Other special subsidies	22,976,603.81	39,100,400.00	4,503,027.09	-	57,573,976.72	Related to assets
Subtotal	234,488,462.76	44,940,400.00	72,581,843.03	-	206,847,019.73	

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.

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

35. Share capital

Unit: RMB

	Opening balance	Changes for the period					Closing balance
		New issue of shares (Note 1)	Bonus issue	Transfer from Capital Reserve (Note 2)	Others (Note 2)	Subtotal	
2019.06.30							
Total shares	9,227,270,473.00	121,195,458.00	-		(509,625.00)	120,685,833.00	9,347,956,306.00

Note 1: On December 20th 2018, pursuant to the *Articles of Association* of the Company revised by the resolution of 8th Meeting of the fourth session Board of Directors authorized by the 2nd extraordinary general meeting in 2018, the Company was approved to grant 121,195,458 shares RMB common shares to 6,095 grantees, with face value of RMB 1.00 per share and issuing price of RMB 16.98 per share. Equity registration for those granted shares were completed on January 17th 2019, which increased the paid-in capital of RMB 121,195,458.00 in 2019 and resulted in capital reserve of RMB 1,936,703,418.84.

Note 2: On December 4th 2018, pursuant to the *Articles of Association* of the Company revised by the resolution of 7th General Meeting of fourth session Board of Directors authorized by the first Extraordinary General Meeting in 2014, the Company repurchased and cancelled 509,625 granted but restricted RMB treasury shares by cash, and the total share capital of the Company decreased by RMB 509,625.00, capital reserve decreased by RMB 1,585,455.00. The registration procedures were completed on May 9th 2019.

36. 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
2019.06.30				
Share premium	1,833,717,545.39	1,936,703,418.84	20,034,492.42	3,750,386,471.81
Other capital reserves	127,222,115.13	250,128,589.34		377,350,704.47
Total	1,960,939,660.52	2,186,832,008.18	20,034,492.42	4,127,737,176.28

Note 1: The increase in share premium in the current reporting period was due to the completion of the registration of the restricted stocks granted in the previous year that increase the share capital premium of RMB 1,936,703,418.84. See Note 1 of Notes (V) 35 for details.

The increase in other capital reserves in the current reporting period was due to equity-settled share-based payment of RMB 250,128,589.34 that booked into capital reserve, as detailed in Note (XI).

Note 2: The decrease of RMB 1,585,455.00 in share premium during the current reporting period was due to the Company's repurchase of 509,625 granted but restricted RMB treasury shares by cash, please refer to Note (V) 35-Note 2; The decrease of RMB 10,246,016.86 in share premium during the current reporting period was due to share distributions by equity settlements to minority shareholders; The decrease of RMB 8,203,020.56 in share premium during the current reporting period was due to increasing capital in the Company's subsidiary Hangzhou Kuangxin Technology Ltd. ("Kuan gxin Technology") that shared by minority shareholders. See Note (VI) 1 for details. .

37. 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
2019.06.30				
Restricted shares incentive scheme	364,984,759.94	2,057,898,876.84	102,033,123.00	2,320,850,513.78
Total	364,984,759.94	2,057,898,876.84	102,033,123.00	2,320,850,513.78

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Note 1: The increase of treasury shares during the current reporting period was due to granting 121,195,458 shares RMB common shares to 6,095 grantees, with issuing price of RMB 16.98 per share on December 20th 2018. Please refer to Note (V) 35-Note 1.

Note 2: During the current reporting period, the decreased amounts of treasury shares includes a decrease of RMB 2,007,387.00 due to the repurchase and cancellation of 509,625 restricted RMB ordinary shares of 2014 Restricted Share Incentive Scheme; a decrease of RMB 100,025,736.00 due to provision of cash dividend allocated to restricted shareholders.

38. Other comprehensive income

Unit: RMB

Item	Opening balance	Change for the current reporting period					Closing balance
		The before-income-tax amount incurred during the current reporting period	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)	
2019.06.30							
Other incomes that may be reclassified subsequently to profit or loss	(76,065,167.67)	8,207,012.71	2,715,344.78	-	4,922,806.84	568,861.09	(71,142,360.83)
Included: Effect on conversion of financial statements denominated in foreign currencies	(49,576,351.10)	(8,583,151.62)	-	-	(9,202,168.25)	619,016.63	(58,778,519.35)
Changes in fair value of Receivables for financing	(26,488,816.57)	16,790,164.33	2,715,344.78		14,124,975.09	(50,155.54)	(12,363,841.48)
Other comprehensive income	(76,065,167.67)	8,207,012.71	2,715,344.78	-	4,922,806.84	568,861.09	(71,142,360.83)

39. Surplus reserves

Unit: RMB

Item	Opening balance	Increase in the current reporting period	Decrease in the current reporting period	Closing balance
2019.06.30				
Statutory surplus reserves	4,460,712,358.45	-	-	4,460,712,358.45
Total	4,460,712,358.45	-	-	4,460,712,358.45

40. Retained earnings

Unit: RMB

Item	First half year of 2019	First half year of 2018
Retained Earnings at the close of previous reporting period before adjustment	22,360,593,257.53	16,598,328,692.63
Business merger involving enterprises under common control	(736,986.11)	-
Adjusted retained earnings at the beginning of the period	22,359,856,271.42	16,598,328,692.63
Add: Net profit attributable to owners of the Company for the current period	4,216,755,210.24	4,147,395,535.86
Less: Dividends on ordinary shares payable (Note)	5,605,823,858.10	4,613,635,236.50
Retained earnings at the end of the period	20,970,787,623.56	16,132,088,991.99

Note: According to the resolution of 2018 annual General Meeting dated on May 11th 2019, 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 6 (tax inclusive), the rest of retained earnings were all carried forward for future distributions.

41. Operating income/operating cost

Unit: RMB

Item	First half year of 2019		First half year of 2018	
	Revenue	Cost	Revenue	Cost
Operating income	23,693,888,435.21	12,727,511,306.82	20,666,389,810.48	11,489,340,600.25
Other operating income	229,384,989.29	112,995,026.86	209,368,414.15	96,958,225.82
Total	23,923,273,424.50	12,840,506,333.68	20,875,758,224.63	11,586,298,826.07

42. Business Taxes and Surcharges

Unit: RMB

Items	First half year of 2019	First half year of 2018
City construction and maintenance tax	81,858,061.74	88,734,456.82
Education surcharges	36,071,455.51	38,163,736.90
Local education surcharges	23,308,866.59	25,421,753.02
Real estate tax	11,123,190.25	11,677,622.92
Tax on use of land	1,340,324.67	2,797,148.26
Stamp duty	11,130,199.34	9,553,973.80
Vehicle and vessel tax	98,624.36	155,796.31
Others	2,617,183.46	1,386,130.57
Total	167,547,905.92	177,890,618.60

43. Financial Expenses

Unit: RMB

Items	First half year of 2019	First half year of 2018
Interest expenses	102,317,635.94	81,772,282.07
Less: Interest income	300,644,265.63	217,425,369.68
Effect on changes in foreign exchange	52,456,277.58	(105,663,396.52)
Less : Foreign exchange differences on specific loan and the capitalized specific loan interests	(5,817,000.63)	(66,624,255.04)
Including: interest expenses	9,315,258.32	19,218,000.00
Interest income	(7,631,736.28)	(15,672,928.53)
Differences on foreign exchange	(7,500,522.67)	(70,169,326.51)
Others	10,109,924.22	16,170,911.28
Total	(129,943,427.26)	(158,521,317.81)

