Zhejiang Cangnan Instrument Group Company Limited
浙江蒼南儀錶集團股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

Stock code : 1743

Global Offering

Sole Sponsor, Sole Global Coordinator and Sole Bookrunner

農銀國際
ABC INTERNATIONAL

IMPORTANT: If you are in any doubt about this prospectus, you should obtain independent professional advice.

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GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	**17,296,667 H Shares (subject to adjustment and the Over-allotment Option)**
Number of International Offering Shares	:	**15,566,967 H Shares (subject to adjustment and the Over-allotment Option)**
Number of Hong Kong Offer Shares	:	**1,729,700 H Shares (subject to adjustment)**
Maximum Offer Price	:	**HK$51.9 per H Share, plus brokerage of 1%, SFC transaction levy of 0.0027%, and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)**
Nominal Value	:	**RMB1.00 per H Share**
Stock code	:	**1743**

Sole Sponsor, Sole Global Coordinator, Sole Bookrunner and Joint Lead Manager

農銀國際
ABC INTERNATIONAL

Joint Lead Managers

長證國際 CJS INTERNATIONAL | 東興證券(香港) DONGXING SECURITIES (HONG KONG) | 首控證券 | 第一上海 FIRST SHANGHAI GROUP | KGI | RHB Securities Hong Kong Limited | 立橋證券 Well Link Securities | 越秀証券 YUEXIU SECURITIES

(in alphabetical order)

Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provision) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 6 July 2018 (Hong Kong time) and, in any event, not later than Wednesday, 11 July 2018 (Hong Kong time). The Offer Price will be not more than HK$51.9 per Offer Share and is currently expected to be not less than HK$37.1 per Offer Share. If, for any reason, the Offer Price is not agreed by Wednesday, 11 July 2018 (Hong Kong time) between the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and us, the Global Offering will not proceed and will lapse.

Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK$51.9 for each Hong Kong Offer Share together with brokerage fee of 1%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK$51.9.

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), and with our consent may, where considered appropriate, reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range below that is stated in this prospectus (which is HK$37.1 to HK$51.9) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, notices of the reduction in the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notices will also be available on the website of the Company at www.zjcnyb.com and on the website of the Hong Kong Stock Exchange at www.hkexnews.hk. Further details are set forth in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

We are incorporated, and a majority part of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the Shares of the Company. Such differences and risk factors are set out in the sections headed "Risk Factors," "Appendix IV – Summary of Principal Legal and Regulatory Provisions" and "Appendix V – Summary of Articles of Association" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. See "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offer – Grounds for termination" in this prospectus.

We have not been and will not be registered under the U.S. Investment Company Act. The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered or sold in the United States, or to or for the account or benefit of any U.S. person (as defined in Regulation S), except pursuant to an exemption from, or in a transaction that is not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold outside the United States to non-U.S. persons in offshore transactions in accordance with Regulation S.

28 June 2018

Latest time for completing electronic applications under **White Form eIPO** service through the designated website **www.eipo.com.hk**[2]	11:30 a.m. on Friday, 6 July 2018
Application lists open[3]	11:45 a.m. on Friday, 6 July 2018
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Friday, 6 July 2018
Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 6 July 2018
Latest time to give **electronic application instructions** to HKSCC[4]	12:00 noon on Friday, 6 July 2018
Application lists close	12:00 noon on Friday, 6 July 2018
Expected Price Determination Date[5]	Friday, 6 July 2018

Announcement of

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Offer Shares

to be published in The Standard (in English) and the Hong Kong Economic Times (in Chinese), and on the website of the Hong Kong Stock Exchange at **www.hkexnews.hk** and the Company's website at **www.zjcnyb.com**[6] on or before	Thursday, 12 July 2018

Announcement of results of allocations in the Hong Kong Public Offering (including successful applicants' identification document numbers, where appropriate) will be available through a variety of channels (see "How to Apply for Hong Kong Offer Shares – 11. Publication of results") from . . . . Thursday, 12 July 2018

Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment**) with a "search by ID" function from . . . . Thursday, 12 July 2018

H Share certificates in respect of wholly or partially successful applications to be dispatched or deposited into CCASS on or before[7] . . . . Thursday, 12 July 2018

White Form e-Refund payment instructions/refund cheques in respect of wholly or partially unsuccessful applications to be dispatched on or before[8][9] . . . . Thursday, 12 July 2018

Dealings in the H Shares on the Hong Kong Stock Exchange expected to commence at 9:00 a.m. on . . . . Friday, 13 July 2018

Notes:

(1) All dates and times refer to Hong Kong local time, except as otherwise stated. For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, please refer to the section headed "Structure of the Global Offering".

(2) You will not be permitted to submit your application to the **White Form eIPO** Service Provider through the designated website at **www.eipo.com.hk** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 6 July 2018, the application lists will not open on that day. Please refer to the section headed "How to Apply for Hong Kong Offer Shares – 10. Effect of bad weather on the opening of the application lists" in this prospectus for further details.

(4) Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Hong Kong Offer Shares – 6. Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.

(5) The Price Determination Date is expected to be on or about Friday, 6 July 2018, and, in any event, not later than Wednesday, 11 July 2018. If, for any reason, the Offer Price is not agreed among the Company and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) on or before Wednesday, 11 July 2018, the Global Offering will not proceed and will lapse.

(6) None of the website or any of the information contained on the website forms part of this prospectus.

(7) No temporary documents of title will be issued in respect of the Offer Shares. H Share certificates will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects and (ii) the Underwriting Agreements have not been terminated in accordance with their respective terms prior to 8:00 a.m. on the Listing Date. Investors who trade H Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

(8) Applicants who apply for 500,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheque(s) (where applicable) and H Share certificate(s) (where applicable) in person from our H Share Registrar, Computershare Hong Kong Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Thursday, 12 July 2018. Applicants being individuals who are eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorised representatives each bearing a letter of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity to our H Share Registrar. Uncollected H Share certificates and refund cheques will be dispatched by ordinary post at the applicants' own risk to the addresses specified on the relevant Application Forms. For details of the arrangements, please refer to the section headed "How to Apply for Hong Kong Offer Shares – 14. Despatch/Collection of share certificates and refund monies" in this prospectus.

Applicants who apply through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to their application payment bank accounts, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the addresses as specified in their application instructions to the **White Form eIPO** Service Provider, in the form of refund cheques, by ordinary post at their own risk.

(9) e-Refund payment instructions/refund cheques will be issued by the Company in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application.

The above expected timetable is a summary only. For details of the structure of the Global Offering, including its conditions, and the procedures for applications for Hong Kong Offer Shares, see the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus respectively.

This prospectus is issued by the Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell or a solicitation of an offer to subscribe for or buy any security in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdictions other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from that contained in this prospectus. Any information or representation not included in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters, any of our or their respective directors or advisors, or any other person or party involved in the Global Offering. Information contained on our website, located at http://www.zjcnyb.com, does not form part of this prospectus.

CONTENTS

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment in the Offer Shares. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a leading industrial and commercial gas flowmeter manufacturer in China. Our operations can be traced back to 1977. Leveraging over 40 years of industry experience, we are dedicated to the manufacture and sales of a wide range of industrial and commercial gas flowmeters, which are generally used by gas operators to measure the flow volume of gas. We engage in a comprehensive business integrating R&D, manufacture, sales and aftersales services. According to Frost & Sullivan, we ranked second in the industrial and commercial gas flowmeter industry in China in terms of revenue in 2017, with our revenue from the sales of industrial and commercial gas flowmeter products amounting to RMB597.9 million, representing a market share of 36.8%.

In addition to industrial and commercial gas flowmeter products, we have developed various series of residential gas meter products and possess the production capacity to produce 300,000 units of residential gas meters per annum. Leveraging our established sales network, we are committed to expanding our residential gas meter business in the PRC. In 2015 and 2016, our revenue from the sales of residential gas meter products remained relatively stable. Benefiting from increased market demand, our revenue from the sales of residential gas meter products increased significantly by 31.5% in 2017 compared with 2016.

We also produce and sell a small quantity of nuclear-related products, mainly nuclear-level throttling devices, used as accessories for nuclear power generation projects. Our customers of nuclear-level throttling devices include leading companies in the PRC nuclear power industry, which we believe testifies to both our technological capabilities and our product quality control capabilities.

We also generate revenue from providing maintenance services mainly in relation to our industrial and commercial gas flowmeter products that are outside of the warranty period.

The following table sets out a breakdown of our revenue by product category for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Industrial and commercial gas flowmeter products	296,869	81.9	386,893	87.1	597,910	89.3
Residential gas meter products	48,045	13.2	45,216	10.2	59,466	8.9
Nuclear-related products	14,914	4.1	9,338	2.1	10,276	1.5
Maintenance services	2,859	0.8	2,713	0.6	2,161	0.3
Total	**362,687**	**100.0**	**444,160**	**100.0**	**669,813**	**100.0**

We manufacture our products in two self-owned production bases, both of which are located in Cangnan County, Zhejiang Province, China. In recent years, we have expanded our coverage on the value chain of measurement instruments production through industrial upgrades, which enabled us to undertake the stamping, casting and machining of the parts and components for measurement instrument products using our own production lines, and undertake the manufacture of the electronic parts in our products using our own chip welding production lines. We believe that the aforesaid initiatives enhanced our control over product quality, improved our production efficiency and raised the gross profit level of our products.

We focus on technical R&D with a strong and expanding R&D team, continued investments, an industry standards-setting track record and fruitful cooperation relationships with academic institutions. We recorded R&D expenses of RMB18.4 million, RMB25.5 million and RMB34.9

million in 2015, 2016 and 2017, respectively, which were equal to 5.1%, 5.8% and 5.2% of our revenue during the same year, respectively. We have a Provincial-level Enterprise Research Institute certified by the Zhejiang government. Both the Company and its subsidiary Dongxing Software have been recognised by the PRC government as High and New Technology Enterprises entitled to preferential government policy support. Dongxing Software has also been recognised by the PRC government as a Software Enterprise. We own various patents and copyrights in respect to the products we manufacture. We strive to rapidly apply R&D achievements to our production, so as to implement product upgrades, reduce production costs and enhance the market competitiveness of our products. In 2016, we launched an upgraded version of volume corrector for installation into our industrial and commercial gas flowmeters, which incorporated our latest patented volume corrector technology and enabled significant improvements to our processing structure, thereby lowering raw materials costs and further increasing the gross profit margin of our products. For more details about our R&D, see "Business – Research and Development".

Benefiting from industrial upgrades and the application of the latest R&D achievements, we realised significant increases in the gross profit margin of our products in recent years. The following table sets out our gross profit and gross profit margin by product category for the years indicated:

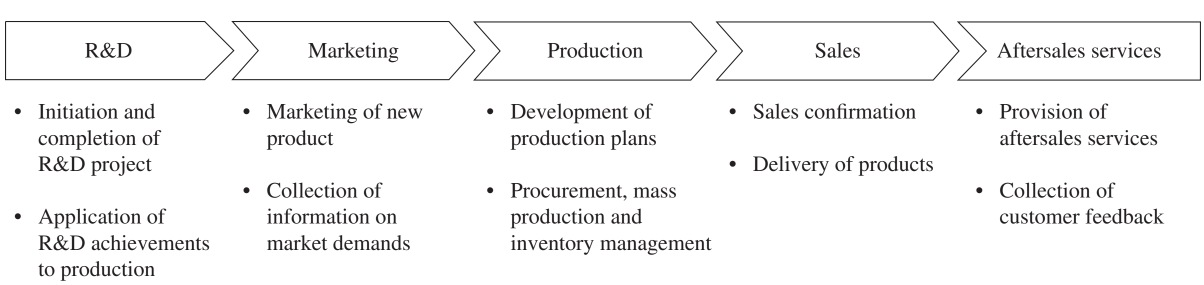
	Year ended 31 December					
	2015		**2016**		**2017**	
	Gross profit (RMB'000)	**Gross profit margin (%)**	**Gross profit (RMB'000)**	**Gross profit margin (%)**	**Gross profit (RMB'000)**	**Gross profit margin (%)**
Industrial and commercial gas flowmeter products	176,052	59.3	269,437	69.6	458,825	76.7
Residential gas meter products	12,578	26.2	11,254	24.9	19,413	32.6
Nuclear-related products	6,237	41.8	5,383	57.6	5,555	54.1
Maintenance services	2,550	89.2	2,479	91.4	1,744	80.7
Total	**197,417**	**54.4**	**288,553**	**65.0**	**485,537**	**72.5**

The increases in our gross profit were primarily due to increases in the revenue and gross profit margin. The increases in the gross profit margin were in turn primarily due to (i) the increases in the percentage of the total sales from the sales of industrial and commercial gas flowmeter products; and (ii) the increase in the gross profit margin of the industrial and commercial gas flowmeter products.

The gross profit margin of the industrial and commercial gas flowmeter products increased significantly during the Track Record Period, which was mainly due to (i) the reduction in the raw materials we used through the development and improvement in the design and production processes; (ii) the decrease in the prices of the major raw materials (such as electronic components); (iii) the increase in our production efficiency through the improvement in our production process and the continuous introduction of advanced production equipment; and (iv) our strict implementation of cost control measures.

OUR BUSINESS MODEL

The following diagram illustrates our business model:



For more details on our business model, see "Business – Our Business Model".

SALES

We primarily sell our gas measurement instrument products in China through our established sales network to customers that are mainly gas operators. We also sell nuclear-related products to leading companies in the PRC nuclear power industry. Corresponding to the purchase pattern of PRC gas companies, we typically generate more revenue in the second half of the calendar year. During the Track Record Period, most of our sales were conducted in the PRC. In recent years, we have been selling our industrial and commercial gas flowmeter products to customers from countries and regions outside of China such as Turkey, Indonesia, Australia and Taiwan. Our RM Series of industrial and commercial gas flowmeter products has been certified to meet the European and ISO standards. In 2015, 2016 and 2017, 0.6%, 0.9% and 0.9% of our revenue was derived from overseas sales, respectively.

The following table sets out a breakdown of our revenue by geographical region for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
China	**360,383**	**99.4**	**440,099**	**99.1**	**664,062**	**99.1**
East China	133,623	36.8	170,330	38.3	255,993	38.2
North China	53,905	14.9	85,440	19.2	165,479	24.7
Headquarters[1]	59,981	16.5	54,808	12.3	54,801	8.2
Central China	22,055	6.1	35,321	8.0	52,265	7.8
Southwest China	37,350	10.3	37,193	8.4	51,767	7.7
Northeast China	29,052	8.0	24,466	5.5	32,753	4.9
South China	17,239	4.8	24,142	5.4	31,226	4.7
Northwest China	7,178	2.0	8,399	2.0	19,778	2.9
Overseas	**2,304**	**0.6**	**4,061**	**0.9**	**5,751**	**0.9**
Total	**362,687**	**100.0**	**444,160**	**100.0**	**669,813**	**100.0**

Note:

(1) Headquarters refers to sales conducted directly from our headquarters in Cangnan County, Zhejiang Province.

We sell our products mainly under our "Dongxing" brand and by way of direct sales. Our headquarters is in charge of sales to cross-regional gas enterprise groups, other selected key customers and customers in new local markets. In addition, as at 31 December 2017, we had 36 branch offices covering most of the provinces in China to promote our products, develop and liaise with customers, facilitate sales and provide aftersales services and technical support to customers in the local markets. We also sell a small portion of our products to customers through our agents in the PRC on a consignment basis, which represented approximately 19.9%, 17.3% and 9.8% of our revenue, respectively, in 2015, 2016 and 2017. Our Directors are of the view that our sales model is in line with the industry practice. For more details about our sales, see "Business – Sales".

CUSTOMERS

We have established long-term stable relationships with our major customers. In particular, four leading gas enterprise groups in China remained among our top five customers throughout the Track Record Period, with which we had maintained business relationships ranging from eight to 13 years as at 31 December 2017. In 2015, 2016 and 2017, sales to our top five customers represented approximately 33.7%, 34.6% and 35.5% of our revenue, respectively. Sales to our largest customer represented approximately 9.2%, 8.6% and 10.9% of our revenue for the same periods, respectively.

PRICING

In determining the selling prices of our gas measurement instrument products to our customers, we generally take into account factors such as our costs of procurement, production and aftersales services, market competition and the anticipated market trends. We review and adjust our pricing on a regular basis. Our headquarters determines the price of our products for customers that it handles directly. Our branch offices are authorised to determine the price of our products within the local markets in which they are authorised to conduct sales within a price range prescribed by our headquarters. In competitive situations such as sales by tendering, the relevant branch office is required to report to our headquarters, which will in turn determine our marketing strategy and pricing.

SUPPLIERS

As we produce the majority of the parts and components used in our products by ourselves, our procurement work is mainly in relation to the purchase of raw materials such as aluminium ingots and steel. We also purchase standard parts and components such as electronic components, bearings and bolts. We have established stable and long-term business relationships with our suppliers. As at 31 December 2017, we had more than four years of business relationship with each of our top five suppliers in 2017. In 2015, 2016 and 2017, purchases from our top five suppliers accounted for approximately 25.6%, 19.3% and 19.0% of our total purchases for the same year, respectively. During the Track Record Period, all of our top five suppliers were Chinese companies.

COMPETITIVE STRENGTHS

We believe we will continue to maintain our industry-leading position by virtue of the following competitive strengths:

- We are a leading industrial and commercial gas flowmeter manufacturer in China;
- We are well-positioned to capture the significant growth potential of the PRC natural gas and nuclear power generation industries;
- We have strong R&D capabilities;
- We have established a solid and expanding customer base; and
- We have a senior management team with extensive experience and a highly skilled and incentivized work force.

For more details about our competitive strengths, see “Business – Competitive Strengths”.

BUSINESS STRATEGIES

Our vision is to become a high and new technology enterprise with international presence and sustainable development, to provide our customers with excellent products and services, and to realise maximum shareholder return and the optimisation of social benefit. In order to achieve such a vision, we plan to implement the following strategies:

- Continue to invest in R&D to enhance the competitiveness of our products;
- Supplement and upgrade our product portfolio, expand our business lines and increase our production scale;
- Enhance sales and marketing efforts; and
- Improve operational management.

For more details about our strategies, see “Business – Our Strategies”.

HIGHLIGHTS OF FINANCIAL INFORMATION AND RATIOS

You should read the highlights of historical consolidated financial statements set forth below in conjunction with our audited consolidated financial statements included in the Accountant's Report set forth in Appendix I to this prospectus, including the notes thereto.

Highlights of Consolidated Statements of Profit or Loss

	Year ended 31 December		
	2015	2016	2017
		(RMB'000)	
Revenue	362,687	444,160	669,813
Gross profit	197,417	288,553	485,537
Profit before income tax	42,898	137,087	281,930
Profit for the year	**36,545**	**117,883**	**241,683**
Currency translation difference	(166)	178	(587)
Total comprehensive income for the year	**36,379**	**118,061**	**241,096**

Our revenue increased significantly during the Track Record Period at a CAGR of 35.9%, higher than the CAGR of 22.9% of the PRC industrial and commercial gas flowmeter market according to Frost & Sullivan. We believe we have been able to outperform the market because we have been able to both increase sales to existing customers and develop new customers, and achieved significant growth in key regional markets, which in turn stem from our leading market position, continued investment in R&D and enhanced market competitiveness of our products. See "Financial Information – Principal Income Statement Components – Revenue."

Our gross profit increased significantly during the same periods, mainly due to the increase in the revenue, the increase in the percentage of the total sales from the sales of industrial and commercial gas flowmeter products with higher gross profit margin, and the increase in the gross profit margin of the industrial and commercial gas flowmeter products.

Our profit for the year increased significantly during the Track Record Period, which was mainly attributable to increases in both our revenue and gross profit margin and our achieving economy of scale. Such profit was affected by our provisions made in relation to certain corporate guarantees that we provided in the interest of certain Independent Third Parties. We made provisions of RMB35.8 million, nil and RMB2.6 million in 2015, 2016 and 2017, respectively and do not expect to make any further significant provision regarding such corporate guarantees. See "Business – Legal Compliance and Risk Management – Legal proceedings – Legal proceedings relating to Corporate Guarantees."

Highlights of Consolidated Balance Sheets

	As at 31 December		
	2015	2016	2017
		(RMB'000)	
Non-current assets	119,744	127,939	133,044
Current assets	506,437	601,456	824,554
Current liabilities	230,089	303,352	334,656
Net current assets	276,348	298,104	489,898
Non-current liabilities	84,068	25,500	18,188
Net assets	312,024	400,543	604,754

Highlights of Consolidated Statements of Cash Flows

	Year ended 31 December		
	2015	2016	2017
		(RMB'000)	
Net cash generated from operating activities	86,711	101,752	117,210
Net cash used in investing activities	(36,528)	(6,370)	(13,101)
Net cash used in financing activities	(34,385)	(54,380)	(84,157)
Net increase in cash and cash equivalents	15,798	41,002	19,952
Cash and cash equivalents at beginning of year/period	81,095	96,762	138,059
Exchange differences on translation of cash and cash equivalents	(131)	295	(621)
Cash and cash equivalents at end of year/period	96,762	138,059	157,390

Financial Ratios

The following table sets forth certain financial ratios for the years indicated:

	As at, or for the year ended, 31 December		
	2015	2016	2017
Profitability:			
Gross profit margin[(1)] (%)	54.4	65.0	72.5
Net profit margin[(2)] (%)	10.1	26.5	36.1
Rates of return:			
Return on equity (%)	11.7	29.4	40.0
Return on total assets (%)	5.8	16.2	25.2
Liquidity:			
Net debt to equity ratio	(0.07)	(0.20)	(0.18)
Gearing ratio[(3)]	0.27	0.19	0.10
Current ratio	2.20	1.98	2.46
Quick ratio	1.82	1.74	2.23
Interest coverage	6.4	19.4	49.4

Notes:

(1) calculated by dividing our gross profit by our revenue for the respective year, multiplied by 100%.

(2) calculated by dividing our net profit by our revenue for the respective year, multiplied by 100%.

(3) calculated by dividing total debts, i.e. our borrowings (all of which are short-term bank borrowings) by total equity as at the end of respective year.

For the definitions of the above financial ratios other than gross profit margin, net profit margin and gearing ratio, see "Financial Information – Financial Ratios".

RECENT DEVELOPMENTS

To the knowledge of our Directors, since 31 December 2017 and up to the date of this prospectus, there has been no changes in the overall economic and market conditions in China or in the market conditions in the industries where we operate, which will bring material adverse effect on our business, results of operations or financial condition.

We did not experience any significant drop in revenue or increase in cost of sales or other costs subsequent to the Track Record Period and up to the Latest Practicable Date as there were no significant changes to the general business model of the Group, and our business maintained a stable growth which was in line with the historical record. Our Directors have confirmed that, since 31 December 2017 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in the consolidated financial statements included in the Accountant's Report set forth in Appendix I to this prospectus. Moreover, there has been no material change in respect of the utilisation rate of our production facilities, raw material costs and selling prices of our products up to the date of this prospectus. Since 31 December 2017 and up to the Latest Practicable Date, we had continued to receive new purchase orders for our products.

In January 2018, the Company transferred the entire equity interest of GFO Europe, a then wholly-owned subsidiary of the Company in the Netherlands, to an Independent Third Party at a consideration of US$145,000. See "Business – Sales – Overseas sales".

The Company declared and paid dividends in May 2018 with an aggregate amount of RMB41,512,000.

USE OF PROCEEDS

We currently estimate that our Offer Price will not be more than HK$51.9 per Offer Share and not less than HK$37.1 per Offer Share. Assuming an Offer Price of HK$44.5 per Offer Share, which represents the mid-point of the indicative Offer Price range, and assuming that the Over-allotment Option is not exercised, we estimate that the proceeds receivable by the Company from the Global Offering, after deducting underwriting fees and commissions and other estimated expenses paid and payable by the Company, will be approximately HK$704.7 million. We intend to use such net proceeds for the following purposes:

Intended use of net proceeds	Percentage of total estimated net proceeds	Amount
		(HK dollars in million)
Intelligent gas flowmeter modification and upgrade project	55%	387.6
Construction project of Internet-of-Things (IoT) gas measurement and transmission and distribution management platform (terminal)	20%	140.9
Flowmeter testing and inspection laboratory project	15%	105.7
Working capital related to principal businesses and other general corporate purposes	10%	70.5

The applications of the net proceeds as stated above are only current estimates and are subject to changes based on prevailing economic, market and business conditions. The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated Offer Price range or the Over-allotment Option is exercised. For more details about the use of the net proceeds from the Global Offering, see "Future Plans and Use of Proceeds".

OFFER STATISTICS

The statistics in the following table are based on the following assumptions that (i) the Global Offering has been completed and 17,296,667 H Shares have been newly issued, (ii) the Over-allotment Option is not exercised, and (iii) there is a total of 69,186,667 outstanding share capital after the completion of the Global Offering.

	Based on minimum indicative Offer Price of HK$37.1	**Based on maximum indicative Offer Price of HK$51.9**
Market capitalisation of our H Shares(1)	HK$641.7 million	HK$897.7 million
Unaudited pro forma adjusted net tangible assets per Share(2)	HK$18.85	HK$22.43

Notes:

(1) The calculation of market capitalisation is based on 17,296,667 H Shares, which are expected to be outstanding immediately following the completion of the Global Offering.

(2) The unaudited pro forma adjusted consolidated net tangible assets per Share attributable to owners of the Company are arrived at after the adjustments referred to in "Appendix II – Unaudited Pro Forma Financial Information – Unaudited Pro Forma Statement of Adjusted Net Tangible Assets."

(3) The unaudited pro forma adjusted net tangible assets does not take into account the dividends of approximately RMB41,512,000 declared and paid in May 2018. Had such dividends been taken into account, the unaudited pro forma adjusted net tangible assets per Share would be approximately RMB14.83 (equivalent to HK$18.12), assuming an Offer Price of HK$37.1 per Share, and approximately RMB17.75 (equivalent to HK$21.69), assuming an Offer Price of HK$51.9 per Share.

DIVIDEND POLICY

The Company does not have a fixed pre-determined dividend payout ratio. In 2015, 2016 and 2017, we paid dividends of RMB28.5 million, RMB29.1 million and RMB36.3 million, respectively, to our then equity holders. After the Global Offering, we intend to declare and pay dividends every year. The declaration, payment and the amount of dividends will be subject to our discretion and will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. For details about our dividend policy, see "Financial Information – Dividend policy".

SHAREHOLDERS' INFORMATION

As at the Latest Practicable Date, we had 26 individual shareholders and four limited partnership shareholders, who held in aggregate approximately 63.033%, 9.137%, 9.308%, 9.056% and 9.466% of our shares, respectively. Our largest and second largest shareholders as at the Latest Practicable Date were Mr. Hong and Mr. Huang, who held 17.833% and 12.908% of our share capital, respectively, immediately before the Global Offering. Immediately following the completion of the Global Offering and assuming the Over-allotment Option is not exercised, Mr. Hong and Mr. Huang will hold 13.37% and 9.68% of our total share capital, respectively. Mr. Hong is our Chairman and an executive Director, and Mr. Huang is an executive Director and our general manager. Other than Mr. Hong and Mr. Huang, no person or limited partnership had interests in 10% or more of the shares of the Company. For details of our shareholding structure immediately before and after the Global Offering, see "History, Development and Corporate Structure" and "Substantial Shareholders".

LEGAL PROCEEDINGS

As at the Latest Practicable Date, the Company was involved in certain ongoing legal proceedings involving a former shareholder, Mr. Ye Bin ("**Mr. Ye**"). Mr. Ye resigned from his last position with the Company as Director in July 2009. Upon resignation he held 40 shares of the Company, which represented 5.7% of the then total share capital of the Company (the "**Relevant Shareholding**"). In July 2012, the Board passed resolutions to "settle and freeze" ("結凍") the Relevant Shareholding for the reason that Mr. Ye carried out competing business activities in breach of our then articles of association. In April and December 2014, the Board passed further resolutions to retrieve and transfer (the "**Transfer**") the Relevant Shareholding to a number of current employees (the "**Transfer Resolutions**"). The aggregate consideration for the Transfer was RMB4.3 million (the "**Transfer Consideration**"), which we have received in full and recorded under trade and other payables – others in our audited financial statements.

In March 2016, Mr. Ye filed a lawsuit against the Company (the "**Dividend Litigation**") for the payment of dividend, "equity interest" and profit distribution with an aggregate amount of RMB7.3 million plus relevant interests and subsequently raised such amount to RMB21.3 million plus relevant interests. As at the Latest Practicable Date, the Dividend Litigation was in the process of the trial of second instance. In addition, the Company and Shanghai Zhongde Energy (Group) Co., Ltd., in which Mr. Ye acted as a shareholder and a director, were engaged in two lawsuits for outstanding payments for goods. As at the Latest Practicable Date, one case was under enforcement and in the other case we have applied for the resumption of judgement enforcement.

Zhejiang Yushan Law Firm (浙江玉山律師事務所), the PRC legal advisor representing the Company in the abovementioned legal proceedings, is of the view that, based on the evidence currently available, the likelihood of the Dividend Litigation, resulting in a final judgement significantly less favourable to the Company than that issued by the court of first instance is low, and the payment of the Transfer Consideration to the relevant transferees or Mr. Ye, if made, is not expected to have any material impact on our financial position and results of operations.

Based on the views of Zhejiang Yushan Law Firm and in light of the provisions made as at 31 December 2017, the Directors are of the view that the abovementioned legal proceedings are unlikely to have any material adverse impact on our business operations or financial position. For details, see "Business – Legal compliance and risk management – Legal proceedings – Legal proceedings relating to a former shareholder". For related risks, see "Risk Factors – Risks Relating to Our Business and Industry – We may be involved in legal and other proceedings from time to time.".

Save as disclosed in this prospectus, during the Track Record Period, we were not involved in any material litigation, arbitration or claim. To the best of our knowledge, no such material litigation, arbitration or administrative proceedings had been threatened against the Company or any of our subsidiaries. As at the Latest Practicable Date, none of our Company, any of our subsidiaries or any of our Directors was a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations.

RISK FACTORS

Our business operations and the Global Offering are subject to various risks, many of which are beyond our control. Such risks can be divided into: (i) risks relating to our business and industry; (ii) risks relating to the PRC; and (iii) risks relating to the Global Offering.

We believe that the main risk factors we are exposed to include, without limitation:

- Demand for our products primarily depends on the trends and developments in the gas industry in China;
- We may lose major customers, or fail to generate purchase orders from our existing customers at historical levels or secure new, substitute customers with sufficient demand;
- We may be unable to effectively manage our sales and service network;
- We face intense competition in our business; and
- Our business performance depends on the utilisation, reliability and functioning of our production machineries and equipment.

For further information on the risks relating to our business and investing in our H Shares, see "Risk Factors".

REGULATORY MATTERS

We are subject to various laws and regulations as well as regulatory requirements and guidelines promulgated by the regulatory authorities in the PRC and Hong Kong, including but not limited to the AQSIQ, CSRC, Hong Kong Stock Exchange and SFC. For further information on the regulatory environment we are involved in, see "Regulatory Environment".

LISTING EXPENSES

Listing expenses represent the professional expenses, underwriting commissions and other expenses incurred in respect of the Listing and the Global Offering. We estimate that our listing expenses will be approximately HK$68.9 million (assuming an Offer Price of HK$44.5 per H share, being the mid-point of the indicative Offer Price range, and no exercise of the Over-allotment Option), of which approximately HK$63.0 million is attributable to the issue of H Shares to the public and will be capitalised, and approximately HK$3.7 million was recognised in our consolidated statements of profit and loss during the Track Record Period, and approximately HK$2.2 million is expected to be expensed in our consolidated statements of profit and loss. Our Directors do not expect such expenses to materially impact our results of operations for 2018.

In this prospectus, the following expressions have the following meaning unless the context otherwise requires. Certain technical terms are explained in the section headed "Glossary" in this prospectus.

"affiliate(s)"	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
"Application Forms"	**White**, **Yellow** and **Green** application form(s) or, where the context so requires, any of them, relating to the Hong Kong Public Offering
"AQSIQ"	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國國家質量監督檢驗檢疫總局)
"Articles of Association"	the articles of association of the Company, adopted on 29 August 2017 and will become effective upon Listing, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix V to this prospectus
"associate"	has the meaning ascribed thereto under the Hong Kong Listing Rules
"Audit Committee"	the audit committee of the Board
"bcm"	billion cubic metres
"Board"	the board of Directors of the Company
"business day"	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for normal banking business
"CAGR"	compound annual growth rate
"Cangyi LP"	Cangnan County Cangyi Investment Management Enterprise (LP) (蒼南縣蒼怡投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the Promoters of the Company

"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Clearing Participant, a CCASS Custodian Participant, or a CCASS Investor Participant
"Central China"	mainly includes Henan, Hubei and Hunan
"CGN"	China General Nuclear Power Corporation (中國廣核集團有限公司)
"Changhua LP"	Cangnan County Changhua Investment Management Enterprise (LP) (蒼南縣昌華投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the Promoters of the Company
"China" or "PRC" or "Peoples' Republic of China"	the People's Republic of China, but for the purpose of this prospectus only, excluding Hong Kong, Macau and Taiwan region
"CNNC"	China National Nuclear Corporation (中國核工業集團公司)
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (Winding Up and Miscellaneous Provisions) Ordinance"	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company Law"	the Company Law of the PRC (中華人民共和國公司法), which was first implemented on 1 July 1994 and as amended, supplemented or otherwise modified from time to time

"connected person"	has the meaning ascribed to it under the Hong Kong Listing Rules
"CSRC"	China Securities Regulatory Commission (中國證券監督管理委員會)
"Director(s)"	the director(s) of the Company
"Domestic Shares"	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
"Dongxing Energy"	Zhejiang Cangnan Instrument Group Dongxing Energy Technology Co., Ltd. (浙江蒼南儀錶集團東星能源科技有限公司), a limited liability company incorporated in the PRC on 4 May 2015, whose 65% of all its issued share capital is owned by the Company
"Dongxing Intelligent"	Zhejiang Cangnan Instrument Group Dongxing Intelligent Instrument Co., Ltd. (浙江蒼南儀錶集團東星智能儀錶有限公司), a limited liability company incorporated in the PRC on 4 May 2015, whose 78.66% of all its issued share capital is owned by the Company
"Dongxing LP"	Cangnan County Dongxing Investment Management Enterprise (LP) (蒼南縣東星投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the Promoters of the Company
"Dongxing Software"	Zhejiang Dongxing Software Development Co., Ltd. (浙江東星軟件開發有限公司), a limited liability company incorporated in the PRC on 14 November 2012, which is a wholly-owned subsidiary of the Company
"East China"	mainly includes Shandong, Anhui, Jiangsu, Jiangxi, Shanghai, Zhejiang and Fujian
"EIT Law"	the PRC Enterprise Income Tax Law (《中華人民共和國企業所得稅法》), which first became effective on 1 January 2008 and was amended on 24 February 2017
"EU"	the European Union

"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultant of the Company
"GDP"	gross domestic product
"GFA"	gross floor area
"GFO Europe"	GFO Europe B.V., a limited liability company incorporated in the Netherlands on 9 April 2013
"Global Offering"	the Hong Kong Public Offering and the International Offering
"**Green** Application Form(s)"	the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited
"Group", "our", "we" and "us"	the Company and its subsidiaries
"GW"	gigawatt
"H Share Registrar"	Computershare Hong Kong Investor Services Limited
"H Shares"	overseas listed foreign invested ordinary shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are to be subscribed and traded in Hong Kong dollars and for which an application has been made for the granting of listing, and permission to deal, on the Hong Kong Stock Exchange
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Dollars" or "HK$"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong Listing Rules" or "Listing Rules"	the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (as amended from time to time)
"Hong Kong Offer Shares"	the H Shares offered for subscription in the Hong Kong Public Offering

"Hong Kong Public Offering"	the offer by the Company of initially 1,729,700 H Shares for subscription by the public in Hong Kong (subject to adjustment as described in "Structure of the Global Offering") for cash at the Offer Price (plus brokerage fee of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%) on the terms and subject to the conditions described in this prospectus and the Application Forms, as further described in the section headed "Structure of the Global Offering – The Hong Kong Public Offering" in this prospectus
"Hong Kong Stock Exchange" or "Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Hong Kong Underwriters"	the underwriters listed in the section headed "Underwriting – Hong Kong Underwriters", being the underwriters of the Hong Kong Public Offering
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 27 June 2018 relating to the Hong Kong Public Offering and entered into by the Company, Mr. Hong, Mr. Huang, the Sole Global Coordinator, ABCI Securities Company Limited and the Hong Kong Underwriters, as further described in the section headed "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offer – Hong Kong Underwriting Agreement" in this prospectus
"Huashi LP"	Cangnan County Huashi Investment Management Enterprise (LP) (蒼南縣華實投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the Promoters of the Company
"IFRS"	the International Financial Reporting Standards, amendments and interpretations issued by the International Accounting Standards Board
"Independent Third Party(ies)"	any party(ies) who is/are not connected (within the meaning of the Hong Kong Listing Rules) with any director, chief executive or substantial shareholder of the Company or any of our subsidiaries or an associate of any of them
"International Offering"	the offering of initially an aggregate of 15,566,967 H Shares by us to professional and institutional investors and other investors as further described in the section headed "Structure of the Global Offering – The International Offering", subject to the Over-allotment Option

"International Offering Shares"	the H Shares offered pursuant to the International Offering
"International Underwriters"	the underwriters of the International Offering who are expected to enter into the International Underwriting Agreement
"International Underwriting Agreement"	the international underwriting agreement relating to the International Offering and to be entered into by, among others, the Company, the Sole Global Coordinator and the International Underwriters as further described in the section headed "Underwriting – Underwriting Arrangements and Expenses – The International Offering" in this prospectus
"Joint Lead Managers"	ABCI Securities Company Limited, Changjiang Securities Brokerage (HK) Limited, Dongxing Securities (Hong Kong) Company Limited, First Capital Securities Limited, First Shanghai Securities Limited, KGI Capital Asia Limited , RHB Securities Hong Kong Limited, Well Link Securities Limited and Yue Xiu Securities Company Limited
"km"	kilometres
"kPa"	kilopascal
"Latest Practicable Date"	19 June 2018, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus
"Listing"	the listing of the H Shares on the Main Board of the Hong Kong Stock Exchange
"Listing Committee"	the Listing Committee of the Hong Kong Stock Exchange
"Listing Date"	the date, expected to be on or about 13 July 2018, on which our H Shares are listed and from which dealings therein are permitted to take place on the Hong Kong Stock Exchange
"LNG"	liquefied natural gas
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the main board of the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange

"Mandatory Provisions"	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款) (as amended from time to time), for inclusion in the articles of association of companies incorporated in China to be listed overseas, which were promulgated by the former Securities Commission of the State Council of China and the former State Commission for Restructuring the Economic Systems of China on 27 August 1994
"MOF"	Ministry of Finance of the PRC (中華人民共和國財政部)
"MOFCOM"	Ministry of Commerce of the PRC (中華人民共和國商務部)
"MPa"	megapascal
"Mr. Hong"	Mr. Hong Zuobin (洪作斌), an executive Director and one of the substantial shareholders
"Mr. Huang"	Mr. Huang Youliang (黃友良), an executive Director and one of the substantial shareholders
"NDRC"	National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會)
"North China"	mainly includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia
"Northeast China"	mainly includes Liaoning and Heilongjiang
"Northwest China"	mainly includes Xinjiang, Gansu and Ningxia
"NPC"	The National People's Congress of the PRC (全國人民代表大會)
"Offer Price"	the final Hong Kong dollar price per Offer Share (exclusive of brokerage fee, Stock Exchange trading fee and SFC transaction levy) at which Hong Kong Offer Shares are to be subscribed pursuant to the Hong Kong Public Offering and International Offering Shares are to be offered pursuant to the International Offering, to be determined as described in the section headed "Structure of the Global Offering – Pricing and Allocation" in this prospectus

"Offer Share(s)"	the H Shares offered in the Global Offering, where relevant, including any additional H Shares issued pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by us to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, pursuant to which our Company may be required to allot and issue up to an aggregate of 2,594,500 additional H Shares, representing approximately 15.0% of the Offer Shares initially available under the Global Offering at the Offer Price as further described in the section headed "Structure of the Global Offering – Stabilisation" in this prospectus
"PRC central government"	the central government of the PRC, including political subdivisions at national level and its organs or, as the context requires, any of them
"PRC GAAP"	Generally Accepted Accounting Principles in the PRC
"PRC Legal Adviser"	Haiwen & Partners
"Price Determination Agreement"	the agreement to be entered into between the Company and the Sole Global Coordinator on behalf of the Underwriters on the Price Determination Date to record and fix the Offer Price
"Price Determination Date"	the date, expected to be on or about 6 July 2018, on which the Offer Price is fixed for the purposes of the Global Offering, and in any event no later than 11 July 2018
"Promoters"	the promoters of the Company, comprising a total of 26 individuals and four limited partnerships
"Province" or "province"	A province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC
"QTSB"	the Quality and Technology Supervision Bureau (質量技術監督局), the local counterpart to AQSIQ
"R&D"	research and development
"Regulation S"	Regulation S under the U.S. Securities Act, as amended from time to time

"Reorganisation"	the reorganisation of the Group as described in the section headed "History, Development and Corporate Structure" in this prospectus
"RMB" or "Renminbi"	the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
"SAIC"	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
"SAT"	State Administration of Taxation of the PRC (國家稅務總局)
"SAWS"	State Administration of Work Safety of the PRC (中華人民共和國國家安全生產監督管理總局))
"SETC"	the former State Economic and Trade Commission of the PRC (原中華人民共和國國家經濟貿易委員會)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemental or otherwise modified from time to time
"Shareholder(s)"	holder(s) of our Shares
"Shares"	the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
"SOE"	state owned enterprise
"Sole Bookrunner"	ABCI Capital Limited
"Sole Global Coordinator"	ABCI Capital Limited
"Sole Sponsor"	ABCI Capital Limited
"South China"	mainly includes Hainan and Guangdong
"Southwest China"	mainly includes Sichuan and Chongqing

"Spark Programme"	the first programme approved by the Chinese government to promote the development of agriculture and rural economy by introducing advance, appropriate technologies into the rural areas and leading the farmers to rely on science and technology
"Special Regulations"	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
"SPIC"	State Power Investment Corporation (國家電力投資集團公司)
"sq.m."	square metres
"Stabilising Manager"	ABCI Securities Company Limited
"State Council"	the State Council of the PRC (中華人民共和國國務院)
"subsidiary(ies)"	has the meaning ascribed thereto in the Hong Kong Listing Rules
"substantial shareholder"	has the meaning ascribed thereto in the Hong Kong Listing Rules
"Supervisor(s)"	the member(s) of the Supervisory Committee
"Supervisory Committee"	the supervisory committee of the Company
"the Company" or "Cangnan Instrument"	Zhejiang Cangnan Instrument Group Company Limited (浙江蒼南儀錶集團股份有限公司), the predecessor of which was established in the PRC on 15 September 1982, and was converted into a joint stock company with limited liability in the PRC on 14 June 2017 or its predecessors where the context so requires
"Torch Programme"	a national plan approved and implemented by the Chinese government to develop hi-tech industries in China, accelerate the commercialisation of science and technology achievements and lead the development of science and technology with an orientation toward economic construction

"Track Record Period"	the three financial years ended 31 December 2015, 2016 and 2017
"U.S. dollars" or "US$"	United States dollars, the lawful currency of the United States
"U.S. persons"	U.S. persons as defined under Regulation S
"U.S. Securities Act"	the United States Securities Act of 1933, as amended
"Underwriters"	the Hong Kong Underwriters and the International Underwriters
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"**White Form eIPO**"	applying for Hong Kong Offer Shares to be issued in your own name by submitting applications online through the designated website of the **White Form eIPO** Service Provider, **www.eipo.com.hk**
"**White Form eIPO** Service Provider"	Computershare Hong Kong Investor Services Limited
"13th FYP"	China's 13th Five-Year Plan issued by the PRC government
"%"	per cent

The English names of the PRC entities mentioned in this prospectus are translated from their Chinese names and are for identification purposes only.