44. Credit impairment loss

Unit: RMB

Items	First half year of 2019	First half year of 2018
Bad debt loss of accounts receivable	115,422,011.62	-
Bad debt loss of other receivables	(39,530,792.03)	-
Bad debt loss of long-term receivables	58,635,212.98	-
Total	134,526,432.57	-

45. Impairment losses of assets

Unit: RMB

Items	First half year of 2019	First half year of 2018
Bad debt	-	204,167,685.48
Inventory devaluation	80,143,742.65	121,730,012.71
Total	80,143,742.65	325,897,698.19

46. Other income

Unit: RMB

Item	First half year of 2019	First half year of 2018	Amounts booked into current year non-recurring gains and losses
VAT Rebates	632,531,286.98	816,616,027.70	
Special subsidies	84,928,005.35	21,010,365.89	84,928,005.35
Tax refunds	5,106,929.21	-	5,106,929.21
Total	722,566,221.54	837,626,393.59	90,034,934.56

47. Investment income
(1) Details of investment income

Unit: RMB

Item	First half year of 2019	First half year of 2018
Long-term equity investment losses based on equity method	(4,215,155.62)	2,538,090.69
Investment income (losses) on disposal of held-for-trading financial assets	8,082,291.28	(2,018,145.43)
Investment incomes for available-for-sale financial assets during the holding period	-	12,256,000.00
Investment income of other non-current financial assets during the holding period	17,357,220.31	-
Investment income redeemed on matured financial products	-	65,491,170.90
Total	21,224,355.97	78,267,116.16

48. Profits (losses) from changes in fair values

Unit: RMB

Sources of gains/losses from changes in fair values	First half year of 2019	First half year of 2018
Held-for-trading financial assets	2,740,172.62	16,449,323.23
Including: Profits (losses) on the changes in fair value of derivative financial instruments	586,934.12	16,449,323.23
Income from changes in fair value arising from equity instruments	2,153,238.50	-
Held-for-trading financial liabilities	(873,778.16)	(22,551,871.25)
Including: Profits (losses) on the changes in fair value of derivative financial instruments	(873,778.16)	(22,551,871.25)
Total	1,866,394.46	(6,102,548.02)

49. Non-operating income

Unit: RMB

Item	First half year of 2019	First half year of 2018	The amount booked into current period non-recurring profits and losses
Special subsidies	471,298.57	11,134,607.89	471,298.57
Tax refund	5,049.70	258,553.39	5,049.70
Fines and confiscations	18,790,241.63	46,529,147.77	18,790,241.63
Others	19,040,488.70	15,228,064.81	19,040,488.70
Total	38,307,078.60	73,150,373.86	38,307,078.60

50. Non-operating expenses

Unit: RMB

Item	First half year of 2019	First half year of 2018	Amount recorded into the current period non-recurring profits (losses)
Local water conservancy construction fund	326,266.15	436,280.16	-
Others	8,087,915.76	4,147,847.04	8,087,915.76
Total	8,414,181.91	4,584,127.20	8,087,915.76

51. Income tax expenses

(1) Details of Income tax expenses

Unit: RMB

Item	First half year of 2019	First half year of 2018
Current income tax	989,900,141.38	717,290,286.21
Deferred income tax	(68,182,595.96)	(51,487,527.73)
Previous year's income tax filing and payment difference	12,203,111.26	-
Total	933,920,656.68	665,802,758.48

52. Notes to consolidated cash flow statement

(1) Other cash receipts relating to operating activities

Unit: RMB

Item	First half year of 2019	First half year of 2018
Interest income	300,644,265.63	217,425,369.68
Government subsidies	123,235,083.95	95,168,090.18
Others	160,612,732.43	138,073,302.53
Total	584,492,082.01	450,666,762.39

(2) Other cash payments relating to operating activities

Unit: RMB

Item	First half year of 2019	First half year of 2018
Office expenses and business expenses	358,952,495.22	321,731,198.63
Advertising and Selling services	546,661,309.37	513,332,986.75
R&D expense	467,463,033.83	437,739,763.84
Shipping and transportation expense	348,864,517.36	296,718,288.88
Travelling expense	211,860,989.63	174,690,476.79
Deposits to restricted monetary funds	56,039,040.44	345,798,801.19
Rental expense	105,938,464.34	74,995,187.54
Others	38,722,894.70	62,752,885.37
Total	2,134,502,744.89	2,227,759,588.99

(3) Other cash receipts relating to investing activities

Unit: RMB

Item	First half year of 2019	First half year of 2018
Receipts of financing leases	-	1,190,562.94
Total	-	1,190,562.94

(4) Other cash payments related to investing activities

Unit: RMB

Item	First half year of 2019	First half year of 2018
Cash payments for investment intention funds	-	13,500,000.00
Total	-	13,500,000.00

(5) Other cash payments relating to financing activities

Unit: RMB

Item	First half year of 2019	First half year of 2018
Repurchase of restricted shares	31,290,856.75	6,555,746.33
Total	31,290,856.75	6,555,746.33

53. Supplementary information about cash flow statement

(1) Supplementary information about cash flow statement

Unit: RMB

Supplementary information	First half year of 2019	First half year of 2018
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	4,223,761,290.19	4,107,586,112.82
Add: Impairment of assets	214,670,175.22	325,897,698.19
Fixed assets depreciation	269,340,120.34	196,191,929.39
Amortization of intangible assets	40,228,458.41	27,572,243.92
Long-term deferred expenses amortization	6,022,357.25	
Losses (Gains) on disposal of fixed assets, intangible assets and other long-term assets	(810,043.90)	(3,763,578.84)
Retirement losses on fixed assets, intangible assets and other long-term assets	4,464,360.56	415,906.30
Losses (Gains) from changes in fair value	(1,866,394.46)	6,102,548.02
Financial expenses	157,920,883.55	40,310,003.53
Investment income	(21,224,355.97)	(78,267,116.16)
Share-based payment based on equity settlement	250,128,589.34	80,498,800.50
Changes in other fund	(56,039,040.44)	(345,798,801.19)
Decrease (Increase) in deferred income tax assets	(68,182,595.96)	(51,896,405.74)
Decrease (Increase) in inventories	(2,953,673,953.50)	(689,070,559.38)
Decrease (Increase) in operating receivables	(2,693,537,605.46)	(1,903,396,501.38)
Increase (Decrease) in operating payables	196,409,532.04	(3,414,162,059.42)
Increase (Decrease) in deferred income	1,324,429.61	80,586,421.44
Net cash flows from operating activities	(431,063,793.18)	(1,621,193,358.00)
2. Significant investing and financing activities not involving cash receipts and payments:		
3. Net changes in cash and cash equivalents:		
Ending balance of cash	21,261,201,514.71	12,966,520,217.54
Less: Opening balance of cash	26,031,011,733.89	16,029,185,269.17
Add: Ending balance of cash equivalents	-	-
Less: Opening balance of cash equivalents	-	-
Net increase (decrease) in cash and cash equivalents	(4,769,810,219.18)	(3,062,665,051.63)

(2) Constituents of cash and cash equivalents

Unit: RMB

Item	Closing balance	Opening balance
Cash	21,261,201,514.71	26,031,011,733.89
Including: Cash on hand	461,323.55	621,654.57
Bank deposit for payment at any time	21,230,796,944.70	25,990,872,892.73
Other monetary capital for payment at any time	29,943,246.46	39,517,186.59
Cash equivalents	-	-
Closing balance of cash and cash equivalents	21,261,201,514.71	26,031,011,733.89

Among the total balance of RMB 614,646,005.94 of the other monetary fund(s) at the end of the reporting period (December 31st 2018: RMB 568,180,905.63), RMB 584,702,759.48 are various guarantee deposits and other restricted funds, etc. (December 31st 2018: RMB 528,663,719.04), not cash and cash equivalents.

54. Assets with restriction in ownership or use rights

Unit: RMB

Item	Book value at the end of the period	Cause of restriction
Monetary fund(s)	584,702,759.48	Various guarantee deposits and other restricted funds
Receivables for financing	112,443,816.82	Pledged for issuing bank acceptance bill
Accounts receivable	95,000,000.00	Pledged for short-term borrowings
Long-term receivables	460,793,612.55	Pledged for long-term borrowings
Total	1,252,940,188.85	

55. 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	718,849,745.73	6.8747	4,941,876,346.97
EUR	18,673,522.27	7.8170	145,970,923.58
GBP	80,511.82	8.7113	701,362.62
Accounts receivable			
Including: USD	298,568,766.83	6.8747	2,052,570,701.33
EUR	8,223,025.42	7.8170	64,279,389.71
Short-term borrowing			
Including: GBP	9,564,405.23	8.7113	83,318,403.28
Accounts Payable			
Including: USD	401,649,483.01	6.8747	2,761,219,700.85
Long-term borrowings			
Including: EUR	400,000,000.00	7.8170	3,126,800,000.00

(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 Seguranca 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
Hikvision Central America S.A.	Panama	USD	Selection based on local economic environment
Hikvision West Africa Limited	Nigeria	NGN	Selection based on local economic environment
Hikvision Technology Egypt JSC	Egypt	EGP	Selection based on local economic environment

56. Government Subsidies**(1) Categories**

Unit: RMB

Category	Amount	Financial Report Items	Amount booked in current profit and loss
VAT Rebate	632,531,286.98	Other Income	632,531,286.98
Special subsidies	56,815,263.75	Deferred income / Other income/ Non-operating income	12,817,460.89
Tax Refund	5,111,978.91	Other income/ Non-operating income	5,111,978.91
Total	694,458,529.64		650,460,726.78

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

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

VI. Changes in consolidation scope

1. Business mergers not involving enterprises under the common control

(1) Business mergers not involving enterprises under common control during the current reporting period

Hangzhou Kuangxin Technology Ltd. (“KuangxinTechnology”)

On June 4th 2019, the Company signed Equity Transfer and Capital Increase Agreement for Hangzhou Kuangxin Technology Ltd. with 13 independent third parties, and agreed to acquire 68.89% equity of Kuangxin Technology held by 13 independent third parties for RMB 62 million. At the same time, the Company increased capital of RMB 50 million to Kuangxin Technology. After the capital increase, the Company will hold 80% equity of Kuangxin Technology in total. As of June 30th 2019, the Company has paid RMB 49.6 million in equity transfer and RMB 20 million in capital increase.

Unit: RMB

Name of the acquiree	Time of equity acquisition	Equity acquisition cost	Equity acquisition ratio (%)	Equity acquisition method	Date of acquisition	Basis for determining the acquisition date	Income of acquiree from acquisition data to the end of the reporting period	Net profit (loss) of acquiree from acquisition data to the end of the reporting period
Kuangxin Technology	June 2019	62,000,000.00	68.89	Cash Payments	June 21 st 2019	Equity delivery date for obtaining control of the purchased party		

(2) Cost of business merger

Unit: RMB

Cost of business merger	Kuangxin Technology
– Cash	62,000,000.00

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

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

Unit: RMB

	Kuangxin Technology	
	On the date of acquisition	January 1 st 2019
Assets:		
Cash and bank balances	13,504,217.93	26,795,498.61
Accounts receivable	10,398,039.06	19,457,420.19
Prepayments	253,271.03	344,141.46
Other receivables	2,863,363.74	2,937,887.49
Inventories	12,701,841.10	4,718,567.01
Other current assets	300,000.00	-
Fixed assets	851,017.16	689,608.72
Liabilities:		
Short-term borrowings		2,400,000.00
Accounts payable	1,001,307.08	4,272,007.92
Advance receipts	2,611,594.30	1,313,556.60
Payroll payable	-	2,689,961.13
Tax payable	808,638.58	1,887,263.53
Other payables	20,275,777.64	20,174,258.47
Net assets (liabilities)	16,174,432.42	22,206,075.83
less: minority interests		-
Net assets (liabilities) acquired	16,174,432.42	22,206,075.83

2. Business mergers involving enterprises under the common control

(1) Business mergers involving enterprises under common control during the current reporting period.

Hangzhou EZVIZ Science and Technology Ltd. (EZVIZ Science and Technology)

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

On April 19th 2019, the Company's parent company, China Electronics Technology HIK Group Co., Ltd. (CETHIK) signed an entrusted management agreement with Hangzhou EZVIZ Network Co., Ltd. ("EZVIZ Network"), a subsidiary of the Company. According to the agreement, CETHIK entrusted EZVIZ Network to exercise the actual operation and management rights of EZVIZ Science and Technology, and is fully responsible for the production, operation and management of EZVIZ Science and Technology. EZVIZ Network does not charge a fixed entrusted management fee from CETHIK. Rather, the EZVIZ Network enjoys 100% of the distributable profits of EZVIZ Science and Technology under the entrusted management relationship. At the same time, the EZVIZ Network uses the amount of paid-in capital of EZVIZ Science and Technology (maximum not exceeding RMB 20 million) as the base, and pays the capital occupation fee to CETHIK according to a certain capital occupancy rate. EZVIZ Network became the actual controller of EZVIZ Science and Technology.

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
EZVIZ Science and Technology	60%	Before and after the merger, the controlling shareholder of the Group and EZVIZ Science and Technology is HIKCET, and the control is not temporary.	April 19 th 2019	Date when the merger actually obtained control of the merged party	-	(885,138.65)	-	-

(2) Cost of business merger

Unit: RMB

Cost of business merger	EZVIZ Science and Technology
- Cash	0.00

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

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

Unit: RMB

	EZVIZ Science and Technology	
	On the date of acquisition	January 1 st 2019
Assets:		
Cash and bank balances	6,088,546.19	7,272,741.70
Other receivable	162,643.61	14,928.43
Other assets	68,499.44	37,316.45
Liabilities:		
Advance receipts	53,287.00	
Payroll payable	54,165.26	133,027.59
Tax payable	1,040.12	
Other payables	324,645.69	420,269.17
Net assets (liabilities)	5,886,551.17	6,771,689.82
less: minority interests		-
Net assets (liabilities) acquired	5,886,551.17	6,771,689.82

3. Changes of consolidation scope due to other causes

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

Company Name	Time of establishment	Registered capital	Amount of contribution of the Company	Ratio of contribution (%)
Shijiazhuang Hikvision Science and Technology Ltd. (Shijiazhuang Hikvision) (Note 1)	February 2019	RMB 50 million	RMB 50 million	100
Zhengzhou Hikvision Digital Technology Ltd. (Zhengzhou Hikvision) (Note 1)	June 2019	RMB 80 million	RMB 80 million	100
Hikvision Central America S.A. (Central American subsidiary) (Note 1)	February 2019	USD 120,000	USD 120,000	100
Hikvision West Africa Limited (Nigerian Subsidiary) (Note 1)	February 2019	NGN 28.80 million	NGN 28.80 million	100
Hikvision Technology Egypt JSC (Egyptian Subsidiary) (Note 1)	May 2019	USD 100,000	USD 100,000	100

Note 1: At the end of the reporting period, Shijiazhuang Hikvision, Zhengzhou Hikvision, Central American Subsidiary, Nigerian Subsidiary, and Egyptian Subsidiary have not completed the payment, so there is no paid-in capital.