"acquisitor"	An electronic device that collects data signals of one or more remote tables, performs data processing and transmission
"alumina"	molecular formula Al_2O_3, which is a high hardness compound with a melting point of 2,054 degrees Celsius and a boiling point of 2,980 degrees Celsius, existing as ionic crystal ionisable at high temperature, and it is commonly used in making refractory materials
"casting"	one of the earliest method to process gold and silver, by which the liquid of melt gold and silver is poured into a mould to cast articles. During the casting, the mixed slurry is poured into an engine shell to form engine fillings after solidification that meet relevant design requirement
"CNC"	computerised numerical control, a technique that uses digitalised information to control mechanical motion and processing progress
"concentrator"	An electronic device applied between multiple acquisitor and / or remote tables and master stations for multiple functions such as data acquisition, transmission, storage, etc.
"diaphragm gas meter"	a flowmeter that measures the volume of gas with a measuring room made of soft diaphragm
"ERP"	enterprise resource planning, a management platform based on information technology that provides decision-making and operating tools for the decision-makers and employees of an enterprises in the light of systematic management
"European Measuring Instruments Directive"	the Measuring Instruments Directive ("MID") 2004/22/EC, a regulation to supervise and administrate measuring instruments, which sets out directives specifying the new approaches and standards and eligibility assessment procedures as part of the law governing measuring instrument products as well as the effective period of such directives. The MID contains European directives regarding automatic weighing apparatus, oiling machine, length and volume meters as well as water, electricity and gas meters
"flow computer"	an apparatus that calculates and indicates parameters such as flow rates under standard reference conditions

"flowmeter	An instrument for measuring, storing and displaying the amount of gas passing through the flow sensor
"gas meter"	normally diaphragm gas meter in case of gas meters relating to the Company
"rotary flowmeter"	a volume-based gas flowmeter also known as "roots flowmeter" in the gas flowmeter industry. The measuring part of a rotary flowmeter consists of a pair of roots mounted within the measuring room and a pair of synchronous gears mounted coaxially outside the measuring room. Due to its high precision and wide range of measurement, reliable and durable use, slight pressure loss and low start-up flow, it is widely used in the measurement of urban household gas, inert gas, air and other gases as one type of meters commonly adopted in urban household gas supply, petrochemical industry and scientific research
"IC card"	a physical medium that enables interactive communication between the IC gas meter and the upper charging and management system through artificial communication link
"intelligent gas flowmeter"	a flowmeter with a correction function (for pressure, temperature or compression factor, etc.)
"Internet-of-Things" or "IoT"	a interconnected network that collects information from the physical world through the deployment of various devices with certain ability of perception, computing, execution and communication, and that enables information exchange between people and things and among different things by the transmission, synchronisation and processing of information achieved through a network
"ISO 5167-2003"	a standard on the differential pressure device mounted inside the pipe with round cross-section used to measure a flow of liquid fully filled in a pipe, which comprises part 1 related to general principles and requirements, part 2 related to orifice plate, part 3 related to nozzle and Venturi nozzle and part 4 related to Venturi tube
"ISO 9001"	a standard for quality management systems

"ISO14000"	a standard for environmental management systems, which is another management standard enacted by the International Organisation for Standardization (ISO) following ISO 9000
"micro-electronic technology"	a new and high-tech electronic technology based on a variety of semi-conduct components assembled around integrated circuits, which features small size, light weight, solid reliability and fast working speed
"network topology technology"	also known as network topology structure, a physical layout that connects a range of devices through transmission media, or in other words, a method to connect devices such as computers in a network
"NMi"	NMi Certin B.V., NMi Certin B.V. of Netherlands
"nozzle"	a device consisting of a circular portion, commonly referred to as a "throat", joined by a contraction inlet
"OA"	office automation, a new office solution that combines modern office affairs with computer technology
"OHSAS18000"	the occupational health and safety assessment series, which is an international standard on the assessment of safety and health management systems
"orifice plate"	machining made of circular perforated sheet
"prepaid meter"	Also called "IC card diaphragm gas meter, the gas metering instrument with prepaid function which uses a diaphragm meter as the basic metering instrument and an IC card as the media and is equipped with controllers
"SMD"	surface-mount technology, which is a series of processes on the basis of printed circuit board
"spool valve"	A key component of the diaphragm meter whose key function is to divide the metering chamber of the diaphragm meter into 2 parts with diaphragm, and connect the two parts with the inlet and outlet of the pipe alternatively by changing the position of the spool valve relative to the distribution valve

"surface treatment"	a process which aims to artificially form a surface layer which differs with that of the substrate material in mechanical, physical and chemical properties, in order to meet the requirements of corrosion resistance, abrasion resistance, decoration purpose or other special functions
"ultrasonic flowmeter"	The flowmeter installed on the flowing gas pipe to measure the gas flow based on the ultrasonic principle
"ultrasonic gas meter"	The gas meter used to measure, record and display the volume of the gas that passes the meter with ultrasonic technology
"Venturi"	The device composed of the cylindric part connected to the conical contraction inlet, which is called "Larynx", and the conical expansion part, which is called "expansion section"
"wireless ad hoc network"	also known as multi-hop wireless network. It can configure a mobile communication network anytime and anywhere with no need of the support by existing infrastructure of basic information network. As a decentralised ad hoc network with multi-hops, each terminal may move freely and have equal status across the whole network
"wireless remote communication meter"	also known as wireless remote communication diaphragm gas meter, a diaphragm gas meter with valve inside it that has micro-processing chip and wireless communication chip at its core and exchanges data with external device in a wireless manner

This prospectus contains forward-looking statements. Such forward-looking statements relate to events that are subject to significant risks and uncertainties, including the risks described in the section headed "Risk Factors" in this prospectus. These forward-looking statements include, but are not limited to, words and expressions such as "aim", "expect", "believe", "plan", "intend", "estimate", "project", "seek", "anticipate", "may", "will", "should", "would" and "could" or similar words, expressions or statements or the negative thereof, in particular, in the sections headed "Business" and "Financial Information" in this prospectus in relation to future events, including our strategies, plans, objectives, goals, targets, future financial results (including without limitation, our profitability, liquidity and capital resources), business prospects, our ability to identify and successfully take advantage of new business development opportunities, our dividend policy, the future development of our industry, the general economy of our key markets and the national and global economy.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future and the information currently available to our management. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance, which is subject to known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, and may cause our actual results, performance or achievements, or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, those discussed under the section headed "Risk Factors" in this prospectus and elsewhere in this prospectus and the following:

- general political and economic conditions;
- macroeconomic measures taken by the PRC Government to manage economic growth;
- future development, trends and environment of the industry and markets in which we operate;
- exchange rate fluctuations and evolving legal systems pertaining to the PRC and the industry and markets in which we operate;
- regulatory environment of the PRC and the industry in which we operate;
- market competition, and actions and development of competitors;
- our business prospects;
- our business plans, strategies and goals and our ability to successfully implement these business plans, strategies and goals;
- our financial condition, operating results and performance;
- our ability to reduce costs; and
- our dividend policy.

We caution you not to place undue reliance on these forward-looking statements, which reflect our management's view only as at the date of this prospectus. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. These risks could materially and adversely affect our business, financial condition and operating results. The trading price of our H Shares could significantly decrease due to any of these risks, and you may lose all or part of your investment. You should pay particular attention to the fact that we are a company incorporated in the PRC and most of our operations are conducted in the PRC which is governed by a legal and regulatory environment that may differ from that of other countries. For more information concerning the PRC and certain related matters discussed below, see "Regulatory Environment," "Appendix IV – Summary of Principal Legal and Regulatory Provisions" and "Appendix V – Summary of Articles of Association". You should seek professional advice from relevant advisors regarding your prospective investment in the context of your particular circumstances.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

Demand for our products primarily depends on the trends and developments in the gas industry in China.

We primarily sell our gas measurement instrument products in China directly to customers engaged in the gas industry. As such, demand for our products depends, to a large extent, on the future growth and development of the gas industry in China. The growth and development of the PRC gas industry may be affected by a number of factors, most of which are out of our control, such as the general economic development in China, government policies, expansion of infrastructure, gas price, consumer spending patterns and competition from other sources of energy.

According to Frost and Sullivan, the natural gas consumption volume in China increased from 150.9 bcm in 2012 to 242.5 bcm in 2017, representing a CAGR of 9.9%. However, the rapid growth of China's gas industry has been uneven. The total sales value of the China natural gas industrial and commercial gas flowmeter market decreased by 2.4% in 2015 compared with 2014. Notwithstanding the uneven growth, the natural gas consumption volume is expected to grow rapidly at a CAGR of 13.1% from 2018 to 2021, according to Frost and Sullivan. Although the gas industry in China is expected to grow rapidly in the future, there is no assurance that such growth will not slow down or reverse due to any one or more of the factors mentioned above or otherwise. Please refer to the section headed "Industry Overview" in this prospectus for more details.

In particular, we benefit from the rapid expansion of natural gas pipelines in China. According to Frost & Sullivan, the total length of urban natural gas pipelines grew at a CAGR of 12.1% from 2012 to 2017 and is expected to grow at a CAGR of 10.0% from 2018 to 2022. The continuous construction of large-scale new natural gas pipeline will lead to an increasing demand of natural gas flowmeters. We believe the urban natural gas pipeline length is currently the primary driver of our business. If the growth of the natural gas industry and the expansion of urban natural gas pipelines slow down in the future while other drivers of our business, such as technology upgrade, do not generate sufficient additional demand for our products to compensate for the effect of such slowdown, we may experience a significant decrease in the demand for our products, which may have a material adverse impact on our business, financial condition and results of operations.

We may lose major customers, or fail to generate purchase orders from our existing customers at historical levels or secure new, substitute customers with sufficient demand.

Our major customers include leading gas enterprise groups in China. Our top five customers accounted for approximately 33.7%, 34.6% and 35.5% of our revenue in 2015, 2016 and 2017, respectively. In particular, four leading gas enterprise groups in China remained among our top five customers throughout the Track Record Period. We expect that we will continue to derive a significant portion of our revenue from our major customers.

We need to meet various standards set by our customers such as in terms of product quality, safety, reliability, durability, technology, production capacity, delivery and aftersales services in order to be selected as a supplier. These standards could be particularly stringent in the case of leading gas enterprise groups. If we fail to continue to meet the standards of a particular customer, we may be disqualified by such customer and lose its purchase orders, which may in turn have a material adverse effect on our business, results of operations, financial condition and reputation.

In addition, our major customers may have greater bargaining power over us. There is no assurance that a major customer will not use such bargaining power to pressure us into accepting less favourable terms and conditions of sales or delay payments to us in the future, which may in turn increase our costs and reduce our liquidity and profit margin.

We generally supply our products to our customers on an order-by-order basis. We cannot assure you that our existing major customers will continue to place orders with us at historical levels, nor can we assure you that we will always be able to secure comparable levels of business from our other customers to offset any loss of revenue from losing any one or more of these major customers. Further, we cannot assure you that we will be able to successfully secure new customers to capture the potential growth of the PRC gas industry and broaden our customer base. If we lose any of our customers, in particular any major customers, for any reason, including but not limited to our ceasing to be a qualified supplier of our major customers, our relationship with one or more of our major customers deteriorating, or a major customer's own business declines and substantially reduces its purchases from us, then our business, results of operations and financial condition may be materially and adversely affected.

We may be unable to effectively manage our sales and service network.

We have a sales and service network comprising of 36 branch offices covering most provinces in China. In addition, after the restructuring of sales agents in June 2017, we still maintain business relationship with three independent sales agents. See "Business – Sales – PRC sales – Restructuring of Relevant Agents". We conduct our overseas sales mainly through the development of our local sales network comprising local distributors. We may not always be able to manage our network efficiently or provide adequate training and effective incentives for our sales and service personnel or effectively maintain and operate the network of sales agents. There is no assurance that our sales staff and sales agents will always maintain their competitiveness and successfully market our products or deliver our service to the full satisfaction of our customers.

Additionally, there is no assurance that our staff will always follow our guidelines and that we can always successfully implement, monitor the performance of and/or maintain effective control over our sales and service teams in accordance with the guidelines. In the event of a non-compliance incidents by our sales and service staff and they or we fail to rectify their wrongdoings in a timely manner, our corporate image may be negatively affected, resulting in the loss of customers and a decline in our sales. Furthermore, if our sales agents fail to maintain the relationship with customers or sell our products as agreed, or any dispute arises from the cooperation with us, our business may also be adversely affected.

We face intense competition in our business.

We primarily operate in the gas measurement instrument industry in the PRC. Participants in this market include both domestic and international gas measurement instrument manufacturers. Competition in the PRC gas measurement instrument market focuses on, among other things, research and development capabilities, expertise, reputation, industry recognition and stable client relationship. The main market that we compete in, namely the industrial and commercial gas flowmeter market, is led by two major players, with the rest of the market highly fragmented. As the second largest industrial and commercial gas flowmeter manufacturer in China, we face head-to-head competition with another competitor in the industrial and commercial gas flowmeter market, which had the largest market share of 37.6% in the industrial and commercial gas flowmeter market in China by revenue in 2017 compared with our market share of 36.8%. There are partial overlaps between us and this competitor in terms of product portfolio and client base. The third and fourth largest industrial and commercial gas flowmeter manufacturers in China had market shares of 5.9% and 1.9%, respectively, by revenue in 2017. In the event that we fail to compete effectively or grasp the opportunities arising from the PRC industrial and commercial gas flowmeter market, our market share and profit margin may decline and our business, results of operations and financial condition may be materially and adversely affected.

In addition, we may not be able to compete effectively in the residential gas meter market. In addition to industrial and commercial gas flowmeter products, we manufacture and sell residential gas meter products, which represented 13.2%, 10.2% and 8.9% of our revenue in 2015, 2016 and 2017, respectively. We intend to further develop our residential gas meter business in terms of technology, product series, customer base and sales volume.

Residential gas meter market has a competition landscape different from that of the industrial and commercial gas flowmeter market. Compared with the industrial and commercial gas flowmeter market, the residential gas meter market is more fragmented with lower entry barriers and more fierce competition. We currently own a relatively small share of the residential gas meter market and may not be able to compete effectively in such market and grow our market share. Further, we plan to leverage our existing sales and marketing network and customer base to facilitate our development of our residential gas meter product business. However, there is no assurance that our approach will prove to be effective or successful. While some of our industrial and commercial gas flowmeter customers, including some of our major customers, also purchase residential gas meter products, they may have long-term relationships with their current suppliers of residential gas meter products and we may not meet their requirements in certain aspects such as production scale, track record and brand recognition in terms of residential gas meter products. If we fail to compete effectively in the residential gas meter market, we may not generate satisfactory returns on our investments in the relevant research and development, sales and marketing activities and may not realise our strategy regarding the residential gas meter market, in which case our business, results of operations and financial condition may be adversely affected.

Our business performance depends on the utilisation, reliability and functioning of our production machinery and equipment.

Our ability to maintain our profitability depends partly on our ability to maintain a high utilisation rate of our production facilities. The level of the utilisation rate of our production facilities can impact our operating results as a certain percentage of our costs of sales such as direct labour and production overhead are fixed in nature. A higher utilisation rate of our production machinery and equipment allows us to spread our fixed costs over a larger quantity of products, resulting in a higher profit margin. Hence, if we are unable to continuously maintain a high utilisation of our production machineries and equipment, our profit margin would be adversely affected. On the other hand, if the utilisation rate is close to 100%, we may miss new market opportunities due to constraints on our production capacity. In 2017, the utilisation rates for our production facilities producing industrial and commercial gas flowmeter products and residential gas meter products were 98.0% and 89.6%, respectively. If market demand for our products continue to increase and we fail to expand our designed production capability as planned, the high utilisation rates of our production facilities may prevent us from further expanding our business operations as we should have been able to.

Our production facilities are subject to operation risks and disruptions such as interruptions of utilities supplies including water and electricity, labour disputes and industrial accidents. Amid regular maintenance, our operations are capital intensive and we are prone to machinery breakdowns. The occurrence of any of the above disruptions may restrict our production output and may potentially require us to compensate our customers for failure to deliver our products in accordance with the customer's requirements. We do not maintain insurance to protect against certain claims associated with business interruption. Therefore, any loss from business interruption could adversely impact our business, results of operations and financial condition. This may also adversely affect our business relationship with our customers. In addition, any such disruptions may require us to incur significant expenses to repair and/or replace any damage to our production facilities or malfunctioning machinery. In the occurrence of such an event, our business performance and financial results may be materially and adversely impacted.

If our brands are harmed, our business may be materially and adversely affected.

We market and sell our gas measurement instrument products mainly under our "Dongxing" brand. Consumers' recognition of our brands is critical to our continued success and growth. Nevertheless, our brands may be harmed by incidents such as product defects, ineffective aftersales services, product liability claims, consumer complaints and negative media coverage in the PRC or other markets, which may materially and adversely affect the overall level of consumers' recognition of, and trust in, us and our products.

Our competitiveness depends on our R&D and our ability to keep pace with the technological advancement and to keep abreast of the latest market trends and requirements.

The gas measurement instrument industry is subject to technological advances. We currently are focusing on the R&D of certain new models of gas measurement instrument products such as ultrasonic flowmeters. Our R&D expenses amounted to approximately RMB18.4 million, RMB25.5 million and RMB34.9 million in 2015, 2016 and 2017, respectively, which were equal to 5.1%, 5.8% and 5.2% of our revenue during the same year, respectively.

We believe that our future success will depend on our ability in anticipating the technological changes and market trends and keep pace with the technological advances in a cost-effective manner and on a timely basis. However, there is no assurance that we will always be able to judge technological and market trends correctly, formulate our R&D initiatives wisely or achieve R&D outcome successfully. Further, we may encounter practical difficulties in commercialising the results of our R&D initiatives and launching new products as originally intended, or our R&D expenditures may not lead to the benefits we expected. In addition, we may not be able to acquire the technology and personnel that would enable us to further develop our in-house expertise and enhance our R&D and production capabilities. If we fail to adequately respond to the technological developments to effectively improve our existing types or models or develop new models of gas measurement instrument products according to the market trends, we may lose market share in the competition and our business, results of operations and financial condition may be materially and adversely affected.

We may be unable to effectively manage the supply and quality of the raw materials, parts and components that we purchase, and any price fluctuations of such raw materials, parts and components may increase our production costs.

The main raw materials that we purchase include aluminium ingots and steel. The parts and components that we purchase mainly include electronic components, bearings and bolts. In 2015, 2016 and 2017, purchases from our top five suppliers accounted for approximately 25.6%, 19.3% and 19.0% of our total purchases for the same periods, respectively.

As our business continues to grow, we believe that our reliance on our key suppliers to supply quality raw materials, parts and components for our production will also increase. If any of our key suppliers decides not to accept our future purchase orders on the same or similar terms, or at all, or decides to substantially reduce their volume of supply to us or terminate their business relationship with us, or fail to meet our quality, quantity or delivery time requirements, we may need to find a proper replacement in a timely manner, potentially at additional costs, the failure of which may result in the delay of our production schedules and default on our agreements with our customers, and our business, results of operations and financial condition may be materially and adversely affected. In particular, while we typically purchase raw materials, parts and components from multiple suppliers, for certain purchases such as bearings and moulds, we usually contract with a single supplier for cost efficiency purpose, which may render it more difficult for us to find replacements.

We are exposed to price fluctuations of the raw materials, parts and components that we purchase. In recent years, we benefitted from a reduction in the prices of certain raw materials that we purchased. According to Frost & Sullivan, the price of aluminium ingot in China dropped from RMB15,632.6 per tonne in 2012 to RMB12,503.4 per tonne in 2016, and the price index of steel in China dropped from 112.3 in 2012 to 75.1 in 2016. In 2017, the price of aluminium ingot and the price of steel increased to RMB14,476.4 per tonne and 107.6, respectively. In addition, the prices of the electronic components, such as chips and sensors, which we use for manufacturing flowmeters, have generally decreased from 2012 to 2017 due to sufficient supply and decrease in manufacturing costs. In the future, the prices of the raw materials, parts and components may continue to fluctuate. If there is any sudden or significant increase in the prices of the raw materials, parts or components that we purchase and we are unable to pass the impact of such increase to our customers, our profit margin and results of operations may be materially and adversely affected. In addition, we cannot assure you that we will be able to pass the impact of any such price increase to our customers without affecting our sales volume.

Potential product defects may have a material adverse impact on our business, results of operations and financial condition and we may be subject to product liability claims which could result in significant costs or negatively affect our reputation.

We apply stringent quality control measures including testing of our products using advanced equipment. However, there is no assurance that we will always meet the relevant national, industry and internal standards regarding product quality, safety and reliability. Defects detected before delivery of products to our customers may incur additional costs for remediation and rework. Defects detected after the delivery and installation of our products may incur further costs relating to inspection, installation, remediation and shipment and may lead to product return, damages to our reputation, disqualification as a supplier for our major customers, loss of government licences and permits, government fines and disputes and litigation.

Our products are required to meet national and industry standards and each specific model is subject to a permit for the manufacture of measuring instrument issued by the QTSB. Such permits typically have validity periods of one to three years subject to renewal. The QTSB carries out spot checks of our product quality from time to time. There is no assurance that we will always pass the checks and reviews by the government on our product quality. A product defect may cause us to fail the checks and reviews by the government, lose or fail to renew the relevant permits for the manufacture of our measuring instruments, receive government fines or other penalties, and suffer damage to our reputation.

Further, as our gas measurement instrument products are typically of a bulk production nature, one defect may affect an entire batch, or batches, of products and compound the impact on our business and results of operations. We purchase parts and components from third party suppliers for the manufacturing of our products. Although we carry out quality inspection for the parts and components that we purchase, there is no assurance that we will always be able to detect defects in the parts and components purchased. Any defect in such parts and components may lead to defects in our finished products, which may in turn increase our costs, damage our reputation and affect our relationship with customers. In such a case, we may not be able to procure contractual or other indemnity from the supplier of the defective parts and components adequately, or at all, which may have a material adverse effect on our business, results of operations, financial condition and reputation.

We may encounter unexpected difficulties in expanding our business in the future.

We plan to continue to expand our business to maintain and strengthen our market position in the flow measurement industry in the PRC. In doing so, we plan to further expand our sales network and increase our market penetration in the PRC in both the industrial and commercial product market and the residential product market. We will also continue to enhance our R&D capabilities to improve and develop new production technology and techniques. However, any business expansion will require additional managerial, technical, financial, production, operational and other resources, systematic internal control systems and the employment of additional skilled staff. There is no assurance that we will be able to implement our business expansion plans successfully and manage our business operations effectively in the future and failure to do so will materially and adversely affect our business, results of operation and financial condition.

In order to cater to the future development of the Group to meet the demand and requirements of our customers in the PRC and the overseas markets, we may in the future continue to upgrade and expand our production facilities and capacities at our production plants. We may also purchase and replace production machinery and equipment for our production plants. In particular, we plan to construct intelligent gas flowmeter modification and upgrade projects in order to enhance the product quality and expand the scale of our production, and establish the flowmeter testing and inspection laboratory, Internet-of-Things gas measurement and transmission and distribution management platform. Please also refer to sections headed "Business – Our Strategies" and "Financial Information – Capital Expenditures" in this prospectus for more details.

We cannot assure you that our expansion plan will be implemented successfully or will not result in over-capacity due to unforeseeable changes in the market demands, which may materially and adversely affect our business, results of operations and financial condition. Further, our expansion plan may also result in significant increases in depreciation and amortisation expenses arising from the establishment of new production plants, machinery and equipment, and our revenue and profit may not increase in proportion to our increased production capacity and expansion.

We may need additional funding to meet future business requirements and plans, which we may not be able to obtain on acceptable terms, or at all.

We may need additional capital to fund our capital expenditure associated with our expansion plans. There is no assurance that we will generate sufficient cash flow from our operating activities for our intended expansion plans. In the event that we do not have sufficient operating cash flow, we will need to obtain alternative financing. There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- investor perceptions of and appetite for securities of companies engaged in the industry in which we are operating our business;
- conditions in the capital and financial markets in which we may seek to raise funds;

- our future cash flows, financial conditions and results of operations; and
- economic, political and other conditions in the PRC, Hong Kong and the rest of the world.

If we raise additional funding, our interest and debt repayment obligations will increase. The terms of any future banking facilities may also impose restrictive covenants that may restrict our business and operations or result in dilution of shareholding of the Shareholders in the case of equity financing. Any failure to raise additional funds in a timely manner and on terms favourable to us, or at all, may have a material adverse effect on our financial conditions, results of operations and prospects.

Our gas measurement instrument products generally have relatively long useful lives, which may lead to a relatively long average replacement cycle.

We mainly produce and sell gas measuring instrument products including industrial and commercial gas flowmeters and residential gas meters. For industrial and commercial gas flowmeters, the actual product useful life may depend on a number of factors such as the specific business needs and requirements of customers, the frequency of customers' gas flowmeter upgrades and the regular inspection and maintenance conducted by customers. As such, the replacement cycle for our gas measurement instrument products can be relatively long. While we also generate revenue from our provision of aftersales services for our customers, such revenue represented less than 1% of our revenue during the Track Record Period. We cannot assure you that we can always obtain new sales orders from our existing customers at historical levels, or engage new customers or develop new products or models that fulfil the evolving technical and production requirements of our existing and new customers to generate sufficient new sales orders. In such event, our business, results of operations and financial condition may be materially and adversely affected.

We carry out substantially all our manufacturing operations in two locations both located in Cangnan County, and any material disruptions of our operation may materially and adversely affect our business, results of operations and financial condition.

Our operations are subject to uncertainties and contingencies beyond our control that may result in material disruptions in our operations and adversely affect our business. These include industrial accidents, fires, floods, droughts, storms, earthquakes, other natural disasters and catastrophes, equipment failures or other operational problems, strikes or other labour difficulties. During the Track Record Period, we manufactured substantially all our products at our two production locations, both of which are located in Cangnan County, Wenzhou City, Zhejiang Province, China. If there is any damage to our production plants due to incidents such as those mentioned above, we may not be able to remedy such situations in a timely and proper manner, and our production may be materially and adversely affected. Any breakdowns in or malfunction of any of our production machinery and equipment may cause a material disruption to our operations. Any such disruption to our operations may cause us to reduce or halt our production, prevent us from meeting orders from our customers, adversely affect our business reputation, increase our cost of sales or require us to make unplanned capital expenditures, anyone of which may materially and adversely affect our business, results of operations and financial condition.

If we fail to estimate accurately the demand for our products, we may end up with significant excess inventories.

Our inventory is primarily comprised of raw materials, work in progress and finished goods. In order to ensure the sufficiency of our production capacities and timely delivery of products, we generally maintain an inventory level of around two months based on our production plans, which is in turn based on our actual and anticipated purchase orders. Our average inventory turnover days were approximately 203, 188 and 150 days in 2015, 2016 and 2017, respectively. For details of our average inventory turnover days, please refer to the section headed "Financial Information – Certain Items of Consolidated Statements of Financial Position – Inventories" in this prospectus. If we fail to estimate the market demand for our products and are unable to dispose of excess inventories timely, we may face significant excess inventories and reduced liquidity, which may materially and adversely affect our business, results of operations and financial condition.

We may be subject to liability in connection with industrial accidents at our production facilities.

Our manufacturing involves the operation of heavy production equipment that could result in industrial accidents which may cause injuries or deaths. We cannot assure you that industrial accidents, whether due to malfunction of machinery or any other reasons, will not occur in the future at our production facilities. If such incident happens, we may be liable for loss of life, medical expenses and medical leave payment. In addition, we may experience interruptions in our operations and may be required to change the manner in which we operate as a result of governmental investigations or the implementation of safety measures as a result of such industrial accidents. Any of the foregoing may materially and adversely affect our business, results of operations and financial condition.

Our products may be subject to counterfeiting, imitation, and/or infringement by third parties and we may be subject to intellectual property rights disputes.

We rely on intellectual property laws in China and other jurisdictions to protect our trademark, technological know-how, registered patents and software copyrights. However, there is no assurance that counterfeiting or imitation of our products will not occur in the future or, if it does occur, that we will be able to detect or address the problem in a timely and effective manner.

Any occurrence of counterfeiting or imitation of our products or other infringement of our intellectual property rights could negatively affect our brand, reputation and customer confidence in our products. Any litigation to prosecute infringements upon our intellectual property rights and products will be expensive and will divert our management's attention as well as other resources away from our business.

We are not required under the PRC law to maintain, nor do we currently maintain, any insurance coverage against intellectual property litigation costs, and we would have to bear all costs arising from intellectual property litigation, whether it is raised by us or it is against us, to the extent we are unable to recover them from the relevant parties. As a result, any such litigation could have a material and adverse effect on our business, results of operations and financial condition.

Our results of operations are subject to seasonality of our customers' demands and may fluctuate, and comparison of our interim and annual operating results may not be meaningful.

Our sales are subject to seasonality. Corresponding to the purchase pattern of PRC gas companies, we typically generate more revenue in the second half of the calendar year. For example, our revenue for the second half of 2016 represented 66.2% of our revenue for the year, which, we believe, is mainly due to the increase in the demand for our products in the market in the second half of 2016 as well as the seasonality of our sales. As such, any comparison of our interim and annual operating results may not be meaningful, and our interim operating results may not be indicative of the annual operating results of the same year.

We have recorded significant and increasing trade receivables and our trade and notes receivable turnover days significantly exceeded the credit terms we granted to our customers. If we fail to manage account receivables effectively or suffer losses significantly beyond our provisioning, our business, results of operations and financial position may be materially and adversely affected.

We have recorded significant and increasing trade receivables. As at 31 December 2015, 2016 and 2017, we recorded total trade receivables of RMB294.3 million, RMB354.6 million and RMB533.1 million, respectively. Of such trade receivables, RMB71.9 million, RMB72.0 million and RMB80.6 million, respectively, are over one year as at 31 December 2015, 2016 and 2017. In 2015, 2016 and 2017, our net provision for impairment of receivables recognised as expenses was RMB7.3 million, RMB9.6 million and RMB8.5 million, respectively. Allowance balance for impairment of receivables amounted to RMB24.6 million, RMB34.1 million and RMB42.6 million as at 31 December 2015, 2016 and 2017, respectively. We assess impairment according to the historical losses of our trade receivables with similar credit risk characteristics.

We typically do not require our customers to pay any deposit for orders placed. We grant credit periods to our customers of up to three months from the invoice date. However, our trade and notes receivable turnover days in 2015, 2016 and 2017 were approximately 246, 227 and 209 days, respectively. Our trade and notes receivable turnover days significantly exceeded the credit terms we granted to our customers mainly because (i) a considerable lapse of time may occur between the dispatch of our products and our issue of an invoice; and (ii) we may allow longer credit periods based on our assessment of the particular customers. For further details, see "Financial Information – Certain Items of Consolidated Statements of Financial Position – Trade and other receivables and prepayment". As a result of the above, our daily operation has to rely on our internal sources and bank borrowings to maintain our cash flow and satisfy the needs of our daily operations, which may have a negative effect on our working capital management and financial costs.

There is no assurance that we will be able to collect our trade receivables, manage our trade receivables effectively, or that our provisioning on such trade receivables based on historical default rates will prove to be adequate to cover our losses in the future. An economic downturn or significant financial difficulty of individual customers may affect our customers' payment ability and lead to a significant increase in bad debt. Any significant increase in our trade receivables may affect our liquidity and working capital. Further, we may need to file claims for the repayment of certain trade receivables and for damages incurred pursuant to our contracts. However, the settlement of disputes generally takes time and financial and other resources, the outcome of any dispute may be uncertain, and securing a favourable judgement may not lead to the recovery of the trade receivables or our damages in full, or at all. In addition, although we consider our major customers to be generally of lower credit risk, such major customers may have stronger bargaining power over us, which may require more time for us to manage account receivables from such major customers. If we fail to manage account receivables effectively or suffer losses significantly beyond our provisioning, our business, results of operations and financial position may be materially and adversely affected.

Our cash flow position may deteriorate owing to the mismatch in time between receipt of payments from our customers and payments to our suppliers if we are unable to manage our cash flow mismatch properly.

We purchase raw materials from our suppliers from time to time based on our procurement policy. We rely partly on cash inflow from our customers to meet our payment obligations to our suppliers. Our cash inflow is dependent on prompt settlement of our payments. As at 31 December 2015, 2016 and 2017, our trade and notes payable amounted to RMB42.2 million, RMB63.3 million and RMB61.0 million, respectively. In addition, our trade and notes receivable turnover days in 2015, 2016 and 2017 were approximately 246, 227 and 209 days, respectively, which were longer than our trade and notes payable turnover days during the corresponding period, being approximately 88, 106 and 105 days, respectively (for further details, see "Financial Information – Certain Items of Consolidated Statements of Financial Position" in this prospectus). As a result of the above, our daily operation has to rely on our internal sources and bank borrowings to maintain our cash flow and satisfy the needs of our daily operations.

If we fail to manage the aforesaid cash flow mismatches, or if the cash flow mismatch is further aggravated, we may have to resort to reserve further funds from our internal resources and/or obtain banking facilities to meet our payment obligations, and our financial condition may be materially and adversely affected as a result.

Our business benefits from certain PRC government subsidies and favourable tax treatments that may change or expire.

We receive certain subsidies from the PRC government. For example, we receive government subsidies for certain research and development projects that we carry out and certain government-sponsored talent recruitment programmes that we participate in. We also enjoy certain favourable tax treatments. For example, we enjoy a favourable enterprise income tax rate of 15% due to our High and New Technology Enterprise status granted by the PRC government, which will need to be renewed in 2018. Dongxing Software was recognised as a Software Enterprise by the PRC government in 2013 and is accordingly entitled to a two-year full exemption, followed by a three-years 50% exemption, from enterprise income tax, and received a partial refund of value added tax levied on its sales of software products. In 2015, 2016 and 2017, we would have incurred additional taxes of RMB5.9 million, RMB15.2 million and RMB29.1 million, respectively, were we not entitled to the favourable tax treatments as described above due to our status as a High and New Technology Enterprise and Dongxing Software's status as a Software Enterprise. In 2015, 2016 and

2017, we recorded other income from government grants and amortisation of deferred income related to government grants totalling RMB12.5 million, RMB12.8 million and RMB20.6 million, respectively, which was equal to 24.9%, 8.9% and 7.2% of our operating profit for the same periods, respectively.

There is no assurance that the subsidies that we receive or the favourable tax treatment that we enjoy will not change or expire in the future, due to changes of government policy or law or otherwise, in which case our business, results of operation and financial position may be materially and adversely affected.

Any significant decrease in our profitability in the future would have a material adverse effect on our ability to recover our deferred income tax assets, which could have a material adverse effect on our results of operations.

We had total deferred income tax assets of RMB25.8 million as at 31 December 2017, of which RMB3.6 million was expected to be recovered within 12 months and the remaining RMB22.2 million to be recovered after 12 months. We recognise deferred income tax assets to the extent that our management estimates that it is probable that we will generate sufficient taxable profit in the foreseeable future to offset against the deductible losses. See note 2.20 to the Accountant's Report in Appendix I to this prospectus for further details on our accounting policy with respect to deferred tax assets. Therefore, the recognition of deferred tax assets involves significant judgment and estimates of our management on the timing and level of future taxable profits. When the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation charges in the period in which such estimate is changed, and the carrying amount of deferred income tax assets may be reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be utilized. Accordingly, if our profitability in the future is significantly lower than our management's estimates when our deferred income tax assets were recognized, our ability to recover such deferred income tax assets would be materially and adversely affected, which could have a material adverse effect on our results of operations.

We may be unable to detect and prevent misconduct by our employees, former employees, customers and other third parties.

Fraud or other misconduct by our employees at different operational levels of the Group, whether individually or in collusion with other employees, customers or other third parties, could reduce our operational efficiency and business performance, and may even result in violations of laws by the Group, third party claims and regulatory actions against the Group and serious reputation or financial harm to the Group. Possible misconduct by our employees includes but is not limited to improper extension of credit, unauthorised business transactions, conduct of business operations in breach of our internal policies and procedures, inappropriate accounting treatment, theft, embezzlement or misappropriation of customer funds and fraud. We cannot assure you that all our employees will fully comply with the Group's internal control procedures and systems when performing their duties. In addition, we may encounter misconduct by third parties such as our suppliers. While we enter into non-competition agreements with our key technical staff, there is no assurance that our former employees will not join our competitors in breach of, after the expiration of, or in the absence of their non-competition obligations, which may cause the leakage of our knowhow and sensitive market information to, and acquisition of customer relationships by, our competitors. We cannot assure you that we will be able to prevent or detect all incidents of wrongdoings by our employees, former employees or third parties. Any misconduct committed against us, which may include past acts that have gone undetected or future acts, could subject us to financial losses, harm our reputation and may have a material adverse effect on our business and results of operations.

We face rising employee benefits expense.

Employee benefits expense is a major component in our expenses. In 2015, 2016 and 2017, we recorded employee benefits expense totalling RMB61.1 million, RMB72.7 million and RMB91.2 million, respectively, representing 21.2%, 23.2% and 23.4% of our total cost of sales, selling and distribution expenses, administrative expenses and research and development expenses, respectively. The increases in our employee benefits expense is mainly attributable to the increase of the number of our employees along our business growth and the increase in the remuneration levels of our employees. We expect our employee benefits expense to continue to increase in the future. If we fail to manage our employee benefits expense effectively, this may impact our employee retention and incentive and our reputation and competitiveness in the recruitment market. Further, any significant increase in employee benefits expense may increase our overall costs, reduce our profit margin and affect our liquidity, which may in turn have a material adverse effect on our business, results of operations and financial position.

Lack of business insurance coverage may incur substantial costs for us.

Although we believe our insurance coverage meets the needs of our operations and risk structure, there is no assurance that our current levels of insurance are sufficient to cover all the risks associated with our operations. In addition, we generally renew our insurance policies on an annual basis and there is no assurance that we can always renew our insurance policies on similar or acceptable terms, or at all. If we suffer any significant loss beyond the coverage or limit of our current insurance policies, this could have a material adverse effect on our business, results of operations and financial position.

Our operations are dependent on key management team members and failure to attract and retain key personnel and a skilled labour force may materially and adversely affect our business, results of operations and financial condition.

Our success depends heavily on our ability to attract, retain and motivate key management team members who possess solid technical know-how and extensive managerial experience in the flow measurement industry. For more details of our Directors and senior management, please refer to the section headed "Directors, Supervisors and Senior Management" in this prospectus. The continued successful management of our business is also, to a considerable extent, dependent on our senior management members and our key technical team who play vital roles in our operations. If one or more of these personnel are unable or unwilling to continue in their present positions, we may not be able to recruit suitable and qualified new employees to replace them, which may severely disrupt our business and affect our results of operations and future prospects.

Our business is dependent on the proper functioning and improvement of our information technology systems.

Our business is dependent on the ability of our information technology systems to support our operations and management. We believe that well-implemented information systems are conducive to improving our efficiency in administering and operating our business. We strive to maintain comprehensive information systems which integrate the internal and external management information across various aspects of our business operations. However, there is no assurance that our operations will not be materially disrupted if there is a partial or complete failure of any of these information technology systems. We are also subject to the risk of telecommunication network or internet breakdowns. Such failures could be caused by, among other things, software bugs, computer virus attacks, conversion errors due to system upgrading, an equipment provider's failure to provide proper system maintenance, or natural disasters. Any security breach caused by unauthorised access to information or systems, loss or corruption of data and malfunction of software, hardware or other computer equipment could materially and adversely affect our business, financial condition and results of operations and our reputation.

In addition, our ability to remain competitive will depend in part on our ability to upgrade our information technology system in a timely and cost-effective manner. The information received by us through our existing information technology systems may not be timely or sufficient for us to continue to maintain high operational efficiency and respond to market changes and other developments in our current operating environment. Any failure to improve our information technology systems, upgrade systems or develop new systems effectively or on a timely basis may materially and adversely affect our business, financial condition and results of operations.

Our overseas businesses are exposed to political, economic, regulatory, reputational and legal risks.

We sell a small portion of our products to countries and regions outside of China. In 2015, 2016 and 2017, approximately 0.6%, 0.9% and 0.9% of our revenue was derived from our overseas sales, respectively.

We carry out our overseas operations within the political, legal and regulatory environments in the relevant overseas countries and regions, some of which differ in certain significant respects from those prevailing in the PRC, and it may take time to adapt to such environments. The laws, regulations and policies of such countries and regions are subject to changes due to political and economic uncertainties, which may have a negative impact on our overseas operations. Our overseas operations may also be subject to interruptions from war or civil strife, exchange rate fluctuations and other factors, and we may encounter difficulties due to potential incompatibility with our distributors or other local business partners.

In January 2018, the Company entered into an agreement with an Independent Third Party, pursuant to which the Company agreed to transfer to such Independent Third Party the entire equity interest of GFO Europe, a then wholly-owned subsidiary established by the Company in the Netherlands ("**GFO Europe Transfer**"). See "Business - Sales - Overseas sales". Although the GFO

Europe Transfer has been completed on 29 January 2018, there is no guarantee that we will not be involved in any dispute, litigation or claim arising out of the GFO Europe Transfer or the businesses carried out by GFO Europe prior to such transfer, including but not limited to disputes, litigations or claims regarding product liability, compliance with EU and Dutch laws, contractual obligation, debt, tax and employees, which in turn may have a material adverse effect on our business, results of operations and reputation.

Regulatory policies in the foreign countries or regions in which we operate may require us to, among other things, obtain relevant licences or permits in order to sell our products, bid on contracts or conduct operations. In particular, we may need to obtain certifications on the compliance of our products with local industry standards. These laws and regulations may also encourage or require us to hire local contractors, employ citizens of, or purchase supplies from within, the relevant country. In addition, we may become involved in proceedings with regulatory authorities that may require us to pay fines or comply with more rigorous standards or other requirements, and bear the capital and operating expenses arising therefrom.

Our failure to successfully manage our geographically diverse operations could materially and adversely affect our overseas expansion plan.

We may fail to obtain, maintain and renew government and industry licences, permits and certificates.

As a manufacturer of gas measurement instrument products, we are required by the PRC law to obtain various government certifications and qualifications for the production and sales of our gas measurement instrument products. For example, we need to obtain a certificate of approval for the model of the measurement instrument (a "**Model Approval**") and a permit for the manufacture of measuring instrument (a "**Permit for Manufacture**") issued by the QTSB for each model of our gas measurement instrument products. A Model Approval is a one-off application, while a Permit for Manufacture typically has a validity period of one to three years subject to renewal.

In addition, as we expand our business overseas, we have obtained, and are in the process of applying for more, government and industry licences, permits and certificates in various jurisdictions. For example, we have obtained a certificate of NMi certifying the compliance of a specific model of our rotary flowmeter with the European Measuring Instruments Directive, which is valid until October 2021.

While we have not encountered significant difficulty in obtaining, maintaining and renewing our government and industry licences, permits and certificates in the past, there is no assurance that we will always be successful in obtaining government and industry licences, permits and certificates in time, or at all. If we fail to obtain, maintain or renew a licence, permit or certificate, we may be forced to suspend the production and sales of the relevant product in the particular local market, which may in turn have a material adverse effect on our business, results of operations and reputation.

We are required to comply with various environmental, health and safety laws that are extensive and the compliance of which may be onerous or expensive.

We are subject to applicable national and local laws and regulations with respect to the protection of the environment and the health and safety of employees and the public in the PRC, such as Environmental Protection Law, Production Safety Law and Product Quality Law. For further details, please refer to the section headed "Regulatory Environment" in this prospectus. These laws and regulations govern, among other things, discharges, storage, waste disposal and protection of the health and safety of employees. Our manufacturing processes and products are subject to stringent quality, environmental and occupational safety standards.

If we fail to comply with these laws and regulations or if a more stringent enforcement regime is implemented, we may be exposed to penalties, fines, suspension or revocation of our licences or permits to conduct business, administrative proceedings and litigation. In light of the magnitude and complexity of these laws and regulations, compliance with them or the establishment of effective monitoring systems may be onerous or require a significant amount of financial and other resources.

In addition, as these laws and regulations continue to evolve, we cannot assure you that the PRC government or the governments of other overseas jurisdictions in which we have operations would not impose additional or more onerous laws or regulations, compliance with that may cause us to incur significantly increased costs that we might not be able to pass on to our customers.

As at the Latest Practicable Date, we were not aware of any material adverse changes or developments in environmental, health and safety laws or regulations imposed by relevant governmental authorities. Nevertheless, there is no assurance that there will not be adverse changes or developments in such laws and regulations in the future. If we fail to adapt to these changes, our reputation may be damaged, we may lose or might not be able to renew our licences and permits or we may be required to pay penalties or fines or take remedial actions, any of which could have a material and adverse effect on our business, results of operations and financial condition.

We might not be able to obtain or renew our land use rights and building ownership rights for our business and production facilities.

As at 31 December 2017, we owned the land use rights for two parcels of land for industrial purpose with total site area of approximately 34,360 sq.m. and we owned properties with a total gross floor area of approximately 30,752.44 sq.m. We have obtained the relevant land use right certificates for such land and five real estate ownership certificates or building ownership certificates for properties with a total GFA of 28,762.5 sq.m. We have not obtained building ownership certificates regarding 11 properties with a total GFA of 1,989.94 sq.m., representing approximately 6.5% of the total GFA of the properties we owned and occupied by us. Such properties are mainly buildings used for auxiliary purposes. We cannot assure you that we will be able to renew the title certificates for properties that are critical to our operations as they expire. Our rights as owner of these properties may be adversely affected as a result of the absence of necessary certificates, permits or procedures, and we may be subject to litigations or other actions taken against us and/or lose the right to continue to operate on these properties, which may in turn adversely affect our business, results of operations and financial condition.