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

Company Name	Date of equity disposition	Proportion of shareholding (%)
Beijing Brinaire Storage Technology Ltd.	March 2019	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
HDT International Ltd.	Hong Kong	Hong Kong	Sales	95.00	5.00	Establishment
Prima Hikvision Indian Private Limited	India	Mumbai	Sales	58.00	-	Business combination not 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. (Note 2)	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

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
Henan Hua'an Security Services Ltd. (Note 3)	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 4)	Hangzhou	Hangzhou	Manufacture	71.30	-	Establishment
Cooperative Hikvision Europe U.A.	Netherlands	Netherlands	Sales	99.00	1.00	Establishment
Hikvision Canada Inc.	Canada	Canada	Sales	100.00	-	Establishment
Hikvision LLC	Moscow	Moscow	Sales	100.00	-	Establishment
Hikvision Korea Limited	Korea	Korea	Sales	100.00	-	Establishment
Hangzhou EZVIZ Network Ltd.	Hangzhou	Hangzhou	Technology development	60.00	-	Establishment
EZVIZ Inc.	USA	Los Angeles	Sales	-	60.00	Establishment
Hangzhou Haikang Zhicheng Investment Development Ltd	Hangzhou	Hangzhou	System integration	80.00	-	Business combination not involving enterprises under common control
Hangzhou Hikvision Robotics Technology Ltd.	Hangzhou	Hangzhou	Technology development	60.00	-	Establishment
Hangzhou Hikvision Investment Management Ltd.	Hangzhou	Hangzhou	Investment Management	100.00	-	Establishment
Hangzhou Hik Automotive Technology Ltd.	Hangzhou	Hangzhou	Technology development	60.00	-	Establishment
Hangzhou Hikvision Communication Technology Ltd.	Hangzhou	Hangzhou	Technology development	70.00	-	Establishment
Hangzhou Hikvision Weiyang Sensory Technology Ltd.	Hangzhou	Hangzhou	Technology development	60.00	-	Establishment
Hikvision Turkey Technology And Security Systems Commerce Corporation	Turkey	Istanbul	Sales	100.00	-	Establishment
Hikvision Colombia SAS	Columbia	Santa Fe Bogota	Sales	100.00	-	Establishment
Hikvision Kazakhstan limited liability partnership	Kazakhstan	Astana	Sales	100.00	-	Establishment
Secure Holding Limited	British	Sheffield	Manufacture	-	100.00	Business combination not involving enterprises under common control
Pyronix Limited	British	Sheffield	Manufacture	-	100.00	Business combination not involving enterprises under common control
Microwave Solutions Limited	British	Sheffield	Manufacture	-	100.00	Business combination not involving enterprises under common control
Tianjin Hikvision System Technology Ltd.	Tianjin	Tianjin	Construction	100.00	-	Establishment

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
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
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,	Technology	100.00	-	Establishment

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Name	Location of operation	Place of registration	Nature of business	Shareholding ratio (%)		Acquisition Method
				Direct	Indirect	
		Hubei	development			
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
Shijiazhuang Hikvision Science and Technology Ltd.	Shijiazhuang	Shijiazhuang	Technology development	100.00		Establishment
Zhengzhou Hikvision Digital Technology Ltd.	Zhengzhou	Zhengzhou	Sales	100.00		Establishment
Hikvision Central America S.A.	Panama	Panama	Sales		100.00	Establishment
Hikvision West Africa Limited	Nigeria	Nigeria	Sales	94.00	6.00	Establishment
Hikvision Technology Egypt JSC	Egypt	Egypt	Sales		100.00	Establishment
Hangzhou EZVIZ Science and Technology Ltd. (Note 5)	Hangzhou	Hangzhou	Sales	-	-	Business merger under the common control
Hangzhou Kuangxin Technology Ltd.	Hangzhou	Hangzhou	Technology development	80.00		Business merger not involving enterprises under the common control

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: Beijing Brainaire Storage Technology Ltd. was cancelled in 2019.

Note 3: Henan Hua'an Security Services Ltd. is a subsidiary controlled and invested by Henan Hua'an Intelligence Development Ltd.

Note 4: The remaining 28.70% equity interests of Hangzhou Hikvision Electronics Ltd. is held by China Development Bank Fund. Please refer to Note (V) 31 for details.

Note 5: The Group controls Hangzhou EZVIZ Science and Technology Ltd. through an entrusted management agreement. See Note (VI) 2 for details.

2. Equity in joint ventures or associates

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

Unit: RMB

	Closing balance / Amount for first half of 2019	Opening balance / Amount for first half of 2018
Associates:		
The aggregate carrying amount of investments in associates	182,900,000.00	174,900,000.00
The aggregate amount of the following items calculated based on the Company's equity share percentage of the associates		
--Net gains (losses) and total comprehensive gains (losses)	(4,215,155.62)	2,538,090.69

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 June 30th 2019, except for monetary items of foreign currencies set out in Note (V) 55, 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	7,001,761,983.07	7,053,425,866.47	2,771,060,113.18	1,526,559,782.05
EUR	209,150,894.81	391,028,998.28	3,126,800,000.00	3,172,727,888.37

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	First half of 2019		First half of 2018	
	Effect on profit	Effect on shareholders' equity	Effect on profit	Effect on shareholders' equity
5% appreciation of USD against functional	211,535,093.49	211,535,093.49	270,837,502.92	270,837,502.92
5% depreciation of USD against functional	(211,535,093.49)	(211,535,093.49)	(270,837,502.92)	(270,837,502.92)
5% appreciation of EUR against functional	(145,882,455.26)	(145,882,455.26)	(128,835,381.10)	(128,835,381.10)
5% depreciation of EUR against functional	145,882,455.26	145,882,455.26	128,835,381.10	128,835,381.10

1.1.2. Interest rate risk—risk related to changes in cash flows

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

Sensitivity analysis on interest rate risk is based on the following assumptions:

- Changes in the market interest rate may influence the interest income or expense of the variable rate financial instruments; and
- Changes in market interest rate only affect the interest income or expense of fixed rate financial assets measured at fair value.

On the basis of the above assumptions, where all other variables are held constant, the reasonably possible changes in the interest rate may have the following before-tax effect on the current net profit or loss and shareholders' equity:

Unit: RMB

Change in interest rate	The first half of 2019		The first half of 2018	
	Effect on net profits	Effect on shareholders'	Effect on net profits	Effect on shareholders'
Borrowing rate increases by 50 bps	(45,925,315.62)	(45,925,315.62)	(26,662,904.00)	(26,662,904.00)
Borrowing rate decreases by 50 bps	45,925,315.62	45,925,315.62	26,662,904.00	26,662,904.00

1.2 Credit risk

As of June 30th 2019, the biggest credit risk exposure that may cause financial loss suffered by the Group was mainly due to the other party's inability to fulfill obligations that caused the loss on the Group's financial assets, which include:

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

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

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

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

1.3. Liquidity risk

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

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

Unit: RMB

June 30 th 2019				
	Within one year	1-5 years	More than five years	Total
Non-derivative financial liabilities				
Short-term borrowings	4,590,865,798.75	-	-	4,590,865,798.75
Notes payable	804,615,788.76	-	-	804,615,788.76
Accounts payable	10,137,582,130.28			10,137,582,130.28
Other payables	1,010,873,086.51	-	-	1,010,873,086.51
Other current liabilities	2,320,850,513.78	-	-	2,320,850,513.78
Long-term borrowings	133,054,542.13	3,541,079,149.50	1,745,443,894.44	5,419,577,586.07
Long-term payables	14,497,723.92	30,924,471.16	-	45,422,195.08

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Derivative financial liabilities				
Forward foreign exchange contracts- settled in the gross amount				
- Cash inflow	253,763,441.68	-	-	253,763,441.68
- Cash outflow	255,051,132.38	-	-	255,051,132.38
- Net cash outflow	(1,287,690.70)	-	-	(1,287,690.70)

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	-	1,388,278,163.21	296,004,271.50	1,684,282,434.71
1. Held-for-trading Financial Assets	-	2,640,560.25	-	2,640,560.25
-- Derivative financial assets	-	2,640,560.25	-	2,640,560.25
2. Receivables for financing	-	1,386,990,472.51		1,386,990,472.51
3. Other non-current financial assets			296,004,271.50	296,004,271.50
Total assets measured continuously at fair value	-	1,389,631,032.76	296,004,271.50	1,685,635,304.26
(II) Held-for-trading Financial Liabilities		1,352,869.55		1,352,869.55
- Derivative financial liabilities	-	1,352,869.55	-	1,352,869.55
Total liabilities measured continuously at fair value	-	1,352,869.55	-	1,352,869.55

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

Unit: RMB

	Fair value at June 30 th 2019	Estimation technique	Inputs
Forward Foreign Exchange Contracts (Assets)	2,504,060.25	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties
Foreign Exchange Option Contracts (Assets)	136,500.00	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties
Forward Foreign Exchange Contracts (Liabilities)	19,369.55	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties
Foreign Exchange Option Contracts (Liabilities)	1,333,500.00	Discounted cash flow approach	Forward exchange rate Discounted rate that reflects the credit risk of counterparties
Receivables for financing	1,386,990,472.51	Discounted cash flow approach	Discount rate

3. The third level of fair value measurement item, adjustment information between the opening and closing book value

Unit: RMB

Other non-current financial assets	Amount
Book value on December 31 st 2018	-
Impact of implementing new financial instrument guidelines	290,966,813.00
Book value on January 1 st 2019	290,966,813.00
Increase in the current reporting period	2,884,220.00
Changes in fair value booked into other comprehensive income during the current reporting period	2,153,238.50
Book value on June 30 th 2019	296,004,271.50

4. The third level of fair value measurement item, the valuation techniques and important parameters used

Unit: RMB

	Fair value on June 30 th 2019	Valuation techniques	Inputs
Other non-current financial assets	296,004,271.50	Income approach/Asset-based approach	Future cash flows, Discount rate/ Book value of net assets

5. 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

6. 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	39.09	39.09

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) 12.

4. Information on other related parties

Name	Relationship
Gong Hongjia	Director of the company, holds 13.60% of the share of the Company
Shanghai Fullhan Microelectronics Co., Ltd. (Shanghai Fullhan Micro)	Gong Hongjia or his relative(s) serve(s) as the director(s)
Zhejiang Tuxun Technology Co.,Ltd. (Zhejiang Tuxun)	The 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
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
Jiaxin Haishi JiaAn Zhicheng Technology Ltd. (Haishi JiaAn)	Associated company of the Group

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Name	Relationship
Sanmenxia Xiaoyun Vision Technology Ltd. (Xiaoyun Vision Technology)	Associated company of the Group
Subsidiaries of CETE (Note 2)	Under common control of the ultimate controlling party of the Company

Note 1: the senior management of the Group had left the post in March 2018, and 2019 is one year after his departure, therefore, Zhejiang Tuxun was still identified as a related party of the Group for the current reporting period.

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

5. Related party transactions

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

Purchase of commodities / receiving of services:

Unit: RMB

Related party	Transaction type	Amount for the first half of 2019	Amount for the first half of 2018
Subsidiaries of CETE	Purchase of materials and receiving of services	101,307,210.65	153,495,293.67
Shanghai Fullhan Micro	Purchase of materials and receiving of services	142,526,819.64	120,432,833.93
Wuhu SensorTech	Purchase of materials and receiving of services	27,029,115.54	19,486,211.82
Maxio Technology and its subsidiaries	Purchase of materials and receiving of services	7,445,856.29	44,208,712.51
Total		278,309,002.12	337,623,051.93

Sales of commodities / rendering of services:

Unit: RMB

Related party	Transaction content	Amount for the first half of 2019	Amount for the first half of 2018
Subsidiaries of CETE	Sales of products and rendering of services	259,100,324.49	237,165,349.46
Zhejiang Tuxun	Sales of products and rendering of services	23,144.73	964,627.62
Wuhu Sensor Tech	Sales of products and rendering of services	262,495.39	36,416.97
Hangzhou Confirmware	Sales of products and rendering of services	23,854.33	524,591.79
Maxio Technology and its subsidiaries	Sales of products and rendering of services		39,051.29
Xiaoyun Vision Technology	Sales of products and rendering of services	5,973,121.16	
Zhiguang Hailian	Sales of products and rendering of services	320,293.75	
Haishi JiaAn	Sales of products and rendering of services	81,415.93	
Total		265,784,649.78	238,730,037.13

Statement of capital deposits:

Unit: RMB

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Related Party	Content of related party transaction	Amount occurred in the first half of 2019	Balance at the end of the current period	Amount occurred in the first half of 2018	Opening Balance
Subsidiaries of CETE (Note)	Deposit into fixed deposits		4,000,000,000.00	-	4,000,000,000.00
Subsidiaries of CETE (Note)	Deposit into call deposits		-	(500,000,000.00)	-
Total			4,000,000,000.00	(500,000,000.00)	4,000,000,000.00

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) Other related party transaction

Pursuant to resolution of the Company’s 7th meeting of the fourth session of the Board of Directors held on December 3rd 2018, the Company’s subsidiary Hangzhou Weiyang Sensor Technology Ltd. signed a financial leasing contract with CETC Finance Leasing Ltd., and Weiyang Sensory will carry out slae and leaseback business of part of its self-owned equipment with CETC Finance Leasing, with a financing amount of RMB 50 million. The lease term is 48 months and the annual lease rate is 3.8%.