We may be involved in legal and other proceedings from time to time.

We may be involved in legal and other proceedings relating to our business operations from time to time due to different reasons. Such proceedings generally relate to disputes with suppliers or customers, labour disputes or infringement of intellectual property rights. Most of the disputes occur in the ordinary course of our business. See "Business – Legal Compliance and Risk Management – Legal proceedings". We cannot assure you that these disputes or proceedings will result in judgments that will be favourable to us. We expect that we will continue to be subject to litigation or other disputes in the future, which may result in additional risks and losses. The litigation or other disputes we may be involved in from time to time may damage our reputation and increase our operating costs, and may divert resources and the attention of our management from our core business. Adverse judgments in any of the current or future proceedings we are involved in may materially and adversely affect our reputation, business, financial condition and results of operations.

As at the Latest Practicable Date, the Company was involved in certain ongoing legal proceedings involving a former shareholder, Mr. Ye Bin ("**Mr. Ye**"). Mr. Ye resigned from his last position with the Company as Director in July 2009. Upon resignation he held 5.7% of the then total share capital of the Company (the "**Relevant Shareholding**"). In July 2012 the Board passed resolutions to "settle and freeze" ("結凍") the Relevant Shareholding for the reason that Mr. Ye carried out competing business activities in breach of our Articles of Association. In April and December 2014, the Board passed further resolutions to retrieve and transfer (the "**Transfer**") the Relevant Shareholding to a number of current employees. The aggregate consideration for the Transfer was RMB4.3 million.

In March 2016, Mr. Ye filed a lawsuit against the Company (the "**Dividend Litigation**") for the payment of dividend, "equity interest" and profit distribution with an aggregate amount of RMB7.3 million plus relevant interests and subsequently raised such amount to RMB21.3 million plus relevant interests. As at the Latest Practicable Date, the Dividend Litigation was in the process of the trial of second instance. In addition, the Company and Shanghai Zhongde Energy (Group) Co., Ltd., a company of which Mr. Ye is a shareholder and director, were involved in two legal proceedings in respect of outstanding payments for goods. As at the Latest Practicable Date, one case ("**Case No. 1**") was under enforcement and in the other case we have applied for the resumption of judgement enforcement. In 2017, we made provisions against the Dividend Litigation and Case No. 1 in the aggregate amount of RMB12.5 million considering the facts and circumstances and after seeking advice from legal counsel, which was recognised in profit or loss within "Other losses – net". For details, please refer to the section headed "Business – Legal Compliance and Risk Management – Legal proceedings – Legal proceedings relating to a former shareholder" and note 30 to the Accountant's Report in Appendix I to this prospectus.

There are inherent uncertainties associated with legal proceedings. There is no assurance that the judgement of the court will be in our favour or that we will not be materially and adversely affected in the case that the court rules against us. If the court rules against us, we may be obliged to make payments of significant amounts, which may in turn have a material and adverse effect on our financial condition and results of operations.

We may be subject to additional liabilities relating to certain corporate guarantees.

Between 2012 and 2014, we entered into six corporate guarantees (the "**Corporate Guarantees**"), pursuant to which we guaranteed the respective repayment obligations of two Independent Third Parties (the "**Guaranteed Parties**") in respect of certain of their respective bank loans. Following defaults by the Guaranteed Parties, we were involved in various legal proceedings brought by relevant banks. As at the Latest Practicable Date, all Corporate Guarantees had expired and all court trials completed. We estimated that we would need to make payments to relevant banks of an aggregate amount of approximately RMB105.4 million between 2015 and 2019. Of such aggregate amount, a total of RMB30.6 million has been paid between 2015 and 2017, and a further RMB74.8 million is expected to be paid between 2018 and 2019. As at the Latest Practicable Date, there were no corporate guarantees outstanding that were provided by us for the benefit of third party guaranteed parties and we had inserted a clause in our articles of association about a general prohibition on provision of guarantee in favour of any parties other than our subsidiaries. See "Business – Legal Compliance and Risk Management – Legal Proceedings – Legal Proceedings Relating to Corporate Guarantees" for further details.

While we have made provisions for our estimated payment obligations under the Corporate Guarantees in full, there is no assurance that such provisions will be adequate. We may be subject to additional liabilities relating to the Corporate Guarantees because of subsequent adjustments to our payment obligations that are in turn due to actual terms in the repayment agreements reached between relevant banks and us that deviate from our estimate, changes to the terms of such repayment agreements, different calculation of interests over our payment obligations due to interest rates adopted or the ascertainment of the time periods for which interests accrue, or additional claims that subsequently arise relating to the Corporate Guarantees. For example, we made additional provision of RMB2.6 million in 2017 due to an update of the estimated interest expenses relating to our payment obligations in relation to the Corporate Guarantees. Further, we may incur additional costs as we continue to reclaim our payments from the Guaranteed Parties including through legal proceedings, while there is no assurance that we will secure favourable judgements, or such judgements can be successfully enforced, or that we will be able to reclaim the payments in full, or at all. Any of the above may have a material adverse effect on our financial position and results of operations.

Future fluctuations in foreign exchange rates may adversely affect our business, financial condition and results of operations.

While we conduct substantially all of our business operations in the PRC and most of our revenue is denominated in Renminbi, we also derive revenues denominated in foreign currencies, such as from our sales of products overseas. As a result, fluctuations in exchange rates, particularly between the Renminbi, the Euro or the U.S. dollar, could affect our profitability and may result in foreign currency exchange losses of our foreign currency-denominated assets and liabilities. Any depreciation of RMB may adversely affect the value of our net assets and earnings in foreign currency terms, as well as our ability to service our foreign currency obligations.

The exchange rate of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other things, changes in the political and economic conditions in China and globally and the PRC government's fiscal and currency policies. With the development of the foreign exchange market and progress towards interest rate liberalisation and RMB internationalisation, the PRC government may in the future announce further changes to the exchange rate system. We cannot assure you that the Renminbi will not experience significant fluctuation against the Euro or the U.S. dollar in the future.

As at 31 December 2017, our assets denominated in foreign currencies represented approximately 0.5% of our total assets as at the same date and we had no foreign currency-denominated liabilities. If our sales and business operations expand outside of China, our exposure to foreign exchange risk may increase. We have not purchased any forward contracts to hedge our exposure to foreign exchange risk. In line with the development of our overseas businesses, we intend to continue to prudently manage our foreign exchange risk. However, significant foreign exchange fluctuations may have an adverse impact on our business, financial condition and results of operations.

We are exposed to risks relating to our planned use of proceeds from the Global Offering.

We plan to use the proceeds from the Global Offering for (i) our intelligent gas flowmeter modification and upgrade project, (ii) our construction project of Internet-of-Things gas measurement, transmission and distribution management platform, (iii) our flowmeter testing and inspection laboratory project, and (iv) working capital related to our principal businesses and other general corporate purposes. For details, see "Future Plans and Use of Proceeds".

We are exposed to various risks relating to our planned use of proceeds and the implementation of the projects as mentioned above (the "**New Projects**"). Such risks include, without limitation, the following:

- if we fail to secure additional purchase orders from both existing and new customers and expand our sales in the future due to economic downturn, market contraction, competition or other factors, we may be unable to fully utilize the increased production capacity contributed by the New Projects;

- we may experience delays, cost overrun and other technical and operational difficulties in the implementation of the New Projects;

- we may be unsuccessful in our R&D to be carried out as part of the New Projects due to technological difficulties, failure to recruit and retain a suitable team of R&D personnel and competing IP registration from our competitors; and

- we may otherwise fail to realise returns from the New Projects as expected, or at all.

Further, we plan to use part of the proceeds of the Global Offering for the intelligent gas flowmeter modification and upgrade project, which involves significant capital expenditures for the purchase of equipment. Such project may not generate profit as we expected, or at all, while at the same time may significantly increase our depreciation expenses, resulting in a negative impact on our profitability and cost structure. If any of the above risk materialises, it may have a material adverse impact on our business, results of operations and financial condition.

RISK RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in China's economic, political and social conditions as well as governmental policies could affect our financial condition and results of operations.

The majority of our business, assets and operations are located in China. China's economy differs from the economies of most developed countries in many respects, including the structure of economy, level of government involvement, level of development, growth rate, control of capital investment, control of foreign currency and allocation of resources.

For the past four decades, the PRC government authorities have implemented economic reform measures to emphasise the utilisation of the market as a determining factor in resource allocation. The PRC government authorities from time to time implement various macroeconomic and other policies and measures, including contractionary or expansionary policies and measures at times of or in anticipation of changes in China's economic conditions, with an overall purpose of sustaining economic stability and utilising new sources of economic growth. Economic reform measures, however, may be adjusted, modified or applied inconsistently from industry to industry or across different regions of the country, as economic reform is a developing process. As a result, we may meet difficulties in implementing such measures and may be adversely affected by the implementation of such measures. In addition, it cannot be accurately predicted whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, financial condition and results of operations.

Extraordinary events such as natural calamities, public health epidemics, political unrest, terrorist attacks and other catastrophes could adversely affect our business operations and financial performance.

The PRC has experienced natural calamities in recent years such as earthquakes, floods, droughts, extreme rain, snow and freezing weather, and typhoons. Further, an outbreak of any widespread public health problem in the PRC, such as Severe Acute Respiratory Syndrome, avian influenza or H1N1 and H7N9 influenza, could negatively affect our business, financial condition and results of operations. Our operations may be affected by a number of health-related factors, including quarantines of our facilities and employees and travel restrictions.

Uncertainties with respect to the PRC legal system could limit the protections available to us.

The PRC legal system is similar to a civil law system based on written statutes. Unlike in common law systems, prior court decisions may be cited for reference but have limited precedential value. Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. However, since many laws, rules and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. For example, we may have to resort to administrative and court proceedings to enforce the legal protections that we enjoy either by law or contract. Since PRC administrative and court authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate and predict the outcome of PRC administrative and court proceedings and the level of legal protection we enjoy in China as compared to more developed legal systems. These uncertainties may impede our ability to enforce our contracts with future partners, service providers and suppliers. The effect of future developments in the PRC legal system cannot be predicted, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

The PRC government's control over foreign currency conversion may limit our foreign exchange transactions, including dividend payment to holders of our H Shares.

Currently, the Renminbi cannot be freely converted into any foreign currency, and conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. There is no assurance that, under a certain exchange rate, we will have sufficient foreign exchange to meet our foreign exchange requirements. Under the current PRC foreign exchange control system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following the completion of the Global Offering, do not require prior approval from SAFE, but we are required to comply with certain procedural requirements regarding such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licences to carry out such foreign exchange business and other procedural requirements. Foreign exchange transactions under the capital account conducted by us, however, must be approved in advance by SAFE and other appropriate government authorities.

Under existing foreign exchange regulations, following the completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, we could not rule out the possibility that the PRC government may, at its own discretion, take measures to restrict relevant foreign exchange policies regarding payment of dividends in the future. In addition, any insufficiency of foreign exchange may restrict our ability to obtain sufficient foreign exchange for dividend payments to our Shareholders or to satisfy any other foreign exchange requirements.

Investors of our H Shares may become subject to PRC income tax.

Under current PRC tax laws, regulations and rules, non-PRC resident individuals and non-PRC resident enterprises are subject to different tax obligations with respect to the dividends paid to them by us or the gains realized upon the sale or other disposition of H Shares. In general, non-PRC resident individuals are required to pay PRC individual income tax at a 20% rate under China's Individual Income Tax Law. We are required to withhold such tax from dividend payments, unless applicable tax treaties between the PRC and the jurisdictions in which the foreign individuals reside reduce or provide an exemption for the relevant tax obligations.

For non-PRC resident enterprises that do not have establishments or premises in China, or have establishments or premises in China but their income is not related to such establishments or premises, under the EIT Law, dividends paid by us and the gains realized by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC enterprise income tax at a 10% rate subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the residence of the relevant non-PRC resident enterprise.

There remains uncertainty as to the interpretation and application of the relevant PRC tax laws by the PRC tax authorities, including the taxation of capital gains by non-PRC resident enterprises, and individual income tax on gains realized on the sale or other disposition of H Shares. The PRC tax laws, rules and regulations may also change. If there is any change to applicable tax laws and interpretation or application with respect to such laws, the value of your investment in our H Shares may be materially affected.

It may be difficult to effect service of process in relation to disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC.

Part of our assets are located in the PRC. As the PRC has not entered into treaties or arrangements providing for the recognition and enforcement of judgement made by courts of most other jurisdictions, there is no assurance that you will be able to effect service of process in connection with disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us or our management who reside in the PRC.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (the "**Arrangement**"). Under such Arrangement, where any designated people's court of the PRC or any designated Hong Kong court has made an enforceable final judgement requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court of the PRC or Hong Kong court for recognition and enforcement of the judgement. The Arrangement came into effect on 1 August 2008, but the outcome and enforceability of any action brought under the Arrangement is still uncertain.

RISKS RELATING TO THE GLOBAL OFFERING

No prior public market for our H Shares exists, an active trading market for our H Shares may not develop, and their trading prices may fluctuate significantly.

Prior to the Global Offering, there was no public market for our H Shares. There can be no assurance that an active trading market for our H Shares will develop and be sustained following the Global Offering. In addition, the initial Offer Price of our H Shares is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us, and may not be indicative of the market price of our H Shares following the completion of the Global Offering.

If an active public market for our H Shares does not develop after the Global Offering, the market price and liquidity of our H Shares could be materially and adversely affected. In addition, the trading price and trading volume of the H Shares may be subject to significant volatility as a result of various factors, including:

- variations in our operating results or differences between our operating results and those anticipated by investors and analysts;
- changes in securities analysts' estimates of our financial performance; announcements made by us or our competitors;
- regulatory developments or market changes in China affecting us or the industries in which we participate;
- any business interruptions resulting from natural disasters or accidents;
- investors' perception of us and of the investment environment in Asia, including Hong Kong and China;
- announcements of or completions of acquisitions, strategic alliances or joint ventures by us or our competitors;
- additions to, or departure of, our key personnel;
- release or expiration of lock-up or other transfer restrictions on our Shares;
- liability claims brought against us;
- involvement in litigation; and
- general political, economic, financial, social development and stock market conditions and other factors.

Future sales or a substantial number of our Shares or issuance of new Shares in public markets could adversely affect the prevailing market price of our H Shares and our ability to raise capital in the future.

The market price of our H Shares could decline as a result of future sales of a substantial number of our Shares or other securities relating to our Shares in the public market, or the issuance of new Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or anticipated sales, of substantial amounts of our securities, including any future offerings, could also materially and adversely affect our ability to raise capital at a time and on terms favourable to us. In addition, our shareholders may experience dilution in their holdings to the extent we issue additional securities in future offerings. New equity or equity-linked securities issued by the Company may also confer rights and privileges that take priority over those conferred by the H Shares.

The conversion of a significant number of Domestic Shares into H Shares may seriously harm the prevailing market price of our H Shares.

The Domestic Shares can be converted into H Shares, if the conversion and trading of H Shares so converted shall have been duly completed pursuant to requisite internal approval process and the approval from the relevant PRC regulatory authorities, including the CSRC. In addition, such conversion and trading must, in all aspects, comply with the regulations promulgated by the securities regulatory authority under the State Council and the regulations, requirements and procedures of the Hong Kong Stock Exchange. If a significant number of Domestic Shares are converted into H Shares, the supply of H Shares may be substantially increased, which could materially and adversely affect the prevailing market price of our H Shares.

There will be a time gap of several business days between pricing and the commencement of trading of our H Shares offered under the Global Offering.

The Offer Price of our H Shares sold to the public under the Global Offering will be determined on the Price Determination Date. However, trading of our H Shares on the Hong Kong Stock Exchange will not commence until they are delivered, which is expected to be several business days after the Price Determination Date. During that period, investors of our H Shares may not be able to sell or otherwise deal in our H Shares. Accordingly, holders of our H Shares may be subject to the risk that our H Share trading price could fall before trading begins as a result of adverse market conditions or other unfavourable circumstances that may arise during the period between the Price Determination Date and the date on which the dealing begins.

Investors for the Shares will incur an immediate and substantial dilution as a result of the Global Offering and may experience further dilution if we issue additional Shares in the future.

The Offer Price of the Offer Share is substantially higher than the net tangible book value per Share. Therefore, investors of the Offer Shares will experience an immediate and substantial dilution in net tangible book value per Share as a result of the Global Offering.

We may need to raise additional funds due to changes in business conditions, or to finance our future plans, whether in relation to our existing operations, or any acquisitions. If additional funds are raised by way of issuing Shares or equity-linked securities other than on a pro-rata basis to existing Shareholders, shareholding percentage of our existing Shareholders may be reduced, the earnings per Share and the net tangible asset value per Share would diminish and/or such newly issued securities may have rights, preferences and privileges superior to those of the Shares of the existing shareholders.

Dividends distributed in the past may not be indicative of our dividend policy in the future.

The amount of dividends we have paid historically is not indicative of our future performance or the amount of dividends that may be paid in the future. In 2015, 2016 and 2017, we paid dividends of RMB28.5 million, RMB29.1 million and RMB36.3 million, respectively, to our then equity holders. Any future declaration of dividends will be proposed by our Board and the amount of any dividends will depend on various factors, including our financial condition, results of operations, prospects, capital adequacy levels and other factors that our Board may determine to be important. For future information of our dividend policy, see "Financial Information – Dividend Policy". We cannot guarantee if and when we will pay dividends in the future.

You should only place reliance on information released by us including this prospectus, the Application Forms and other formal announcements made with respect to the Global Offering, and not place any reliance on any information contained in press articles or other media when making your investment decision.

We have not authorised anyone to provide you with information that is not contained in this prospectus and the Application Forms. Any financial information, financial projections, valuations, and other information purportedly about us contained in any press articles or other media have not been authorised by us and we make no representation as to the appropriateness, accuracy, completeness, or reliability of any such information or publication, and accordingly do not accept any responsibility for any such press or media coverage or the inaccuracy or incompleteness of any such information. In making your decision as to whether to purchase our H Shares, you should rely solely on the information in this prospectus, the Application Forms and other formal announcements made with respect to the Global Offering.

Forward-looking statements contained in this prospectus are subject to risks and uncertainties.

This prospectus contains certain statements and information that are forward-looking and uses forward-looking terminology such as "anticipate," "believe," "could," "going forward," "intend," "plan," "project," "seek," "expect," "may," "ought to," "should," "would" or "will" and similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Hong Kong Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

In preparation for the Global Offering, the Company has sought the following waivers from strict compliance with the relevant provisions of the Listing Rules.

WAIVER IN RELATION TO MANAGEMENT PRESENCE IN HONG KONG

Pursuant to Rules 8.12 and 19A.15 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Since most of the business operations of the Company and our subsidiaries are managed and conducted in the PRC, and our executive Directors ordinarily reside in the PRC, we do not and, for the foreseeable future, will not contemplate that we will have sufficient management presence in Hong Kong for the purpose of satisfying the requirements under Rules 8.12 and 19A.15 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements under Rules 8.12 and 19A.15 of the Listing Rules, subject to the following conditions. In order to maintain effective communication with the Stock Exchange, we will put in place the following measures between the Stock Exchange and us:

1. We have appointed Mr. Huang Youliang and Mr. Chan Chun Wai as our authorised representatives ("**Authorised Representatives**") to comply with Rule 3.05 and 19A.07 of the Listing Rules. The authorised representatives will act as the Company's principal channel of communication with the Stock Exchange. The Authorised Representatives will be readily contactable by telephone, facsimile and email to deal with such enquiries from the Stock Exchange in time and will also be available to meet with the Stock Exchange to discuss any matters within a reasonable period of time upon request of the Stock Exchange. The Company will also inform the Stock Exchange promptly in respect of any changes in the Authorised Representatives;

2. When the Stock Exchange wishes to contact the Directors on any matter, each of the Authorised Representatives will have all necessary means to contact all of our Directors (including our independent non-executive Directors) and senior management team promptly at all times. We have provided the Stock Exchange with the contact details (i.e. mobile phone number, office phone number, fax number and email address) of each Director to facilitate communication with the Stock Exchange. In the event that a Director expects to travel, he will endeavour to provide the telephone number of the place of his accommodation to the authorised representatives or maintain an open line of communication via his mobile telephone;

3. In addition to the appointment of the Authorised Representatives, Mr. Chan Chun Wai ("**Mr. Chan**"), as one of our joint company secretaries and a Hong Kong resident, will, among other things, act as the Company's additional channel of communication with the Stock Exchange and be able to answer queries from the Stock Exchange. Mr. Chan will maintain in contact with our Directors and senior management through various means, including regular meetings and telephone discussions whenever necessary;

4. Each Director who does not ordinarily reside in Hong Kong possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period;

5. We have appointed ABCI Capital Limited as our compliance advisor (the "**Compliance Advisor**") upon listing pursuant to Rule 3A.19 of the Listing Rules for a period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date. The Compliance Advisor will have access at all times to our Authorised Representatives, the Directors and other senior management and act as the additional channel of communication with the Stock Exchange when the Authorised Representatives are not available; and

6. We have provided the Stock Exchange with the names, mobile phone numbers, office phone numbers, fax numbers and email addresses of at least two of the Compliance Advisor's officers who will act as the Compliance Advisor's contact persons between the Company and the Stock Exchange pursuant to Rule 19A.06(4) of the Listing Rules. Pursuant to Rule 19A.05(2) of the Listing Rules, we shall ensure that the Compliance Advisor will have access at all times to our Authorised Representatives, our Directors and other officers. We shall also ensure that such persons will promptly provide such information and assistance as the Compliance Advisor may need or may reasonably request in connection with the performance of the Compliance Advisor's duties as set forth in Chapter 3A and Rule 19A.06 of the Listing Rules. We shall ensure that there are adequate and efficient means of communication among the Company, our Authorised Representatives, our Directors, and other officers and the Compliance Advisor, and will keep the Compliance Advisor fully informed of all communications and dealings between us and the Stock Exchange.

WAIVER IN RELATION TO APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rules 3.28 and 8.17 of the Listing Rules, we must appoint a company secretary who, by virtue of his/her academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of the company secretary. Note 1 to Rule 3.28 of the Listing Rules further provides that the Stock Exchange considers the following academic or professional qualifications to be acceptable:

(a) a member of The Hong Kong Institute of Chartered Secretaries;

(b) a solicitor or barrister as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong); and

(c) a certified public accountant as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong).

In assessing the "relevant experience," the Stock Exchange will consider the individual's:

(i) length of employment with the issuer and other issuers and the roles he/she played;

(ii) familiarity with the Listing Rules and other relevant laws and regulations including the SFO, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Takeovers Code;

(iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

(iv) professional qualifications in other jurisdictions.

The Company has appointed Ms. Lin Zichan ("**Ms. Lin**") as one of the joint company secretaries. She has extensive experience in board and corporate management matters but presently does not possess any of the qualifications under Rules 3.28 and 8.17 of the Listing Rules, and may not be able to solely fulfil the requirements of the Listing Rules. Therefore, we have appointed Mr. Chan, a member of the Hong Kong Institute of Certified Public Accountants, who fully meets the requirements stipulated under Rules 3.28 and 8.17 of the Listing Rules to act as the other joint company secretary and to provide assistance to Ms. Lin for an initial period of three years from the Listing Date to enable Ms. Lin to acquire the "relevant experience" under Note (2) to Rule 3.28 of the Listing Rules so as to fully comply with the requirements set forth under Rules 3.28 and 8.17 of the Listing Rules.

Mr. Chan will work closely with Ms. Lin to jointly discharge the duties and responsibilities as company secretary and assist Ms. Lin to acquire the relevant experience as required under Rules 3.28 and 8.17 of the Listing Rules. Ms. Lin will also be assisted by (a) the Compliance Advisors of the Company for the first full financial year from the Listing Date, particularly in relation to Hong Kong corporate governance systems and compliance issues; and (b) the Hong Kong legal advisors of the Company, on matters concerning the Company's ongoing compliance with the Listing Rules and the applicable laws and regulations. In addition, Ms. Lin will endeavour to attend relevant trainings and familiarise herself with the Listing Rules and duties required for a company secretary of a PRC issuer listed on the Stock Exchange.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for an initial period of three years from the Listing Date, and is granted on the condition that we engage Mr. Chan, who possesses all the requisite qualifications required under Rule 3.28 of the Listing Rules, to assist Ms. Lin in discharging her duties as a joint company secretary and in gaining the "relevant experience" as required under Note 2 to Rule 3.28 of the Listing Rules.

Before the end of the initial three-year period, the qualifications of Ms. Lin will be re-evaluated to determine whether the requirements as stipulated in Rules 3.28 and 8.17 of the Listing Rules can be satisfied and whether the need for ongoing assistance will continue. In the event Ms. Lin fulfils all the requirements stipulated at the end of the initial three-year period, the above joint company secretary arrangement would no longer be necessary for the Company.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving our information to the public with regard to the Company. Our Directors, having made all reasonable enquiries confirm that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement set out in this prospectus misleading.

CSRC APPROVAL

The CSRC issued an approval letter on 28 May 2018 for our Global Offering and application to list the H Shares on the Hong Kong Stock Exchange. In granting such approval, neither the CSRC accepts any responsibility for our financial soundness, nor do they accept any responsibility for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with shares should, under any circumstances, represent that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as at any date subsequent to the date of such information.

For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Offer Shares are offered for subscription or sale solely on the basis of the information contained and representations made in this prospectus and the Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters, any of their respective directors, agents, employees or advisors or any other party involved in the Global Offering.

OFFER SHARES FULLY UNDERWRITTEN

The listing of our H Shares on the Hong Kong Stock Exchange is sponsored by the Sole Sponsor. The Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters listed in the section headed "Underwriting" and is subject to the Hong Kong Underwriting Agreement between us and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Offer Price to be agreed on the Price Determination Date. The International Offering is expected to be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement.

If, for any reason, the Offer Price is not agreed among us and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) on or before 11 July 2018, the Global Offering will not proceed and will lapse. For full information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

PROCEDURES FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for Hong Kong Offer Shares are set out in the section headed "How to Apply for Hong Kong Offer Shares" and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

OVER-ALLOTMENT OPTION AND STABILISATION

In connection with the Global Offering, the Stabilising Manager or any person acting for it may over-allot H Shares or effect any other transactions with a view to stabilising and maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising action.

In connection with the Global Offering, the Company is expected to grant to the International Underwriters the Over-allotment Option, which is exercisable in full or in part by the Sole Global Coordinator (on behalf of the International Underwriters) no later than 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Company may be required to issue or sell at the Offer Price up to an aggregate of additional 2,594,500 H Shares, representing approximately 15.0% of the total number of H Shares initially available under the Global Offering to, cover over-allotment in the Global Offering, if any.

Details of the arrangements relating to the Over-allotment Option and stabilisation are set out in the section headed "Structure of the Global Offering" in this prospectus.

RESTRICTIONS ON OFFERING AND SALE OF H SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his/her/its acquisition of the Hong Kong Offer Shares to, confirm that he/she/it is aware of the restrictions on offering and sale of the Hong Kong Offer Shares described in this prospectus and the Application Forms.

No action has been taken to permit a public offering of the H Shares in any jurisdiction other than Hong Kong, or the distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the Application Forms and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S.

APPLICATION FOR LISTING OF THE H SHARES ON THE HONG KONG STOCK EXCHANGE

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the granting of listing of, and permission to deal in, our H Shares to be issued pursuant to the Global Offering (including any additional H Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option).

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the permission for the H Shares to be listed the Hong Kong Stock Exchange pursuant to this prospectus has been refused before the expiration of three weeks from the date of the closing of the Global Offering or such longer period not exceeding six weeks as may, within the said three weeks, be notified to us by or on behalf of the Hong Kong Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

COMMENCEMENT OF DEALING IN THE H SHARES

Dealings in the H Shares on the Hong Kong Stock Exchange are expected to commence at 9:00 a.m. on 13 July 2018. Except for our application to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the H Shares, no part of our share or loan capital is listed on or dealt in on the Hong Kong Stock Exchange or any other stock exchange and, saved as disclosed in the "Share Capital" section of this prospectus, no such listing or permission to list is being or proposed to be sought in the near future.

H SHARE REGISTER AND STAMP DUTY

All of the Offering Shares will be registered on the H Share register of members of the Company maintained by our H Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong. Our register of members will also be maintained by us at our legal address in the PRC.

Dealings in the H Shares registered on the H Share register of members of the Company in Hong Kong will be subject to Hong Kong stamp duty. The stamp duty is charged to each of the seller and purchaser at the *ad valorem* rate of 0.1% of the consideration for, or (if greater) the value of, the H Shares transferred. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of the H Shares. In addition, a fixed duty of HK$5 is charged on each instrument of transfer (if required).

DIVIDENDS PAYABLE TO HOLDERS OF H SHARES

Unless determined otherwise by the Company, dividends payable in respect of our H Shares will be paid to the Shareholders listed on the H Share register of the Company in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder of the Company.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

In accordance with the requirements of Rule 19A.52 of the Listing Rules, we have instructed the H Share Registrar, and the H Share Registrar has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless the holder delivers a signed form to the H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

(i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Special Regulations and our Articles of Association;

(ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we, acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which shall be final and conclusive;

(iii) agrees with us and each of our Shareholders that our H Shares are freely transferable by the H Shares holders thereof; and

(iv) authorises us to enter into a contract on his/her/its behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

Persons applying for or purchasing H Shares under the Global Offering are deemed, by their making an application or purchase, to have represented that they are not close associates (as defined in the Hong Kong Listing Rules) of any of the Directors or an existing Shareholder or a nominee of any of the foregoing.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Hong Kong Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisors as to the taxation implications of subscribing for, purchasing, holding or disposal of, and/or dealing in the H Shares or exercising rights attached to them. None of us, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding, disposition of, or dealing in, or the exercise of any rights in relation to, the H Shares.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Renminbi have been converted, for the purpose of illustration only, into Hong Kong dollars in this prospectus at RMB0.81835 to HK$1.00 (being the prevailing exchange rate on 19 June 2018 set by the SAFE)

No representation is made that any amounts in Renminbi or Hong Kong dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Provided, however, that translated English names of Chinese laws and regulations, governmental authorities, departments, entities (including our subsidiary), institutions, natural persons, facilities, certificates, titles and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only, and in the event of such inconsistency, the Chinese name prevails.

ROUNDING

Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

INFORMATION AND STATISTICS RELATING TO OUR INDUSTRY RANKING

This prospectus contains certain industry ranking information and statistics about our various business lines. These industry ranking information and statistics are based on data from Frost & Sullivan and certain publicly available government sources. Unless otherwise expressly specified, all the industry rankings are rankings for the PRC industrial & commercial natural gas flowmeter industry. For more details, please refer to the section headed "Industry Overview".

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Hong Zuobin (洪作斌)	Room 2503, Building 35 Tianhe Homeland Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Mr. Huang Youliang (黃友良)	Room 304, Building 5 Jiangwan Community Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Mr. Yin Xingjing (殷興景)	Room 601, Building 30 Yihe City Homeland Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Mr. Zhang Shengyi (章聖意)	Room 3602, Building B Jinshun Jiayuan Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Ms. Lin Zichan (林姿嬋)	Room 502, Building 10 No. 27 Xinjian Community Lingxi Town Cangnan County Zhejiang Province PRC	Chinese

Name	Address	Nationality
Mr. Lin Zhongzhu (林中柱)	Room 101, Building 1 Jiangwan Community Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Mr. Lin Jingdian (林景殿)	No. 84 Gongren Road Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Non-executive Directors		
Mr. Ye Xiaosen (葉小森)	Room 402, No.85 Zhenfu Road Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Mr. Hou Zukuan (侯祖寬)	Room 1906, Jinyuan Building Jiangwan Road Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Independent non-executive Directors		
Mr. Wong Hak Kun (王克勤)	Flat 1, 13/F, Block A Nicholson Tower 8 Wongneichung Gap Road Hong Kong	Chinese
Mr. Ng Jack Ho Wan (吳浩雲)	Flat A, 50/F, Tower 6 Lake Silver 599 Sai Sha Road Ma On Shan, New Territories Hong Kong	Chinese
Mr. Wang Jingfu (王靖甫)	Room 1702, Unit 3, Building 11 Lanse Qianjiang Apartment Hangzhou Zhejiang Province PRC	Chinese

Name	Address	Nationality
Mr. Li Jing (李靜)	20/F, North Tower Anno Domini Building 8 Qiushi Road Hangzhou Zhejiang Province PRC	Chinese
Mr. Su Zhongdi (蘇中地)	Room 502, Unit 2, Building 12 Qingshui Wan Shanshui Renjia Tianmushan Road West Lake District Hangzhou Zhejiang Province PRC	Chinese

SUPERVISORS

Name	Address	Nationality
Mr. Huang Xijun (黃希俊)	Room 601, Buildings 14-23 Damen Fourth Street Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Mr. Ye Sigong (葉思共)	Room 304, Building 2 Tangbei Mingzhu Yuan Lingxi Town Cangnan County Zhejiang Province PRC	Chinese
Mr. Zhou Xiaoding (周孝定)	No. 3-1, Unit 4 32 Nancheng Avenue Nanan District Chongqing PRC	Chinese

Further information is disclosed in the section headed "Directors, Supervisors and Senior Management" of this prospectus.

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor, Sole Global Coordinator and Sole Bookrunner	**ABCI Capital Limited** 11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
Legal Advisors to the Company	***As to Hong Kong and US law*** Herbert Smith Freehills 23/F Gloucester Tower 15 Queen's Road Central Hong Kong ***As to PRC law*** Haiwen & Partners 20/F, Fortune Financial Center 5 Dong San Huan Central Road Chaoyang District, Beijing China
Legal Advisors to the Sole Sponsor and the Underwriters	***As to Hong Kong law*** Deacons 5/F Alexandra House 18 Chater Road Central Hong Kong ***As to PRC law*** King & Wood Mallesons 17th Floor, One ICC, Shanghai ICC 999 Middle Huai Hai Road Xuhui District Shanghai PRC
Reporting Accountant	**PricewaterhouseCoopers** *Certified Public Accountants* 22/F, Prince's Building Central, Hong Kong
Compliance Advisor	**ABCI Capital Limited** 11/F, Agricultural Bank of China Tower 50 Connaught Road Central Hong Kong
Receiving Bank	**Bank of China (Hong Kong) Limited** 1 Garden Road Central, Hong Kong

Registered Office	Industrial Demonstrative Park Lingxi Town Cangnan County Zhejiang Province PRC
Headquarters and Principal Place of Business in the PRC	Industrial Demonstrative Park Lingxi Town Cangnan County Zhejiang Province PRC
Principal Place of Business in Hong Kong	Flat B, 15/F Kam Chung Commercial Building 19-21 Hennessy Road Wan Chai Hong Kong
Company's Website	**www.zjcnyb.com** (information on the website does not form part of this prospectus)
Joint Company Secretaries	Ms. Lin Zichan Room 502, Building 10 No. 27 Xinjian Community Lingxi Town Cangnan County Zhejiang Province PRC Mr. Chan Chun Wai Flat D, 2/F Block 2, Beacon Heights 2 Lung Ping Road Kowloon Hong Kong *(Certified public accountant in Hong Kong, member of Hong Kong Institute of Certified Public Accountants and fellow member of CPA Australia)*

Authorised Representatives	Mr. Huang Youliang Room 304, Building 5 Jiangwan Community Lingxi Town, Cangnan County Zhejiang Province, PRC
	Mr. Chan Chun Wai Flat D, 2/F Block 2, Beacon Heights 2 Lung Ping Road Kowloon Hong Kong
Nomination Committee	Mr. Hong Zuobin *(Chairman)* Mr. Li Jing Mr. Su Zhongdi Mr. Ye Xiaosen Mr. Wang Jingfu
Audit Committee	Mr. Wong Hak Kun *(Chairman)* Mr. Ng Jack Ho Wan Mr. Su Zhongdi Mr. Wang Jingfu Mr. Hou Zukuan
Remuneration Committee	Mr. Su Zhongdi *(Chairman)* Ms. Lin Zichan Mr. Yin Xingjing Mr. Wong Hak Kun Mr. Ng Jack Ho Wan
H Share Registrar	**Computershare Hong Kong Investor Services Limited** Shops 1712-1716 17/F, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong

Principal Bankers

Agricultural Bank of China,
Cangnan County Sub-branch
125 Yucang Road
Lingxi Town
Cangnan County
Zhengjiang Province
PRC

Bank of China,
Cangnan Lingxi Sub-branch
268 Yucang Road
Lingxi Town
Cangnan County
Zhengjiang Province
PRC

Certain information and statistics set forth in this section and elsewhere in this prospectus have been derived from an industry report, commissioned by us and independently prepared by Frost & Sullivan, in connection with the Global Offering, or the F&S Report. In addition, certain information is based on, or derived or extracted from, among other sources, publications of government authorities and their internal organisations, market data providers, communications with various PRC government agencies or other independent third-party sources unless otherwise indicated. We believe that the sources of such information and statistics are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information and statistics are false or misleading or that any fact has been omitted that would render such information and statistics false or misleading. Our Directors confirm that, after taking reasonable care, they are not aware of any material adverse change in market information since the date of the F&S report that may qualify, contradict or adversely impact the quality of the information in this section. None of the Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner or any other party involved in the Global Offering (except Frost & Sullivan) or their respective directors, advisers and affiliates has independently verified such information and statistics and no representation has been given as to their accuracy. Accordingly, such information should not be unduly relied upon.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to analyse and report on the current status of, and forecasts for, the selected industries in which we operate in China. We agreed to pay Frost & Sullivan a fee of RMB870,000 for the preparation and use of the F&S Report, and our Directors consider that such fee reflects market rates. Unless otherwise indicated, market estimates or forecasts in this section represent Frost & Sullivan's view on the future development of the selected industries in China.

Established in 1961, Frost & Sullivan has conducted industry research and provided market and enterprise strategies, consultancy and training services for several industries, including, among others, automobile, transportation and logistics, chemical engineering, energy and power systems, environmental protection technologies, electronics, information and telecommunication technologies, and medical and healthcare. In preparing the report, Frost & Sullivan has relied on the statistics and information obtained through primary and secondary research. Primary research includes interviewing industry insiders and recognised third-party industry associations, while secondary research includes reviewing corporate annual reports, databases of relevant official authorities, independent research reports and publications, as well as the exclusive database established by Frost & Sullivan over the past decades.

The forecasts were made by Frost & Sullivan based on the following assumptions:

- The social, economic and political conditions in China currently discussed will remain stable during the forecast period;
- Government policies on natural gas flowmeter market and nuclear power equipment market in China will remain unchanged during the forecast period;
- The natural gas flowmeter market and nuclear power equipment market in China will be continuously growing driven by the growing of downstream demand and the improvement of flowmeter technology.

Our Directors confirm, after making reasonable enquiries, that there is no material adverse change in the market information since the date of the F&S Report which may qualify, contradict or have an impact on the information in this section.

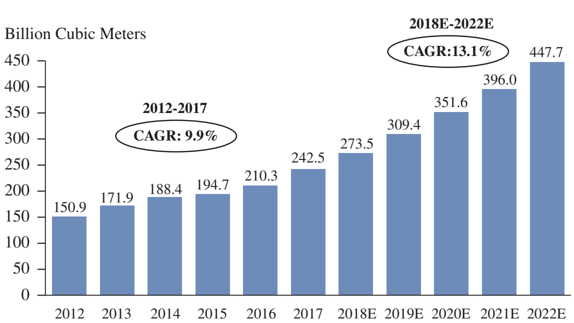
ANALYSIS OF NATURAL GAS MARKET IN CHINA

Overview of Natural Gas Market in China

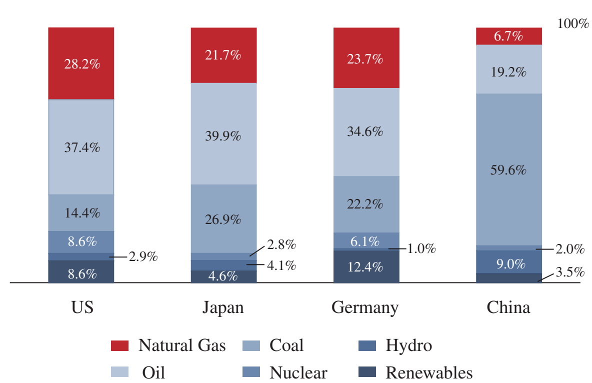
From 2012 to 2017, natural gas market in China witnessed a rapid growth. The consumption volume increased from 150.9 bcm in 2012 to 242.5 bcm in 2017, representing a CAGR of 9.9% while the CAGR of global natural gas consumption volume was approximately 2%.

The development of natural gas resources is encouraged by the Chinese government due to its advantages in environmental protection. In 2017, the proportion of natural gas consumption accounted for 6.7% of the total primary energy consumption in China. However, this proportion is much lower than that of the U.S. (28.2%), Japan (21.7%) and Germany (23.7%). With reference to the 13th FYP, the natural gas consumption volume is expected to reach 447.7 bcm in 2022, representing a CAGR of 13.1% from 2018 to 2022.

Consumption Volume of Natural Gas, China, 2012-2022E



Primary Energy Consumption Structure, U.S., Japan, Germany, China, 2017



Source: National Bureau of Statistics, BP, Frost & Sullivan

The urban natural gas pipeline length in China was approximately 342,800 km in 2012, and additional pipeline of approximately 264,400 km has been laid from 2012 to 2017, representing a CAGR of 12.1%. As natural gas pipelines are important infrastructures of natural gas industry, it is estimated that the urban natural gas pipeline will reach approximately 981,000 km in 2022, representing a CAGR of 10.0% from 2018 to 2022.

Value Chain of Natural Gas Industry in China

The value chain of natural gas industry consists of exploitation, transportation and application. Flow measurement is required in all these three steps, as it serves a fundamental role in natural gas transactions among different players. The instruments that process such flow measurement are flowmeters.

In China's natural gas industry, upstream market is highly concentrated with three large SOEs, namely China National Petroleum Corporation (中國石油天然氣集團公司) ("**CNPC**"), China Petrochemical Corporation (中國石油化工集團公司) ("**Sinopec**") and China National Offshore Oil Corporation (中國海洋石油總公司) ("**CNOOC**"), while the downstream market is relatively dispersed. China Gas Holdings Limited (中國燃氣控股有限公司) ("**China Gas**"), China Resources Gas Group Limited (華潤燃氣控股有限公司) ("**China Resources Gas**"), the Hong Kong and China Gas Company Limited (香港中華煤氣有限公司) ("**Towngas**"), Petrochina Kunlun Gas Co., Ltd. (中石油崑崙燃氣有限公司) ("**Kunlun Gas**") and ENN Energy Holdings Limited (新奧能源控股有限公司) ("**ENN Energy**") are the five major nationwide natural gas suppliers in China, which accounted for nearly 40% of the total natural gas consumption in China in 2017.

Value Chain Analysis of Natural Gas Industry, China

	Upstream	Midstream	Downstream
Step	Exploitation	Transportation	Application
Activity	➢ Gas field exploitation ➢ Shale mining ➢ Oilfield exploitation ➢ Coal mining ➢ Flow Measurement	➢ Pipeline construction and operation ➢ Pipeline transportation ➢ LNG liquidation and transportation ➢ Flow Measurement	➢ Natural gas power generation ➢ Natural gas chemical industry ➢ Urban fuel gas ➢ Compressed natural gas vehicles ➢ Flow Measurement
Major Companies	➢ CNPC ➢ Sinopec ➢ CNOOC	➢ CNPC ➢ Sinopec ➢ CNOOC	➢ China Gas ➢ China Resources Gas ➢ Towngas ➢ Kunlun Gas ➢ ENN Energy ➢ Various local gas suppliers

Source: Frost & Sullivan

Drivers of Natural Gas Industry in China

Environmental Concerns: China has committed itself to a series of targets of improving energy conservation and reducing carbon emission in the Paris Climate Agreement. In order to achieve these targets, the consumption of natural gas is expected to grow due to its environmental protection advantages as clean energy.

Favourable Policies for Natural Gas Industry: China's government has issued a series of policies to promote the development of natural gas. For instance, the 13th FYP has set the objective of increasing the share of natural gas consumption of the total primary energy consumption to 10% by 2020 (6.7% in 2017). In July 2017, the NDRC also issued the *Opinion of Accelerating Natural Gas Utilisation* aiming to further promote natural gas utilisation. The favourable policies are expected to stimulate the fast growth of natural gas industry in China in the coming years.

Coal-to-Gas Switching Projects: To improve environmental protection, the PRC government promotes the reconstruction of boilers from coal-fired to gas-fired and various projects are in progress across China. Key natural gas transmission projects include West-to-East Natural Gas Transmission Project, which provide infrastructure basis for coal-to-gas switching projects. Along with the progress of these projects, the natural gas industry in China is growing accordingly.