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	831,990,000.63	57,224,483.79	707,471,470.74	38,564,084.85
Accounts receivable	Zhejiang Tuxun	21,000.02	1,344.00	345,738.04	17,286.90
Accounts receivable	Hangzhou Confirmware	25,780.00	244.91	298,619.99	15,611.00
Accounts receivable	Zhiguang Hailian	1,350,254.80	73,069.31	986,160.75	49,308.04
Accounts receivable	Haishi JiaAn	92,000.00	874.00		
Accounts receivable	Xiaoyun Vision Technology	5,187,206.40	331,981.21		
Total		838,666,241.85	57,631,997.22	709,101,989.52	38,646,290.79
Receivables for financing	Subsidiaries of CETE	33,908,101.00	-	60,983,163.83	-
Receivables for financing	Hangzhou Confirmware	-	-	150,000.00	-
Total		33,908,101.00	-	61,133,163.83	-
Prepayments	Subsidiaries of CETE	22,331,546.07	-	13,328,415.31	-
Prepayments	Maxio Technology and its subsidiaries	3,000,000.00	-	-	-
Total		25,331,546.07	-	13,328,415.31	-
Dividends receivable	Subsidiaries of CETE	17,357,220.31	-	-	-
Toal		17,357,220.31	-	-	-

(2) Payables to related parties

Unit: RMB

Item	Related Party	Closing balance	Opening balance
Accounts payable	Subsidiaries of CETE	143,735,603.12	166,845,140.44
Accounts payable	Shanghai Fullhan Micro	94,398,988.47	106,744,509.28
Accounts payable	Wuhu Sensor Tech	6,772,567.03	5,944,535.61
Accounts payable	Maxio Technology and its subsidiaries	912,352.49	-
Total		245,819,511.11	279,534,185.33
Notes Payable	Shanghai Fullhan Micro	16,954,977.00	13,838,900.00
Total		16,954,977.00	13,838,900.00
Receipts in advance	Subsidiaries of CETE	13,147,432.28	2,306,953.47
Total		13,147,432.28	2,306,953.47
Other payables	Subsidiaries of CETE	63,304,901.58	63,683,807.94
Other payables	Shanghai Fullhan Micro	100,000.00	100,000.00
Other payables	Wuhu Sensor Tech	50,000.00	50,000.00
Other payables	Zhejiang Tuxun	39,290.00	9,290.00
Total		63,494,191.58	63,843,097.94

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 June 30th 2019, 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	First half of 2019	First half of 2018
Total of equity instruments outstanding at the beginning of the reporting period		33,932,161
Total of equity instruments granted during the current reporting period		-
Total of equity instruments vested during the current reporting period		-
Total of equity instruments forfeited during the current reporting period (Note)		-
Total of equity instruments outstanding at the end of the reporting period		33,932,161
The exercise price (ex-rights) of the outstanding Share-based payments of the Company at the end of the reporting period and the remaining period of the contract		RMB 4.11 per share and 16 months

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. On May 9th 2019, the Company has completed the registration procedures for industrial and commercial changes.

Unit: share

2016 Share Incentive Scheme	First half of 2019	First half of 2018
Total of equity instruments outstanding at the beginning of the reporting period	45,404,512	78,490,287
Total of equity instruments granted (share dividend) during the current reporting period	-	-
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	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 30 months	RMB 8.42 per share and 42 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.

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Unit: share

2018 Share Incentive Scheme	First half of 2019	First half of 2018
Total of equity instruments outstanding at the beginning of the reporting period	121,195,458	-
Total of equity instruments granted (share dividend) during the current reporting period	-	-
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 54 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	298,596,674.16	215,330,306.80
Total amount of the expenses recognized according to share-based payment through equity settlement in the current reporting period	-	34,798,282.54	215,330,306.80

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

XII. Commitments and contingencies

1. Significant commitments

(1) Capital commitments

Unit: RMB'000

	Closing balance	Opening balance
Contracted but not yet recognized in financial statements		
- Commitment on construction of long-term assets	11,128,833	10,420,984
Total	11,128,833	10,420,984

(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	170,118	182,124
Second year subsequent to the balance sheet date	134,508	139,759

	Closing balance	Opening balance
Third year subsequent to the balance sheet date	79,287	98,017
Subsequent years	104,658	117,099
Total	488,571	536,999

(3) As of June 30th 2019, 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.

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		First half of 2019	
		Operating income	Operating cost
Video Surveillance Products	Front-end equipment	11,399,609,062.38	5,514,282,317.87
	Back-end equipment	3,196,070,064.43	1,622,327,866.91
	Central control equipment	3,486,737,083.16	1,549,258,451.92
	Constructions	477,564,284.57	348,868,121.15
	Other products	3,405,538,512.34	2,650,853,145.34
Innovative Business Products	Smart home business products	1,139,058,349.43	699,890,662.72
	Other innovative business products	589,311,078.90	342,030,740.91
Total		23,693,888,435.21	12,727,511,306.82

Unit: RMB

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

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

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

Unit: RMB

Item	First half of 2019	First half of 2018
External revenue generated in domestic area	16,980,210,416.78	14,580,485,895.05
External revenue generated in overseas area	6,943,063,007.72	6,295,272,329.58
Total	23,923,273,424.50	20,875,758,224.63

Unit: RMB

Item (Note)	First half of 2019	First half of 2018
Non-current assets in domestic area	8,122,529,602.39	7,810,496,315.84
Non-current assets in overseas area	451,823,739.04	352,944,245.80
Total	8,574,353,341.43	8,163,440,561.64

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

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

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

1. Accounts receivable

(1) Accounts receivable disclosed by categories:

Unit: RMB

Category	Closing balance					Opening balance				
	Carrying balance		Bad debt provision		Book value	Carrying balance		Bad debt provision		Book value
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Amount	Percentage (%)	Amount	Percentage (%)	Amount
Provision for bad debts on a single basis	-	-	-	-	-	-	-	-	-	-
Provision for bad debts by portfolios	19,667,012,137.66	100.00	362,389,044.95	1.84	19,304,623,092.71	16,178,600,865.87	100.00	974,081,704.16	6.02	15,204,519,161.71
Total	19,667,012,137.66	100.00	362,389,044.95	1.84	19,304,623,092.71	16,178,600,865.87	100.00	974,081,704.16	6.02	15,204,519,161.71

Provision for bad debts by portfolios

Unit: RMB

Item	Closing Balance		
	Accounts receivable	Bad debt provision	Proportion (%)
Not overdue	14,972,028,362.85	13,208,474.39	0.09
Within 1 year after the overdue	4,240,258,687.37	89,724,009.52	2.12
1-2 years after the overdue	250,050,280.76	71,739,425.55	28.69
2-3 years after the overdue	73,811,638.64	56,853,967.45	77.03
Over 3 years after the overdue	130,863,168.04	130,863,168.04	100.00
Subtotal	19,667,012,137.66	362,389,044.95	1.84

(2) Bad debt provision provided, recovered or reversed during the current reporting period
The reversed bad debt provision was RMB 611,692,659.21; the provision for bed debts was nil during the current reporting period.

(3) Accounts receivable actually written off in the current reporting period.
The accounts receivable actually written off in the current reporting period was nil.

(4) The top five debtors of accounts receivable 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	16,093,104,192.72	-	81.83
Company H	Related party	121,513,170.76	4,722,623.41	0.62
Company I	Third party	54,250,159.88	38,991,016.57	0.28
Subsidiary J	Third party	48,111,883.80	6,038,002.89	0.24
Company K	Third party	45,216,426.73	619,681.64	0.23
Total		16,362,195,833.89	50,371,324.51	83.20

(5) At the end of the current reporting period, there is no accounts 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 receivable.

2. Other receivables

2.1 By categories

Unit: RMB

Category	Closing balance	Opening Balance
Dividends receivable	19,907,220.31	2,550,000.00
Other receivables	572,862,823.29	520,437,955.34
Total	592,770,043.60	522,987,955.34

2.2 Dividends receivable

Unit: RMB

Invested company	Closing balance	Opening Balance
Subsidiaries of CETC (Note 1)	17,357,220.31	-
Hikvision's subsidiaries (Note 2)	2,550,000.00	2,550,000.00
Total	19,907,220.31	2,550,000.00

Note 1: The subsidiary of CETC is related party controlled by the ultimate controlling party of the Company. For details, please refer to Note (X).

Note 2: Hikvision's subsidiaries are subsidiaries of the Company, as detailed in Note (VII).