Growing Demand for Industrial and Commercial Use: The key downstream markets of natural gas industry, such as industrial boilers, catering and hospitality industry and natural gas vehicles are growing stably. The growing demand for industrial and commercial use of natural gas also stimulates the natural gas industry.

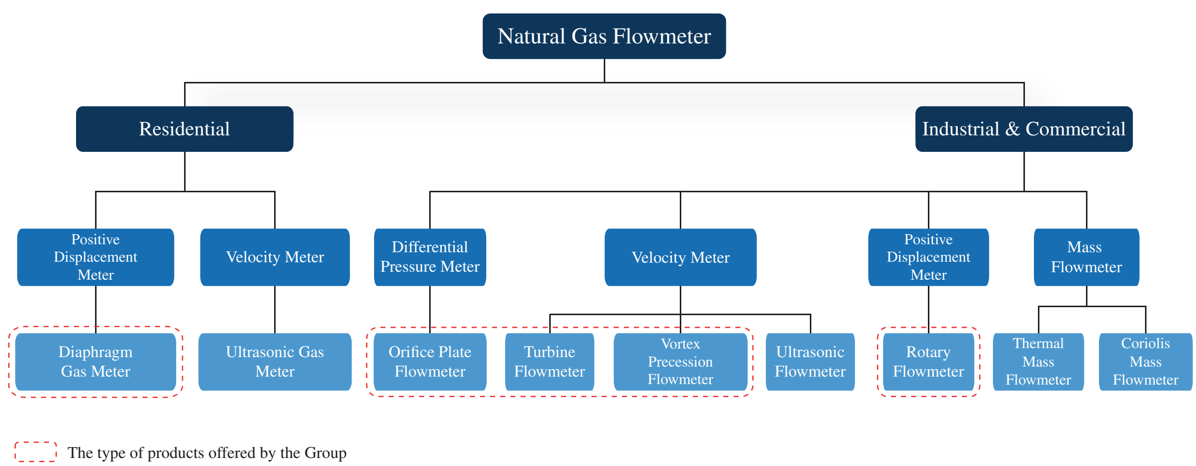
ANALYSIS OF NATURAL GAS FLOWMETER MARKET IN CHINA

Definition and Classification of Natural Gas Flowmeter

The instruments of natural gas flow measurement are called natural gas flowmeters. Flowmeters are precision instruments that measure the volume of gas or liquid flow in a pipe. Natural gas flowmeters are widely used in residential, commercial and industrial sectors in order to calculate the volume of the natural gas produced, transmitted and consumed.

Compared with residential natural gas flowmeters, industrial and commercial natural gas flowmeters have higher standards in terms of accuracy, durability and reliability. Therefore, profit margin of industrial and commercial natural gas flowmeters is generally higher than that of residential natural gas flowmeters.

Classification of Natural Gas Flowmeters



Source: Frost & Sullivan

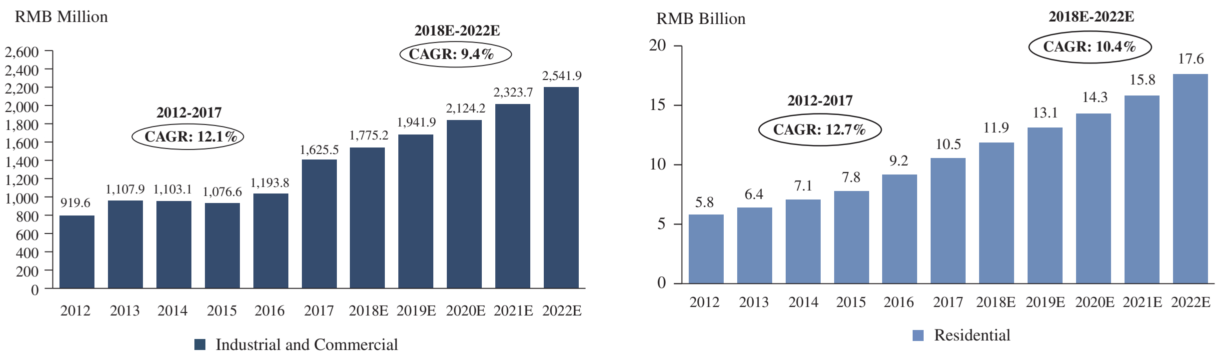
Market Size of Natural Gas Flowmeter Market in China

Benefiting from the intensifying urbanisation and favourable policy environment for natural gas industry in China, both the residential and the industrial and commercial natural gas flowmeter markets have experienced a rapid growth from 2012 to 2017.

The total sales revenue of industrial and commercial natural gas flowmeter market increased from RMB919.6 million in 2012 to RMB1,625.5 million in 2017, representing a CAGR of 12.1% during the period. As the 13th FYP sets an ambitious goal of expanding natural gas use in China, it is expected that the sales revenue will reach RMB2,541.9 million in 2022, representing a CAGR of 9.4% from 2018 to 2021.

As for the residential market, the total sales revenue of residential natural gas meter market reached RMB10.5 billion in 2017, increasing from RMB5.8 billion in 2012 and representing a CAGR of 12.7% during the period. With further developments of urbanisation and emergence of smart gas meters in China, it is estimated that the sales revenue of the residential market will reach RMB17.6 billion in 2022, representing a CAGR of 10.4% from 2018 to 2022.

Sales Revenue of Natural Gas Flowmeter, China, 2012-2022E



Source: Frost & Sullivan

Drivers of Natural Gas Flowmeter Market in China

Rapid Development of Natural Gas Industry: As a type of clean and highly efficient energy, natural gas is crucial for improving the energy structure to become more and more environment-friendly in China. From 2012 to 2017, natural gas industry in China experienced a period of fast development, and the growth is expected to continue between 2018 and 2022. A rapid development of natural gas industry would boost the fast development of natural gas flowmeter market.

Increasing Construction of Natural Gas Pipelines: China's 13th FYP of Natural Gas Development aims to expand the natural gas pipeline network nationwide. It is expected that the total urban natural gas pipeline length will extend to approximately 981,000 km by 2022. The continuous construction of large-scale new natural gas pipeline will lead to an increasing demand of natural gas flowmeters.

Acceleration of Urbanisation: In 2017, the urban population in China was 813.5 million, and the urbanisation rate was approximately 58.5%. With the accelerating urbanisation in China, this rate is expected to exceed 60% by 2022. The intensifying urbanisation in China will result in higher demand for natural gas, which will therefore spur the development of natural gas flowmeter market.

Development Trends of Natural Gas Flowmeter Market in China

More Intelligent Gas Flowmeters: The natural gas flowmetering system is becoming more and more intelligent. Combining the mechanical gas flowmeter, the auto-meter reading system and the online self-service platform, the intelligent gas flowmeter can make the metering system more efficient and accurate. Prepayment gas meters with smart cards have been widely adopted for residential natural gas users and are becoming widely adopted for industrial and commercial natural gas users. Additionally, a smart natural gas network consisted of data collection devices, pipeline inspection system, scheduling system and other management tools can help monitor, analyse and manage the natural gas system more effectively.

New Measurement Technology: With the development of natural gas industry in China, new measurement technology including ultrasonic natural gas flowmeter and energy natural gas flowmeter technology have been introduced in China. Ultrasonic natural gas flowmeters have the advantages of prolonged lifetime, lower noise level and higher precision, which have been accepted in the residential markets in Europe and Japan. Energy natural gas flowmeters are used to measure energy available of natural gas in transaction, and have been adopted in the U.S. and European markets. In the future, more advanced technology may be introduced or invented to satisfy the further development of natural gas industry in China.

Entry Barriers of Natural Gas Flowmeter Market in China

Qualification Requirement: Natural gas flowmeter is a key trade measurement device in the PRC government's list of measurement instrument for compulsory testing, which is managed by the AQSIQ. In addition, enterprises have to obtain China Metrology Certification and Model Approval Certification before producing and selling natural gas flowmeters. In order to acquire such certifications from the PRC government, enterprises need to have strong design and production capabilities and obtain the relevant full performance testing reports. Such certifications are essential, but hard at the same time, for a new entrant to obtain when entering the natural gas flowmeter market.

Technical Capability: In order to keep up with the industry trend of developing more accurate and intelligent gas flowmeters, gas flowmeter providers need to be equipped with more advanced technical capability in software development, control system and measuring accuracy. The core technical capability is the most important strength for these providers to meet higher product requirements, including higher durability of flowmeters under more and more complex natural gas industrial structure and improve the product competence when facing the increasing market competition. It is difficult for a new entrant to master the advanced production technology and R&D capacity when entering the market.

Brand Awareness: Leading natural gas flowmeter providers have already established excellent brand image and creditability, which came from the customer's trust for their product quality and services. As customers often value the proven records of product performances, it is hard for new entrants to establish their records and positive brand images in a short time.

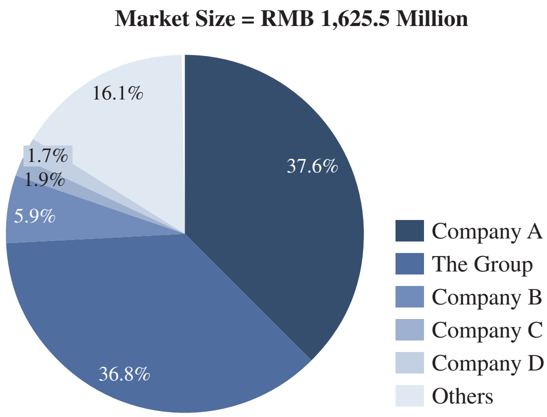
Distribution and Aftersales Service Networks: It is necessary for natural gas flowmeter suppliers to establish sophisticated distribution and aftersales service networks because customers prefer direct services and timely technical support. However, the process of building up and maintaining such networks is costly and time-consuming. It is difficult for new entrants to achieve sophisticated distribution and aftersales service networks in a short time.

Competitive Landscape of Natural Gas Flowmeter Market in China

The market concentration of industrial and commercial natural gas flowmeter market in China is high. Top two suppliers accounted for around 74.4% of the total market by revenue in 2017, and top five suppliers was responsible for 83.9% of the total market in 2017. The Group ranked the second in industrial and commercial natural gas flowmeter market in 2017 with revenue of RMB597.9 million and a market share of 36.8%. Over the past three years, the market share of Cangnan Instrument has been increasing. In 2015 and 2016, the market shares of Cangnan Instrument in industrial and commercial natural gas flowmeter market were respectively 27.6% and 32.4%.

The leading players in this market are more likely to be trusted and preferred by the downstream customers, as the market leaders have significant competitive edges on strong branding, advanced technology, continuous spending on R&D, solid customer relationship, and sophisticated service networks.

Market Share of Industrial and Commercial Natural Gas Flowmeter Suppliers (By Sales Revenue), China, 2017



Rank	Company Name	Sales Revenue (RMB Million)	Market Share
1	Company A	610.7	37.6%
2	The Group	597.9	36.8%
3	Company B	96.0	5.9%
4	Company C	31.5	1.9%
5	Company D	28.4	1.7%
	Others	261.0	16.1%
	Total	1,625.5	100.0%

Source: Frost & Sullivan

The competition landscape of the residential natural gas flowmeter market in China is competitive and fragmented, as there are nearly 100 players in the market and the market entry barriers are lower than those of commercial and industrial natural gas flowmeter market. As a result, the market concentration of the residential natural gas flowmeter market was low in 2017; the total market share in terms of revenue of top five Chinese players in 2017 was less than 20%. In 2017, the revenue of residential natural gas flowmeter of the Group was approximately RMB59.5 million, representing a market share of 0.6%.

ANALYSIS OF NUCLEAR POWER GENERATION MARKET IN CHINA

Generally, the development of nuclear power generation market in China has experienced fast growth over the past several years in terms of installed capacity, although the market was negatively influenced by the Fukushima event. In 2012, the cumulative nuclear installed capacity in China was 12.6 GW, and further increased to 35.8 GW in 2017, representing a CAGR of 23.3%.

It is estimated that China's nuclear power installed capacity will grow at a CAGR of 11.7% from 2018 to 2022, achieving 64.4 GW by 2022.

ANALYSIS OF NUCLEAR POWER EQUIPMENT MARKET IN CHINA

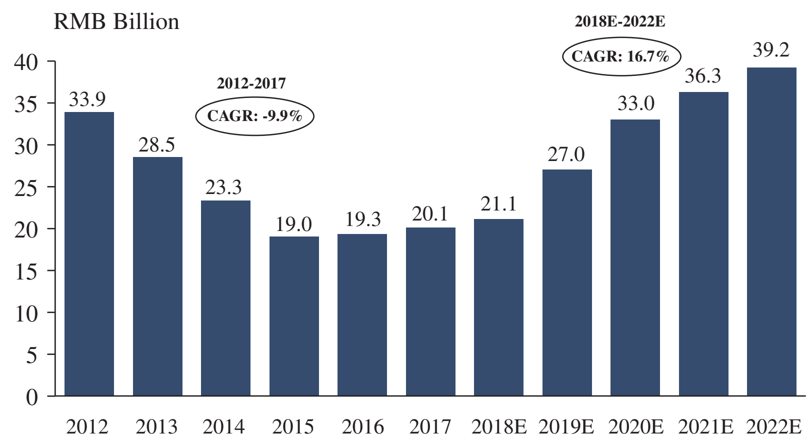
Definition and Classification of Nuclear Power Equipment

Nuclear power equipment refers to the equipment used in nuclear power generation facilities for the operation of nuclear power generation. They can be generally divided into two categories: (i) nuclear-level mechanical equipment, which mainly include nuclear-level pumps, safety valves, pipes and pressure vessels; and (ii) nuclear-level electrical equipment, which mainly include nuclear-level throttling devices, generators and wires. Throttling device for nuclear power generation is the most commonly adopted flowmeter in nuclear plants and is used to measure and control the flow rate of liquid or steam.

Market Size of Nuclear Power Equipment Market in China

Nuclear power equipment market, as a key segment of the overall nuclear power generation market, has fluctuated following the nuclear power generation market. In 2017, the sales revenue of nuclear power generation equipment was RMB20.1 billion, decreasing from RMB33.9 billion in 2012 and representing a CAGR of -9.9% during the period. As China decided to revive the construction of coastal nuclear power generation plants in 2015, it is estimated that nuclear power equipment market will regain positive growth in the upcoming years. It is expected that the sales revenue of nuclear power equipment market in China will reach RMB39.2 billion in 2022, representing a CAGR of 16.7% from 2018 to 2022.

Sales Revenue of Nuclear Power Equipment, China, 2012-2022E



Source: Frost & Sullivan

Drivers of Nuclear Power Equipment Market

Continuous Demand for Nuclear Power Plants: According to the 13th FYP of Energy Development, China plans to promote several advanced third generation pressurised water reactor projects in the coming years, which will drive the demand for nuclear power plant construction. Consequently, more nuclear power equipment will be needed in the period of 13th FYP.

Enhancing Export Opportunities: The Chinese government has been promoting the "Going Out" strategy in the nuclear power field and has realised several achievements. For example, CGN has obtained government approvals to participate in the nuclear power market in the UK. In addition, Pakistan Chashma nuclear power plant, constructed by CNNC, achieved grid connection in June 2017. With China's increasing engagement in the international nuclear power market, it is projected that the export of China-made nuclear power equipment would increase.

Development Trends of Nuclear Power Equipment Market in China

Higher Safety Standards: Nuclear power plants are becoming safer along with technological advancement. From the first generation to the fourth generation of nuclear power, increasing safety consideration have spurred major improvements in terms of safety standards. Accordingly, nuclear power equipment are frequently required to meet higher safety standards with the evolution of nuclear power technology.

Growing International Cooperation: Stimulated by the Chinese government's strategy of "One Belt One Road", the international cooperation between China and other countries in the field of nuclear power is forecasted to be growing. Nuclear power generation is widely desired as a source of clean energy and an effective approach to reduce power shortage. While China's nuclear power industry is becoming more and more sophisticated, it is expected that Chinese nuclear power equipment suppliers will increasingly participate in overseas nuclear power projects.

Entry Barriers of Nuclear Power Equipment Market in China

High Technical Standards: Nuclear power equipment must meet nuclear-level technical requirements, which are higher than those of ordinary thermal power plants. For instance, the measuring devices are required to resist at least a 7.0-magnitude earthquake. Such high standards require more advanced technology, better production techniques, advanced processing equipment and adequate industry experiences. The high technical standards would be highly challenging for new entrants to meet.

Limited Client Resources: There are only three nuclear power generation enterprises in China, namely CNNC, CGN and SPIC. They have little incentive to change their major suppliers because of the complicated certification procedures and uncertain risk of quality. Therefore, new players have no customer resource advantages when competing with existing nuclear power equipment suppliers.

ANALYSIS OF POTENTIAL THREATS OF FLOWMETER MARKET AND NUCLEAR POWER EQUIPMENT MARKET IN CHINA

Rising Raw Material Cost. Prices of aluminum and steel, the key raw materials of natural gas flowmeters, have recorded a declining trend in the past five years due to overcapacity in the market. However, with the further implementation of China's environmental policy and supply-side structural reform, it is expected that the prices of these raw materials will rise in the future as total production capacity decreases in China, which may in turn adversely impact the growth of the natural gas flowmeter market.

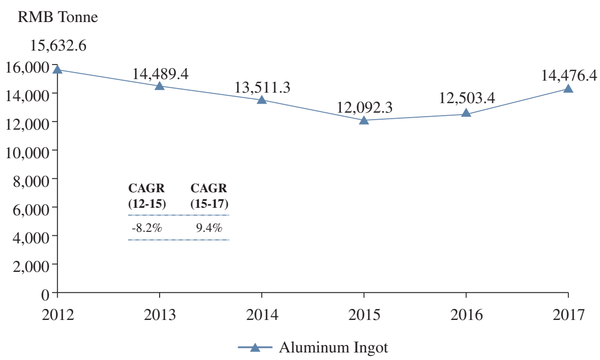
Postponed Launch of Nuclear Power Projects. Although the national policy favors the development of nuclear power generation in China, the launch of new nuclear power projects depends on many factors including the readiness in capital and technology as well as the approval from national regulatory institutions. There is a chance that the schedule of planned new nuclear power projects in China would be postponed. In this situation, the procurement of nuclear power equipment would also be delayed, which may impact the future growth of nuclear power equipment market in China.

ANALYSIS OF RAW MATERIAL COSTS OF FLOWMETER MARKET IN CHINA

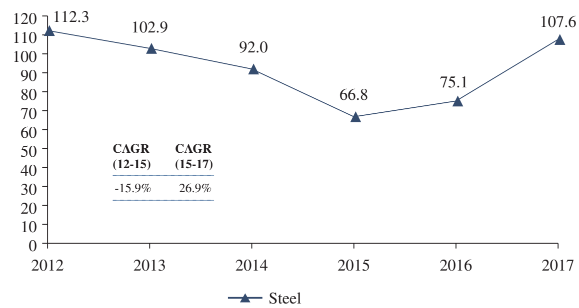
Aluminium and steel are key materials for the shell and component of flowmeters. With the slowdown of China's economy and the overcapacity in the steel and aluminium industry, the price of both aluminium and steel experienced a decrease from 2012 to 2015. The price of aluminium ingot (A00) decreased from RMB15.6 thousand per tonne in 2012 to RMB12.1 thousand per tonne in 2015, and the price index of steel also decreased from 112.3 in 2012 to 66.8 in 2015.

In 2016, the price of coal, iron and alumina began to increase, and the stock of steel and aluminium was decreasing after the capacity was taken off, so that the price of aluminium ingot and steel went up again after the fall. The price of aluminium ingot rose up to RMB12.5 thousand per tonne in 2016, and the price index of steel went back to 75.1 in 2016. In 2017, the price of aluminium ingot and the price index of steel increased to RMB14.5 thousand per tonne and 107.6 respectively. In the following years, the price of steel is expected to keep rising due to the influence of the environmental policies that restrict the production volume of steel. Similarly, as for aluminium, the capacity reduction would further contribute to the increase of aluminium price due to the high cost of restarting capacity.

Average Price of Aluminium Ingot (A00), China, 2012-2017



Price Index of Steel, China, 2012-2017



Notes:

(1) A00 refers to aluminium ingot with the purity no less than 99.7%.

(2) The price index of steel of each year illustrated above are the average of monthly index of the year. (April of 1994=100)

Source: National Bureau of Statistics, China Iron and Steel Association, Frost & Sullivan

In addition, the prices of the electronic components, such as chips and sensors, which the Company uses for manufacturing flowmeters, have generally decreased from 2012 to 2017 due to sufficient supply and decrease in manufacturing costs.

OUR HISTORY AND DEVELOPMENT

The predecessor of the Company, Pingyang County Mazhan Meter Plant (平陽縣馬站儀錶廠), started its business operations in Pingyang in 1977, and was established and registered with the Administration for Industry and Commerce of Cangnan County, Zhejiang Province, in September 1982 under the name of Cangnan Meter Plant (蒼南縣儀錶廠). Cangnan County, Zhejiang Province was historically under the jurisdiction of Pingyang County, and became an independent county in 1981, prior to which, Cangnan Meter Plant used to carry out business operations in Pingyang County, and later registered with the Administration for Industry and Commerce of Cangnan County for establishment under the jurisdiction of Cangnan County after Cangnan County had become an independent county.

Cangnan Meter Plant was a collective enterprise at the county level when it was established in September 1982, and was later restructured to a jointly-managed enterprise under state and collective ownership and collective ownership, and to a joint stock cooperative enterprise in April 1999 and a limited liability company in April 2015. In May 2015, the Company changed its name to Zhejiang Cangnan Instrument Group Limited (浙江蒼南儀錶集團有限公司).

In February 2017, for purposes of the Reorganisation and Listing of the Company, the relevant Shareholders of the Company transferred the Shares in the Company entrusted to them to Huashi LP, Changhua LP, Dongxing LP and Cangyi LP, respectively, at a consideration equal to the registered capital of the Company. In June 2017, 26 natural persons, including Mr. Hong and Mr. Huang, Huashi LP, Changhua LP, Dongxing LP and Cangyi LP entered into the Promoters' Agreement of Zhejiang Cangnan Instrument Group Company Limited. In the same month, the Company converted itself to a joint stock limited company and obtained the updated business licence, with the change of company name to Zhejiang Cangnan Instrument Group Company Limited (浙江蒼南儀錶集團股份有限公司), a registered capital of RMB51.89 million and principal activities of the manufacture and sales of industrial and commercial gas flowmeters.

Development Milestones

Year	Events
1977	Our predecessor, Pingyang County Mazhan Meter Plant, started its business operations in Pingyang.
1982	Cangnan Meter Plant was registered and established.
1998	In response to the requirements of the West-East natural gas transmission project, the Company successfully developed intelligent flow-integrating instruments that enable temperature and pressure compensation, which facilitated its business to expand from the oil fields market to the urban and rural gas market.
1999	The Company completed the joint stock restructuring to become a joint stock cooperative enterprise.
	The Company relocated its office to the Industrial Demonstrative Park, Lingxi Town, Cangnan County, with a site area of 13,610.5 sq.m..
2001	Both LUXZ intelligent vortex precession flowmeter and LWQZ intelligent turbine flowmeter were granted the title of "National Key New Product" (國家重點新產品), marking a breakthrough made in technological innovation after the completion of the corporate restructuring.
	The Company was certified as a High and New Technology Enterprise (高新技術企業) for the first time.
2003	LLQ Series gas roots flowmeter was certified as a recognised high quality product on the provincial level and was put into mass production, thus adding a new competitive product in exploring the urban gas measurement market by the Company.
2005	We entered into an agreement with one of the leading nuclear research and design institutes in China to jointly develop the nuclear-level throttling device used for nuclear power generation stations, marking our entry into the nuclear power generation industry.
2006	Flowmeters that enable pre-payment and wireless remote transfer were developed, which fulfilled our development trend of further building smart and internet-based gas measurement technology.
2007	The "Dongxing" trademark was recognised as a renowned trademark in Zhejiang Province (浙江省著名商標).

Year	Events
2010	The Company entered into a contract with a globally renowned nuclear power magnate for the project of supplying gas measuring orifice plates.
2013	GFO Europe was incorporated.
2014	CNiM-RM series gas roots flowmeter was awarded NMi certification in the Netherlands, marking the satisfaction of EU entry requirements for our products. The LWQG gas turbine flowmeter (with maximum working pressure of 12MPa) was jointly developed by our Company and the gas transmission pipeline company under a leading petroleum company in China
2015	Zhejiang Cangnan Meter Plant was restructured to Zhejiang Cangnan Instrument Limited (浙江蒼南儀表有限公司), and was further renamed as Zhejiang Cangnan Instrument Group Limited (浙江蒼南儀表集團有限公司).
2016	Zhejiang Cangnan Smart Flowmeter Research Institute was recognised by Zhejiang Provincial Department of Science and Technology (浙江省科學技術廳), Zhejiang Provincial Development and Reform Commission (浙江省發展和改革委員會) and Zhejiang Provincial Economic and Information Commission (浙江省經濟和信息化委員會) as a provincial-level enterprise research institute, enabling it to play a guiding and demonstrative role in leading the technical advancement of the industry and implementing the strategy of seeking development through innovation. We took lead in drafting the T/ZZB 0108-2016 Gas Turbine Flowmeter Standard, which is a "Made in Zhejiang" associated standard, and also participated in drafting the T/ZZB 0110-2016 Gas Roots Flowmeter Standard. Our drafting roles indicate the leading positions of our Company in the respective flowmeter segments. Our Company completed the in-house research and development of the cloud-based service management platform, and established our own cloud-based service platform on Alibaba Cloud, with our mobile APP and the cloud-based service platform on WeChat of Cangnan Instrument officially put into use.
2017	Zhejiang Cangnan Instrument Group Limited (浙江蒼南儀表集團有限公司) was restructured and converted into Zhejiang Cangnan Instrument Group Company Limited (浙江蒼南儀表集團股份有限公司).
2018	Our Company disposed of all equity interests in GFO Europe to an Independent Third Party.

OUR SUBSIDIARIES

As at the Latest Practicable Date, our subsidiaries include:

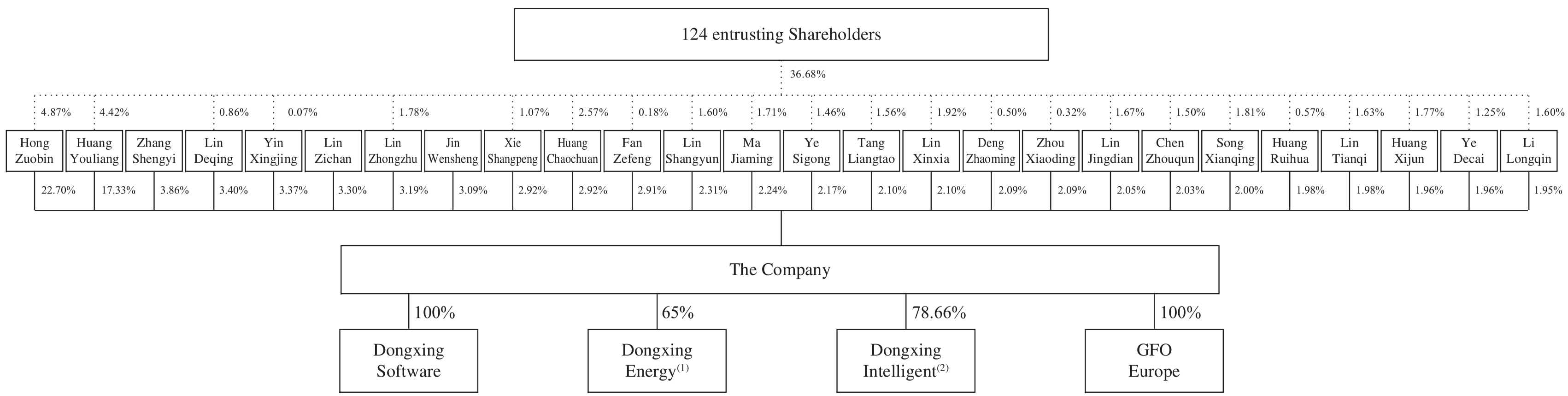
Name of subsidiaries	Place of incorporation	Date of incorporation	Registered capital	Shareholding by the Company	Scope of principal businesses
Dongxing Software	China	14 November 2012	RMB11,902,500	100%	Development and sales of software and hardware technologies; manufacturing and sales of intelligent instruments and meters (excluding measuring instruments and meters); operation of import and export businesses.
Dongxing Energy	China	4 May 2015	RMB20 million	65%	Research, manufacturing and sales of new energy, instruments and meters, petrochemical and nuclear power related equipment, gas equipment and pressure vessel; self-operation and agency of import and export of a variety of goods and technologies.
Dongxing Intelligent	China	4 May 2015	RMB31.80 million	78.66%	Research, manufacturing and sales of gas meters and ancillary products.

REORGANISATION AND CORPORATE STRUCTURE

1 Reorganisation at the level of our shareholders

As at February 2017, the actual shareholders of the Company were 150 natural persons, of which 26 natural persons were registered Shareholders who had registered with the local industrial and commercial authorities and 124 natural persons had entrusted such registered Shareholders to hold shares on behalf of them.

The following chart sets out the corporate structure of our Company prior to the restructuring of entrustment shareholding and its conversion into a joint stock company with limited liability:



Notes:

(1) The minority shareholders of Dongxing Energy are: Xie Shangpeng (10%), Liu Jie (5%), Lin Tianqi (5%), Fang Chuansheng (2.5%), Chen Jian (2.5%), Huang Mihong (2.5%), Huang Chongliang (2.5%), Wei Hongquan (2.5%) and Yan Juequan (2.5%). Except for Xie Shangpeng and Lin Tianqi, all of such minority shareholders are independent third parties. Mr. Xie Shangpang and Mr. Lin Tianqi are both director and senior management member of Dongxing Energy, while Mr. Xie Shangpeng is also a senior management member of the Company.

(2) The minority shareholders of Dongxing Intelligent are: Jin Wensheng (5.33%), Ma Jiaming (5.33%), Dong Kezheng (2.67%), Dong Rugang (2.67%), Fang Zufeng (2.67%) and Ye Decai (2.67%). Except for Jin Wensheng, Fang Zufeng and Ye Decai, all of such minority shareholders are independent third parties. Mr. Jin Wensheng and Mr. Fang Zufeng are both director and senior management member of Dongxing Intelligent, while Mr. Jin Wensheng is also a senior management member of the Company. Mr. Ye Decai is the director and senior management member of Dongxing Energy.

(3) Each of the figures of shareholding by the 26 natural person registered shareholders above is the aggregation of their proprietary shareholding and entrusted shareholding (if any).

(4) As at 1 January 2017, Mr. Hong, the largest shareholder of our Company, held approximately 22.70% in aggregate of the total issued shares of our Company (which comprised of approximately 17.83% and 4.87% for his proprietary shareholding and the entrusted shareholding, respectively).

In anticipation of the Listing and for the purpose of streamlining the shareholding structure, our Company determined to dissolve the abovementioned entrustment shareholding structure prior to the Listing.

In order to dissolve the entrustment shareholding, 124 entrusting Shareholders of the Company, as the limited partners, established four partnership enterprises, i.e. Dongxing LP, Cangyi LP, Changhua LP and Huashi LP, respectively on 14 February 2017 on a pro rata basis pursuant to their respective shareholding in the Company, and then 26 entrusted Shareholders transferred the equity interests in the Company held by them on behalf of such 124 entrusting Shareholders to these four partnership enterprises. The updated business licence was issued to the Company on 7 March 2017 in relation to such transfers.

To dissolve the entrustment shareholding, each of such 124 entrusting Shareholders of the Company issued a letter of confirmation and authorisation in February 2017, confirming that: (1) since 2011, the entrusting Shareholders had entrusted the entrusted shareholders, acting as the entrusted shareholders of the Company in terms of their shareholding, to exercise and perform relevant rights and obligations as contributors on behalves of them; (2) the entrusting Shareholders were the actual holders of the corresponding equity interests, and there were no actual or potential controversy or dispute relating to equity ownership arising from their equity interests in the Company and such entrustment shareholding; (3) the entrusting Shareholders were aware of, agreed on and confirmed the validity of all shareholders' resolutions and other related corporate actions concerning the shares transfer, capital increase, corporate restructure, profit distribution in respect of their shareholding in the Company and the matters of the employee shareholders association related to the equity interests in the Company since the establishment of the Company (including its predecessor Cangnan Meter Plant); (4) the entrusting Shareholders agreed to authorise the entrusted shareholders to transfer their entire equity in the Company and all rights and obligations related thereto under entrustment to the limited partnership enterprises set up by them, and an equity transfer agreement shall be entered into between the entrusted shareholders and such limited partnership enterprises to dissolve the entrustment shareholding; and (5) the formation and release of such entrustment shareholding were made based on true, voluntary and valid willingness of such entrusting Shareholders.

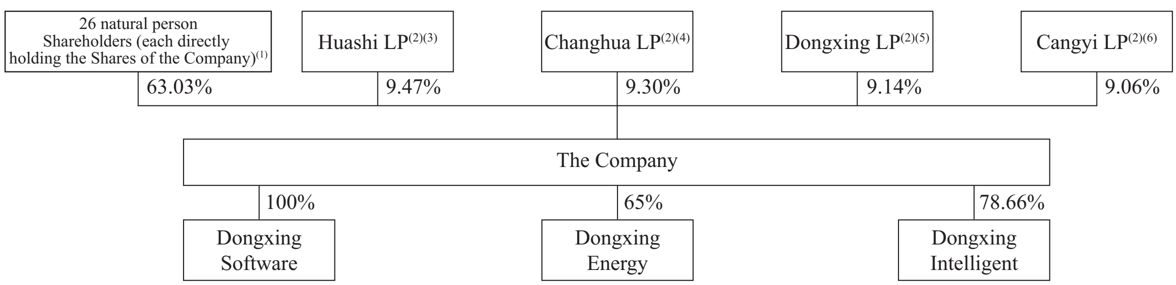
On 14 June 2017, our Company was converted to a joint stock company with limited liability.

2 Disposal of GFO Europe

During the Track Record Period, GFO Europe contributed only a small percentage of our revenue and recorded net losses. Our Board passed a resolution in January 2018 to dispose of GFO Europe based on our unfavourable assessment of its business prospects. The Company entered into an agreement with an Independent Third Party on 25 January 2018 to transfer all the shares held by the Company in GFO Europe at a consideration of US$145,000. The aforementioned consideration of US$145,000 was determined after arm's length negotiation with reference to, as confirmed by the Directors, the net asset value of GFO Europe as at 31 July 2017 according to a valuation report issued by an independent valuer and further adjusted by taking into account the subsequent business operations of GFO Europe based on its management accounts as at 31 December 2017. We expect to record a minimal gain on disposal and therefore do not expect the GFO Europe Transfer to have any significant impact on our financial performance in 2018. Such transfer was completed on 29 January 2018, which marked the exit of the Company from the operations of GFO Europe, and after which, its overseas sales business will be carried out through such channels as overseas direct sales and third-party importers and exporters.

3 Our corporate structure after the Reorganisation

The following chart sets out the shareholding and corporate structure of the Group as at the Latest Practicable Date:



Notes:

(1) The 26 natural person shareholders as at the Latest Practicable Date include: Hong Zuobin (17.83%), Huang Youliang (12.91%), Zhang Shengyi (3.86%), Yin Xingjing (3.30%), Lin Zichan (3.30%), Jin Wensheng (3.09%), Fan Zefeng (2.74%), Lin Deqing (2.54%), Xie Shangpeng (1.85%), Zhou Xiaoding (1.77%), Deng Zhaoming (1.60%), Huang Ruihua (1.42%), Lin Zhongzhu (1.41%), Ye Sigong (0.71%), Lin Shangyun (0.71%), Ye Decai (0.71%), Ma Jiaming (0.53%), Chen Zhouqun (0.53%), Tang Liangtao (0.46%), Lin Tianqi (0.36%), Lin Jingdian (0.31%), Li Longqin (0.28%), Huang Chaochuan (0.28%), Huang Xijun (0.19%), Lin Xinxia (0.18%) and Song Xianqing (0.18%).

(2) Dongxing LP, Cangyi LP, Changhua LP and Huashi LP were established as partnership enterprises in the PRC on 14 February 2017 to effect the shareholding structure reorganisation of the Company prior to the Listing. As at the Latest Practicable Date, the partnership interests of Dongxing LP, Cangyi LP, Changhua LP and Huashi LP are held by 33 natural persons, 32 natural persons, 31 natural persons and 32 natural persons, respectively. For establishment of the partnership enterprises under PRC laws, Mr. Tang Liangtao, Ms Li Longqin, Mr. Huang Chaochuan and Mr. Lin Jingdian serve as the executive partner, holding 0.78%, 0.79%, 0.77% and 0.75% partnership interest, of Dongxing LP, Cangyi LP, Changhua LP and Huashi LP, respectively.

(3) The limited partners of Huashi LP as at the Latest Practicable Date include: Hou Zukuan, Zhang Dujun, Ye Youjian, Wu Fubi, Zheng Desheng, Dong Kehui, Hua Limin, Cai Cunjia, Chen Feifei, Wen Xiaofang, Liu Xihui, Yan Baozhen, Xu Xuezhen, Hong Shula, Zeng Lizhu, Lin Ximei, Lin Mingling, Lin Bigai, Hong Li'na, Zheng Juanping, Zheng Zuluan, Chen Suhua, Zhang Lili, Zhang Zujian, Huang Yuanhong, You Shichao, Hou Aidi, Yan Gezi, Chen Xiaohong, Zheng Chaoxue and Cai Jun.

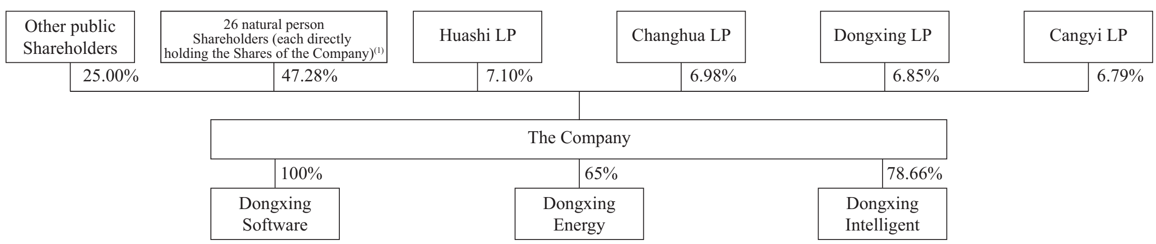
(4) The limited partners of Changhua LP as at the Latest Practicable Date include: Ye Xiaosen, Fan Zeyi, Xia Xihong, Liang Yisong, Hou Suling, Dong Xiaohong, Chen Liyun, Lin Chunhong, Xia Subin, Chen Baoyu, Fan Ai'e, Liao Jianhua, Zhang Shuping, Zeng Meijiao, Jin Rongrong, Zhang Yuling, Hua Zuqi, Zhang Zuzhen, Xiang Lihe, Yan Cuilan, Cai Shengxue, Li Piyi, Lin Shuyun, Zhu Meilian, Wu Lifen and Zhou Qianfen, Chen Lihui, Fang Xiaobao, Fan Xuqun and Huang Zhidong.

(5) The limited partners of Dongxing LP as at the Latest Practicable Date include: Xu Xiaoyang, Zhou Chongyin, He Kongming, Zhou Yitie, Jiang Xianpin, Zhuo Buxuan, Chen Qihui, Fan Xuyan, Xiao Yungong, Yan Yizhen, Huang Jianhong, Li Zhongyang, Xue Chunling, Nie Hongfang, Guo Xiongshuang, Shen Huatong, Chen Erwang, Wu Chaoguo, Wu Dali, Zhu Jiaju, Yan Bin, Pan Youwang, Hou Xinquan, Chen Shixian, Liu Jie, Chen Li, Liu Shanpu, Shen Xufen, Xiang Feng, Huang Pinyu, Cai Cunmi and Chen Yichang.

(6) The limited partners of Cangyi LP as at the Latest Practicable Date include: Huang Liyun, Shen Huazhu, Fang Zufeng, Zheng Zhongrong, Hua Huaiyu, Wang Xunyou, Zheng Jifan, Yang Dejian, Chen Haiyun, Lin Xiaojian, Yang Deyin, Zheng Dexian, Li Ruchu, Zhu Jialiang, Zheng Qingqing, Zheng Caiping, Zheng Enhong, Yan Meizhen, Ye Pingping, Zheng Haiping, Chen Huijun, Hua Yunle, Ye Weisheng, Chen Bin, Shi Qinghua, Dong Keou, Chen Jian, Yan Juequan, Wang Daodong, Ye Youzhu and Fang Chuansheng.

4. Our corporate structure following the Global Offering

The following chart sets out the shareholding and corporate structure of the Group immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised:



Note:

(1) The 26 natural person shareholders immediately following the Global Offering include: Hong Zuobin (13.37%), Huang Youliang (9.68%), Zhang Shengyi (2.90%), Yin Xingjing (2.47%), Lin Zichan (2.47%), Jin Wensheng (2.32%), Fan Zefeng (2.05%), Lin Deqing (1.91%), Xie Shangpeng (1.39%), Zhou Xiaoding (1.33%), Deng Zhaoming (1.20%), Huang Ruihua (1.06%), Lin Zhongzhu (1.05%), Ye Sigong (0.53%), Lin Shangyun (0.53%), Ye Decai (0.53%), Ma Jiaming (0.40%), Chen Zhouqun (0.40%), Tang Liangtao (0.35%), Lin Tianqi (0.27%), Lin Jingdian (0.23%), Li Longqin (0.21%), Huang Chaochuan (0.21%), Huang Xijun (0.14%), Lin Xinxia (0.13%) and Song Xianqing (0.13%).

OVERVIEW

We are a leading industrial and commercial gas flowmeter manufacturer in China. Our operations can be traced back to 1977. Leveraging over 40 years of industry experience, we are dedicated to the manufacture and sales of a wide range of industrial and commercial gas flowmeters, which are generally used by gas operators to measure the flow volume of gas. We engage in a comprehensive business integrating R&D, manufacture, sales and aftersales services. According to Frost & Sullivan, we ranked second in the industrial and commercial gas flowmeter industry in China in terms of revenue in 2017, with our revenue from the sales of industrial and commercial gas flowmeter products amounting to RMB597.9 million, representing a market share of 36.8%.

Through our extensive sales network covering most of the provinces in China, we mainly sell our industrial and commercial gas flowmeter products to gas operators in China. Our major customers include certain leading enterprise groups of the gas industry in China. We have established long-term stable relationships with our major customers. In particular, four leading gas enterprise groups in China remained among our top five customers throughout the Track Record Period, with which we had maintained business relationships ranging from eight to 13 years as at 31 December 2017. In 2015, 2016 and 2017, sales to our top five customers accounted for approximately 33.7%, 34.6% and 35.5% of our revenue for the same periods, respectively.

In recent years, we have been selling our industrial and commercial gas flowmeter products to customers outside of China such as in Southeast Asia and Europe. A number of industrial and commercial gas flowmeter products produced by us have been certified to meet the European and ISO standards. In 2015, 2016 and 2017, approximately 0.6%, 0.9% and 0.9% of our revenue was derived from overseas sales, respectively.

We manufacture our products in two self-owned production bases, both of which are located in Cangnan County, Zhejiang Province, China. In recent years, we have expanded our coverage on the value chain of measurement instruments through industrial upgrades, which enabled us to undertake the stamping, casting and machining of the parts and components for measurement instrument products using our own production lines, and undertake the manufacture of the electronic parts in our products using our own chip welding production lines. We believe that the aforesaid initiatives enhanced our control over product quality, improved our production efficiency and raised the gross profit level of our products.

We focus on technical R&D with a strong and expanding R&D team, continued investments, an industry-standards setting track record and fruitful cooperation relationships with academic institutions. We have a Provincial-level Enterprise Research Institute certified by the Zhejiang government. Both the Company and its subsidiary Dongxing Software have been recognised by the PRC government as High and New Technology Enterprises entitled to preferential government policy support. Dongxing Software has also been recognised by the PRC government as a Software Enterprise. We own various patents and copyrights in respect to the products we manufacture. We strive to rapidly apply R&D achievements to our production, so as to implement product upgrades, reduce production costs and enhance the market competitiveness of our products. In 2016, we launched an upgraded version of volume corrector for installation into our industrial and commercial gas flowmeters, which incorporated our latest patented volume corrector technology and enabled significant improvements to our processing structure, thereby lowering raw materials costs and further increasing the gross profit margin of our products.

Benefiting from industrial upgrades and the application of the latest R&D achievements, we realised significant increases in the gross profit margin of products in recent years. In 2015, 2016 and 2017, the gross profit margins of our industrial and commercial gas flowmeter products were 59.3%, 69.6% and 76.7%, respectively, while our overall gross profit margins were 54.4%, 65.0% and 72.5%, respectively.

In addition to industrial and commercial gas flow meter products, we have developed various series of residential gas meter products and possess the production capacity to produce 300,000 units of residential gas meters per annum. Leveraging our established sales network, we are committed to expanding our residential gas meter business in the PRC. In 2015 and 2016, our revenue from the sales of residential gas meter products remained relatively stable. Benefiting from increased market demand, our revenue from the sales of residential gas meter products increased significantly by 31.5% in 2017 compared with 2016.

We also produce and sell a small quantity of nuclear-related products, mainly nuclear-level throttling devices, used as accessories for nuclear power generation projects. Our customers of nuclear-related products include leading companies in the PRC nuclear power industry, which we believe testifies to both our technological capabilities and our product quality control capabilities.

We also generate revenue from providing maintenance services mainly in relation to our industrial and commercial gas flowmeter products that are outside of the warranty period.

In 2015, 2016 and 2017, we recorded revenue of approximately RMB362.7 million, RMB444.2 million and RMB669.8 million, respectively, representing a CAGR of 35.9%, higher than the CAGR of 22.9% from 2015 to 2017 of the PRC industrial and commercial gas flowmeter market according to Frost & Sullivan. We believe we have been able to outperform the market because we have been able to both increase sales to existing customers and develop new customers, which in turn stem from our leading market position, continued investment in R&D and enhanced market competitiveness of our products. See "Financial Information – Principal Income Statement Components – Revenue."

In 2015, 2016 and 2017, we recorded profits of approximately RMB36.5 million, RMB117.9 million and RMB241.7 million, respectively. The significant increases in our profits during the Track Record Period was mainly attributable to increases in both our revenue and gross profit margin and us achieving economies of scale. Such profits were affected by our provisions made in relation to certain corporate guarantees that we provided in the interest of certain Independent Third Parties. We made provisions of RMB35.8 million, nil and RMB2.6 million in 2015, 2016 and 2017, respectively and do not expect to make any further significant provision regarding such corporate guarantees. See "Business – Legal Compliance and Risk Management – Legal proceedings – Legal proceedings relating to Corporate Guarantees."

COMPETITIVE STRENGTHS

We believe we will continue to maintain our industry leading position by virtue of the following competitive strengths:

We are a leading industrial and commercial gas flowmeter manufacturer in China.

We are a leading industrial and commercial gas flowmeter manufacturer in China. Our operation can be traced back to 1977. Leveraging more than 40 years of industry experience, we have achieved a leading position in the PRC industrial and commercial gas flowmeter market and have a reputation as an established flowmeter manufacturer within the PRC gas measurement instrument industry. According to Frost & Sullivan, we ranked second in the industrial and commercial gas flowmeter industry in China in terms of revenue in 2017 with a market share of 36.8%.

Leveraging our two production bases and four integrated R&D centres, we have built a product portfolio that covers industrial, commercial, residential and nuclear power industry uses.

- we produce industrial and commercial gas flowmeter products such as rotary flowmeter, gas turbine flowmeter and vortex precession flowmeter series of products, and ancillary products such as volume correctors and IC card controllers;

- we produce nuclear-level throttling device and we are a qualified supplier to leading companies in the PRC nuclear power industry;

- we produce residential gas meter products including aluminium shell meters and steel shell meters, covering various types of meters such as base meters, prepaid meters and wireless remote communication meters with an annual production capacity of 300,000 units.

We provide our customers with a full range of services including design, training, product supply and aftersales services and have established long-standing relationships with many leading gas enterprise groups in China.

We have won various recognition and awards in recent years, including Top Ten Enterprise in China Gas Measuring Instrument Industry by China Market Survey and Research Center and China Social and Economic Decision-making Consultancy Center in 2014, Outstanding Contribution Enterprise in Zhejiang Province by Zhejiang Province Medium and Small Enterprises Outstanding Entrepreneur Selection Committee and Zhejiang Province Medium and Small Enterprises Association in 2014, Level-2 Manufacturing Enterprise with Work Safety Standardization by the SAWS in 2014 and Leading Enterprise in Wenzhou City by the Wenzhou government in 2016. Our gas (intelligent) rotary flowmeter and gas (intelligent) turbine flowmeter were recognised by China City Gas Association as Recommended Products for the China Gas Industry in 2012.

We are well-positioned to capture the significant growth potential of the natural gas and nuclear power industries in China.

The natural gas industry in China has significant growth potential. According to Frost & Sullivan, the natural gas industry in China is expected to achieve rapid growth driven by a number of factors such as favourable policies of the PRC government including the 13th FYP, coal-to-gas switching projects in China, the growing demand of gas for industrial and commercial use and the growing attention on environmental protection. From 2018 to 2022, natural gas consumption volume in China is expected to grow at a CAGR of 13.1%, and urban natural gas pipelines in China is expected to grow at a CAGR of 10.0%. As gas measurement flowmeter products are used in natural gas pipelines, the expansion of natural gas pipelines generally leads to increased market demand for gas measurement instrument products. Further, we believe that current growth and growth prospect in the natural gas industry may also encourage and enable gas operators to carry out more gas measurement instrument upgrades, which in turn leads to increased market demand for more advanced gas measurement instrument products.

We expect the rapid development of the natural gas industry and the rapid expansion of the natural gas pipeline network in China to continue to drive the market demand for gas measurement instrument products. According to Frost & Sullivan, both the industrial and commercial gas flowmeter market and the residential gas meter market in China have experienced fast growth from 2012 to 2017 and are expected to continue to grow rapidly. It is expected that, from 2018 to 2022, the total sales value of industrial and commercial natural gas flowmeter market in China will increase at a CAGR of 9.4% and the total sales value of residential gas meter market in China will increase at a CAGR of 10.4%. According to Frost & Sullivan, the entry barriers of the gas flowmeter market in China include qualification requirements, advanced technical capability, good brand awareness and sophisticated distribution and aftersales services networks. As a leading gas measurement instrument supplier in China, we believe that we are well-positioned to capture growth opportunities in the gas industry based on our competitive technology, strong brands, excellent aftersales services and solid customer base.

Further, development trends in the gas measurement instrument market in China point to the upgrade of flowmeter technology with the adoption of products such as intelligent gas flowmeters, ultrasonic gas flowmeters and smart natural gas networks. We believe such trends present new opportunities for us. Leveraging our R&D capability, established sales and marketing network and robust reputation, we plan to scale up our residential gas meter business and further expand our coverage of the gas measurement instrument market in China.

We also expect to benefit from the rapid growth of the nuclear power industry in China. We have cooperated with leading Chinese nuclear power companies for over a decade. According to Frost & Sullivan, with the revival of nuclear power generation as well as the accelerating construction of nuclear power generation stations in China, multiple nuclear power generation stations have been announced to start construction in 2017. It is expected that the sales value of nuclear power equipment market in China will reach RMB39.2 billion in 2022, representing a CAGR of 16.7% from 2018 to 2022. In addition, along with the increasing international co-operation under the Chinese government's "One Belt One Road" initiative, the export of China-made nuclear power equipment would be facilitated. Currently, we have been selected as a supplier for a number of new nuclear power projects within and outside of China by a major Chinese nuclear power company. We expect our nuclear-related product business to continue to grow along the expansion of China's nuclear power industry.

We have strong R&D capabilities.

We focus on technical R&D with a strong and expanding team, continued investments, government-recognised R&D centres, proprietary patents and copyrights, an industry-standards-setting track record and fruitful cooperation relationships with academic institutions.

We emphasise research and development and have cultivated strong R&D capabilities. As at 31 December 2017, we have established an R&D team of 91 dedicated R&D personnel, with another nine staff engaged in quality control in relation to R&D. In addition, we engage external experts to participate in our research and development. Our R&D personnel have received various types of external recognition, such as the inclusion in the various technology talent programmes by the PRC national, provincial and city-level governments, and the winning of awards such as the National May 1 Worker's Medal, Renowned Master or Expert of Wenzhou City and Professional Skills Role Model in Wenzhou Equipment and Meters Profession. In 2011, we were rewarded as one of the first High-skilled Talent Innovation Workshops in Zhejiang Province by the Zhejiang provincial government. We also have one technology expert receiving the PRC State Council special allowance and another receiving Wenzhou government special allowance.

We make significant investments in research and development. In 2015, 2016 and 2017, we invested RMB18.4 million, RMB25.5 million and RMB34.9 million as R&D expenses, respectively, which were equal to 5.1%, 5.8% and 5.2% of our revenue during the same year, respectively. We have been certified by the Zhejiang government as a Provincial-level High and New Technology Research and Development Center. In 2016, our Zhejiang Cangnan Smart Flowmeter Research Institute was further certified by the Zhejiang government as a Provincial-level Enterprise Research Institute. In addition, both the Company and its subsidiary Dongxing Software have been recognised by the PRC government as High and New Technology Enterprises entitled to preferential government policy support. Dongxing Software has also been recognised by the PRC government as a Software Enterprise.

Leveraging our R&D capabilities, we have undertaken various national, provincial and city-level science and technology projects. We have four National-level Key New Products certified by the PRC government and a number of our products have been included in various national-level technology facilitation programmes of the PRC government. We believe our participation in these projects and programmes signifies the PRC government's recognition of our technology capability, and also entitled us to enjoy certain favourable government policies such as preferential tax treatment. We participated in the drafting or revision of seven national or industry standards, led the compilation of the Made-in-Zhejiang standards regarding gas turbine flowmeters and participated in the Made-in-Zhejiang standards regarding rotary flowmeters. As at the Latest Practicable Date, we held five patents for invention, 42 patents for utility models, three industrial design patents and 20 computer software copyrights.

To further strengthen our R&D capabilities, we cooperated with Zhejiang University and China Jiliang University, respectively, to jointly establish technology R&D centres and carry out R&D initiatives in fields such as the ultrasonic flowmeter and the wireless remote transfer IC card gas meter.

We have established a solid and expanding customer base.

Through our long operating history, we have established a solid and expanding customer base. Our major customers include a number of leading gas enterprise groups in China. In 2017, all of our top five customers are from leading gas enterprise groups in China, which together accounted for 35.5% of our revenue for the same year. In addition, four leading gas enterprise groups in the PRC remained among our top five customers throughout the Track Record Period, with which we had maintained business relationships ranging from eight to 13 years as at 31 December 2017. With the rapid expansion of the PRC gas industry, we expect industry leaders to continue to achieve high growth. Leveraging our long-term relationships with these industry leaders, we believe we are well-positioned to further benefit from the growth of the PRC gas industry.

We continue to develop new customers with a focus on large-scale gas companies. In 2015, an affiliate of a leading single-city gas operator in China became our customer. In 2016, it has become one of our top five customers. Leveraging our established sales and marketing network covering most of the provinces in China, we continue to develop customers for our industrial and commercial gas flowmeter products while at the same time expand our customer base to include more customers for our residential gas meter products.

We employ a wide range of measures to attract, develop and maintain new customers. We provide training to potential customers at their and our offices and invite them to inspect our production lines. We tailor our products and training to potential customers' internal need for transmission shortage management. We assist potential customers to carry out trial runs using our products. We strive to solidify our relationships with new customers through our provision of expedient and effective aftersales services. We also offer inspection services for customers facing measuring error management challenges in selected cases.

We have a senior management team with extensive experience and a highly skilled and incentivized work force.

We have a senior management team with extensive experience in the gas measurement instrument industry. Our executive Directors and senior management had been engaged in the production and sales of gas measurement instrument products with an average industry experience of over 24 years as at the Latest Practicable Date.

We also have a highly skilled and stable work force. As at 31 December 2017, approximately 66.1% of our employees held college degrees or above. We carry out a wide variety of training programmes for our employees including induction training, on-the-job training, professional knowledge training and technical skills training. We also engage external consulting and educational institutions to provide training to our employees and dispatch our research and development staff to receive training at academic institutions such as China Jiliang University. In 2015, 2016 and 2017, employees that had resigned represented approximately 1.0%, 2.3% and 4.2%, respectively, of our total employees as at the end of the year.

We have designed our remuneration system aiming at the strengthening of incentives for our employees. Generally, a significant part of the remuneration of our employees is performance-based. We strive to provide remuneration to our employees at levels higher than the industry average. Our employee shareholding structure provides additional incentive to our employees that hold equity interests in us.

OUR STRATEGIES

Our vision is to become a high and new technology enterprise with international presence and sustainable development, to provide our customers with excellent products and services, and to realise maximum shareholder return and the optimisation of social benefit. In order to achieve such a vision, we plan to implement the following strategies:

Continue to invest in R&D to enhance the competitiveness of our products

We will continue to invest in R&D to further solidify our technological advantage in the PRC gas flowmeter market and enhance the competitiveness of our products. In particular, we plan to:

- Continue to carry out market-oriented R&D, facilitate innovation based on our current technology, introduce new materials and technology, closely follow the latest trends in the Internet+ field and further develop smart and internet-based technology;

- Maintain our technological edge in our turbine flowmeter and rotary flowmeter products in the PRC with enhancements in view of the latest international technological trends, and further improve our technology with regard to volume correction instruments, IC card controller, wireless and Internet-of-Things products and collection and gas sales systems to achieve a leading position in the PRC market;

- Increase our investment in research and development with a focus on high and low pressure ultrasonic flowmeter products, flow computer and energy metering products, and establish our flowmeter testing and inspection laboratory and Internet-of-Things gas measurement and transmission and distribution management platform; and

- Further develop our technology R&D centres through cooperations with Zhengjiang University and China Measurement University, respectively, and attract advanced technological talents and carry out research projects.

Supplement and upgrade our product portfolio, expand our business lines and increase our production scale

We plan to continue to supplement and upgrade our product portfolio and expand our business lines. In particular, we plan to leverage our advantages in the industrial and commercial gas meter market to explore gas pressure regulating equipment and residential gas meter market.

- **Gas pressure regulating equipment**: improve full-series gas pressure regulating equipment production lines with advanced technology, strengthen our marketing and elevate our market recognition and market share in the gas pressure regulating equipment market;

- **Residential gas meters**: along with the establishment of the incremental residential gas pricing system by the PRC government and the promotion of the use of gas in rural China, promote the sales of our prepaid and post-paid incremental gas price wireless remote meter products developed in accordance with the relevant technological standards promulgated by the PRC government, focus our R&D on intellectualised and the Internet-of-Things products and also explore ultrasonic gas meter technology; and

- **Nuclear-related products**: continue to improve our technology and enhance the safety of our products along with the development and upgrade of technology and standards in the nuclear power industry, and strive to enlarge our nuclear-related product portfolio.

In addition, we plan to implement an intelligent gas flowmeter modification and upgrade project. In this project we plan to adopt advanced flow measurement technology, new sensors, new automatic instruments and meters, electronic and information technology, advanced industrial robot, automated production line and other relevant technology, and introduce internationally leading gas flow detection instruments and mechanical processing equipment. Through this project, we aim to improve our product quality and expand our production scale in view of the projected growth of the PRC gas flowmeter market and the high utilisation rates of our existing production facilities. We plan to invest an aggregate of approximately RMB473.8 million in this project, mainly using proceeds from the Global Offering. Such investment is expected to take place progressively in 2018 and 2019. We expect the project to take approximately 18 to 24 months to complete.

Enhance sales and marketing efforts

We plan to further enhance our sales and marketing efforts. In particular, we plan to:

- Strengthen our sales and marketing teams, optimise the incentive mechanisms for our sales and marketing network and customise our sales and marketing efforts targeting different groups of potential customers along the expansion of our product lines;

- Further optimise our internal policies and rules, focus on the penetration of mature, high-growth, potential and strategically key markets and enlarge our market share in key cities such as Beijing, Shanghai and Changsha and emerging third-tier cities in China through concentrated marketing efforts based on practical marketing strategies; and

- Further increase our sales to major customers and enhance our marketing efforts targeting major gas enterprise groups as our potential customers.

Improve operational management

We plan to implement our overall plan of progressive adoption of modern information technology to establish a management system centred on financial and cost management, an ERP system centred on production control, an improved office automation system and an investment and financing decision making and marketing system centred on e-commerce.

Based on the integrated application of modern management, design, manufacturing, automation, information consolidation and decision making support technology, we plan to integrate and optimise the elements of people, technology and management throughout the production and operation process with relevant logistics, information flow and cash flow to enhance product quality, reduce costs and shorten production cycle.

Along with the upgrade of our information system, we plan to:

- **Production management:** improve our production management system to realise centralised and standardised management and control of materials across different product lines and subsidiaries, establish a standardised management process from design to technology and production, achieve the full life cycle management of products and optimise the coordination between our internal organisational planning and production process;

- **Purchasing management:** establish an advanced procurement management system, reduce costs through centralised procurement and continue to enhance our inventory management; and

- **Financial management:** implement real-time and comprehensive budget management, carry out comprehensive, multi-dimensional and full-process refined cost management and control, improve our internal multiple-organisation centralised management and control structure and strengthen our internal controls.

OUR BUSINESS MODEL

We primarily engage in the manufacture and sales of a wide range of gas measuring instrument products to gas companies in China. We manage and operate our business through a cycle of R&D, marketing, production, sales and aftersales services:

- **R&D**: We initiate R&D projects based on our monitoring of industry trends, our R&D capabilities and plans. We complete such projects independently or jointly with third parties. We carry out further R&D work in order to apply the new technology to our production.

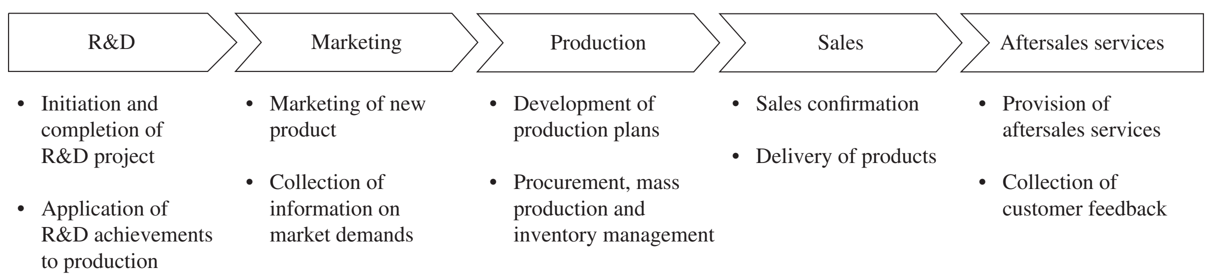
- **Marketing**: We promote our products through various means such as advertisements in industry publications and promotions at industry conventions. We also collect information on potential market demands.

- **Production**: We develop production plans, procure raw materials and carry out mass production and inventory management based on market demands.

- **Sales**: We enter into sales confirmations with customers and deliver our products to customers.

- **Aftersales services**: We strive to provide quality and effective aftersales services and technical support to our customers and collect customer feedback to guide our future R&D and product enhancement efforts.

The following diagram illustrates our business model:



OUR PRODUCTS

Our products mainly include industrial and commercial gas flowmeter products, residential gas meter products and nuclear-related products. The following table sets out a breakdown of our revenue by product category for the years indicated:

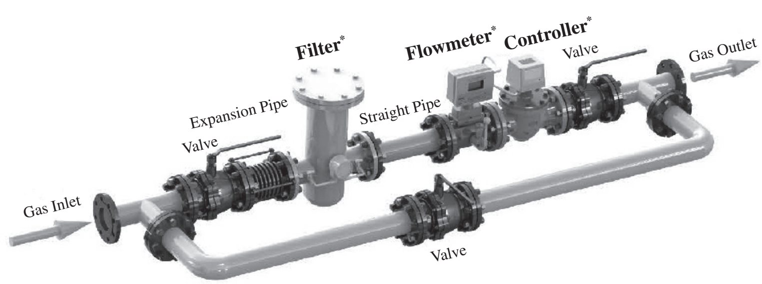
Our main products	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Industrial and commercial gas flowmeter products	296,869	81.9	386,893	87.1	597,910	89.3
Residential gas meter products	48,045	13.2	45,216	10.2	59,466	8.9
Nuclear-related products	14,914	4.1	9,338	2.1	10,276	1.5
Maintenance services	2,859	0.8	2,713	0.6	2,161	0.3
Total	**362,687**	**100.0**	**444,160**	**100.0**	**669,813**	**100.0**

We are primarily engaged in the manufacture and sales of a wide range of gas measurement instrument products, which are used to measure the volume of gas. Our gas measurement instrument products can be broadly categorised into industrial and commercial gas flowmeters, and residential gas meters. Generally, industrial and commercial gas flowmeters are subject to higher standards in terms of accuracy, reliability and durability, and are used to measure larger quantity of gas flowing under higher pressure levels, compared with residential gas meters. Accordingly, different technology is applied to industrial and commercial gas flowmeters compared with residential gas meters. In terms of the technology of the base meter, our industrial and commercial gas flowmeters mainly include turbine flowmeters and rotary flowmeters, while our residential gas meter products mainly include diaphragm gas meters.

Gases are generally more difficult to measure than liquids because the measured volumes relate to the temperature and pressure of the measured medium due to the compressibility of gases. We produce base meters that generally measure the volume of gas under working conditions, which needs to be converted into the flow value under standard conditions for the purpose of trade measures. We also produce volume correctors to be attached to industrial and commercial gas flowmeters that monitor the temperature and pressure information of the medium, based on which they make real-time corrections to the flowmeter measuring results in terms of temperature, pressure and compressibility factor and convert the flow volume under working conditions to that under standards conditions to realise trade measures. Such correctors are sold either together with our industrial and commercial gas flowmeters or on a standalone basis.

In addition, we manufacture and sell nuclear-level throttling devices and ancillary instruments and equipment used in gas pipelines, such as IC card controllers, throttling devices, gas pressure regulating equipment and gas filters.

The following picture illustrates our industrial and commercial gas flowmeter and filter products installed on a gas pipeline:



Note: the parts marked with "*" are our products.

Our key products are industrial and commercial gas flowmeter products, in particular rotary flowmeters and turbine flowmeters. Industrial and commercial gas flowmeter products accounted for 81.9%, 87.1% and 89.3% of our revenue in 2015, 2016 and 2017, respectively. For industrial and commercial gas flowmeters, the actual product life may depend on a number of factors such as the specific business needs and requirements of customers, the frequency of customers' gas flowmeter upgrades and the regular inspection and maintenance conducted by customers. According to Frost & Sullivan, the application of intelligent new technology in gas flowmeter products and shifting customer demand in China are driving upgrades of gas flowmeter products and the growth of the gas flowmeter market.

We benefit from the rapid expansion of natural gas pipelines in China. According to Frost & Sullivan, the total length of urban natural gas pipelines grew at a CAGR of 12.1% from 2012 to 2017 and is expected to grow at a CAGR of 10.0% from 2018 to 2022. The continuous construction of large-scale new natural gas pipeline will lead to an increasing demand of natural gas flowmeters.

Our end customers may purchase gas measurement instrument products from us for use in new natural gas pipelines or as replacements in existing pipelines. While we are not in a position to ascertain the exact usage of our products under particular purchase orders, we estimate that the majority of our products sold during the Track Record Period were for use in new pipelines. Therefore, we believe the urban natural gas pipeline length is currently the primary driver of our business. If the growth of the natural gas industry and the expansion of urban natural gas pipelines slow down in the future while other drivers of our business, such as technology upgrade, do not generate sufficient additional demand for our products to compensate for the effect of such slowdown, we may experience a significant decrease in the demand for our products, which may have a material adverse impact on our business, financial condition and results of operations. See "Risk Factors – Risks Relating to Our Business and Industry – Demand for our products primarily depends on the trends and developments in the gas industry in China."

The following table sets out certain details of our products sold in 2015, 2016 and 2017:

	Year ended 31 December								
	2015			2016			2017		
	Units sold	Average unit price	Revenue	Units sold	Average unit price	Revenue	Units sold	Average unit price	Revenue
		(RMB)	(RMB'000)		(RMB)	(RMB'000)		(RMB)	(RMB'000)
Industrial and commercial gas flowmeter products									
Flowmeter[1]	23,182	9,473	219,595.2	29,179	9,811	286,266.3	44,393	10,196	452,642.7
Filter	13,285	856	11,833.1	16,845	882	14,856.5	22,103	890	19,662.0
Pressure regulating equipment	199	51,926	10,312.5	373	19,021	7,094.8	6,351	3,322	21,096.6
Volume corrector[2]	3,493	5,627	19,655.9	6,324	5,744	36,324.1	8,226	5,867	48,259.6
Controller	3,977	5,198	20,671.8	4,602	5,205	23,951.2	7,882	5,091	40,131.1
Component parts	–	–	14,800.8	–	–	18,399.5	–	–	16,117.6
Residential gas meter products									
Gas meter	209,720	200	41,961.2	221,809	202	44,778.5	271,705	215	58,415.8
Component parts	–	–	6,083.6	–	–	437.1	–	–	1,049.7
Nuclear-related products									
Throttling device	1,348	9,053	12,207.0	453	14,432	6,532.1	712	12,428	8,848.6
Component parts	–	–	2,706.8	–	–	2,806.2	–	–	1,427.7
Total			**359,827.9**			**441,446.3**			**667,651.4**

Notes:

(1) A flowmeter typically includes both the base meter and the volume corrector.

(2) Excludes volume correctors integrated into and sold as part of flowmeters.

Our Directors believe that the average unit prices set out in the tables above should not be unduly relied upon, because each product sub-category includes products of different standard unit prices based on the model, functions, technology and specifications such as the diameter of gas flowmeters. Driven by market demand, the mix of products of a certain sub-category may change from year to year, resulting in a change in the average unit price. Such average unit price may experience further changes in the future for the same reason.

The average unit price of our industrial and commercial gas flowmeters was RMB9,473, RMB9,811 and RMB10,196 in 2015, 2016 and 2017, respectively. The gradual increase was mainly because of an increase in the sales of flowmeters of higher unit prices as a percentage of the total sales of flowmeters.

In 2015, 2016 and 2017, the average unit price of the gas pressure regulating equipment was RMB51,926, RMB19,021 and RMB3,322, respectively. The significant decrease in the average unit price of the gas pressure regulating equipment in 2016 and 2017 was mainly due to the increase in the proportion of the building-type gas regulator boxes in the total amount of gas pressure regulating equipment that we have sold, while its price is usually lower than that of the other gas pressure regulating equipment.

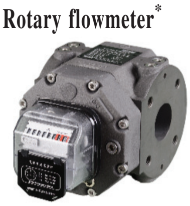
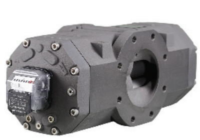
The average unit price of our residential gas meters was RMB200, RMB202 and RMB215 in 2015, 2016 and 2017, respectively. The gradual increase in the average unit price of residential gas meters was mainly due to the increase in the proportion of the intelligent residential gas meters in the total number of residential gas meters that we have sold, while its price is usually higher than that of the other residential gas meters.

The average unit price of our nuclear throttling devices was RMB9,053, RMB14,432 and RMB12,428 in 2015, 2016 and 2017, respectively. The fluctuation was mainly because of changes in the product mix driven by market demand.

Industrial and commercial gas flowmeters

The majority of our revenue is generated from the sales of industrial and commercial gas flowmeter products, which accounted for approximately 81.9%, 87.1% and 89.3% of our revenue, respectively, in 2015, 2016 and 2017.

The following table sets out more details of our industrial and commercial gas flowmeters:

Product	Type/Pressure/ Flow volume	Working Mechanism	Features	Notes
Rotary flowmeter*  RM Series rotary flowmeter	• Oriented to volume • Maximum working pressure of 1.6MPa • 0.4m^3/h to 400 m^3/h	Divides a flow into constant units with known volume by employing mechanic measuring components, and then calculates the total volume of the flow by accumulating the times that its measuring room is repeatedly filled with and emptied of the flow at the said volume one after another	• High precision and broad turndown ratio, and insensitive to the varying density and viscosity of measured gas • Modularized design that can facilitate on-site maintenance, no requirements for straight pipes before and after the meter • We produce our proprietary double-waist wheel flowmeters, which can be used as standard meters for dissemination of value of quantities	• Our key product supported by a number of proprietary patents • Growing sales during the Track Record Period • Meets industrial standards in China and certain models have been certified to meet EU and international standards
 RM Series rotary flowmeter (double-waist wheels)	• Oriented to volume • Maximum working pressure of 1.6MPa • 4m^3/h to 1,000 m^3/h			

Product	Type/Pressure/ Flow volume	Working Mechanism	Features	Notes
Turbine flowmeter*  TM Series turbine flowmeter	• Oriented to speed • Nominal pressure of 1.6MPa, 2.5MPa and 4.0MPa • 6.5m^3/h to 10,000 m^3/h	Adopts a rotor with multiple blades to detect the average speed of a flow, and then figures out the volume of a flow thereof based on such speed	• High precision and wide measuring range • Excellent anti-pressure capability • Easy to install and maintain • Small size and light weight	• Meets national standards in China
 LWQ Series turbine flowmeter	• Oriented to speed • Nominal pressure of 1.6MPa, 2.5MPa, 4.0MPa and 6.3MPa or greater pressure • 6.5m^3/h to 6,500 m^3/h			
Vortex precession flowmeter  LUXZ Series vortex precession flowmeter attached with a W-type corrector	• Oriented to speed • Nominal pressure of 1.6MPa, 2.5MPa, 4.0MPa and 6.3MPa or greater pressure • 2.5m^3/h to 1,000 m^3/h	Has a vortex actuator at the inlet to force the flow to swirl to generate vortex, and then works out the volume of a flow according to the detected swirling frequency of such vortex	• Simple and firm structure with no movable part • Easy to install and low maintenance costs • High measurement precision	• Meets industrial standards in China • Being replaced in the gas industry • Sales became insignificant during the Track Record Period

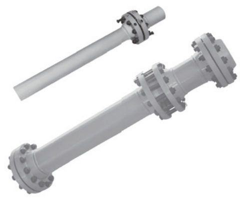
Note: Our key products.

Other industrial and commercial gas flowmeter products

The following table sets out more details of our other industrial and commercial gas flowmeter products:

Product	Working Mechanism
IC card flowmeter  IC card rotary flowmeter  IC card turbine flowmeter	• Integrates functions of temperature and pressure compensation, CPU card-based operation and control • Adopts a rechargeable mode in terms of amount and gas volume, with a variety of incremental gas price systems • Can be equipped with built-in GPRS module to enable wireless transmission, remote control and pre-paid gas use and can be accompanied by gas sales management system to enable enhanced functions • Can be IC card rotary, turbine flowmeters and other flowmeters
IC card controller  LKZ Series IC card controller	• Supports pre-payment function • Adopts a rechargeable mode in terms of amount and gas volume, with a variety of incremental gas price systems • Can be equipped with two RS485 communication software and attached to a remote transfer collector to enable wireless transmission, remote control and pre-paid gas use, and can be accompanied by gas sales management system to enable enhanced functions • Working pressure of 0.8MPa with no pressure loss • Can be attached to rotary flowmeters
Volume corrector  EVC300 intelligent volume corrector	• Used for real-time detection of the temperature and pressure information of the gas on pipeline network, based on which it makes real-time corrections to the flowmeter measuring results in terms of temperature, pressure and compression factor to convert operational flowrate into standard flowrate • Can be equipped with in-built GPRS module to enable wireless transmission • We mainly produce EVC300, EVC302 correctors, each of which can be attached to rotary or turbine flowmeters

Product	Working Mechanism
Wireless information collector  WAI200 wireless information collector	• Our WAI200 wireless information collector designed and developed by us erects a data transmission channel between flowmeters and the remote monitoring centre by leveraging wireless communication, micro-electronic and network topology technologies, thus enabling the automatic data collection by, spontaneous data uploading to and receipt of data and directives from the monitoring centre • It also features real-time monitoring on device status and emergency alert for abnormalities
Gas filter  GQ (C) Series Gas Filter	• Usually installed at the inlet of a gas device to filter dusts and impurities among other dirty substances in the gas pipelines, which is beneficial to the long-term operation of downstream gas device • We produces gas filters applicable for a range of flowmeters, gas pressure regulating equipment and pipes, including barrel-shaped steel filters meeting pressure pipe and pressure vessel designs, barrel-shaped aluminium filters fitting flowmeters and Y-shaped steel filters suitable for vertical and horizontal installation
Gas pressure regulating equipment  Gas pressure regulator	• Used in the gas transmission and distribution system to reduce gas pressure and maintain stable pressure at the exit when used. It is a core part of the gas pressure regulating equipment
 City and township gas pressure regulating equipment	• Normally consists of component parts including pressure regulator, valve, filter, safety device, by-pass, and may achieve measuring function when fitted with measuring instruments • Pressure regulators and valves making up the gas pressure regulating equipment that we sell are procured from third party suppliers or produced by ourselves

Product	Working Mechanism
Throttling device  LG series throttling device	• Diminishes the cross section of a pipe by throttling components such as orifice plate, nozzle and Venturi tube, so as to contract the stream, expedite the speed and reduce static pressure of flow • With the device, a flow can be measured based on the difference arising between the pressures before and after the throttling component • Widely applied in such industries as nuclear power, petrochemicals, natural gas, metallurgy and electricity to measure, control and regulate liquid, gas and steam • The LG series of throttling devices produced by the Company meets both the national and industrial standards of China as well as ISO 5167-2003 standards

Residential gas meter products

Leveraging on our technical capability, market recognition and established sales network, we are expanding our residential gas meter business, which accounted for approximately 13.2%, 10.2% and 8.9% of our revenue, respectively, in 2015, 2016 and 2017.

Our residential gas meter products are mainly based on diaphragm gas meters, which is a capacity-based gas measurement instrument generally working at pressure levels between zero to 30 kPa and flow speed levels between zero to 40 m^3/h. The following table sets out more details of our residential gas meter products:

Product	Working Mechanism
Diaphragm gas meter  G Series diaphragm gas meter  J Series diaphragm gas meter	• Mainly consists of a measuring room, a spool valve and a counter • The measuring room is separated into two parts by a rubber diaphragm, and the spool valve allows these two parts to be connected with the entrance or exit of the pipe in turn • The diaphragm will expand, contract and move in the measuring room according to the gas pressure, so that the gas can be absorbed and discharged in turn by the two parts in the measuring room • The movement of the spool valve contributes to the continuous flow of the gas, and the movement of the spool valve will be transmitted to the counter via link gear to display the volume of gas passing through

Product	Working Mechanism
IC card diaphragm gas meter  G Series IC card diaphragm gas meters  J Series IC card diaphragm gas meters  IC cards	• Produced by integrating an IC and controller into a diaphragm gas meter with the feature of allowing charges to be paid in advance • The control system within an IC card diaphragm gas meter is designed with micro-power technologies and a built-in valve structure to achieve the integration of mechanics and electrics • Users can purchase gas volume from gas operators, and then insert the IC cards to the gas meter, after which the control mechanism within the gas meter will be opened automatically to enable gas use • As the users consume more gas, the remaining gas volume carried by the IC cards will be reduced accordingly. When the remaining gas volume turns to zero, the valves within the gas meters will be closed automatically, and thus the gas supply is cut off accordingly. In order to resume the gas supply, users need to purchase more gas volume and insert the IC cards recharged back into the gas meter
Wireless remote transfer diaphragm gas meter  Handheld reading device	• A diaphragm gas meter with built-in antenna remote transfer structure to achieve remote data collection through wireless meter reading instrument or GPRS • Can help improve the efficiency of the meter reading process, allow prepayments without cards, remote price adjustments and differential gas pricing, and enable wireless ad hoc network to be achieved • The wireless gas meter reading system mainly consists of an intelligent gas meter with wireless ad hoc network function, acquisitor, concentrator, management and control software as well as manually operated meter reader • In the course of daily use, when the time is up for meter reading, the meter will automatically transmit the data to the wireless acquisitor progressively along the data links automatically networked, the acquisitor will subsequently transmit the data so received to the concentrator via micro-power wireless device, and the concentrator will transmit such data to the back-end data centre via GPRS/CDMA and other mobile networks • Gas users can pay gas expenses through the outlets of the gas companies or by way of automatic debit, online banks or mobile payment

Product	Working Mechanism
Pre-paid wireless remote transfer diaphragm gas meter  (IC Card) wireless remote transfer gas meter	• Integrate IC card and wireless remote transfer functions to enable pre-payment and remote reading, monitoring and control of gas meters • Each controller is set with a separate IP address which is included into the gas operator's management system by the gas operator and is linked to a user's IC card • When meter reading is needed, the gas operator downloads the user information to the meter reader through the computer terminal, reads the meter reader outside the user's house, and then uploads the information obtained to its management system, so as to complete data analysis of users' gas meters, calculation of differences between supply and consumption and related works

Nuclear-related Products

The nuclear-level throttling device is installed on the nuclear-level pipeline of the nuclear power generation station to measure the flow quantity of the fluid within the pipeline, and together with the transmitter and instrument, to indicate, record, adjust, integrate, alarm and protect the flow, so as to maintain the normal operation of the system under various working conditions as needed. We manufacture and sell the NLG series of throttling devices, orifice valves and Venturi tubes nuclear power generation stations.

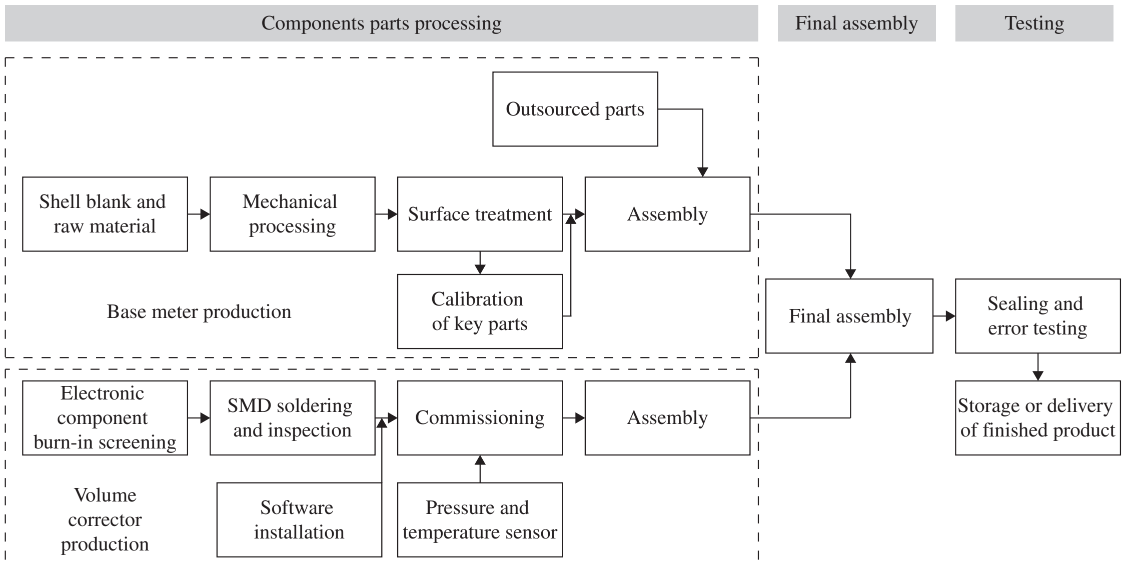
PRODUCTION

We manufacture and sell our gas flowmeter products that are generally of standardised design and specifications to our customers. Our technical team also makes certain specifications and/or customisations to our products based on the application uses and specific needs and requirements of our customers.

Production workflow

The production processes of our products vary model by model. Our production is mainly divided into three major steps, being component parts processing, final assembly and testing.

For illustrative purposes, the chart below sets out our major production workflow for the manufacture of our industrial and commercial gas flowmeter products:



We produce both industrial and commercial gas flowmeters and residential gas meters in batches. A single batch of industrial and commercial gas flowmeters typically comprises 300 to 500 units, the production of which typically takes around a week. The main production process of the residential gas meters is similar to that of the industrial and commercial gas flowmeters, while a residential gas meter does not include a volume corrector, and its electronic part is simpler than a volume corrector. A single batch of residential gas meters typically comprises 1,000 to 2,000 units, with an average daily output of more than 800 units.

Component parts processing

Component parts for our flowmeters and gas meters mainly include the base meter and volume corrector (in the case of flowmeters) or electronic part (in the case of gas meters). We manufacture the majority of component parts that we use for our flowmeters and gas meters by ourselves. We purchase raw materials such as aluminium and steel shell blank. According to our product design, we conduct various casting, machining and welding. We also carry out special surface treatment and calibration of key component parts of the base meter to ensure product precision and increase product durability. We purchase certain component parts from third party suppliers, which mainly include the standard parts in the base meters that we produce. See "– Procurement".

Component parts for our volume correctors mainly include circuit boards, electronic component parts, battery, temperature, pressure and flow measurement sensors, and shell. We purchase the majority of such component parts from third party suppliers. After those electronic components burn-in screening, we conduct SMD soldering for the circuit boards by using our self-owned chip welding production lines. We also develop software to be used in our products. The software is downloaded to the integrated circuit chips of the relevant volume corrector or intelligent controller during the production process to enable our gas measurement instrument products to realise gas measurement and intelligent control.

Final assembly

We assemble the flowmeters and volume correctors into our products. We also add other component parts to the product during the final assembly, such as the IC card controllers.

Testing

As we believe our gas flowmeter products perform critical functions in the operations of customers engaged in various downstream industries, we place great emphasis on precision production and quality control. We perform precision adjustment and testing throughout our production process and on our principal parts and components, in particular the movement, as the principal parts and components determine the measurement precision and durability of our gas flowmeter products, which we believe distinguish us from our competitors. We also conduct various performance tests, such as dynamic balance test, tightness test and error test, and conduct appearance examination on our instruments. Our quality control team is typically in charge of the final inspection of our gas flowmeter products before delivery, and we generally have a standardised quality control checklist for our gas flowmeter products to be delivered.

We adopt a stringent production process where we have production handbooks setting out details and explanatory notes for our production process. We review our production handbooks from time to time to ensure the accuracy of and to make appropriate adjustments to our production process. It is also our policy to carry out quality control throughout our production process as we are committed to providing high quality and precision gas flowmeter products to our customers. See "– Quality Control".

Production plans

We typically make our production plans based on our production schedules, inventories and sales orders (including our anticipated sales orders) in a few months' time. To effectively control our risk exposure to excess production and inventory, our production, procurement and inventory control teams together review our production plans and make adjustments to our production volume, production schedules and procurement where necessary.

Production facilities

We manufacture our products in two self-owned production bases, both of which are located in Cangnan County, Zhejiang Province, China. The two production bases have an aggregate site area of approximately 34,360.0 sq.m. and total gross floor area of approximately 28,388.17 sq.m. The following table sets out certain details of our production bases:

	Site area	GFA	Products
Production bases at headquarters.	22,010.1	17,838.69	Industrial and commercial gas flowmeters, residential gas meters and controllers
Production bases at Batou.	12,349.9	10,549.48	Nuclear throttling devices, gas pressure regulating equipment and filters

As at 31 December 2017, we had a total of 217 production staff members at our production plants in Cangnan. For illustrative purposes only, set out below are the designed production capacity, actual production volume and approximate utilisation rate for our principal products at our production plants in Cangnan for the years indicated:

	Year ended 31 December		
	2015	2016	2017
Industrial and commercial gas flowmeter products			
Designed production capacity (Units)[(1)]	48,000	48,000	48,000
Actual production volume (Units)[(1)]	38,314	45,743	47,042
Utilisation rate (%)[(2)]	79.8	95.3	98.0
Residential gas meter			
Designed production capacity (Units)	300,000	300,000	300,000
Actual production volume (Units)	227,655	202,514	268,732
Utilisation rate (%)[(2)]	75.9	67.5	89.6

Notes:

(1) This is the aggregate production capacity or volume combining both flowmeters and IC card controllers. IC card controllers are typically sold together with flowmeters.

(2) Utilisation rate for a particular period is calculated by dividing the annual production volume of that period by the designed production capacity of that period.

The utilisation rate of our facilities producing industrial and commercial gas flowmeter products increased from 79.8% in 2015 to 95.3% in 2016, mainly due to our adjustment of the production plan to respond to an increase in the market demand for our products. In 2017, such utilisation rate further increased to 98.0%.

The utilisation rate of our facilities producing residential gas meter products decreased from 75.9% in 2015 to 67.5% in 2016, and increased to 89.6% in 2017, mainly due to our adjustment to the production plan to respond to fluctuations in the market demand.

Our facilities producing nuclear throttling devices also produce a number of industrial and commercial gas flowmeter products such as filters, gas pressure regulating equipment and orifice plate used in the gas industry. Because such production facilities produce a wide variety of products and the mixture of the products produced varies from period to period according to changing market demands, and since different products may differ significantly in terms of production time, process and costs, our Directors consider it to be neither meaningful nor feasible to calculate the designed production capacities or utilisation rates of such production facilities.

Major production and testing equipment

Our major suppliers for production and testing equipment are global established industrial players both in the PRC and in other countries and regions. We make certain customisations to some of our equipment based on our needs to enhance our production and testing technology and process. We believe that our equipment and our customisation and development capabilities have enabled us to better control our production costs and increase our production efficiency to ensure our competitiveness in the PRC gas measurement instrument market.