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

2.3 Other receivables

(1) Other receivables by nature of the payment

Unit: RMB

Nature	Closing balance	Opening balance
Temporary borrowing	299,491,225.10	254,412,122.73
Temporary payments for receivables	219,676,383.68	235,499,619.96
Guarantee deposit	54,330,779.17	59,549,614.46
Investment deposit	-	20,000,000.00
Others	8,850,875.37	2,190,850.93
Total	582,349,263.32	571,652,208.08

(2) Provision for bad debts

Unit: RMB

bed debts allowance	Stage 1	Stage 2	Stage 3	Total
	Expected credit losses in the next 12 months	Expected credit loss for the entire duration (credit impairment has not incurred)	Expected credit loss for the entire duration (credit impairment has occurred)	
Balance on January 1 st 2019	26,367,866.55	13,449,401.91	11,396,984.28	51,214,252.74
During the current reporting period, balance of other receivables on January 1 st 2019				
--transferred to stage 2	(503,876.10)	503,876.10		-
-transferred to stage 3		(470,788.51)	470,788.51	-
-transferred back stage 2				
-transferred back to stage 1				
Provision in the current reporting period				
Reversal during the current reporting period	21,016,032.65	11,966,599.08	8,745,180.98	41,727,812.71
Resale during the current reporting period				
Write-off during the current reporting period				
Other changes				
Balance on June 30 th 2019	4,847,957.80	1,515,890.42	3,122,591.81	9,486,440.03

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

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

The amount of bad debt reversed in the current reporting period was RMB 41,727,812.71, and the bad debt provision was nil in the current reporting period.

(4) 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.

(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	123,130,850.47	Not overdue	21.14	-
Subsidiary C	Internal Payment	70,108,555.81	Not overdue	12.04	-
Subsidiary D	Internal Payment	36,256,568.58	Not overdue	6.23	-
Subsidiary E	Internal Payment	9,444,600.00	Within 2 years after overdue	1.62	-
Subsidiary F	Internal Payment	8,830,098.77	Not overdue	1.52	-
Total		247,770,673.63		42.55	-

(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 transferred other receivables.

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

3. Long-term equity investment

Unit: RMB

Item	Closing Balance			Opening Balance		
	Carrying Balance	Provisions	Book Value	Carrying Balance	Provisions	Book Value
Investment in subsidiaries	4,414,995,394.22	-	4,414,995,394.22	4,317,555,407.77	73,816,351.77	4,243,739,056.00
Investments in associated enterprises and joint ventures	114,533,348.18	-	114,533,348.18	117,408,339.90	-	117,408,339.90
Total	4,529,528,742.40	-	4,529,528,742.40	4,434,963,747.67	73,816,351.77	4,361,147,395.90

(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	Write-off of impairment provision during the current reporting period	Balance of impairment loss provision at the end of the current reporting period
Hangzhou Hikvision System Technology Ltd.	745,219,821.80	29,255,195.50	-	774,475,017.30	-	-
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.	700,000,000.00		-	700,000,000.00	-	-
Hundure Technology (Shanghai) Ltd.	37,247,790.28		-	37,247,790.28	-	-

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Name of investee	Opening balance	Increase during the current reporting period	Decrease during the current reporting period	Closing balance	Write-off of impairment provision during the current reporting period	Balance of impairment loss provision at the end of the current reporting period
Hangzhou EZVIZ Network Ltd.	6,641,675.60	2,438,926.30	-	9,080,601.90	-	-
Hangzhou Haikang Zhicheng Investment and Development Ltd.	24,000,000.00		-	24,000,000.00	-	-
Hangzhou Hik Robotic Technology Ltd.	87,402,825.23	5,930,871.14	-	93,333,696.37	-	-
Hangzhou Hikvision Investment Management Ltd.	100,000.00		-	100,000.00	-	-
Hangzhou Hik Automotive Technology Ltd.	140,813,518.12	822,908.50	-	141,636,426.62	-	-
Hangzhou Hik Automotive Software Ltd.	1,589,417.56	3,610,714.74	-	5,200,132.30	-	-
Tianjin Hikvision System Technology Ltd.	10,000,000.00		-	10,000,000.00	-	-
Hangzhou Hikvision Communication Technology Ltd.	7,000,000.00		-	7,000,000.00	-	-
Hangzhou Hik Weiyang Sensory Technology Ltd.	60,000,000.00	529,975.68	-	60,529,975.68	-	-
Wuhan Hik Storage Technology Ltd.	60,000,000.00	1,076,479.42	-	61,076,479.42	-	-
Hangzhou Haikang Intelligent Technology Ltd	438,438.67	2,222,253.04	-	2,660,691.71	-	-
Chengdu Hikvision Digital Technology	300,000,000.00		-	300,000,000.00	-	-

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Name of investee	Opening balance	Increase during the current reporting period	Decrease during the current reporting period	Closing balance	Write-off of impairment provision during the current reporting period	Balance of impairment loss provision at the end of the current reporting period
Ltd.						
HDTINTERNATIONALLIMITED	87,786.14		-	87,786.14	-	-
PramaHikvisionIndiaPVT.	1,585,696.80		-	1,585,696.80	-	-
HikvisionInternationalCo.,Limited	79,423.52		-	79,423.52	-	-
HikvisionAustralia	2,866,850.00		-	2,866,850.00	-	-
HikvisionSingapore	1,900,590.00		-	1,900,590.00	-	-
HikvisionSouthAfrica	1,578,650.00		-	1,578,650.00	-	-
HikvisionFZE	1,870,351.40		-	1,870,351.40	-	-
HIKVISIONDOBRASIL	4,579,750.50		-	4,579,750.50	-	-
LIMITEDLIABILITYCOMPANY	647,249.19		-	647,249.19	-	-
HikvisionCoop.	65,485.53		-	65,485.53	-	-
HIKVISIONKOREALIMITED	1,535,850.00		-	1,535,850.00	-	-
HIKVISIONCOLOMBIASAS	1,337,440.00		-	1,337,440.00	-	-
HIKVISIONKAZAKHSTANLIMI	4,758.69		-	4,758.69	-	-
HIKVISIONTURKEYTECHNOLO	1,148,115.83		-	1,148,115.83	-	-
HIKVISIONTASHKENT	833,014.00		-	833,014.00	-	-
Chongqing Hikvision Science and Technology Ltd.	100,000,000.00	558,181.18	-	100,558,181.18	-	-

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Name of investee	Opening balance	Increase during the current reporting period	Decrease during the current reporting period	Closing balance	Write-off of impairment provision during the current reporting period	Balance of impairment loss provision at the end of the current reporting period
HIKVISIONUSAINC.	1,546,160.00		-	1,546,160.00	-	-
HikvisionCanadaInc	994,442.54		-	994,442.54	-	-
Henan Hua' An Bao Quan Intelligent Development Ltd.	67,475,000.00		-	67,475,000.00	-	-
Henan Hik Hua' An Bao Quan Electronics Ltd.	510,000.00		-	510,000.00	-	-
Hangzhou Hikvision Science and Technology Ltd.	1,020,741,963.29	12,488,445.94	-	1,033,230,409.23	-	-
Hangzhou Hikvision Electronics Ltd.	397,745,645.00	3,401,248.58	-	401,146,893.58	-	-
Beijing Brainaire Storage Ltd.	95,878,126.85		95,878,126.85	-	95,878,126.85	-
Xi'An Hikvision Digital Technology Ltd.	50,000,000.00		-	50,000,000.00	-	-
Hangzhou EZVIZ Software Ltd.	3,739,571.23	8,188,668.34	-	11,928,239.57	-	-
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	794,244.94	-	48,794,244.94	-	-
Xinjiang CET Yihai Information Technology Ltd.	24,000,000.00		-	24,000,000.00	-	-