We calculate depreciation on our equipment using the straight-line method to allocate their cost to their residual values over the estimated useful lives, which is ten years. We conduct regular maintenance and repair work to extend their useful life. They are upgraded from time to time as we deem necessary. Our Directors believe that, with satisfactory maintenance, some of our equipment can be used for up to 20 years. Therefore, as at 31 December 2017, our major self-owned production and testing equipment had remaining useful lives ranging from three to 20 years.

Production equipment

The table below sets out a summary of our major self-owned production equipment at our production plants as at 31 December 2017:

Equipment name	Number of units	Purchase period	Purpose
CNC gear hobbing machine	1	2011	Machining
Five-axis CNC machine centre	2	2009, 2013	Machining
Horizontal machine centre	4	2007-2017	Machining
Turning machine centre	5	2005-2016	Machining
Drilling and milling machine centre	25	2002-2017	Machining
CNC lathe	80	2001-2017	Machining
SMT automatic assembly line	1	2012	Circuit board soldering
Soldering robot	3	2010-2012	Soldering
Low pressure casting machine	6	2005-2014	Shell casting

Testing equipment

The table below sets out a summary of our major self-owned testing equipment at our production plants as at 31 December 2017:

Equipment name	Number of units	Purchase period	Purpose
Standard gauge gas flow standard device	5	2009-2016	Basic error, repeatability, pressure loss
Sonic nozzle gas flow standard device	2	1985, 2005	Basic error, repeatability, pressure loss
Bell-jar type gas flow standard device	1	2008	Basic error, repeatability, pressure loss
Dynamic balancer	2	2006, 2007	Turbine (lumbar) dynamic balance detection
Shore durometer, Brinell tester	2	2014, 2016	Hardness measurement
Trilinear coordinates measuring instrument	1	2008	Geometry dimension measurement
Direct-reading spectrometer	1	2014	Material analysis
Profilometer	1	2017	Profile measurement
Cylindricity measuring instrument	2	2017, 2017	Roundness measurement

Maintenance and repair

We have formulated and implemented our enterprise standards on equipment management, according to which we carry out regular maintenance of our equipment. Our technique and equipment department is primarily responsible for the management of our equipment from selection, installation and testing to inspection, maintenance and repair. Our production department is responsible for making applications for the purchase of new equipment and scrapping of old equipment. We also designate responsible persons for specific equipment, who are responsible for ensuring the safe and proper operation of the equipment, carrying out daily maintenance, assisting in the repair of the equipment and timely reporting of unsolved malfunction of the equipment to the workshop manager.

We compile comprehensive operation and maintenance rules and procedures for specific pieces of equipment in operation, which are required to be completed within 30 days of the commencement of the operation of the relevant equipment. We categorise our equipment into four types based on their importance to our production, complexity and the level of difficulty of operation and maintenance. While our equipment should in general undergo one comprehensive maintenance every year, the more important types of equipment are subject to additional cleaning, inspection, adjustment and verification. We also renovate our workshops from time to time. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material unexpected disruption of operation as a result of any material failure of production machinery and equipment. Our maintenance and repair expenses, including repair expense for the plants, amounted to approximately RMB3.6 million, RMB2.7 million and RMB3.9 million in 2015, 2016 and 2017, respectively.

SALES

We primarily sell our gas measurement instrument products in China through our established sales network to customers that are mainly gas operators. We also sell nuclear-related products to leading companies in the PRC nuclear power industry typically through bidding processes based on factors such as our qualifications, financial strength, technology and delivery capability. Our Directors are of the view that our sales model is in line with the industry practice. Corresponding to the purchase pattern of PRC gas companies, we typically generate more revenue in the second half of the calendar year. During the Track Record Period, most of our sales were conducted in the PRC. We also sell our products to overseas customers.

The following table sets out a breakdown of our revenue by geographical region for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
China	360,383	99.4	440,099	99.1	664,062	99.1
East China	133,623	36.8	170,330	38.3	255,993	38.2
North China	53,905	14.9	85,440	19.2	165,479	24.7
Headquarters(1)	59,981	16.5	54,808	12.3	54,801	8.2
Central China	22,055	6.1	35,321	8.0	52,265	7.8
Southwest China	37,350	10.3	37,193	8.4	51,767	7.7
Northeast China	29,052	8.0	24,466	5.5	32,753	4.9
South China	17,239	4.8	24,142	5.4	31,226	4.7
Northwest China	7,178	2.0	8,399	2.0	19,778	2.9
Overseas	2,304	0.6	4,061	0.9	5,751	0.9
Total	362,687	100.0	444,160	100.0	669,813	100.0

Note:

(1) Headquarters refer to sales conducted directly from our headquarters in Cangnan County, Wenzhou City, Zhejiang Province.

PRC sales

We sell our products mainly under our "Dongxing" brand. We conduct our sales mainly by way of direct sales. Our headquarters is in charge of sales to cross-regional gas enterprise groups, other selected key customers and customers in new local markets. In addition, as at 31 December 2017, we had 36 branch offices covering most of the provinces in China to promote our products, develop and liaise with customers, facilitate sales and provide aftersales services and technical support to customers in the local markets. Our sales team is also responsible for conducting feasibility studies on market data. We conduct marketing through various channels such as advertisements on national or provincial-level industry publications and promotions at industry conventions.

The following table sets out the number of our branch offices for the years indicated:

	Year ended 31 December		
	2015	2016	2017
Number of branch offices newly opened	0	2(1)	3(2)
Number of branch offices closed	0	0	4(3)
Total number of branch offices as at the end of the period	35	37	36

Notes:

(1) In 2016, we opened branch offices in Beijing and Nanyang, Henan Province, respectively.

(2) In 2017, we opened another branch office in Beijing and branch offices in Dongying, Shandong Province and Handan City, Hebei Province.

(3) As part of our reorganisation of relevant agents in June 2017, we closed our branch offices in Nanjing and Kunshan in Jiangsu Province, Guangzhou in Guangdong Province and Haikou in Hainan Province.

Sales through Agents

We sell a small portion of our products to customers through our agents in the PRC on a consignment basis. After we sell products to our agents, we still account for such products as part of our inventory. We only recognise revenue when our agents sell such products to end customers. As at 31 December 2015, 2016 and 2017, we had a total of nine, nine and three agents, respectively. The decrease in the number of agents as at 31 December 2017 was due to our restructuring of the Relevant Agents as described in the paragraph headed "Business – Sales – PRC sales – Restructuring of Relevant Agents" in this section below. In 2015, 2016 and 2017, our sales through agents represented approximately 19.9%, 17.3% and 9.8% of our revenue, respectively.

We enter into legally binding annual agreements with our agents in our standard form (the "**Agency Agreements**"). Our Directors confirm that such Agency Agreements are on normal commercial terms agreed upon after arm's length negotiation between the relevant parties. According to the Agency Agreements, we sell our products to the agents at prices that are typically 15% lower than our standard market prices so that the agents will be able to resell such products to end customers at higher prices and capture the difference for themselves. Such sales is conducted in accordance with purchase orders placed by the agents, who will pay the purchase price by bank transfer within 30 days from the delivery and inspection of our products and our issuance of the relevant invoice. There is no minimum purchase commitment or commission arrangement in these contracts. We set lowest prices by which the agents are allowed to resell our products. As the standard market prices of our products are generally known in the market, we believe the agents are unlikely to be able to resell our products at prices higher than our standard prices, despite the lack of contractual price caps agreed between us and the Agents.

In accounting treatments, we recognise revenue upon the agent's resale of our products to end customers, at the resale price, while at the same time record the difference between our selling price to the agent and the resale price as commission expense. To illustrate, if an agent in a hypothetical case buys a product from us the standard price of which is RMB100, we may sell such product to the agent at RMB85. When the agent resells the product to an end customer at RMB100, we record RMB100 as our revenue and at the same time record RMB15 as our commission expense. In 2015, 2016 and 2017, we recorded total commission expenses of RMB9.8 million, RMB10.4 million and RMB9.1 million, respectively, which mainly included commission payments to our agents. The increase in commission from 2015 to 2016 was mainly due to increased sales from agents. The decrease in commission from 2016 to 2017 was mainly due to our restructuring of the Relevant Agents as set out below.

Save for the sale of products and receipt of consideration, we do not make any other payment to, or receive any other payment from, our Agents.

Along with the Agency Agreements, we issue annual letters of authorisation to the agents corresponding to the relevant Agency Agreement, which set out (i) the geographical limit within which the agent is allow to resell our products; (ii) the types of customers to which the agent is allowed to resell our products, which typically exclude leading gas operators in the PRC and their subsidiaries, which in turn are directly handled by us; and (iii) the types of activities the agent is allowed to carry out in relation to the resales of our products, which typically include commercial and technicality negotiations, bidding and aftersales services.

We are of the view that channel stuffing is unlikely to take place in relation to our agents and generally does not pose a significant managerial concern, mainly for the following reasons:

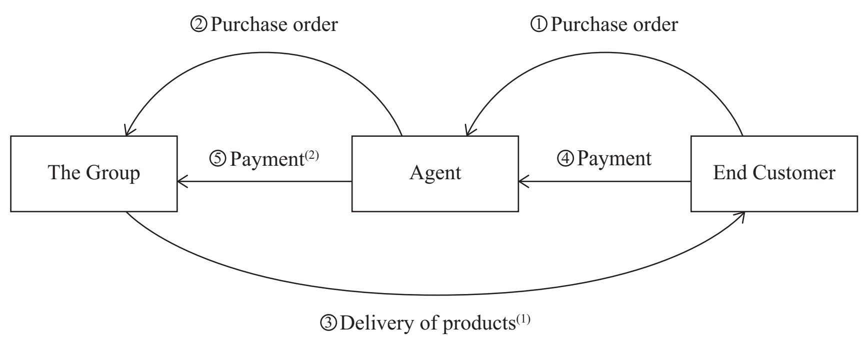
- We account for products sold to our agents still as part of our own inventory before the sales of such products by our agents to end customers. Therefore, our agents do not accumulate significant inventory for themselves;

- Our agents typically place purchase orders with us only when they have confirmed purchase orders from end customers, and we typically ship our products directly to end customers regarding purchase orders placed with us by our agents. As such, we are able to acquire information on the end customers including their identity, location and contact information. Therefore, again our agents do not accumulate significant inventory for themselves.

- Our agents receive commission based on our revenue generated through agents and only after receiving payment from end customers. We only recognise revenue after verifying that the relevant products have been sold to end customers. Therefore, we believe that our agents are neither incentivised nor empowered to engage in channel stuffing.

The Agency Agreements generally do not provide for product returns from our agents to us. When product return requests do arise in exceptional cases, we negotiate with our agents and decide whether we agree to accept such product returns in our own discretion. During the Track Record Period, we did not experience significant product returns. As we account for products sold to our agents still as part of our inventory before the sales of such products by our agents to end customers, the product returns did not necessitate any significant accounting adjustment.

The following diagram illustrates a typical sale of products by the Group through an agent:



Notes:

(1) We recognise revenue upon the delivery of our products to the end customer, which is also the point upon which the products are sold to the end customer by the agent.

(2) We have recognised revenue based on the price applied to the end customer. The agent pays us based on the lower price agreed between us. The difference of such prices is recorded by us as commission expense.

In addition to the resales of our products, the agents have been discharging certain additional functions within their respective geographical limits, such as (i) the expansion and maintenance of the local customer base for our products; (ii) the provision of assistance in our direct sales of products locally to leading gas operators in the PRC or their subsidiaries; and (iii) the provision of aftersales services in the local markets. Our Directors confirm that we do not hold any non-trade debt or equity securities in our agents and do not have the power to direct the relevant decisions of these agents. We believe such arrangements are generally in line with common industry practice.

We set out below certain comparisons between direct sales and sales through agents:

- **Cost structure and profitability**: Of our selling and distribution expenses, certain expenses are mainly associated with direct sales, such as employee benefit expense, sales service fee and travel and office expenses. Certain other expenses are mainly associated with sales through agents, such as commission. Certain expenses are associated with both direct sales and sales through agents, such as warranties provisions, transportation expenses and promotion costs. When we sell our products through agents instead of direct sales, we save the relevant selling expenses associated with direct sales and incur commission expenses instead. In 2015, 2016 and 2017, our revenue generated through agents was RMB72.3 million, RMB76.8 million and RMB65.7 million, respectively. During the same years, the commission we paid to agents was equal to 13.6%, 13.6% and 13.8% of our revenue through agents, respectively, which are slightly lower than our total selling and distribution expenses (excluding commissions paid to agents) over revenue (excluding revenue through agents) at 16.2%, 18.6% and 16.4% in 2015, 2016 and 2017, respectively. We therefore consider the profitability of sales through agents to be slightly higher than that of direct sales.

- **Operational efficiency**: We believe that conducting sales through agents enables us to focus our resources and management attention on the key customers in our direct sales while providing an agile structure and clear incentives to our agents for the sales of our products in certain local markets, thereby increasing operational efficiency.

- **Geographical coverage**: Agents operate within the geographical limits as set out in our annual letters of authorisation. After our restructuring of the Relevant Agents in June 2017 as described below, the geographical coverage of the remaining agents is limited to Nanjing, Shanghai and Guangzhou. We opted for sales through agents in these specific geographical areas because, based on our analysis of these local markets, we believe there is good potential in these markets for the development of small- and medium-size new customers, which would be best carried out by agents. We plan to leverage these agents to develop small- and medium-size non-gas-operator customers, while continuing to handle gas operator customers in these local markets directly through our headquarters.

We manage our agents in accordance with our internal rules. Our marketing department is primarily responsible for the management of our agents, including (i) the development, evaluation and admission of new agents; (ii) the negotiation and contracting with agents; (iii) the continuing management of agents after the signing of Agency Agreements regarding matters such as sales regions, pricing, inventory and receivables; (iv) the provision of sales support to agents; and (v) the review and maintenance of agents.

Considering that (i) we are the primary obligor in the arrangement; (ii) the inventory risk of the agents is low; (iii) the latitude for these agents to establish price is very limited; and (iv) the amount earned by these agents is a relatively small portion as compared with individual transaction amounts, we regard them as our sales agents.

Restructuring of Relevant Agents

Historically, most of our agents were established by our employees together with third party individuals in different regions in the PRC. As a result, certain shareholder(s) (the "**Responsible Persons**") of our agents overlap with our employees or shareholders. As at 31 December 2015, 2016 and immediately before our restructuring of agents in June 2017, we had a total of nine agents (the "**Relevant Agents**"), which operated in regions/cities of Shandong, Shanghai, Chengdu, Chongqing, Suzhou, Nanjing, Anhui, Guangzhou and Daqing, respectively. For the purpose of the Listing, in order to enhance the independence of the Relevant Agents to the extent possible, we carried out restructuring of our agents in June 2017.

We discussed with the Relevant Agents and carried out such restructuring by 30 June 2017 by means of either of the two approaches as set forth below:

- **Approach A**: The Responsible Person(s) ceased to be employed by us and/or transferred their respective shareholding in our Group and continued to operate the Relevant Agent independently. Such restructuring involved three Relevant Agents in Nanjing, Shanghai and Guangzhou, respectively (the "**Independent Agents**"), and the sales through them amounted to approximately 4.1%, 4.2% and 4.1% of our revenue in 2015, 2016 and 2017, respectively.

- **Approach B**: The Responsible Person(s) remained as our employees and/or shareholders, but we discontinued the business relationship with the Relevant Agent and carry out such Relevant Agent's original sales and service functions in the local market by ourselves. Such restructuring involved six Relevant Agents in Shandong, Chengdu, Chongqing, Suzhou, Anhui and Daqing, respectively, and the sales through them amounted to approximately 15.8%, 13.1% and 5.7% of our revenue in 2015, 2016 and 2017, respectively.

Our Directors consider that the aforesaid restructuring of the Relevant Agents adopting Approach B did not, and will not, have any material adverse impact on our business operation and financial conditions as a whole. We had taken various steps to work together with such six Relevant Agents to ensure a smooth transition, such as visiting the key customers to obtain their recognition of the abovementioned transition, undertaking preparatory work for the transition from the sales/aftersales services team of the Relevant Agents to our own sales/aftersales services team and making requisite logistical arrangements in relation to the above measures. We will continue to manage the remaining three Relevant Agents adopting Approach A in accordance with the relevant Agency Agreements and our internal rules. See "Risk Factors – Risks Relating to Our Business and Industry – We may be unable to effectively manage our sales and service network."

Since 30 June 2017 and up to the Latest Practicable Date, we continued to receive new purchase orders for our products. On average, we have received new orders for 5,713 units of industrial and commercial gas flowmeters and 23,680 units of residential gas meters per month from July 2017 to September 2017, which are higher than the average new orders for 3,485 units of industrial and commercial gas flowmeters and 22,203 units of residential gas meters per month from January 2017 to June 2017.

Overseas sales

We conduct our overseas sales mainly through the development of our local sales network comprising local distributors. We have obtained certain local certifications of our products in order to be able to sell our products in the local market. We promote our brand in overseas markets through various means such as advertisements on major e-commerce platforms, promotions at industry conferences and introduction through Chinese export companies. We have sold our products to countries and regions such as Turkey, Indonesia, Australia and Taiwan.

During the Track Record Period, part of the overseas sales of the Company were carried out through GFO Europe, a then wholly-owned subsidiary established by the Company in the Netherlands, while other overseas sales were carried out either by the Company directly or through third-party import and export companies. During the Track Record Period, GFO Europe contributed only a small percentage of our revenue and recorded net losses. Our Board passed a resolution in January 2018 to dispose of GFO Europe based on our unfavourable assessment of its business prospects.

In January 2018, the Company entered into an agreement with an Independent Third Party ("**GFO Purchaser**"), pursuant to which (i) the Company agreed to sell and GFO Purchaser agreed to purchase the entire equity interest of GFO Europe ("**GFO Europe Transfer**"); (ii) GFO Purchaser would make a payment of US$145,000 to the Company as the consideration of GFO Europe Transfer; and (iii) GFO Purchaser shall ensure that GFO Europe would not continue to use the trade name, trademark and domain name of the Company after the completion of the GFO Europe Transfer. The aforementioned consideration of US$145,000 was determined after arm's length negotiation with reference to, as confirmed by the Directors, the net asset value of GFO Europe as at 31 July 2017 according to a valuation report issued by an independent valuer and further adjusted by taking into account the subsequent business operations of GFO Europe based on its management accounts as at 31 December 2017. We expect to record a minimal gain on disposal and therefore do not expect the GFO Europe Transfer to have any significant impact on our financial performance in 2018. The GFO Europe Transfer was completed on 29 January 2018. See "Risk Factors – Risks Relating to Our Business and Industry – Our overseas businesses are exposed to political, economic, regulatory, reputational and legal risks." The Company will continue to conduct overseas sales by other means after the completion of the GFO Europe Transfer.

OUR CUSTOMERS

We have established long-term stable relationships with our major customers. In particular, four leading gas enterprise groups in China remained among our top five customers throughout the Track Record Period, with which we had maintained business relationships ranging from eight to 13 years as at 31 December 2017. In 2015, 2016 and 2017, sales to our top five customers represented approximately 33.7%, 34.6% and 35.5% of our revenue, respectively. Sales to our largest customer represented approximately 9.2%, 8.6% and 10.9% of our revenue for the same periods, respectively. See "Risk Factors – Risks Relating to Our Business and Industry – We may lose major customers, or fail to generate purchase orders from our existing customers at historical levels or secure new, substitute customers with sufficient demand."

To the best knowledge of our Directors, none of our Directors and/or their respective close associates, or any of our existing Shareholders who owned more than 5% of the issued share capital of the Company, had any interest in any of our top five customers during the Track Record Period. None of our top five customers during the Track Record Period was a supplier of the Group.

The tables below set forth the basic information of our top five customers during the Track Record Period:

For the year ended 31 December 2015

Customer	Approximate % of our total revenue	Years of business relationship as at 31 December 2017 (approximate)	Credit Period
Customer A(1)	9.2%	8	60 days
Customer B(1)	8.9%	11	90 days
Customer C(1)	7.6%	13	30 days
Customer D(1)	4.8%	13	60 days
Customer E(2)	3.3%	2	90 days
Total	**33.7%**		

For the year ended 31 December 2016

Customer	Approximate % of our total revenue	Years of business relationship as at 31 December 2017 (approximate)	Credit Period
Customer A[(1)]	8.6%	8	60 days
Customer C[(1)]	7.7%	13	30 days
Customer B[(1)]	7.5%	11	90 days
Customer D[(1)]	5.8%	13	60 days
Customer F[(3)]	5.0%	2	60 days
Total	**34.6%**		

For the year ended 31 December 2017

Customer	Approximate % of our total revenue	Years of business relationship as at 31 December 2017 (approximate)	Credit Period
Customer A[(1)]	10.9%	8	60 days
Customer C[(1)]	8.6%	13	30 days
Customer B[(1)]	8.4%	11	90 days
Customer D[(1)]	4.1%	13	60 days
Customer F[(3)]	3.5%	2	60 days
Total	**35.5%**		

Notes:

(1) Customers A, B, C and D are all leading gas operators in the PRC, which mainly purchased gas flowmeter products from us.

(2) Customer E is a city gas operator in eastern China, which mainly purchased diaphragm gas meter products from us.

(3) Customer F is an affiliate of a leading single-city gas operator in China, which mainly purchased gas flowmeter products from us.

The credit periods shown in the tables above start from our issuance of the invoices. For details of our customer's payment to us, see "– Credit Period and Payment".

We enter into framework agreements with certain major customers. Generally, such agreements have duration of one to three years and are legally binding. They contain product specifications and other terms such as delivery, quality inspection and aftersales services. We are required to provide favourable pricing terms on an annual basis, which can be re-negotiated in the event of significant fluctuation of raw material prices. Typically there is no minimum purchase commitment in these framework agreements and the actual purchase volume is subject to specific purchase orders or contracts. There was no material breach of framework agreements during the Track Record Period.

AFTERSALES SERVICES

Our Directors believe that our reputation is built upon our ability to provide quality and effective aftersales services and technical support to our customers to their satisfaction, which in turn have helped us to maintain strong business relationships with our customers to capture additional sales opportunities and to distinguish us from our competitors.

We generally provide one or two years product warranty to customers in relation to any quality defect of our products. After the expiry of the warranty period, we continue to provide aftersales services to our customers at their costs.

We have established an integrated service network comprising three layers:

- Our headquarters is responsible for the structuring of our overall service network and the allocation of resources in the service network;

- We have established four service sub-centres in north China, east China, south China and central China, respectively, to coordinate and monitor aftersales services within the region; and

- As at 31 December 2017, we had 36 branch offices across different provinces in China.

When we receive a request for service from a customer, we typically try to respond by phone or fax within five hours of receiving the request to propose a solution. If the issues cannot be resolved, we will then send our aftersales service personnel or technical staff to conduct on-site examination and repair work and/or exchange parts and components, if necessary. Leveraging our established service network with our branch offices as liaising points, we strive to send our aftersales service or technical personnel to customers within 24 hours upon receiving aftersales requests from them. As at 31 December 2017, we had an aftersales service team of 58 staff members stationed in our branch offices in the PRC to provide aftersales services to our customers.

According to our customer complaint handling policy, our market service centre is responsible for receiving and recording customer complaints, making an initial assessment and coordinating relevant departments to carry out further analysis. The relevant department will then formulate the remedy and submit to the market service centre for implementation. The market service centre may report to our technology department or general manager if necessary. Our quality department is responsible for responding to the customer and ensuring that the issue triggering the complaint is solved properly.

We provide training to our customers to enhance their relevant technical know-how during the use of our products. We communicate with and obtain feedback from our customers to gain knowledge of their requirements and needs. It is also our policy to analyse and record our customers' feedback on product enquiries and repair needs for us to continuously improve our products to suit the business needs and requirements of our customers.

In 2015, 2016 and 2017, our warranty provision was RMB3.3 million, RMB6.4 million and RMB9.4 million, respectively, which was equal to approximately 0.9%, 1.5% and 1.4% of our revenue for the same periods, respectively. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material product defects, sales returns or exchanges from our customers.

PRICING

In determining the selling prices of our gas measurement instrument products to our customers, we generally take into account factors such as our costs of procurement, production and aftersales services, market competition and the anticipated market trends. We review and adjust our pricing on a regular basis. Our headquarters is in charge of sales to cross-regional gas enterprise groups, other selected key customers and customers in new local markets, and determines the price of our products within such scope. Our branch offices are authorised to determine the price of our products within the local market in which they are authorised to conduct sales within a price range prescribed by our headquarters. In competitive situations such as sales by tendering, the relevant branch office is required to report to our headquarters, which will in turn determine our marketing strategy and pricing.

CREDIT PERIOD AND PAYMENT

We typically do not require our customers to pay any deposit for orders placed. We grant credit periods to our customers of up to three months from the invoice date based on their background and operational scale, relationship with us, financial condition, reputation and purchase amount. However, our trade and notes receivable turnover days in 2015, 2016 and 2017 were approximately 246, 227 and 209 days, respectively. Our trade and notes receivable turnover days significantly exceeded the credit terms we granted to our customers mainly because (i) a considerable lapse of time may occur between the dispatch of our products and our issue of an invoice; and (ii) we may allow longer credit periods based on our assessment of the particular customers. For further details, see "Financial Information – Certain Items of Consolidated Statements of Financial Position – Trade and other receivables and prepayment". As a result of the above, our daily operation has to rely on our internal sources and bank borrowings to maintain our cash flow and satisfy the needs of our daily operations, which may have a negative effect on our working capital management and financial costs. See "Risk Factors – Risks Relating to Our Business and Industry – We have recorded significant and increasing trade receivables and our trade and notes receivable turnover days significantly exceeded the credit terms we granted to our customers. If we fail to manage account receivables effectively or suffer losses significantly beyond our provisioning, our business, results of operations and financial position may be materially and adversely affected."

Our customers in the PRC generally settle our payment by bank transfer in Renminbi. We also allow some of our customers in the PRC to settle our payment by bank acceptance bills with maturities of no more than 180 days. We may be required by certain customers to make a payment to them as a performance bond or allow the customer to keep part of their payment for our products as a quality guarantee, which is typically no more than 10% of the purchase price and will be repaid to us upon the expiry of a certain period up to two years after our delivery of the products. Our foreign customers usually make their payments via bank transfers in US dollars, Euros or other foreign currencies.

PROCUREMENT

As we produce the majority of the parts and components used in our products, our procurement work is mainly in relation to the purchase of raw materials such as aluminium ingots and steel. We also purchase standard parts and components such as electronic components, bearings and bolts. In 2015, 2016 and 2017, our cost of raw materials and consumables used was approximately RMB140.7 million, RMB110.7 million and RMB133.0 million, respectively, representing approximately 85.1%, 71.2% and 72.2% of our total cost of sales for the same periods, respectively. Please refer to the section headed "Financial Information – Principal Income Statement Components – Cost of sales" in this prospectus for more details and also the sensitivity analysis of our profit in relation to the fluctuation of our costs of parts and components during the Track Record Period.

OUR SUPPLIERS

We have established stable and long-term business relationships with our suppliers. As at 31 December 2017, we had more than four years of business relationship with each of our top five suppliers during the Track Record Period. In 2015, 2016 and 2017, purchases from our top five suppliers accounted for approximately 25.6%, 19.3% and 19.0% of our total purchases for the same periods, respectively. During the Track Record Period, all of our top five suppliers were Chinese companies.

We typically purchase each major category of raw materials from two or more suppliers, which we believe facilitates our management of procurement cost and reduces our risk of reliance on any single supplier. However, we purchase bearings and moulds respectively from a single supplier to increase efficiency and reduce cost. During the Track Record Period, we did not experience any material difficulty in the procurement of timely supply of raw materials at prices acceptable to us. See "Risk Factors – Risks Relating to Our Business and Industry – We may be unable to effectively manage the supply and quality of the raw materials, parts and components that we purchase, and any price fluctuations of such raw materials, parts and components may increase our production costs."

The tables below set forth the basic information of our top five suppliers for the years indicated:

For the year ended 31 December 2015

Supplier	Major products procured	% of our total purchases	Background	Years of business relationship as at 31 December 2017 (approximate)	Credit Period
Supplier A . . .	Integrated circuit boards	7.4%	A sales and import/export company of electronic and other products	3	None
Supplier B . . .	Bearings	5.4%	An import/export company of electromechanical accessories, hardware and other mechanical parts	9	None
Supplier C . . .	Circuit board modules	4.9%	A manufacturer of electronic products	4	None
Supplier D . . .	Aluminium alloy ingots	4.4%	A sales company of metallic materials	6	30 days

Supplier	Major products procured	% of our total purchases	Background	Years of business relationship as at 31 December 2017 (approximate)	Credit Period
Supplier E . . .	Pressure sensors	3.6%	A state-owned medium-size enterprise engaged in the R&D and production of electronic computers and application products	6	30 days
Total		**25.6%**			

For the year ended 31 December 2016

Supplier	Major products procured from the supplier	Approximate% of our total purchases	Background	Years of business relationship as at 31 December 2017 (approximate)	Credit Period
Supplier C . .	Circuit board modules	6.2%	A manufacturer of electronic products	4	None
Supplier F. . .	Aluminium	3.9%	A producer of large aluminium profile	5	None
Supplier B . .	Bearings	3.6%	An import/export company of electromechanical accessories, hardware and other mechanical parts	9	None
Supplier D . .	Aluminium alloy ingots	2.9%	A sales company of metal material	6	None
Supplier G . .	Circuit board modules	2.6%	A manufacturer of remote data transmission and control system	6	None
Total		**19.3%**			

For the year ended 31 December 2017

Supplier	Major products procured from the supplier	Approximate% of our total purchases	Background	Years of business relationship as at 31 December 2017 (approximate)	Credit Period
Supplier H . .	Aluminium alloy ingots	4.7%	A producer of cast aluminium alloy ingots	6	None
Supplier C . .	Circuit board modules	4.0%	A manufacturer of electronic products	4	None

Supplier	Major products procured from the supplier	Approximate% of our total purchases	Background	Years of business relationship as at 31 December 2017 (approximate)	Credit Period
Supplier B . .	Bearings	4.0%	An import/export company of electromechanical accessories, hardware and other mechanical parts	9	None
Supplier I . . .	Aluminium profile and roots	3.2%	A manufacturer of aluminium profile	10	None
Supplier J . . .	Gas meter mounts	3.1%	A manufacturer of residential gas meter parts	4	None
Total		**19.0%**			

In selecting our suppliers, we conduct reviews and prepare review forms covering aspects such as the basic information of the supplier, its ability to assure product quality, past dealings, quality of similar products that it is already producing, delivery time and its service and quality assurance system. We may also carry out on-site visits and request sample products for our inspection and experiment. Our procurement team places purchase orders with selected suppliers based on our production plan, inventory, cash management needs and existing procurement plan. To the best knowledge of our Directors, none of our Directors and/or their respective close associates, or any of our existing Shareholders who owned more than 5% of the issued share capital of the Company, had any interest in any of our top five suppliers during the Track Record Period.

We generally enter into purchase contracts or place orders with our suppliers for each of our purchases instead of entering into long-term purchase agreements. Set out below are the material terms of such purchase contracts:

- Specification – The purchase orders typically set out the ordering numbers, names, specifications, prices, quantities, value and delivery dates of the parts and components we require.

- Delivery – Our suppliers are typically required to deliver the parts and components to our production plants in Cangnan County.

- Payment – We make payments to our suppliers mainly by way of bank transfer after our purchase has been delivered and passed our inspection.

In order to manage price fluctuations of the raw materials we use, we adjust the inventory level of raw materials from time to time based on our forecast of the relevant price trends in the market. We increase our inventory level of raw materials in anticipation of a price increase and decrease our inventory level of raw materials in anticipation of a price decrease. We may try to reduce the raw materials cost per unit of our products through R&D. We may also negotiate with our customers in the event of a significant price increase in key raw materials in order to pass such price increase, to the extent possible, to our customers. We currently are not engaged in any hedging transactions regarding raw material prices. See "Risk Factors – Risks Relating to Our Business and Industry – We may be unable to effectively manage the supply and quality of the raw materials, parts and components that we purchase, and any price fluctuations of such raw materials, parts and components may increase our production costs."

QUALITY CONTROL

We place great emphasis on, and endeavour to constantly ensure, the high quality of our products. We have obtained the ISO 9001 quality assurance system certification and implement stringent quality control in strict compliance with the requirements of such system. We established quality control checkpoints throughout various stages of our production process from product design, purchase of raw materials to manufacturing. We have also established a comprehensive quality traceability system based on our bar code management system. We implement a "6S" management system, which is a workplace organisation method that highlights "Sort, Set in Order, Shine, Standardise, Sustain and Safety". We use the "6S" management system to implement effective control and fixed location management of our production environment and equipment in order to ensure the satisfaction of our production needs and the quality of our products.

We implement a stringent quality control system. Our quality control measures start early in the development stage and continue throughout our various stages of operational process, including (i) inspection of raw materials; (ii) testing of work-in-progress; (iii) inspection of finished products; and (iv) inspection of production machinery and equipment. As at 31 December 2017, we had 12 staff members in our quality control team.

Our quality control team monitors the quality and precision level of our work-in-progress to ensure that our entire production process complies with our product specifications and technical requirements. We also conduct various functional tests and analyse the problems arising during our production process to ensure that our products comply with the requisite quality and performance standards.

Further, our quality control team is also in charge of the final inspection of our finished products. We typically conduct various performance tests, such as tightness testing and appearance examination before the delivery of our products to customers. We generally adopt a standardised quality control checklist according to the type of our products to be delivered.

We regularly review and evaluate our quality control system and submit product quality reports to our management. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material complaints on us or our products from our customers that had caused a material adverse impact on our business or our reputation.

INVENTORY MANAGEMENT

Our inventory primarily comprises of raw materials, work-in-progress and finished goods, which are stored in our warehouse at our production plants. We have designated personnel who use a centrally-administered ERP system to track and systematically manage our inventory. In order to ensure the sufficiency of our production capacities and timely delivery of products, we generally maintain an inventory level of finished products of around two months based on our production plans.

As at 31 December 2015, 2016 and 2017, our closing balance of our inventories amounted to approximately RMB87.0 million, RMB73.1 million and RMB78.2 million, respectively, which accounted for approximately 17.2%, 12.2% and 9.5% of our total current assets as at the same date, respectively. Our average inventory turnover days were approximately 203, 188 and 150 days in 2015, 2016 and 2017, respectively. For more details of our average inventory turnover days, please refer to the section headed "Financial Information – Certain Items of Consolidated Statements of Financial Position – Inventories" in this prospectus.

DELIVERY AND LOGISTICS

Raw materials supplied by our suppliers are delivered to our production plants in Cangnan County at our suppliers' own costs and risks. For the delivery of our products, our customers in the PRC can choose to either pick them up from our warehouse at Cangnan County, or request us to arrange the delivery of our products to locations designated by our customers. Our products sold to overseas customers are generally shipped on a free-on-board basis. We are typically responsible for arranging transportation from our production plants to designated ports in the PRC for further shipping arrangements.

During the Track Record Period, we engaged external logistic companies to deliver our products. Pursuant to the agreements entered into between us and the logistic companies, the logistic companies are responsible for any direct losses caused by them during the shipment of our products. In 2015, 2016 and 2017, our costs for packing was approximately RMB2.1 million, RMB2.7 million and RMB4.5 million, respectively. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption or damage in relation to the delivery of our products.

COMPETITION

The gas measurement instrument market in the PRC is a competitive field, but the demand for gas measurement instrument products has been growing steadily in recent years. According to Frost and Sullivan, driven by the intensifying urbanisation and favourable policy environment for natural gas industry in China, both industrial and commercial, and residential, natural gas flowmeter markets have experienced quick growth from 2012 to 2017, recording CAGRs of 12.1% and 12.7%, respectively, between 2012 and 2017. The nuclear power equipment market in China experienced decreases from 2012 to 2015 but is now experiencing a revival, according to Frost and Sullivan. Please refer to the section headed "Industry Overview" in this prospectus for more details.

Competition in the PRC gas measurement instrument market is generally centred on the technology, precision, reliability, durability and functionality of products, industry reputation and track record, deliver, aftersales services and pricing. Competition landscapes differ among the three sub-markets that we operate in, namely the industrial and commercial gas flowmeter market, the residential gas meter market and the nuclear-related product market.

Industrial and commercial gas flowmeter market

The industrial and commercial gas flowmeter market in China is led by two major domestic players including us, with the rest of the market highly fragmented. According to Frost and Sullivan, the entry barriers to set up and operate in this market mainly include:

- **Qualification requirements** by AQSIQ on natural gas flowmeter as a key measurement device based on design and production capabilities, with the China Metrology Certification being essential but hard for a new entrant to obtain;

- **Technical capability** to ride on the industry trend for more accurate and intelligent gas flowmeter products and master the advanced and mature technology of production and research to meet higher product requirements under more and more complex industrial structure and improve product competence facing competition;

- **Brand awareness** to gain customers' trust for product quality and service; and

- **Sophisticated distribution and aftersales service networks** as customers prefer timely and direct services, which is difficult for new entrants to achieve.

According to Frost & Sullivan, we have four principal competitive edges compared to our competitors, including: (i) our strong branding; (ii) our solid customer relationships; (iii) our mature service network; and (iv) our advanced technology.

Residential gas meter market

The residential gas meter market in China is highly fragmented compared to the industrial and commercial gas flowmeter market. Generally, industrial and commercial gas flowmeters are subject to higher standards in terms of accuracy, reliability and durability, and are used to measure larger quantity of gas flowing under higher pressure levels, compared with residential gas meters. Accordingly, the entry barriers of the residential gas meter market are generally lower than the industrial and commercial gas flowmeter market. The residential gas meter market is similar to the industrial and commercial gas flowmeter market in terms of the focus of competition and our advantages.

Nuclear power equipment market

In addition, for the nuclear power equipment market, the entry barriers to the nuclear power equipment market in China is very high due to the high standards of product quality and safety and the industry-specific product specifications and standards.

INFORMATION SYSTEMS

We believe that established information systems are conducive to improving our efficiency in administering and operating our business. We have made continuous investment to maintain comprehensive information systems which integrate the internal and external management information across various aspects of our business operations. Our OA office system and ERP system enable us to manage our procurement, sales, inventory and financial analysis and reporting, which in turn has allowed us to manage and optimise our business process and to improve our operation performance. In the future, we will continue to enhance our information systems that enable us to obtain and process information and data on an expedited basis, support our decision-making, increase our production efficiency, all of which will in turn help us to improve our cooperation with our customers and suppliers and increase our revenue and profitability.

RESEARCH AND DEVELOPMENT

We carry out market-oriented research and development. We set up our R&D projects based on customer needs collected by our marketing team and carry out market analysis before we apply the relevant technology to large scale production. After we start to sell new products, we collect feedback from customers for the trial use in order to further improve the functions of such new products. We believe that our market-oriented R&D approach enables us to expedite the application of our technological achievements and increase the competitiveness of our products. We have adopted an internal design and development control procedure in compliance with ISO9001 standards covering various aspects of our research and development such as preliminary survey, process management, staffing and assessment. We have also adopted an internal technology innovation incentives system to incentivise our R&D staff with special bonuses based on the nature, type, difficulty, market potential and expected economic benefits of the relevant R&D projects.

We emphasise research and development and have cultivated strong R&D capabilities. As at 31 December 2017, we have established a R&D team of 91 dedicated research and development personnel, with another nine staff engaged in quality control in relation to research and development. In addition, we engage external experts to participate in our research and development.

We are committed to the professional development of our R&D personnel, many of whom have received various types of external recognition, including one person in the PRC national-level Thousand Talents Program, one person in the Zhejiang Province Thousand Talents Program, one person in the Zhejiang 151 Talents Program, one winner of the National May 1 Worker's Medal, three persons recognised as Renowned Master or Expert of Wenzhou City, two persons in the Wenzhou 551 Talents Program, two persons in the Wenzhou Outstanding Talents Program, one person recognised as Professional Skills Role Model in Wenzhou Equipment and Meters Profession, one person receiving the PRC State Council special allowance and one person receiving Wenzhou government special allowance.

In 2015, 2016 and 2017, we invested RMB18.4 million, RMB25.5 million and RMB34.9 million as R&D expenses, respectively, which were equal to 5.1%, 5.8% and 5.2% of our revenue during the same year, respectively. We have been recognised as a Provincial-level High and New Technology Research and Development Center and a Provincial-level Highly Skilled Talents for Innovation Workshop. In 2016, our Zhejiang Cangnan Smart Flowmeter Research Institute was further recognised by Zhejiang government as a Provincial-level Enterprise Research Institute. Both the Company and Dongxing Software have been recognised by the PRC government as High and New Technology Enterprises. Dongxing Software has also been recognised by the PRC government as a Software Enterprise.

We cooperate with academic institutions to further strengthen our R&D capabilities. Our cooperation with Zhejiang University can be traced back to 1986. In December 2012, we entered into a cooperation agreement with Zhejiang University to establish a joint research and development centre, which has carried out research and development of a number of new products such as the IC card gas flowmeter, the flowmeter computer, the flowmeter testing device and the ultrasonic flowmeter. We also cooperated with China Jiliang University in July 2011 to establish an instrument science graduate education and innovation demonstrative base and a Zhejiang Province Flow Measurement Technology Research Key Laboratory, and have entered into various technology development contracts with China Jiliang University over the years for the development of technology such as wireless remote transfer IC card gas meter technology and rotary flowmeter optimisation technology. Under our cooperation agreement with Zhejiang University and various technology development contracts with China Jiliang University, typically we provide funding and the counterparty provide R&D facilities and personnel. The intellectual property rights are jointly owned and we have the exclusive right to apply such intellectual property rights to products.

Leveraging our R&D capabilities, we have undertaken one national-level technology-oriented medium and small enterprise technology innovation project, five national-level Torch Program projects, one national-level Spark Program project and over twenty provincial-level and city-level science and technology projects. We have four national-level key new products and one product that is the first of its kind in the key fields of equipment manufacturing industry in Zhejiang Province and one made-in-Zhejiang competitive product. We participated in the drafting or revision of nine national, industry or local standards, of which we led the compilation of the Made-in-Zhejiang standards regarding gas turbine flowmeters and participated in the Made-in-Zhejiang standards regarding rotary flowmeters, respectively.

Set out below are certain technological improvements that we achieved during the Track Record Period though our R&D efforts:

Product	R&D achievements
EVC300 Intelligent Volume Corrector . .	• Adoption of high-precision digital temperature and pressure sensors to enhance measurement precision; • Replacement of traditional mechanical touch switches with touch sensitive buttons to extend the service life, enhance sealing and prevent against water and dust; • Installation of anti-condensation device to prevent reading interference due to moisture condensation within the screen when temperature changes in the surrounding environment; • Integration of protection circuit to fend against lightning and surge and retrain pulse group; • Electric isolation for all outward transmission interfaces for enhanced anti-interference and reliability; and • Addition of real-time data storage function to satisfy management needs of gas operators.
IC Card Gas Flowmeter Series . .	• Integration of flow compensational calculation, IC card operation and control to replace the traditional separate "IC card intelligent flow controller + gas flowmeter", thereby overcoming difficulties in measurement, anti-theft and maintenance; • Lowering power consumption in the industrial setting; • Addition of wireless function to facilitate monitoring; and • This product has been recognised by Zhejiang government as a Provincial-level New Product.
LWQG Gas Turbine Flowmeter.	• "G" represents high pressure. This product has a highest working pressure of 12MPa compared with traditional turbine flowmeters' usual working pressure of 1.6MPa to 6.3MPa; • We developed this product as an Oil and Gas Pipeline Key Equipment Localisation Project designated by PetroChina West to East Gas Transmission Pipeline Branch; and • This product has received certification from the China Machinery Industry Association.

Product	R&D achievements
Wireless Volume Corrector	• Integration of GPRS wireless module to realise remote meter reading within the coverage of mobile networks unlimited by region, landscape or distance; • Adoption of energy-type lithium battery for the small-current charge management of small power-type battery, which in turn provides high-current discharge for GPRS. This increases the efficiency and extends the service life of the battery and enhances stable long-distance transmission; • Adoption of duel circuits or reference circuit design to automatically analyse the working condition of flow, pressure and temperature sensors and send alarm signals upon detection malfunction, thereby realising intelligent self-diagnose; and • We have obtained four intellectual property rights regarding this product.

High-precision Gas Rotary Flowmeter. .	• Increase of measurement precision from the existing 1.0 level to 0.5 level through the following measures:
	  • Increase the machining precision of key component parts;
	  • Utilisation of dynamic mesh technique in the calculation of inner flow fields to achieve accurate description;
	  • Optimisation of base meter structure, in particular the structure of the rotors, to increase measurement range and precision; and
	  • Adoption of resistanceless duel circuits inductive transducer detection technology to improve distinguishability and measurement accuracy.

Gas Turbine Flowmeter with Wide Measurement Range	• Improvement of measurement range ratio (highest measurable flow divided by lowest measurable flow) from the traditional 20:1 to 30:1, thereby enhancing measurement in small flow conditions; • Internal rectification design of extra length to unify cross-section status of gas flow through acceleration adjustment; and • Optimized turbine blade design details to enhance sensitivity to incoming flow.

In addition, we also carry out R&D projects to customise our products to satisfy customer needs. As an example, we conducted research on the key technology of in-shell anti-theft rotary and turbine flowmeters upon the request of a major customer to produce such customised products with capped cost increase. We believe that the technological improvements that we achieved extended or elevated the functionality of our products and therefore enhanced the competitiveness of our products in the market.

INTELLECTUAL PROPERTY

We recognise the importance of protecting and enforcing our intellectual property rights. We work to maintain registration of intellectual property rights that are material to our business operation under appropriate categories and in appropriate jurisdictions.

As at the Latest Practicable Date, we held five patents for invention, 42 patents for utility models, three industrial design patents and 20 software copyrights. Further, as at the Latest Practicable Date, we were in the process of applying for the registration of 78 patents in the PRC. Our patents are principally related to the technology, process, improvement and design associated with our products.

As at the Latest Practicable Date, we had nine registered trademarks in the PRC that are material to our business and had registered two trademarks in Hong Kong.

To the best of our knowledge, information and belief, we were not aware of any material infringement of our intellectual property rights as at the Latest Practicable Date and we believe that we have taken reasonable measures to prevent infringement of our own intellectual property rights.

To the best of our knowledge, information and belief, we are not aware of any pending or threatened claims against the Group relating to the infringement of intellectual property rights owned by third parties. Details of our registered intellectual property rights which we consider to be or may be material to our business are set out in the paragraph headed "Statutory and General Information – Further Information about Our Business – Intellectual property rights" in Appendix VI to this prospectus.

INSURANCE

We have insurance coverage for our plant, machinery and the inventory, which were renewed on an annual basis. During the Track Record Period and up to the Latest Practicable Date, we did not make, neither were we the subject of, any insurance claims that are of a material nature to the Group. We have not purchased any business interruption insurance nor purchase any insurance against explosion accident related to the quality of gas measurement products as our Directors believe it is very rare to attribute the occurrence of a gas explosion accident to the quality of gas metering products. The Company did not experience any such incident during the Track Record Period. Our Directors believe that our insurance coverage meets the practices in the gas measurement industry in the PRC, as far as we know. For details of the risk relating to our insurance, please refer to the section headed "Risk factors – Risks Relating to Our Business and Industry – Lack of business insurance coverage may incur substantial costs for us." of this prospectus.

Our insurance policies are typically reviewed on an annual basis. Our Directors consider that our existing insurance coverage of our business is adequate with respect to our business operations and consistent with industry norm having regard to our current operations and the prevailing industry practice in the PRC.

EMPLOYEES

As at 31 December 2017, we had 501 full-time employees in the PRC. The following table sets out a breakdown of our employees by function:

	Number of employees
Production	217
Research and development	91
Aftersales services	58
Management, administration and finance	83
Sales and marketing	40
Quality control[1]	12
Total	**501**

Note:

(1) Nine of our quality control staff are engaged in quality control relevant to R&D, and their remuneration is included in our R&D expenses.

Recruitment and retention

We recruit our employees based on a number of factors such as our vacancy needs and expansion plans, their work experience and educational background. We typically hire through recruitment websites, internal referrals and campus recruitments. We believe our remuneration and other incentives, working environment and employee development opportunities for our employees have contributed to good employee relations and employee retention.

We maintain a highly stable employee team. In 2015 and 2016, employees that had resigned represented approximately 1.0% and 2.3% of our total employees, respectively as at the end of the year.

Labour contract, remuneration and welfare contribution

We enter into individual labour contracts with our employees, with terms covering, among other things, positions, salaries, working hours, annual leave and other benefits. Our employees' remuneration depends on their particular functions: (i) our mid- and high-management personnel's remuneration follows annual salary system; (ii) the remuneration of our technical personnel, professional personnel and administration personnel follows post-rank salary system; (iii) the remuneration of our production personnel is based on production outcome; and (iv) our sales personnel's remuneration follows deduction wage system, which is based on the sales performance.

We have designed our remuneration system aiming at the strengthening of incentives for our employees. Generally, approximately two thirds of the remuneration of our employees is performance-based. We strive to provide remuneration to our employees at levels higher than the industry average. Our employee shareholding structure provides additional incentive to our employees that hold equity interests in us.

Pursuant to applicable PRC laws and regulations, employers are required to make contributions to, and employees are required to participate in, a number of social security funds (including funds for basic endowment insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance) and the housing provident fund. For more information, please refer to the section headed "Regulatory Environment – Labour, Social Insurance and Housing Accumulation Funds" of this prospectus. According to the compliance certificate issued by Wenzhou Housing Provident Fund Management Center, Cangnan Sub-branch on 22 January 2018, we had made full contribution to the housing provident fund for our employees in a timely manner during the Track Record Period.

In 2015, 2016 and 2017, we incurred employee benefits expenses (including salaries, wages and bonuses, pension and housing fund, medical insurance and other social insurances and share-based payment expense) of approximately RMB61.1 million, RMB72.7 million and RMB91.2 million, respectively, representing approximately 16.8%, 16.4% and 13.6% of our revenue for the same periods, respectively. We review the performance of our employees, the results of which are used in his or her annual salary review and promotion appraisal.

Training

We have a highly skilled work force. As at 31 December 2017, approximately 66.1% of our employees held college degrees. We place emphasis on the training of our employees and strive to ensure that our employees are equipped with the required skills and safety knowledge when performing their duties. We believe that adequate training will increase the overall competitiveness of our workforce. We carry out a wide variety of training programmes for our employees including induction training, on-the-job training, professional knowledge training and technical skills training. We also engage external consulting and educational institutions to provide training to our employees and periodically dispatch our research and development staff to receive training at academic institutions such as China Jiliang University.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any strikes, work stoppages or significant labour disputes and did not experience any significant difficulties in recruiting or retaining qualified employees.

PROPERTIES

We occupy certain properties in the PRC in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules.

Pursuant to Rule 5.01A of the Listing Rules, this prospectus is exempt from the requirement to include valuation on property interests of our non-property activities if the carrying amount of a property interest is less than 15% of our total assets. A similar exemption applies under section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), with respect to the requirement under section 342(1)(b) of, and paragraph 34(2) of the Third Schedule to, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong).

Our headquarters is located at the Industrial Demonstrative Park, Lingxi Town, Cangnan County, Zhejiang province, the PRC. As at 31 December 2017, we owned and occupied two parcels of land for industrial purpose with a total site area of 34,360 sq.m. Such land is located at the Industrial Demonstrative Park and Batou Light Industrial Park of Small and Micro Enterprises, respectively, of Lingxi Town, Cangnan County, Zhejiang province, the PRC. Our PRC Legal Adviser is of the view that we legally own the land use rights for such land. As at 31 December 2017, part of these parcels of land with a total site area of 22,010.1 sq.m. had been mortgaged to a bank. During the term of such mortgage, we as the mortgagor shall not contribute, assign, lease or remortgage the mortgaged land or dispose of the same in any other manner without the written consent of the mortgagee. Save for the above restrictions related to the mortgage, we have the right to legally occupy, use, transfer, mortgage or otherwise dispose of such land in accordance with PRC law.

As at 31 December 2017, we owned or occupied properties with a total GFA of 30,752.44 sq.m. in the PRC. Of such properties:

- Properties with a total GFA of 30,210.26 sq.m. are industrial properties located on the two parcels of land as mentioned above. Such properties are mainly used by us as offices, production plants and warehouses.

- Four properties with a total GFA of 542.18 sq.m. are residential properties located in Cangnan, Wenzhou and Shanghai. Such properties are mainly used by us as employee dormitories.

As at 31 December 2017, of the properties that we owned or occupied:

- We had obtained five building ownership certificates regarding properties with a total GFA of 28,762.50 sq.m., representing approximately 93.5% of the total GFA of the properties we owned or occupied. Our PRC Legal Adviser is of the view that we legally own the title to such properties. As at 31 December 2017, part of such properties with a GFA of 17,838.69 sq.m. had been mortgaged to a bank. During the term of such mortgage, we as the mortgagor shall not contribute, assign, lease or remortgage the mortgaged properties or dispose of the same in any other manner without the written consent of the mortgagee. Save for the above restrictions related to the mortgage, we have the right to legally occupy, use, transfer, mortgage or otherwise dispose of such properties in accordance with the PRC law.

- We had not obtained building ownership certificates regarding ten properties with a total GFA of 1,822.09 sq.m., representing approximately 5.9% of the total GFA of the properties we owned or occupied. Such properties are mainly temporary buildings used for ancillary purposes.

- In addition, we planned to carry out relevant procedures to register a building and land ownership certificate under our name regarding one residential property with a GFA of 167.85 sq.m., representing approximately 0.5% of the total GFA of the properties we owned or occupied.

As at 31 December 2017, we leased 35 properties with a total GFA of approximately 3,747.875 sq.m. from third parties in the PRC.

ENVIRONMENTAL PROTECTION

Our operations are subject to the current environmental protection laws and regulations promulgated by the PRC government, a summary of which is set out in the section headed "Regulatory Environment – Environmental Protection" in this prospectus. Our production process emits certain waste materials such as waste emulsion, waste machine oil, pickling gases, sludge and waste water. We have obtained the necessary waste emission permits and engage third party service providers to collect, process and recycle our waste materials. In addition, we have implemented internal environmental protection rules and obtained ISO 14000 certification regarding environmental compliance. During the Track Record Period, we did not receive any notice or warning in relation to pollution in respect of our production; we had not been subject to any fines, penalties or other legal actions by government agencies in the PRC resulting from any non-compliance with any environmental protection laws in the PRC; and, so far as our Directors are aware after making all reasonable enquiries, there was no threatened or pending action by any PRC environmental government agencies in respect thereof.

SAFETY AND LABOUR PROTECTION

We are subject to the relevant PRC laws and regulations regarding labour and production safety. For further details, please refer to the sections headed "Regulatory Environment – Labour, Social Insurance and Housing Accumulation Funds" and "Regulatory Environment – Product Quality and Safety Production" in this prospectus. We have established procedures to ensure the workplace safety for our employees and have obtained OHSAS 18000 certification for workplace safety. We have also implemented safety guidelines and operating procedures for our production process and conduct regular and thorough worksite inspections to eliminate any potentially hazardous working environment.

We regularly provide our employees with occupational safety education and training, covering the relevant laws and regulations regarding labour and production safety, risks in relation to our business operation and production facilities as well as measures to reduce such risks so as to enhance their awareness of safety issues, and carry out periodic inspections to verify compliance and institute an internal responsibility system for implementing safe production measures.

We did not experience any material workplace accident during the Track Record Period and up to the Latest Practicable Date. According to the compliance certificate issued by Cangnan County Administration of Work Safety on 19 January 2018, we had complied with the requirements under national and local laws, regulations, rules and normative documents regarding workplace safety in relation to our business and operations during the Track Record Period.

LEGAL COMPLIANCE AND RISK MANAGEMENT

Our operations are subject to various national and local laws and regulations governing environmental protection, workplace safety and product quality, among others. In our compliance measures we aim to meet regulatory and industrial standards of relevant central and local government authorities and our industry associations. Please refer to the section headed "Regulatory Environment" in this prospectus for further details.

Licences and permits

As a manufacturer of gas measurement instrument products, we are required by the PRC law to obtain various government certifications and qualifications for the production and sales of our gas measurement instrument products. For example, we need to obtain a certificate of approval for the model of the measurement instrument (a "Model Approval") and a permit for the manufacture of measuring instrument (a "Permit for Manufacture") issued by the QTSB for each model of our gas measurement instrument products. A Model Approval is a one-off application, while a Permit for Manufacture typically has a validity period of one to three years subject to renewal. As at 31 December 2017, we had a total of 37 Permits for Manufacture and 33 Model Approvals, which remained valid as at the Latest Practicable Date. The Permits for Manufacture for the majority of our products will expire in 2019, while other Permits for Manufacture will expire in 2018 or 2020. We plan to apply to renew the Permits for Manufacture in due course.

In addition, as we continue with our business overseas, we have obtained, and are in the process of applying for more, government and industry licences, permits and certificates in various jurisdictions. For example, we have obtained a certificate from NMi certifying the compliance of a specific model of our rotary flowmeter with the European Measuring Instruments Directive, which is valid until October 2021.

As confirmed by our PRC Legal Adviser, we had obtained the material licences and permits required for our current business operations during the Track Record Period and up to the Latest Practicable Date. For details of the relevant laws and regulations, please refer to the section headed "Regulatory Environment" of this prospectus. For risks associated with our licences and permits, see "Risk Factors – Risks Relating to Our Business and Industry – We may fail to obtain, maintain and renew government and industry licences, permits and certificates." During the Track Record Period and up to the Latest Practicable Date, we had not experienced any failure in applying for the renewal of our respective operation licences and permits.

Legal proceedings

We may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of business such as proceedings in respect of disputes with suppliers or customers, labour disputes or infringement of intellectual property rights. In addition, we were involved in the following legal proceedings as at the Latest Practicable Date.

Legal Proceedings Relating to a Former Shareholder

Background information

As at the Latest Practicable Date, the Company was involved in certain ongoing legal proceedings involving a former shareholder, Mr. Ye Bin ("**Mr. Ye**"). Mr. Ye served at various positions at the Company including as vice factory manager and Director. His labour contract with the Company expired on 31 December 2008 and he resigned from his last position with the Company as Director in July 2009. Upon resignation, he held 40 shares of the Company, which represented 5.7% of the then total share capital of the Company (the "**Relevant Shareholding**").

According to our then effective articles of association, a former employee holding or with knowledge of the Company's confidential information may keep the relevant shareholding in the Company for three years after resignation before "settlement" ("結算") (i.e. the calculation of the value of such shareholding including dividend in preparation of a transfer). Keeping such shareholding after resignation of a holder as mentioned above is, however, subject to the fulfilment of certain conditions at the same time, including (i) the approval of the Board; (ii) the signing of the relevant agreement; (iii) no industry competition; and (iv) no damage to the Company's interest and reputation. In the event of a breach of these conditions, the relevant shareholding shall be settled and "frozen" ("凍結") (i.e. forfeited). Accordingly, the Board passed resolutions in July 2012 (the "**Settlement Resolutions**") to "settle and freeze" ("結凍") the Relevant Shareholding for the reason that Mr. Ye carried out competing business activities in breach of the aforementioned conditions.

In addition, the Company passed Board and shareholders resolutions in June and July 2012, respectively (the "**Capital Increase Resolutions**"), regarding the carrying out of a capital increase. According to the Capital Increase Resolutions, Mr. Ye was excluded from participating in such capital increase and the Relevant Shareholding was therefore diluted from 5.7% to 2.3% of the then total share capital of the Company immediately after such share capital increase.

In April and December 2014, the Board passed further resolutions to retrieve and transfer (the "**Transfer**") the Relevant Shareholding to a number of current employees (the "**Transfer Resolutions**"). The aggregate consideration for the Transfer was RMB4.3 million (the "**Transfer Consideration**"), which we have received in full and recorded under trade and other payables – others in our audited financial statements. Such Transfer Consideration was calculated based on the owners' equity of the Company as set out in the latest audited financial statements of the Company filed with the SAIC before Mr. Ye's departure from the Company in 2009.

Concluded legal proceedings relating to the Transfer

Mr. Ye filed certain lawsuits since 2012 against the Company regarding the validity of the Settlement Resolutions, the Capital Increase Resolutions and the Transfer Resolutions, respectively. All these lawsuits have been concluded with the final judgments of the relevant courts affirming the validity of the Settlement Resolutions, the Capital Increase Resolutions and the Transfer Resolutions with the only exception that the freezing of the Relevant Shareholding as set out in our board resolutions in July 2012 was ruled to be invalid, meaning that Mr. Ye would still be entitled to receive the Transfer Consideration. As at the Latest Practicable Date, we had not paid such Transfer Consideration to Mr. Ye pending the outcome of further, ongoing legal proceedings relating to Mr. Ye as set out below.

In addition, Mr. Ye sued Cangnan County Market Supervision and Administration Bureau in April 2016 and the Company was set out as a third party in this case. Mr. Ye requested for the revocation of the registration regarding the Transfer. The courts of the first and second instances rejected such request and Mr. Ye's retrial application was also rejected by the courts, and such case was concluded as at the Latest Practicable Date.

The Dividend Litigation

Mr. Ye filed a lawsuit in March 2016 against the Company (the "**Dividend Litigation**") for the payment of RMB7.3 million plus relevant interests and subsequently raised such amount to RMB21.3 million plus relevant interests, including RMB18.0 million as dividend from 2009 to 2015 pursuant to his own calculation, RMB1.1 million as "equity interest" at a monthly rate of 1% based on the face value of the Relevant Shareholding, and RMB2.2 million as profit distribution pursuant to documents of the Company. In May 2017, the court of first instance issued judgement, pursuant to which (1) the claim for RMB18.0 million as dividend was not supported except for the dividend up to July 2011, which equals RMB2.2 million. Mr. Ye did not prove any dividend was paid by the Company to shareholders between August 2011 and July 2012, and was no longer entitled to dividend after he ceased to be a shareholder of the Company in July 2012; (2) the claim for RMB1.1 million as equity interest was not supported by evidence; and (3) the claim for RMB2.2 million is equivalent to the payment of as the dividend up to July 2011 as set out in (1) above and is therefore repetitive and not supported. Both parties appealed and the Dividend Litigation was in the process of the trial of second instance as at the Latest Practicable Date. We have made provision for the estimated litigation losses including RMB2.2 million plus interest by 31 December 2017 in full. For details, see Note 30 to the Accountant's Report in Appendix I to this prospectus.

Analysis of the Ongoing Legal Proceedings relating to the Transfer

Zhejiang Yushan Law Firm (浙江玉山律師事務所), the PRC legal advisor representing the Company in the Ongoing Legal Proceedings relating to the Transfer, is of the view that, based on the evidence currently available:

(1) the likelihood of the Dividend Litigation resulting in a final judgement significantly less favourable to the Company than that issued by the court of first instance is low because, as the court of first instance found, the claims for additional dividends by Mr. Ye were repetitive, unsupported by evidence and/or relating to periods after he had ceased to be a shareholder of the Company; and

(2) the payment of the Transfer Consideration to the relevant transferees or Mr. Ye, as the case may be, is not expected to have any material impact on our financial position and results of operations, as the Transfer Consideration:

- is of a relatively small amount;
- has been received by us in full; and
- has been recorded under trade and other payables – others in our audited financial statements.

Based on the views of Zhejiang Yushan Law Firm, the Directors are of the view that (i) the likelihood of the Dividend Litigation resulting in a final judgement significantly less favourable to the Company than that of the court of first instance is low; (ii) the payment of the Transfer Consideration to the relevant transferees or Mr. Ye, as the case may be, is not expected to have any material impact on our financial position and results of operations; and (iii) the outcome of the Dividend Litigation will not give rise to any further significant loss beyond the amounts provided as at 31 December 2017. See "Risk Factors – Risks Relating to Our Business and Industry – We may be involved in legal and other proceedings from time to time."

Based on the views of Zhejiang Yushan Law Firm and in light of the provisions made as at 31 December 2017, the Directors are of the view that the Dividend Litigation is unlikely to have any material adverse impact on our business operations or financial position.

Upon the conversion of the Company into a joint stock limited company in February 2017, each existing shareholder issued a notarised letter of confirmation and authorisation confirming that (i) the shareholding held by such shareholder was not subject to any actual or potential claim or dispute; and (ii) such shareholder acknowledge and agree with all shareholders' resolutions involving, among others, share transfers, capital increases, corporate restructurings and profit distributions and all related corporate actions relevant to the shareholding of such shareholder. Further, the currently effective Articles of Association no longer contain the provisions that in the past allowed the Company to settle and freeze the Relevant Shareholding. Therefore, the Directors are of the view that it is highly unlikely for any similar litigation to occur in the future.

Ongoing legal proceedings relating to payments for goods

The Company previously conducted sales through, and purchased products from, Shanghai Zhongde Energy (Group) Co., Ltd. ("**Zhongde**"), a company of which Mr. Ye was a shareholder and director. In June 2007 and May 2009, the Company entered into authorisation for sales agreements with Zhongde for Zhongde's sales of certain products of the Company as an agent in selected regional markets. The Company became aware in 2011 that Mr. Ye was carrying out competing business and terminated its cooperation with Zhongde in March 2012 through mutual agreement. Following Mr. Ye's filing of lawsuits against the Company in 2012, the Company and Zhongde were engaged in two legal proceedings for outstanding payments for goods:

- in the other legal proceeding ("**Case No. 1**"), according to the final judgement by the Shanghai First Mid-level People's Court, the Company was ordered to pay RMB6.4 million plus relevant interests to Zhongde in relation to its historical purchase of certain flowmeters and accessories from Zhongde. We had made provision for such litigation losses, including RMB6.4 million plus relevant interests by 31 December 2017. For details, see Note 30 of the Accountant's Report attached in Appendix I of this prospectus. We filed for retrial, which was rejected by the relevant court in February 2018. As at the Latest Practicable Date, this case was pending enforcement;

- in the other legal proceeding ("**Case No. 2**"), according to the final judgement by the Shanghai First Mid-level People's Court, Zhongde was ordered to pay the Company RMB13.6 million plus relevant interests and the Company was ordered to pay Zhongde RMB2.6 million plus relevant interests. We have not made any provision in relation to this litigation as the result of the judgement is a net gain for the Company. The enforcement of this judgement was suspended as Zhongde filed an application for retrial, which has been accepted by the court for review. Subsequently, we filed an application for the resumption of enforcement, which was pending as at the Latest Practicable Date.

Legal Proceedings Relating to Corporate Guarantees

Around the early 2010s, due to the continuing flourishing of privately owned enterprises and the relatively tight and cautious extension of bank credit by banking institutions in the Wenzhou area of Zhejiang province, bank loans with the arrangement of mutual provision of guarantee by and between two local corporate borrowers became increasingly prevalent and acceptable to banks and eventually culminated in a "financial phenomenon" in Wenzhou area, and many leading local companies in various industries have adopted such arrangements.

Against this backdrop and due to its financing needs for the expansion of the Group's own then business operation, the Company entered into certain cross guarantee arrangements after going through the corporate governance procedures in accordance with the applicable PRC laws and regulations (such as the Company Law and the then effective articles of association of the Company. Between 2012 and 2014, the Company entered into six corporate guarantees (the "**Corporate Guarantees**"), pursuant to which the Company guaranteed the respective repayment obligations of Huazheng Plastics Group Company Limited (華正塑料集團有限公司) and its associated companies ("**Huazheng Group**") and Shengyu Group Company Limited (盛宇集團有限公司) and its associated companies ("**Shengyu Group**") (Huazheng Group and Shengyu Group collectively as the "Guaranteed Parties", both being not related to the Group), in respect of certain of their respective bank loans. Our PRC Legal Adviser has confirmed that according to the applicable PRC laws and regulations, it is legal for the Company to provide Corporate Guarantees to the Guaranteed Parties, or to be guaranteed by the Guaranteed Parties. Furthermore, the Company shall have the right to recover from the Guaranteed Parties after performing its payment obligations under the Corporate Guarantees.

Following defaults by the Guaranteed Parties, the Company has been involved in various legal proceedings brought by relevant banks. As at the Latest Practicable Date, (i) all Corporate Guarantees have expired (such expiration not affecting liabilities already accrued) and the Guaranteed Parties are no longer permitted to draw down any further loans under the relevant banking facilities with the support of the Corporate Guarantees; and (ii) all court trials had been completed, court judgements issued and repayment agreements entered into between the Company and relevant banks save for one Corporate Guarantee where the court judgements were pending enforcement and another Corporate Guarantee where enforcement had been completed. Based on relevant repayment agreements and, in the two separate instances mentioned above, the court judgement and the enforcement result, respectively, the Company estimated that it will need to make payments to relevant banks of an aggregate amount of approximately RMB105.4 million between 2015 and 2019. Of such aggregate amount, a total of RMB30.6 million has been paid between 2015 and 2017, and a further RMB74.8 million is expected to be paid between 2018 and 2019.

The Company had made certain payments to relevant banks in relation to its liabilities under the Corporate Guarantees and progressively initiated court proceedings to reclaim such payments from the Guaranteed Parties and had obtained a number of favourable judgements. However, the Company is of the view that, as the defaults under the loans indicated financial difficulties encountered by the Guaranteed Parties, there is no assurance that the favourable judgements can be successfully enforced or that the Company will be able to reclaim the payments in full, or at all. Therefore, the Company had made provisions in full regarding its payments made and to be made in relation to the Corporate Guarantees in 2014 and 2015 based on its best estimate on the payments in relation to the Corporate Guarantees including interest expenses. Set forth below is the provision loss made for the relevant legal proceedings during the three years ended 31 December 2017:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Losses from financial guarantees provided to third parties	35,845	–	2,587 *(Note)*

Note: The additional provision of RMB2.6 million in 2017 was due to an update of the estimated interest expenses relating to the payment obligations of the Company in relation to the Corporate Guarantees.

Set forth below is the historical and estimated cash payments made by the Company during the Track Record Period and the forthcoming years (until 2019). In relation to certain legal proceedings the judgement of which has been given by the court and the relevant settlement has been agreed with the relevant banks, the Company calculated the estimated cash outflow based on the judgement/settlement agreement whereas in relation to the legal proceeding which is still in progress, the Company estimated the possible cash outflow based on the terms and conditions of the Corporate Guarantee. For prudence sake, in respect of the Corporate Guarantee for which no settlement agreement has been entered into with the relevant banks, it is estimated that cash settlement will need to be made in 2018:

	Year ended 31 December				
	2015	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000 (estimated)	RMB'000 (estimated)
Paid/To be paid during the year[1].	2,203	12,200	16,200	56,298	18,537

Note:

1. Amount paid/to be paid during the year includes incurred and forecasted interest expenses.

After taking into account the financial impact of the legal proceedings to the Group as listed above, the Group (i) is able to meet the minimum profit requirements under Rule 8.05 of the Hong Kong Listing Rules; and (ii) has sufficient working capital available for the Group's present requirements, that is for at least the next 12 months from the date of publication of this prospectus.

In the meantime, the cross guarantee arrangements also enabled the Group to obtain relevant credit facilities it needed at that time. From 2006 to 2012, the Company obtained 29 loans from Cangnan sub-branch of Agricultural Bank of China (中國農業銀行蒼南支行), among which, 26 loans were guaranteed by Shengyu Group, and three loans were guaranteed by Huazheng Plastics Industry Co, Ltd.. In particular, during the international financial crisis from 2008 to 2009 when it was difficult and costly for local companies to obtain financing, the Company obtained 18 loans because of the guarantees given by the two corporates, which effectively addressed the financing need and ensured smooth business operation of the Company over that period of time. As at the Latest Practicable Date, all of the said loans had been settled in full, and the guarantees entered into relating thereto had either been terminated due to the discharge of repayment obligations of the loans or expired according to the relevant loan agreements. Our Directors confirm that the termination or expiration of such guarantees has no adverse effect on the Group's ability to obtain financing from financial institutions.

Historically, the Company also provided certain other corporate guarantees for the benefit of third parties but all such corporate guarantees had expired as at the Latest Practicable Date and there had been no default under these other corporate guarantees during the Track Record Period. As at the Latest Practicable Date, there were no corporate guarantees outstanding that were provided by the Company for the benefit of third party guaranteed parties.

Taking into account of (i) cross guarantee arrangements to obtain relevant credit facilities expose the Group to certain credit risk; and (ii) the Group's financial position has attained improvement during the Track Record Period resulting in the corresponding banks to offer sufficient credit facilities to the Group without the need to involve guarantee arrangements, the Company does not intend to make use of cross guarantee arrangements to obtain credit. As such, the Company has inserted a clause in its articles of association about a general prohibition on provision of guarantee in favour of any parties other than its subsidiaries. For detailed information of the clause, please refer to the section headed "Appendix V – Summary of Articles of Association" to this prospectus.

We have in place a set of internal control and risk management procedures to address various potential operational, financial and legal risks identified in relation to our operations, including but not limited to procurement management, inventory management, investment project management, connected party transaction controls, information disclosure controls, human resources, IT management and other various financial control and monitor procedures. These risk management policies set forth procedures to identify, categorise, analyse, mitigate and monitor various risks. The procedures also set forth the relevant reporting hierarchy of risks identified in our operations. Our Board is responsible for overseeing our overall risk management.

After due consideration, our Directors are of the view that our current internal control measures are adequate and effective.

Save as disclosed above, during the Track Record Period, we were not involved in any material litigation, arbitration or claim. To the best of our knowledge, no such material litigation, arbitration or administrative proceedings had been threatened against the Company or any of our subsidiaries. As at the Latest Practicable Date, none of the Company, any of our subsidiaries or any of our Directors was a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations.

Summary of provisions relating to certain legal proceedings

The following table summarises provisions relating to certain legal proceedings as at the Latest Practicable Date as set out under "Legal Compliance and Risk Management – Legal proceedings":

Legal proceeding	Status	Relevant amount	Provision and notes
Legal proceedings relating to the Transfer			
Concluded legal proceedings relating to the Transfer	Concluded	RMB4.3 million (plus interest)	No provision as we have received the Transfer Consideration in full and recorded it under trade and other payables – others in our audited financial statements.
Dividend Litigation	In the process of trial of second instance	RMB21.3 million (plus interest)	Provision of RMB2.2 million plus interest according to the judgement of the court of first instance, which was RMB3.1 million (including interest) as at 31 December 2017.
Ongoing legal proceedings relating to payments for goods			
Case No. 1	Pending enforcement	RMB6.4 million (plus interest)	Provisions of RMB6.4 million plus interest according to the judgement of the court of second instance, which was RMB9.4 million (including interest) as at 31 December 2017.
Case No. 2	Pending enforcement	Net gain for the Company	No provision as the result of the judgement is a net gain for the Company.

Legal proceeding	Status	Relevant amount	Provision and notes
Other legal proceedings			
Legal proceedings relating to Corporate Guarantees	Enforcement stage	RMB73.6 million[(1)] (including interest)	Provisions of RMB59.4 million was carried forward to 2015. Additional provisions of RMB35.8 million and RMB2.6 million were made in 2015 and 2017, respectively. After accounting to payments already made by 31 December 2017 and unwinding of discount, RMB73.6 million of provision was carried forward to 2018.

Note:

(1) The amount of RMB73.6 million here is the discounted amount taking into consideration the relevant payment schedules as agreed with relevant banks under the repayment agreements, as compared with the un-discounted amount of RMB74.8 million to be paid by the Company in 2018 and 2019.

Internal control measures

The responsibility of the Board is to ensure the Company to consistently maintain a sound and effective internal monitor to safeguard the investment of shareholders and the assets of the Group. In accordance with applicable laws and regulations, we have established procedures to set up and maintain the internal control system, covering corporate governance, operation, management, law affairs, finance and audits, etc. In order to further strengthen the internal control and ensure we will comply with applicable laws and regulations (including Listing Rules) after listing, we will take the following internal control measurements:

(a) we will retain a qualified PRC legal adviser after the Listing to advise the Group and provide training to our Directors and senior management personnel from time to time on the legal and regulatory requirements applicable to our operations in the PRC;

(b) we will establish the Audit Committee of our Board prior to the Listing, which will establish formal arrangements to apply financial reporting and internal control principles in accounting, financial and tax matters to ensure compliance with the Listing Rules and all applicable laws, rules and regulations;

(c) we will appoint a qualified independent professional firm to carry out internal audit functions to assist our Board to ensure due compliance of laws, rules and regulations applicable to the Group;

(d) the Group is reviewing our existing internal control framework and plans to adopt a set of internal control policies, including the corporate governance policies, which covers corporate governance, risk management, operations, legal matters, finance and audit, and the implementation of such internal control policies will be overseen by the qualified independent professional firm as referred to in paragraph (c) above;

(e) our Directors have attended training conducted by the legal advisers to the Company as to Hong Kong laws on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Listing Rules; and

(f) we have appointed the Sole Sponsor as our compliance adviser, which will provide advice and guidance to the Group in respect of compliance with the Listing Rules and various requirements relating to directors' duties and corporate governance, and the joint company secretary will discuss with our compliance adviser on compliance matters in accordance with the Listing Rules on a regular basis such that any potential non-compliance incident identified will be reported to our Board on a timely basis and corresponding remedial action will be taken to address the potential issues.

OVERVIEW

The Board consists of 14 Directors, including seven executive Directors, two non-executive Directors, and five independent non-executive Directors, all of whom were elected at the general meeting with a term of office of three years, and are subject to re-election upon the expiry thereof. The term of office of the independent non-executive Directors is renewable with a limit of nine years.

The Supervisory Committee consists of three Supervisors, including the chairman of the Supervisory Committee. The Supervisors include one employee Supervisor and two shareholder Supervisors. The shareholder supervisors are elected at the general meeting, while the employee supervisor is elected at the staff representative meeting, general staff meeting or otherwise. Each of the Supervisors has a term of office of three years and is subject to re-election upon the expiry thereof.

The following tables set forth information regarding our Directors, Supervisors and senior management.

Directors, Supervisors and senior management

The following table sets forth the key information of our Directors:

Name	Age	Date of joining the Group	Date of appointment as Director	Position	Responsibility
Mr. Hong Zuobin (洪作斌先生)	71	May 2004	13 June 2017	Chairman Executive Director	Directing the daily works of the Board, supervising and monitoring the execution of the resolutions of the Board, participating in the decision-making of important matters, such as the overall business strategy, operation strategy and development of the Company
Mr. Huang Youliang (黃友良先生)	53	August 1984	13 June 2017	Executive Director General Manager	Directing the management production and operation of the Company, participating in the decision-making of important matters, such as developing the operation strategy of the Company
Mr. Yin Xingjing (殷興景先生)	45	September 1993	13 June 2017	Executive Director Vice General Manager	Participating in the development and implementation of the business and operation strategies of the Company through the Board, assisting in the business operation management of the Company
Mr. Zhang Shengyi (章聖意先生)	50	March 1989	13 June 2017	Executive Director Chief Engineer	Participating in the development and implementation of the business and operation strategies of the Company through the Board

Name	Age	Date of joining the Group	Date of appointment as Director	Position	Responsibility
Ms. Lin Zichan (林姿嬋女士)	40	November 2000	13 June 2017	Executive Director Vice General Manager Joint Company Secretary	Participating in the development and implementation of the business and operation strategies of the Company through the Board
Mr. Lin Zhongzhu (林中柱先生)	40	January 2001	13 June 2017	Executive Director Vice General Manager	Participating in the development and implementation of the business and operation strategies of the Company through the Board, assisting in the business operation management of the Company
Mr. Lin Jingdian (林景殿先生)	44	October 2003	13 June 2017	Executive Director	Participating in the development and implementation of the business and operation strategies of the Company through the Board
Mr. Ye Xiaosen (葉小森先生)	66	November 1983	15 August 2017	Non-executive Director	Participating in the decision-making of important matters, such as developing the operation strategy of the Company
Mr. Hou Zukuan (侯祖寬先生)	67	September 1977	15 August 2017	Non-executive Director	Participating in the decision-making of important matters, such as developing the operation strategy of the Company
Mr. Wong Hak Kun (王克勤先生)	61	June 2018	21 June 2018	Independent Non-executive Director	Participating in the decision-making of important matters, such as developing the operation strategy of the Company, providing independent advice on the important matters involving minority interests
Mr. Ng Jack Ho Wan (吳浩雲先生)	41	June 2018	21 June 2018	Independent Non-executive Director	Participating in the decision-making of important matters, such as developing the operation strategy of the Company, providing independent advice on the important matters involving minority interests
Mr. Wang Jingfu (王靖甫先生)	53	June 2018	21 June 2018	Independent Non-executive Director	Participating in the decision-making of important matters, such as developing the operation strategy of the Company, providing independent advice on the important matters involving minority interests

Name	Age	Date of joining the Group	Date of appointment as Director	Position	Responsibility
Mr. Li Jing (李靜先生)	52	June 2018	21 June 2018	Independent Non-executive Director	Participating in the decision-making of important matters, such as developing the operation strategy of the Company, providing independent advice on the important matters involving minority interests
Mr. Su Zhongdi (蘇中地先生)	61	June 2018	21 June 2018	Independent Non-executive Director	Participating in the decision-making of important matters, such as developing the operation strategy of the Company, providing independent advice on the important matters involving minority interests

The following table sets forth the key information of our Supervisors:

Name	Age	Date of joining the Group	Date of appointment as Supervisor	Position	Responsibility
Mr. Huang Xijun (黃希俊先生)	41	October 1999	13 June 2017	Chairman of Supervisory Committee Employee Supervisor	Directing the affairs of Supervisory Committee, supervising the operating and financial activities of the Company as well as the performance of the Directors and senior management on behalf of the employees
Mr. Ye Sigong (葉思共先生)	51	August 1989	13 June 2017	Supervisor	Supervising the operating and financial activities of the Company as well as the performance of the Directors and senior management
Mr. Zhou Xiaoding (周孝定先生)	52	July 1984	13 June 2017	Supervisor	Supervising the operating and financial activities of the Company as well as the performance of the Directors and senior management

The following table sets forth the key information of our senior management:

Name	Age	Date of joining the Group	Date of appointment as senior management	Position	Responsibility
Mr. Huang Youliang (黃友良先生)	53	August 1984	13 June 2017	Executive Director General Manager	Directing the management production and operation works of the Company, participating in the decision-making of important matters, such as developing the operation strategy of the Company

Name	Age	Date of joining the Group	Date of appointment as senior management	Position	Responsibility
Mr. Yin Xingjing (殷興景先生)	45	September 1993	13 June 2017	Executive Director Vice General Manager	Participating in the development and implementation of the business and operation strategies of the Company through the board of directors, assisting in the business operation management of the Company
Mr. Zhang Shengyi (章聖意先生)	50	March 1989	13 June 2017	Executive Director Chief Engineer	Participating in the development and implementation of the business and operation strategies of the Company through the Board
Mr. Fan Zefeng (范則鋒先生)	53	June 1984	13 June 2017	Vice General Manager	In charge of product quality, control outsourcing processing, comprehensive management and other affairs.
Ms. Lin Zichan (林姿嬋女士)	40	November 2000	13 June 2017	Executive Director Vice General Manager Joint Company Secretary	Participating in the development and implementation of the business and operation strategies of the Company through the board of directors
Mr. Lin Zhongzhu (林中柱先生)	40	January 2001	13 June 2017	Executive Director Vice General Manager	Participating in the development and implementation of the business and operation strategies of the Company through the Board, assisting in the business operation management of the Company
Mr. Jin Wensheng (金文勝先生)	49	January 1992	13 June 2017	Vice General Manager, and Manager of Dongxing Intelligent	Directing the management, production and operation of Dongxing Intelligent
Mr. Xie Shangpeng (謝尚鵬先生)	45	September 1991	13 June 2017	Vice General Manager, and Manager of Dongxing Energy	Directing the management, production and operation of Dongxing Energy
Mr. Chen Qihui (陳其慧先生)	41	August 2003	17 September 2017	Financial Controller	Taking charge of the financial operation of the Company, assisting in the daily management of the Company
Ms. Huang Liyun (黃麗雲女士)	67	September 1984	13 June 2017	Head of finance department	Participating in the supervision of financial and accounting management

DIRECTORS

Mr. Hong Zuobin (洪作斌先生), aged 71, is the Chairman and the executive Director of the Company. Mr. Hong was a teacher at Mazhan Secondary School in Cangnan County, Zhejiang Province from September 1970 to September 1975, and served as the Party Branch Secretary and the manager of Cangnan Meter Plant from 1977 to June 1984. Mr. Hong served as the deputy head of the Industry Bureau of Cangnan County, the deputy director, director and the Secretary of the Party Leadership Group of the Economic Planning Commission of Cangnan County from April 1984 to December 1990; the director and the Secretary of the Party Leadership Group of the Overseas Chinese Affairs Office of Cangnan County from December 1990 to June 1993; the director and the Secretary of the Party Leadership Group of the Urban and Rural Construction Committee of Cangnan County from June 1993 to January 1997; the Secretary of the Party Leadership Group of the Environmental Protection Bureau of Cangnan County from January 1997 to June 1999; the director and the Secretary of the Party Leadership Group of the Taiwan Affairs Office of Cangnan County from June 1999 to June 2002; a researcher of the Taiwan Affairs Office of Cangnan County from January 2002 to December 2005. Mr. Hong has served as the Chairman of the Company since May 2004.

Mr. Huang Youliang (黃友良先生), aged 53, is an executive Director and the general manager of the Company. Mr. Huang served as a statistical clerk of the production division and an officer, the deputy director and director of the factory office of our Company from August 1984 to November 2000, and was appointed as deputy factory manager from November 2000 to May 2001, and was promoted to the executive vice factory manager from May 2001 to December 2002. Mr. Huang has served as the general manager of our Company since January 2003. Mr. Huang studied at Graduate School of the Asia International Open University (Macau) from 2004 to 2006 and received a Master of Business Administration degree. Mr. Huang currently serves as an executive member of the China City Gas Association and vice president of Zhejiang Investment Promotion Association. In addition, Mr. Huang was awarded the title "National Machinery Industry Model Worker (全國機械工業勞動模範)" in 2014.

Mr. Yin Xingjing (殷興景先生), aged 45, is an executive Director and the deputy general manager of the Company. Mr. Yin was an officer of the technical division and the director of the No.3 design workshop of the technical division of the Company from September 1993 to December 1999; the deputy director of the production engineering department from January 2000 to October 2000; the director of the technical department from November 2000 to May 2003; and was appointed as the chief engineer from January 2004 to January 2011. Mr. Yin has served as a deputy factory manager of the Company since January 2011. Mr. Yin majored in mechanical design and manufacture at University of Shanghai for Science and Technology from September 1993 to January 1997, and subsequently obtained a graduation certificate for the network education programme in mechanical and electrical engineering at University of Science and Technology Beijing in January 2009. In addition, Mr. Yin was awarded with the title of Instrument Technical Engineer by the General Office of the People's Government of Wenzhou Municipality in November 2002 and was subsequently promoted as Flow Instrument Professional Senior Engineer by the Office of Human Resources and Social Security of Zhejiang Province in December 2010. Mr. Yin was awarded with the National May 1 Labour Medal in 2013.

Mr. Zhang Shengyi (章聖意先生), aged 50, is an executive Director and the chief engineer of the Company. Mr. Zhang joined the Company in March 1989 and worked as a worker at the electric instrument workshop up to December 1999; served as the deputy director of the technical development department from March 1999 to December 1999; the director of the technology development department from December 1999 to November 2000; the director of the chief engineer office from November 2000 to May 2001; assistant to the factory manager from May 2001 to August 2001; and was appointed as the deputy factory manager from August 2001 to January 2011. Mr. Zhang has served as the chief engineer and the director of the chief engineer office since January 2011. Mr. Zhang majored in computer science and technology at Southwest China Normal University from March 2003 to January 2005. Mr. Zhang was awarded with the title of Automated Instrument Engineer by Wenzhou Municipal People's Government in November 2011. Mr. Zhang was awarded with the title of "Renowned Master" of the tertiary industries of Wenzhou in 2014.

Ms. Lin Zichan (林姿嬋女士), aged 40, is an executive Director, the vice general manager, the secretary to the Board of the Company, head of the Group's administrative office and the deputy chairman of the labour union. Ms. Lin was an officer of the factory department office from November 2000 to May 2003; deputy head of the factory department office (in charge of overall operation) from May 2003 to January 2006; head of the factory department office from January 2006 to December 2008, assistant to the factory manager, head of the factory department office, and deputy chairman of the labour union from January 2009 to December 2012. Ms. Lin has served as a deputy general manager of the Company, head of the Group's administrative office and deputy chairman of the labour union since January 2013. Ms. Lin majored in international economics and trade at Zhejiang Radio and Television University from September 1996 to June 1998 and subsequently studied an EMBA at Shanghai Jiao Tong University from May 2012 to August 2013.

Mr. Lin Zhongzhu (林中柱先生), aged 40, is an executive Director and the deputy general manager of the Company. Mr. Lin was an officer of the Company's technical equipment department from January 2001 to December 2002; a technician of the precision work group from January to December 2003; deputy head of the technical equipment department from January 2004 to December 2005; head of the technical equipment department from January 2006 to March 2008; a deputy chief engineer and the head of the technical equipment department from April 2008 to December 2011; and assistant to the factory manager and the head of the technical equipment department from January 2012 to December 2012. Mr. Lin has served as a deputy factory manager since January 2013. Mr. Lin majored in mechanical manufacturing and automation at Zhejiang University of Technology from September 1996 to July 2000 and obtained a bachelor's degree. In addition, Mr. Lin was awarded with the title of Mechanical Manufacturing Engineer by Wenzhou Municipal People's Government in November 2011.