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Name of investee	Opening balance	Increase during the current reporting period	Decrease during the current reporting period	Closing balance	Write-off of impairment provision during the current reporting period	Balance of impairment loss provision at the end of the current reporting period
Guizhou Haikang Transportation Big Data Ltd.	5,500,000.00		-	5,500,000.00	-	-
Nanjing Hikvision Digital Technology Ltd..		10,000,000.00		10,000,000.00		
Hangzhou Kuangxin Technology Ltd.		112,000,000.00		112,000,000.00		
Total	4,317,555,407.77	193,318,113.30	95,878,126.85	4,414,995,394.22	95,878,126.85	-

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

(2) Investments in associated enterprises and joint ventures

Unit: RMB

Name of investee	Opening balance	Increase/Decrease during the current reporting period								Closing Balance	Balance 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.	41,771,440.45	-	-	348,945.40	-	-	-	-	-	42,120,385.85	
Maxio Technology (Hangzhou) Ltd.	65,636,899.45	-	-	(1,848,354.19)	-	-	-	-	-	63,788,545.26	
Zhiguang Hailian Big Data Technology Ltd.	10,000,000.00	-	-	(1,375,582.93)	-	-	-	-	-	8,624,417.07	
Subtotal	117,408,339.90	-	-	(2,874,991.72)	-	-	-	-	-	114,533,348.18	
Total	117,408,339.90	-	-	(2,874,991.72)	-	-	-	-	-	114,533,348.18	

As of June 30th 2019, 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	The first half of 2019		The first half of 2018	
	Income	Cost	Income	Cost
Operating income	8,967,800,195.36	2,954,372,023.48	8,256,611,162.57	2,472,684,680.13
Other operating income	1,466,443,783.23	125,408,625.44	881,033,053.99	138,278,910.63
Total	10,434,243,978.59	3,079,780,648.92	9,137,644,216.56	2,610,963,590.76

5. Investment income

(1) Details of investment income

Unit: RMB

Item	The first half of 2019	The first half of 2018
Cash dividends measured by cost method	1,400,000.00	-
Long-term equity investment losses (income) measured by equity method	(2,874,991.72)	1,630,985.74
Investment loss on disposal of long-term equity investment	0.56	(9,994,028.47)
Investment gains for available-for-sale financial assets during the holding period	-	12,256,000.00
Investment income of other non-current financial assets during the holding period	17,357,220.31	-
Gain on disposal of held-for-trading financial assets	1,168,699.00	-
Investment income from redemption of bank finance products upon expiry	-	64,686,053.30
Total	17,050,928.15	68,579,010.57

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	810,043.90	/
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)	90,511,282.83	/
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	(885,138.65)	/
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	9,948,685.74	/

Notes to Financial Statements

For the reporting period from January 1st 2019 to June 30th 2019

Item	Amount	Description
Other non-operating income and expense except the items mentioned above	29,742,814.57	/
Impact of income tax	(34,822,486.70)	/
The impact of minority equity	(745,520.48)	/
Total	94,559,681.21	/

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	10.86%	0.444	0.444
Net profit excluding non-recurring items of profit or loss attributable to ordinary shareholders of the Company	10.61%	0.434	0.434

Section XI Documents Available for Reference

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

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

Section XII Other Disclosure Information

I. Other major social security issues

Whether there is any other major social security issues for the listed compay and its subsidiaries

☐ Yes ☒ No ☐ Not applicable

Whether the company was administratively punished during the reporting period

☐ Yes ☒ No ☐ Not applicable

II. Non-operating capital occupation of listed companies by the controlling shareholder and its related parties

☐ Applicable ☒ Not applicable

During the reporting period, there was no non-operating capital occupation of the Company by the controlling shareholder and its related parties.

III. 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	Location of reception	Method of reception	Type of reception object	Index of basic situation of the research
From January 1 st 2019 to January 11 th 2019	Headquarters meeting room of the Company	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From January 1st 2019 to January 11th 2019</i>
From January 14 th 2019 to January 31 st 2019	Headquarters meeting room of the Company	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From January 14th 2019 to January 31st 2019</i>
From February 15 th 2019 to March 1 st 2019	Headquarters meeting room of the Company	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From February 15th 2019 to March 1st 2019</i>
From March 4 th 2019 to March 19 th 2019	Headquarters meeting room of the Company	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From March 4th 2019 to March 19th 2019</i>
April 20 th 2019	Headquarters meeting room of the Company	Performance result conference call	Institutional investors; individuals	CNINF, <i>Investor Relations Activity Record: April 20th 2019</i>

Time of reception	Location of reception	Method of reception	Type of reception object	Index of basic situation of the research
May 10 th 2019	Headquarters meeting room of the Company	Site Research	Institutional investors; individuals	CNINF, <i>Investor Relations Activity Record: May 10th 2019</i>
April 22 nd 2019 to May 17 th 2019	Headquarters meeting room of the Company	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From April 22nd 2019 to May 17th 2019</i>
May 20 th 2019 to June 3 rd 2019	Headquarters meeting room of the Company	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From May 20th 2019 to June 3rd 2019</i>
June 4 th 2019 to June 21 st 2019	Headquarters meeting room of the Company	Site Research and telephone communication	Institutional investors	CNINF, <i>Investor Relations Activity Record: From June 4th 2019 to June 21st 2019</i>

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

Time of conference	Location	Conference Name	Type of reception object	Method of reception
January 2019	Shanghai	UBS 19 th Greater China Conference 2019	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2019	Beijing	Morgan Stanley 2019 China New Economy Summit	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
January 2019	Shenzhen	17th Annual dbAccess China Conference 2019	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
February 2019	Hongkong	Macquarie A-Share Technology Stock Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
March 2019	Taipei	Bank of America Merrill Lynch Asia TMT Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
April 2019	Hangzhou	Haitong Securities 2019 Spring Corporate Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2019	Shenzhen	GuoTaiJunAn 2019 Mid-Year Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2019	Shenzhen	HSBC 6 th China Annual China Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2019	Shenzhen	CICC High-Technology Forum	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2019	Hongkong	Goldman Sachs Technet 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
		Asia Pacific 2019	investors	Meetings, and etc.
May 2019	Shanghai	Guojin Securities 2019 Mid-Year Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2019	Shanghai	Huatai Securities 2019 Mid-Year Conference	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2019	Singapore	Nomura Investment Forum Asia 2019	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
May 2019	Beijing	Morgan Stanley's Fifth China Summit	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2019	London-Edinburgh	2019 United Kingdom NDR-Via CLSA	All kinds of investors	One-on-One, One-on-multi, small group Meetings, and etc.
June 2019	Shanghai	Merchants Securities 2019 Capital Market Summit	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)	127
Number of institutional investors received (ppl)	1580
Number of individual investors received (ppl)	39
Number of investor relations conference participated	16

Hangzhou Hikvision Digital Technology Co., Ltd.
Chairman: Chen Zongnian
July 20th 2019

Note:

This document is a translated version of the Chinese version 2019 Half Year Report (“2019 年半年度报告”), and the published announcements in the Chinese version shall prevail. The complete published Chinese 2019 Half Year Report may be obtained at www.cninfo.com.cn.