Mr. Lin Jingdian (林景殿先生), aged 44, is an executive Director and the deputy chief engineer of the Company. Mr. Lin served as the head of mechanical design and head of standard metrology of the Company from October 2003 to December 2010; the deputy director of the technical R&D centre (presiding) from February 2011 to December 2011; and the director of the technical R&D centre from January 2012 to December 2013. Mr. Lin has served as a deputy chief engineer and the director of technical R&D department since January 2014. Mr. Lin majored in mechanical design and manufacturing at Zhengzhou University of Technology from September 1995 to December 1998, and subsequently obtained a graduation certification of the network education programme in mechanical and electrical engineering at the University of Science & Technology Beijing in January 2009. Moreover, Mr. Lin was awarded Senior Flowmeter Engineer by the Zhejiang Province Human Resources and Social Security Department in December 2011, and was subsequently promoted to Professorate Senior Flowmeter Engineer in December 2016. Meanwhile, Mr. Lin is currently a part-time off-campus postgraduate tutor of instrument science and technology at China Jiliang University.

Mr. Ye Xiaosen (葉小森先生), aged 66, is a non-executive Director of the Company. Mr. Ye had been working with the Company from November 1983 to November 2011. Mr. Ye served as a salesman and assistant to the chief of the sales department from November 1983 to April 1985; deputy chief of the sales department of the Company from April 1985 to February 1988; chief of the sales department of the Company from February 1988 to May 1993; deputy plant director from May 1993 to January 1996; plant director from January 1996 to September 1998; Chairman of the Company from September 1998 to May 2004; and vice chairman of the Company from May 2004 to November 2011.

Mr. Hou Zukuan (侯祖寬先生), aged 67, is a non-executive Director of the Company. Mr. Hou had been working with the Company from September 1977 to July 2017. Mr. Hou served as chief of the financial section from the time when the Company started business operation to November 1984; director of the factory office from November 1984 to July 1986; secretary to the factory department from July 1986 to January 1987; deputy factory manager and executive deputy factory manager from January 1987 to February 2001; factory manager from February 2001 to December 2002; consultant to the factory manager from January 2003 to January 2013; and director of the infrastructure office of the Company from January 2013 to July 2017.

Mr. Wong Hak Kun (王克勤先生), aged 61, is an independent non-executive Director of the Company. Mr. Wong once worked in Deloitte China, and has more than 36 years of experience in auditing, assurance and management. He has been a partner of Deloitte China since 1992. He served as a member on the board of directors of Deloitte China from 2000 to 2008. Before retiring in May 2017, Mr. Wong was a partner of Deloitte China in charge of national audit and assurance. Mr. Wong has been respectively appointed as an independent non-executive director of Yue Yuen Industrial (Holdings) Limited (a company listed on the Main Board of the Stock Exchange, stock code: 551) (with effect from 1 June 2018) and an independent non-executive director of Lung Kee (Bermuda) Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 255) (with effect from 1 June 2018). Mr. Wong obtained a bachelor's degree in social sciences from The University of Hong Kong in November 1980. He is a member of Hong Kong Institute of Certified Public Accountants since December 1983, The Association of Chartered Certified Accountants since September 1983, and the Chartered Institute of Management Accountants since June 1990.

Mr. Ng Jack Ho Wan (吳浩雲先生), aged 41, is an independent non-executive Director of the Company. Mr. Ng has over 20 years of experience in accounting, auditing, asset management and fund management. He worked in PricewaterhouseCoopers LLP, Canada from September 1997 to February 2001. Mr. Ng then worked in KPMG in Hong Kong from March 2001 to October 2012 and was an audit partner in KPMG in Hong Kong from July 2008 to October 2012, where he was responsible for overseeing audit and advisory projects in the wealth and fund management sectors both in China and Hong Kong. Mr. Ng has been the managing director of Jack H.W. Ng CPA Limited since June 2013. Mr. Ng has been appointed as an independent non-executive director of HM International Holdings Limited (a company listed on the GEM Board of the Stock Exchange, stock code: 8416) (with effect from 15 December 2016). Mr. Ng graduated from Simon Fraser University, Canada with a degree of Bachelor of Business Administration (Co-operative Education) in May 2000. Mr. Ng has been a fellow of the Hong Kong Institute of Certified Public Accountants since May 2010 and also a chartered accountant in British Columbia, Canada since February 2001. Mr. Ng was granted the designation of financial risk manager by the Global Association of Risk Professionals and the certification of information systems auditor by ISACA in November 2004 and January 2007, respectively. In September 2007, Mr. Ng was certified as chartered financial analyst by the Chartered Financial Analyst Institute. Mr. Ng was awarded with a specialist certificate in asset management by Hong Kong Securities Institute in February 2005.

Mr. Wang Jingfu (王靖甫先生), aged 53, is an independent non-executive Director of the Company. Mr. Wang is currently the chairman and president of Zhejiang Zhengda Certified Public Accounting. Mr. Wang currently serves as the independent director of Zhemao Science & Technology Company Limited. Mr. Wang graduated from Hangzhou Business School (杭州商學院) (now Hangzhou Business College of Zhejiang Gongshang University) in 1987. He studied a continuing education and majored in accounting at Zhejiang Institute of Finance and Economics from February 2004 to January 2007. Mr. Wang currently serves as a director of Zhejiang Institute of Certified Public Accountants, a director of CECA Zhejiang Branch, a visiting professor of Hangzhou Polytechnic, and chairman of accounting professional steering committee of Hangzhou Polytechnic. Mr. Wang is qualified as senior accountant and CPA.

Mr. Li Jing (李靜先生), aged 52, is an independent non-executive Director of the Company. From August 1988 to July 1998, Mr. Li worked in Faculty of Laws in Hangzhou University (currently Zhejiang University). From November 1998 to the present, he worked in L&H Law Firm. He is a founding partner of L&H Law Firm. From 23 November 2007 to 29 December 2010, Mr. Li served as the independent director of Sichuan Jinding (Group) Co. Mr. Li graduated from the Department of Political Education of East China Normal University with a Bachelor of Law degree in July 1988. He became a CPA in China in 1996. He was admitted as a PRC qualified lawyer by Zhejiang Provincial Department of Justice (浙江省司法廳) in October 1991.

Mr. Su Zhongdi (蘇中地先生), aged 61, is an independent non-executive Director of the Company. Mr. Su graduated from Zhejiang University with a bachelor's degree, majoring in fluid mechanics in January 1982, and graduated from Peking University with a Master of Science degree in 1984, majoring in fluid mechanics. Afterward, he worked as a teacher in China Jiliang University. From March 2000 to July 2003, he pursued advanced studies in Department of Mechanical Engineering of The Hong Kong Polytechnic University and obtained the degree of Doctor of Philosophy. Mr. Su had been engaged in the teaching of fluid mechanics and the research of flow metrology from 1984 to 2017. In the meantime, he had been the academic leader in fluid mechanics and the head of Fluid Detection and Simulation Research Institute in China Jiliang University. He participated in the creation of undergraduate programmes for fluid mechanics and engineering mechanics in China Jiliang University as the principal. He has directed dozens of scientific research projects, including projects of Natural Science Foundation of China, projects of the AQSIQ, projects of Natural Science Foundation of Zhejiang Province, key scientific research projects of Zhejiang Province, projects of oversea study fund, and projects entrusted by large enterprises.

SUPERVISORS

Mr. Huang Xijun (黃希俊先生), aged 41, is a Supervisor and the deputy director of production (presiding) of the Company. Mr. Huang worked in Cangnan Metallurgical Machinery Plant from October 1995 to October 1999. Mr. Huang joined the Company in October 1999 and served as a worker of the metalworking workshop until September 2005. Mr. Huang served as the head of the precision machinery division from October 2005 to December 2005; the deputy director of the metalworking workshop from January 2006 to December 2007; and the director of the metalworking workshop from January 2008 to March 2017. Mr. Huang has served as the deputy director of production (presiding) since March 2017. Mr. Huang obtained a graduation certificate for the network education programme in Business Administration from Shandong University in July 2014.

Mr. Ye Sigong (葉思共先生), aged 51, is a Supervisor of the Company. Mr. Ye served as a worker of the electrical instrument and assembly workshop of the Company from August 1989 to June 1995; the director of the electrical instrument and assembly workshop from June 1995 to January 2006; the deputy director of production and director of the electrical instrument and assembly workshop from January 2006 to January 2007; the managing deputy factory manager of the heat metre branch from January 2007 to December 2007; and the deputy director and director of the quality department from January 2008 to December 2009. Mr. Ye has served as the director of the market services centre since January 2010. Mr. Ye obtained a high school diploma from Madian High School in July 1984.

Mr. Zhou Xiaoding (周孝定先生), aged 52, is a Supervisor of the Company. Mr. Zhou served as a worker, section officer of the technology department and salesman of the Company from July 1984 to March 2000; and the deputy director of planning and marketing from March 2000 to December 2007. Mr. Zhou has served as the regional marketing manager in places including Chongqing, Sichuan, Guizhou and Yunnan since January 2008. From September 1984 to July 1986, Mr. Zhou took a postgraduate advancement course in textile machinery at Zhejiang Silk Institute of Technology (浙江絲綢工學院) (now Zhejiang Sci-Tech University).

SENIOR MANAGEMENT

Mr. Huang Youliang (黃友良先生), aged 53, is an executive Director and the general manager of the Company. For the biographical details, please refer to the paragraph headed "Directors" in this section.

Mr. Yin Xingjing (殷興景先生), aged 45, is an executive Director and the vice general manager of the Company. For the biographical details, please refer to the paragraph headed "Directors" in this section.

Mr. Zhang Shengyi (章聖意先生), aged 50, is an executive Director and chief engineer of the Company. For the biographical details, please refer to the paragraph headed "Directors" in this section.

Mr. Fan Zefeng (范則鋒先生), aged 53, is the deputy general manager of the Company. Mr. Fan served as a worker of the metalworking workshop from June 1984 to March 1999; the director of quality control from March 1999 to December 1999; the deputy director of quality control department from December 1999 to May 2001; director of quality control department from June 2001 to December 2003; and the plant manager assistant and director of production department from January 2004 to December 2004. He has been deputy general manager of the Company since January 2005.

Ms. Lin Zichan (林姿嬋女士), aged 40, is an executive Director, vice general manager and secretary to the Board of the Company, and director of the administrative office and vice chairman of the trade union of the Group. For the biographical details, please refer to the paragraph headed "Directors" in this section.

Mr. Lin Jingdian (林中柱先生), aged 40, is an executive Director and chief engineer of the Company. For the biographical details, please refer to the paragraph headed "Directors" in this section.

Mr. Jin Wensheng (金文勝先生), aged 49, is the manager and CPC Party Secretary of Dongxing Intelligent Instrument Co., Ltd, a subsidiary of the Group. Mr. Jin worked as a staff on the engineering department of the Company from January 1992 to January 1998; vice director of the technical development centre and plant manager assistant from January 1999 to December 2000; diaphragm gauge branch plant manager (vice plant manager level) and Secretary of Party Committee from January 2004 to December 2009; executive vice factory director of the Company, diaphragm gauge branch plant manager and Secretary of Party Committee from January 2010 to January 2012; diaphragm gauge branch plant manager and Secretary of Party Committee from January 2012 to May 2015; and manager and CPC Party Secretary of Dongxing Intelligent Instrument Co., Ltd from May 2015 to the present. Mr. Jin studied in Zhejiang University from September 1989 to July 1991, majoring in light chemistry and machinery, and pursued the EMBA programme (for presidents) in Shanghai Jiaotong University from July 2010 to October 2011. Mr. Jin was granted the title of Mechanical Manufacturing Engineer by the Wenzhou Municipal Government in October 2001.

Mr. Xie Shangpeng (謝尚鵬先生), age 45, is the manager of Dongxing Energy Technology Co., Ltd, a subsidiary of the Group. Mr. Xie worked as a staff of the engineering department of the Company from September 1991 to December 1993; deputy chief engineer and director of technical R&D centre from June 2002 to April 2012; vice plant manager and manufacturing branch manager from April 2012 to April 2015; and manager of Zhejiang Dongxing Energy Technology Co., Ltd from May 2015 to present. Mr. Xie obtained a college diploma in Computer Application from China Jiliang Institute in July 2014, and subsequently studied an EMBA at Shanghai Jiao Tong University from May 2012 to August 2013. Mr. Xie was granted the title of Chemical Machinery Engineer by the Wenzhou Municipal Government in November 2002.

Mr. Chen Qihui (陳其慧先生), aged 41, is the financial controller of the Company. Mr. Chen worked as a staff on the information centre under the technical research and development department of the Company from August 2003 to July 2013; deputy director of the information centre from July 2013 to July 2014; and deputy head of the Company's financial department from July 2014 to present. Mr. Chen majored in computerised accounting in Huazhong University of Science and Technology from September 1998 to July 2000, and then majored in accounting in Zhejiang University from September 2012 to December 2015. In addition, Mr. Chen was granted the professional title of informatization technology engineer by China Enterprise Confederation in October 2004.

Ms. Huang Liyun (黃麗雲女士), aged 67, is the head of the finance department of the Company. Ms. Huang worked in Pingyang Trademark Cotton Mill from March 1977 to August 1984. She joined the Company in September 1984 and was a clerk of the finance division of the Company until December 2000; she served as the deputy director of the finance department of the Company from December 2000 to June 2001; and she has been the head of the finance department of the Company since June 2001. Ms. Huang studied "Industrial Accounting" course in Wenzhou City Accounting Correspondence School in February 1986. Ms. Huang was awarded the title of accountant by Wenzhou Municipal People's Government in December 1999.

Unless otherwise stated, the dates of appointment of Directors, Supervisors and senior management of the Company disclosed in this section are dates of appointment by the relevant corporate governance bodies of the Company.

Save as disclosed in the section headed "Appendix VI – Statutory and General Information" to this prospectus, none of our Directors has any interests in the Shares within the meaning of Part XV of the SFO or are directors or employees of a company which has an interest or short position in the Shares and underlying Shares of the Company. Each of our Directors has confirmed that none of them are engaged in, or interested in any business, which competes or is likely to compete, either directly or indirectly, with our business.

Save as disclosed above, none of our Directors, Supervisors and members of the senior management is related to other Directors, Supervisors, Substantial Shareholders or members of the senior management.

Save as disclosed above, none of our Directors, Supervisors and members of senior management held any directorship in any public companies, the shares of which are listed in Hong Kong or overseas stock markets, during the three years prior to the date of this prospectus.

JOINT COMPANY SECRETARY

Ms. Lin Zichan (林姿嬋女士) was appointed as the joint company secretary of the Company on 15 August 2017. Ms. Lin is also an executive Director and senior management member of the Company. For the biographical details, please refer to the paragraph headed "Directors" in this section.

Mr. Chan Chun Wai (陳振偉先生), aged 46, was appointed as one of the joint company secretaries of the Company on 17 September 2017. He became a certified public accountant in Hong Kong in October 2000, and is currently practicing in Tony Chan & Co. CPA. Mr. Chan has obtained a Bachelor's degree in commerce from the University of New South Wales in June 1994 and a Master's degree in business management from Manchester Business School in June 2005, and professional qualifications including the fellow member of CPA Australia since September 1997, the associate member since February 1998 and the fellow member since February 2010 of the Hong Kong Institute of Certified Public Accountants. In addition, Mr. Chan has been an independent non-executive director of Hans Energy Company Limited (stock code: 0554) since May 2005, independent non-executive director of Wai Chun Mining Industry Group Company Limited (stock code: 0660) since May 2007, and independent non-executive director of Hongbridge Holdings Limited (stock code: 8137) since October 2007. The shares of all these three companies are listed on the Stock Exchange.

BOARD COMMITTEES

Audit Committee

The Company established the Audit Committee on 15 August 2017 in compliance with Rule 3.21 of the Listing Rules. Written terms of reference in compliance with paragraph C.3.3 of the CG Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules has been adopted. The primary roles of the Audit Committee include taking responsibilities for the communication between the Company and the external auditor and the supervision and examination on the external auditor, the regulation of internal auditor, the evaluation and optimisation of the Company's internal control and risk management systems, as well as the risk assessment on the Company's major investment projects. The Audit Committee consists of five members, namely Mr. Wong Hak Kun, Mr. Ng Jack Ho Wan, Mr. Su Zhongdi, Mr. Wang Jingfu, and Mr. Hou Zukuan. Mr. Wong Hak Kun is the chairman of the Audit Committee and possesses the appropriate professional qualifications as required under Rule 3.10(2) and 3.21 of the Listing Rules.

Remuneration Committee

The Company established the Remuneration Committee on 15 August 2017 in compliance with Rule 3.25 of the Listing Rules. Written terms of reference in compliance with paragraph B.1.2 of the CG Code has been adopted. The primary roles of the Remuneration Committee include taking charge of reviewing and giving opinions and recommendations to the remuneration of the Directors and senior management; taking charging of formulating and reviewing the remuneration policies and proposals of the Directors and senior management, and supervising the implementation of relevant proposals. The Remuneration Committee consists of five members, namely Mr. Su Zhongdi, Ms. Lin Zichan, Mr. Yin Xingjing, Mr. Wong Hak Kun and Mr. Ng Jack Ho Wan. Mr. Su Zhongdi is the chairman of the Remuneration Committee.

Nomination Committee

The Company established the Nomination Committee on 15 August 2017 in compliance with paragraph A.5.1 of the CG Code. Written terms of reference in compliance with paragraph A.5.2 of the CG Code has been adopted. The primary roles of the Nomination Committee include setting up the procedures and standards on selecting Directors (including independent non-executive Directors), the general manager and other senior management members, conducting preliminary review on the qualifications and conditions of candidates and giving opinions and recommendations thereof to the Board. The Nomination Committee consists of five members, namely, Mr. Hong Zuobin, Mr. Li Jing, Mr. Su Zhongdi, Mr. Ye Xiaosen, and Mr. Wang Jingfu. Mr. Hong Zuobin is the chairman of the Nomination Committee.

WAIVERS GRANTED BY THE STOCK EXCHANGE

We have applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, waivers from strict compliance with the requirements under Rule 8.12 of the Listing Rules in relation to management presence in Hong Kong and under Rule 3.28 of the Listing Rules in relation to the qualification of company secretary. For details of the waivers, please refer to the sections headed "Waivers from Strict Compliance with the Listing Rules – Waiver in relation to Management Presence in Hong Kong" and "Waivers from Strict Compliance with the Listing Rules – Waiver in relation to Appointment of Joint Company Secretaries" of this prospectus.

COMPENSATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The remuneration of our Directors, Supervisors and senior management are paid in the form of salary, allowances, employee benefits, bonuses, fees and retirement benefits.

In 2015, 2016 and 2017, the total pre-tax compensation paid to the Directors was RMB 2.2 million, RMB 3.9 million and RMB5.3 million, respectively.

Under our arrangements currently in force, the total pre-tax compensation payable to the Directors in 2018 is estimated to be approximately RMB5.1 million.

In 2015, 2016 and 2017, the total pre-tax compensation paid to the supervisors was RMB 0.7 million, RMB 0.9 million and RMB1.2 million, respectively.

Under our arrangements currently in force, the total pre-tax compensation payable to the Supervisors in 2018 is estimated to be approximately RMB1.1 million.

In 2015, 2016 and 2017, the total compensation paid by the Group to the 5 highest-paid employees (including Directors) was RMB 1.6 million, RMB 2.5 million and RMB4.1 million, respectively.

In 2015, 2016 and 2017, the Group did not make any payment to any Director, Supervisor or the five highest-paid employees as the retirement compensation, severance package, incentive for or after joining the Company, or the remuneration for offering service for the promotion or incorporation of the Company. In addition, the Company has not signed any arrangement based on which the Directors or Supervisors waive or agree to waive their compensations during the relevant term of office.

For further details, please refer to the sections headed "Appendix I – Accountant's Report – II. Notes to the Historical Financial Information – 9 Employee Benefits Expense – (b) Five highest paid individuals" and "– 38 Benefits and Interests of Directors – (a) Directors' and the chief executive's emoluments".

Save as disclosed in the section headed "Appendix VI – Statutory and General Information" to this prospectus, none of the Directors, Supervisors and senior management held any interest in the Shares as set out in Part XV of the Securities and Futures Ordinance, as at the Latest Practicable Date.

To the best of the Directors' knowledge, information and belief after having made all reasonable enquiry, save as disclosed in the section headed "Directors, Supervisors and Senior management" of this prospectus , there was no additional matter with respect to the appointment of the Directors and Supervisors that needs to be brought to the attention of the Shareholders, and there was no other information relating to the Directors that is required to be disclosed pursuant to Rules 13.51(2)(b) to (v) of the Hong Kong Listing Rules as at the Latest Practicable Date.

COMPLIANCE ADVISOR

The Company has appointed ABCI Capital Limited as the compliance advisor in compliance with Rules 3A.l9 and 19A.05 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us under the following circumstances:

- before the publication of any regulatory announcements, circulars or financial reports;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issuance and share repurchase;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, development or results deviate from any forecast, estimate or other information in this prospectus; and
- where the Hong Kong Stock Exchange makes any inquiry of us regarding unusual movements in the price or trading volume of Shares of the Company, the possible false market or any other matters.

Meanwhile, pursuant to Rule 19A.06(3) of the Hong Kong Listing Rules, the compliance advisor shall, in a timely manner, inform us of any amendment or supplement to the Hong Kong Listing Rules announced by the Hong Kong Stock Exchange from time to time, and any new or amended law, regulation and code in Hong Kong applicable to the Company, and provide advice to the Company on the continuing requirements under the Hong Kong Listing Rules and applicable laws and regulations.

The term of the appointment of the compliance advisor shall commence on the Listing Date and end on the date when the Group distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date or until the agreement is terminated, whichever is earlier.

OUR LARGEST SHAREHOLDER

As at the Latest Practicable Date, our Company had no controlling shareholder as defined under the Hong Kong Listing Rules. Immediately following the completion of the Global Offering, our Company will have no controlling shareholder as defined under the Hong Kong Listing Rules. Mr. Hong will then be entitled to exercise voting rights attached to Shares of our Company representing approximately 13.37% of the total issued share capital of our Company, therefore he will remain as our largest Shareholder after the completion of the Global Offering.

NO COMPETING BUSINESS

Mr. Hong does not have any interest in a business, apart from the business of our Company, which competes or is likely to compete, directly or indirectly, with our businesses, which would require disclosure under Rule 8.10 of the Listing Rules.

INDEPENDENCE FROM OUR LARGEST SHAREHOLDER

Having considered the following factors, our Directors are satisfied that we have been, and will be, capable of carrying out our business independently from our largest Shareholder and his associates.

Management Independence

Our Board comprises seven executive Directors, two non-executive Directors and five independent non-executive Directors. Our daily operational and management decisions are made collectively by our executive Directors and senior management. Our Directors and senior management understand well that the fiduciary duties require that one must act for the best interests of our Company and not allow any conflict between duties to our Company and their personal interests. Furthermore, our independent non-executive Directors are expected to bring independent judgement to the decision-making process of our Board. Lastly, according to our Articles of Association, our Directors shall abstain from voting in any Board resolution where he/she has a material interest and also shall not be counted in the quorum thereof.

Given the above, it is satisfied that our Board, together with our senior management team, are able to perform the managerial role in our Group independently from our largest Shareholder.

Operational Independence

Although Mr. Hong will remain as our largest Shareholder after the Listing, we will be fully capable of carrying out our business operations independently. Our Group holds the benefit of all material licences and intellectual properties rights necessary to carry on our business, and has sufficient capital, equipment and employees to operate our business independently from the largest Shareholder. Also, each of the members of our Group is made up of individual departments, each with specific areas of responsibilities. In addition, we have also established and improved a set of internal control measures to facilitate our effective operation.

Given the above, it is satisfied that we have been and will be operating independently from our largest Shareholder and his associates.

Financial Independence

During the Track Record Period and up to the Latest Practicable Date, our Group had our own internal control, accounting and financial management system, accounting and finance department, independent treasury functions for cash receipts and payment and we make financial decisions according to our own business needs. In addition, we have independent access to third party financing and our Group does not rely on our largest Shareholder or his associates for financial assistance. Our Directors confirm that, as at the Latest Practicable Date, there were no subsisting loans, guarantees or pledges provided by our largest Shareholder and/or his close associates to our Group.

Given the above, our Board believes that we are able to maintain financial independence from our largest Shareholder and his associates.

CORPORATE GOVERNANCE MEASURES

Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

(a) our Articles of Association provides that a Director shall abstain from voting on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his/her associates have a material interest nor shall such Director be counted in the quorum present at the meeting;

(b) our Board includes a balance composition of executive and non-executive Directors. Our independent non-executive Directors possess sufficient experience and will be able to provide an impartial external opinion to safeguard the interests of our public Shareholders;

(c) in the event that the independent non-executive Directors are requested to review any conflicts of interests circumstances between our Group and our largest Shareholder or our Directors, our largest Shareholder and/or our Directors shall provide the independent non-executive Directors with all necessary information. Our Company shall disclose the decisions of the independent non-executive Directors either through our annual report or by way of announcements; and

(d) we have appointed ABCI Capital Limited as our compliance adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Hong Kong Listing Rules including various requirements relating to Directors' duties and corporate governance.

As at the Latest Practicable Date, the following persons directly or indirectly controlled or were entitled to exercise the control of 5% or more of our Shares:

Name of shareholder	Nature of Interest	Number and class of securities	Approximate percentage of shareholding
Mr. Hong	Legal and Beneficial Owner	9,253,400 Domestic Shares	17.83%
Mr. Huang	Legal and Beneficial Owner	6,697,900 Domestic Shares	12.91%
Huashi LP	Legal and Beneficial Owner	4,912,000 Domestic Shares	9.47%
Changhua LP	Legal and Beneficial Owner	4,830,000 Domestic Shares	9.30%
Dongxing LP	Legal and Beneficial Owner	4,741,000 Domestic Shares	9.14%
Cangyi LP	Legal and Beneficial Owner	4,699,000 Domestic Shares	9.06%

So far as the Directors are aware immediately following the completion of the Global Offering, and assuming the Over-allotment Option is not exercised, the following persons will, have or be deemed or taken to have interests or short positions in our Shares or underlying Shares of the Company which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name of shareholder	Nature of Interest	Number and class of securities	Approximate percentage of shareholding in the total share capital of the Company after the Global Offering	Approximate percentage of shareholding in the relevant class of Shares after the Global Offering
Mr. Hong	Legal and Beneficial Owner	9,253,400 Domestic Shares	13.37%	17.83%
Mr. Huang	Legal and Beneficial Owner	6,697,900 Domestic Shares	9.68%	12.91%
Huashi LP	Legal and Beneficial Owner	4,912,000 Domestic Shares	7.10%	9.47%
Changhua LP	Legal and Beneficial Owner	4,830,000 Domestic Shares	6.98%	9.30%
Dongxing LP	Legal and Beneficial Owner	4,741,000 Domestic Shares	6.85%	9.14%
Cangyi LP	Legal and Beneficial Owner	4,699,000 Domestic Shares	6.79%	9.06%

Save as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering, have a direct or indirect interest or short position in the Shares or the underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provision of Divisions 2 and 3 of Part XV of the SFO, or directly or indirectly be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Company. We are not aware of any arrangement which may result in any change of control in the Company at any subsequent date.

For those who are directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group, please refer to the section headed "Appendix VI – Statutory and General Information" to this prospectus.

This section presents certain information regarding our share capital before and upon completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As at the Latest Practicable Date, the registered capital of the Company was RMB51.89 million, comprising 51.89 million Domestic Shares of nominal value RMB1.00 each.

UPON COMPLETION OF THE GLOBAL OFFERING

Immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised, our share capital would be categorised as follows:

Description of Shares	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	51,890,000	75.00%
H Shares to be issued under the Global Offering	17,296,667	25.00%
	69,186,667	100.00%

Immediately following completion of the Global Offering and assuming that the Over-allotment Option is fully exercised, our share capital would be categorised as follows:

Description of Shares	Number of Shares	Approximate percentage of issued share capital
Domestic Shares	51,890,000	72.29%
H Shares to be issued under the Global Offering	19,891,167	27.71%
	71,781,167	100.00%

SHARE CLASSES

Upon completion of the Global Offering, we would have two classes of Shares: Domestic Shares and H Shares. Domestic Shares and H Shares are all ordinary Shares in the share capital of the Company. However, apart from certain qualified domestic institutional investors in the PRC, the qualified PRC investors under the Shanghai-Hong Kong Stock Connect and other persons who are entitled to hold our H Shares pursuant to relevant PRC laws and regulations or upon approvals of any competent authorities, H Shares generally cannot be subscribed for or be traded between legal or natural persons of the PRC.

Domestic Shares and H Shares are regarded as different classes of shares under our Articles of Association. The differences between the two classes of shares and provisions on class rights, the dispatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the method of share transfer and appointment of dividend receiving agents are set out in the Articles of Association and summarised in "Appendix V – Summary of Articles of Association." The rights conferred on any class of Shareholders may not be varied or abrogated unless approved by a special resolution of the general meeting of Shareholders and by the holders of Shares of that class at a separate meeting. The circumstances which shall be deemed to be a variation or abrogation of the rights of a class are listed in "Appendix V – Summary of Articles of Association." However, the procedures for approval by separate classes of Shareholders shall not apply (i) where we issue, upon approval by a special resolution of the Shareholders in a general meeting, either separately or concurrently once every 12 months, not more than 20% of each of our existing issued Domestic Shares and H Shares; (ii) where our plan to issue Domestic Shares and H Shares at the time of its establishment is implemented within 15 months from the date of approval by the securities regulatory authorities under the State Council; and (iii) where the conversion of Domestic Shares for listing and trading on the Hong Kong Stock Exchange as H Shares has been approved by the securities authorities under the State Council.

Further information about circumstances under which general meeting and class meeting are required are set out in the Articles of Association and summarised in "Appendix V – Summary of Articles of Association" of this prospectus.

Except for the differences above, Domestic Shares and H Shares will however rank *pari passu* with each other in all other respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. All dividends in respect of the H Shares are to be paid by us in Hong Kong dollars or in the form of H Shares.

CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

Upon the completion of the Global Offering, we will have two classes of ordinary shares, namely H Shares and Domestic Shares. All our Domestic Shares are not listed or traded on any stock exchange. The holders of Domestic Shares may convert their Domestic Shares into H Shares provided such conversion shall have gone through any requisite internal approval process and complied with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the overseas stock exchange(s) and have been approved by the securities regulatory authorities of the State Council, including the CSRC. The listing of such converted Shares on the Hong Kong Stock Exchange will also require the approval of the Hong Kong Stock Exchange.

Based on the procedures for the conversion of our Domestic Shares into H Shares as disclosed in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Hong Kong Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Hong Kong Stock Exchange and delivery of Shares for entry on the H Share register. As any listing of additional Shares after our initial listing on the Hong Kong Stock Exchange is ordinarily considered by the Hong Kong Stock Exchange to be a purely administrative matter, it will not require such prior application for listing at the time of our initial listing in Hong Kong.

No class Shareholder voting is required for the listing and trading of the converted Shares on the Hong Kong Stock Exchange. Any application for listing of the converted Shares on the Hong Kong Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of such proposed conversion.

After all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share registrar to issue H Share certificates. Registration on our H Share register will be on the condition that (a) our H Share registrar lodges with the Hong Kong Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Shares certificates and (b) the admission of the H Shares to trade on the Hong Kong Stock Exchange will comply with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as we are aware, none of our Shareholders currently propose to convert any of their Domestic Shares into H Shares.

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements included in "Appendix I – Accountant's Report" together with the accompanying notes included elsewhere in this prospectus. Our consolidated financial statements set out in the Accountant's Report are prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on our experience and analysis on historical trend, current status and expected future development as well as our assumptions and analysis made based on other factors which we believe are reasonable under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Those factors which could result in significant difference between future results and those projected in the forward-looking statements include, but not limited to, factors set out in other sections in this prospectus, in particular the sections headed "Risk Factors" and "Forward-Looking Statements."

OVERVIEW

We are a leading industrial and commercial gas flowmeter manufacturer in China. Our operations can be traced back to 1977. Leveraging over 40 years of industry experience, we are dedicated to the manufacture and sales of a wide range of industrial and commercial gas flowmeters, which are generally used by gas operators to measure the flow volume of gas. We engage in a comprehensive business integrating R&D, manufacture, sales and aftersales services. According to Frost & Sullivan, we ranked second in the industrial and commercial gas flowmeter industry in China in terms of revenue in 2017, with our revenue from the sales of industrial and commercial gas flowmeter products amounting to RMB597.9 million, representing a market share of 36.8%.

Through our extensive sales network covering most of the provinces in China, we mainly sell our industrial and commercial gas flowmeter products to gas operators in China. Our major customers include certain leading enterprise groups of the gas industry in China. We have established long-term stable relationships with our major customers. In particular, four leading gas enterprise groups in China remained among our top five customers throughout the Track Record Period, with which we had maintained business relationships ranging from eight to 13 years as at 31 December 2017. In 2015, 2016 and 2017, sales to our top five customers accounted for approximately 33.7%, 34.6% and 35.5% of our revenue for the same periods, respectively.

In recent years, we have been selling our industrial and commercial gas flowmeter products to customers outside of China such as in Southeast Asia and Europe. A number of industrial and commercial gas flowmeter products produced by us have been certified to meet the European and ISO standards. In 2015, 2016 and 2017, approximately 0.6%, 0.9% and 0.9% of our revenue was derived from overseas sales, respectively.

In addition to industrial and commercial gas flow meter products, we have developed various series of residential gas meter products and possess the production capacity to produce 300,000 units of residential gas meters per annum. Leveraging our established sales network, we are committed to expanding our residential gas meter business in the PRC. In 2015 and 2016, our revenue from the sales of residential gas meter products remained relatively stable. Benefiting from increased market demand, our revenue from the sales of residential gas meter products increased significantly by 31.5% in 2017 compared with 2016.

We also produce and sell a small quantity of nuclear-related products, mainly nuclear-level throttling devices, used as accessories for nuclear power generation projects. Nuclear-related products include leading companies in the PRC nuclear power industry, which we believe testifies to both our technological capabilities and our product quality control capabilities. We also generate revenue from providing maintenance services mainly in relation to our industrial and commercial gas flowmeter products that are outside of the warranty period.

In 2015, 2016 and 2017, we recorded revenue of approximately RMB362.7 million, RMB444.2 million and RMB669.8 million, respectively, and profit for the year of approximately RMB36.5 million, RMB117.9 million and RMB241.7 million, respectively. Our lower profit in 2015 compared with 2016 was in part attributable to the losses arising from our guarantees provided in favour of Independent Third Parties, for details of which see "– Legal Compliance and Risk Management – Legal proceedings".

Basis of Presentation

Our financial statements have been prepared in accordance with the IFRS under the historical cost convention, as modified by revaluation of available-for-sale financial assets. The preparation of our financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires our management to exercise its judgement in the process of applying our Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to our financial statements are set out in Note 4 to the Accountant's report in Appendix I to this prospectus.

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intra-group transactions, balances and unrealised gains/losses on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, and are expected to be in the future, significantly affected by a number of factors, many of which may be beyond our control.

Growth of the PRC economy and the PRC gas measurement instrument industry

We primarily engage in the manufacture and sales of a wide range of gas flowmeter products in the PRC. According to Frost & Sullivan, the PRC economy has maintained a steady growth in recent years, achieving a CAGR for nominal GDP of approximately 8.9% from 2012 to 2017. The rapid growth of the PRC's economy has resulted in increases in consumers' spending and acceleration of urbanisation, which in turn drives demand for natural gas. Natural gas consumption volume in China during 2012 to 2017 witnessed a rapid growth at a CAGR of 9.9%.

Driven by the intensifying of urbanisation and favourable policy environment for natural gas industry in China, natural gas flowmeter market has experienced quick growth from 2012 to 2017. The total sales value of industrial and commercial natural gas flowmeter market increased from RMB919.6 million in 2012 to RMB1,625.5 million in 2017, representing a CAGR of 12.1% during the period. The total sales value of residential natural gas flowmeter market reached RMB10.5 billion in 2017, increasing from RMB5.8 billion in 2012 and representing a CAGR of 12.7% during the period.

We believe that our leading position in the PRC gas flowmeter market will allow us to enjoy the future growth of the PRC economy and the PRC gas measurement instrument industry. However, any slowdown or decline in the PRC economy may adversely affect consumers' demand for natural gas, which in turn may affect the PRC gas flowmeter market and demand for our products. If that happens, our future business, results of operations and financial condition may be materially and adversely affected.

Costs of raw materials and consumables used

The principal raw materials we use in the manufacture of our gas flowmeter products are aluminium ingots and steel. The prices of these raw materials are typically subject to volatility caused by external conditions such as market supply and demand and foreign exchange rates. If the increases of actual market prices of our principal raw materials exceed the price range we predict when we negotiate our procurement with our suppliers and our product prices with our customers, the increased cost of raw materials may have a material and adverse effect on our business, results of operations and financial condition.

With the slowdown of China's economy and overcapacity in aluminium and steel industry, the prices of both aluminium and steel decreased from 2012 to 2015. The price of aluminium ingot (A00, meaning a purity of over 99.7%) decreased from RMB15,632.6 per tonne in 2012 to RMB12,092.3 per tonne in 2015, and the price index of steel also decreased from 112.3 in 2012 to 66.8 in 2015. In 2016, the price of coal, iron and alumina began to increase, and the stock of aluminium and steel fell after a reduction in industry production capacity, so that the price of aluminium ingot and steel went up. The price of aluminium ingot rose up to RMB12,503.4 per tonne in 2016, and the price index of steel went back to 75.1 in 2016. According to Frost & Sullivan, in 2017, the price of aluminium ingot and the price index of steel increased to RMB14,476.4 per tonne and 107.6, respectively. In the following years, the price of steel is expected to keep rising due to the influence of the environmental policies that restrict the production volume of steel. Similarly, as for aluminium, the capacity reduction would further contribute to the increase of aluminium price due to the high cost of restarting capacity.

In addition, we purchase electronic component parts to be used in our production. According to Frost & Sullivan, the prices of such electronic component parts generally decreased during the Track Record Period due to sufficient supply and decrease in manufacturing costs.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our cost of raw materials and consumables used on our profit before tax and our profit for the year during the Track Record Period, while all other factors remain unchanged. Fluctuations are assumed to be approximately 20% and 30% for the year ended 31 December 2015, 2016 and 2017, respectively, which correspond to the range of historical fluctuations of our cost of raw materials and consumables used during the Track Record Period.

Hypothetic fluctuations on cost of raw materials and consumables used	**Increase/decrease by 20%**	**Increase/decrease by 30%**
	(RMB'000)	**(RMB'000)**
Impact on gross profit		
Year ended 31 December 2015	-/+28,133	-/+42,200
Year ended 31 December 2016	-/+22,144	-/+33,215
Year ended 31 December 2017	-/+26,602	-/+39,902

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect.

For the years ended 2015, 2016 and 2017, our gross profit amounted to RMB197.4 million, RMB288.6 million and RMB485.5 million, respectively. For illustrative purpose, we would have recorded a breakeven in our gross profit if the cost of raw materials and consumables used increased by 140.3%, 260.6% and 365.0%, respectively, from the corresponding years.

Competition

The industrial and commercial gas flowmeter industry in the PRC is led by two major players including us, with the rest of the market highly fragmented. The residential gas flowmeter industry in the PRC is highly fragmented. We currently compete primarily with other leading gas flowmeter manufacturers in the PRC on the basis of design, customisation and development capabilities, customers, product quality, price, lead time in production and customer services. For a detailed description of our competitors, see "Industry Overview" in this prospectus. According to Frost & Sullivan, the entry barriers of residential gas meter market in China are relatively low, which results in an intense market competition. The manufacturer starts to undersell mechanical gas flowmeters for gaining market share, leading the market to become viciously competitive. The limited profit of these manufacturer and vicious market competition will restrain the future innovation of their product. If we fail to compete effectively in the PRC gas flowmeter market, our market share and profit margin may decline and our business, results of operations and financial condition may be materially and adversely affected.

SIGNIFICANT ACCOUNTING POLICIES, JUDGMENTS AND ESTIMATES

We have identified certain accounting policies that are most significant to the preparation of our consolidated financial statements. We have also made certain accounting judgements and assumptions in the process of applying our accounting policies. When reviewing our consolidated financial statements, you should consider (i) our selection of significant accounting policies; (ii) the judgements and assumptions affecting the application of such policies; and (iii) the sensitivity or reported results to changes in conditions and assumptions. Our significant accounting policies, judgements and estimates, which are important for an understanding of our results of operations and financial position, are set out in more detail in notes 2 and 4 to the Accountant's report in Appendix I to this prospectus.

Key Accounting Estimates and Judgments

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our consolidated financial statements. We believe that the following are the significant accounting estimates and judgments in the preparation of our consolidated financial statements.

Control assessment on certain companies established by our employees

Certain of our employees established a number of trading companies together with third party individuals in different regions in the PRC and such companies are focused on selling our products to customers. Considering the facts that we do not hold any non-trade debt or equity securities in these companies, do not have power to direct the relevant decisions of these companies and the variable returns from these companies is relatively small compared to their shareholders, we do not have control over these companies.

Revenue recognition for goods delivered to the companies established by our employees as discussed above

The companies established by our employees as discussed above are regarded as our sales agents considering the facts that we are the primary obligor in the arrangement, the inventory risk of the companies established by our employees is low, the latitude for these companies to establish price is very limited and the amount earned by them is a relatively small portion as compared with individual transaction amounts. We recognise revenue when products are sold to end customers by these companies.

Current and deferred income taxes

We are subject to income taxes in a few jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

Allowances for doubtful receivables

Our management reviews receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, our management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technology, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

Summary of critical accounting policies

The critical accounting policies adopted by the Group for the preparation of historical financial information are set out below.

Depreciation of property, plant and equipment and amortisation of intangible assets

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Plant. . . . . 10-20 years
- Machinery . . . . 10 years
- Vehicles . . . . 3-5 years
- Furniture, fittings and equipment . . . . 3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Acquired computer software, as our intangible assets, is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

Impairment of financial assets

(a) Assets carried at amortised cost

We assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, we may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statements of profit or loss.

(b) Assets classified as available-for-sale

We assess at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also an evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

Share-based payments to employees

We granted certain equity interests of our subsidiaries to our employees for their past services provided to the Group. The fair value of such equity interests granted was recognised in profit or loss immediately upon the grant of the equity interests to our employees.

Provisions

Provisions are recognised when (i) we have a present legal or constructive obligation as a result of past events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied net of discounts, returns and value added taxes. We recognise revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of our activities.

Revenue from the sales and distribution of products is recognised when significant risks and rewards of ownership of the products are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed. Revenue from the provision of maintenance services to customers is recognised in the accounting period in which the services are rendered.

Financial guarantee contracts

Financial guarantee contracts require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or third-party companies to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signiture is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, our liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by our management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated statement of profit or loss within other operating expenses.

RESULTS OF OPERATIONS

The following table sets forth the consolidated statements of profit or loss and other comprehensive income for the years indicated:

	Year ended 31 December		
	2015	2016	2017
		(RMB'000)	
Revenue	362,687	444,160	669,813
Cost of sales	(165,270)	(155,607)	(184,276)
Gross profit	197,417	288,553	485,537
Selling and distribution expenses	(56,884)	(78,609)	(108,345)
Administrative expenses	(47,785)	(53,313)	(61,619)
Research and development expenses	(18,360)	(25,543)	(34,900)
Other income	12,500	12,757	20,601
Other losses – net	(36,689)	(884)	(15,054)
Operating profit	50,199	142,961	286,220
Finance income	645	1,583	1,541
Finance expenses	(7,946)	(7,457)	(5,831)
Finance expenses – net	(7,301)	(5,874)	(4,290)
Profit before income tax	42,898	137,087	281,930
Income tax expenses	(6,353)	(19,204)	(40,247)
Profit for the year	**36,545**	**117,883**	**241,683**
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Currency translation difference	(166)	178	(587)
Total comprehensive income for the year	**36,379**	**118,061**	**241,096**

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

During the Track Record Period, we derived substantially all of our revenue from the sales of measurement instrument products. Our revenue primarily represents the fair value of the consideration received and receivable for our products sold net of discount, returns and value added tax.

The following table sets out a breakdown of our revenue by product category for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Industrial and commercial gas flowmeter products	296,869	81.9	386,893	87.1	597,910	89.3
Residential gas meter products	48,045	13.2	45,216	10.2	59,466	8.9
Nuclear-related products	14,914	4.1	9,338	2.1	10,276	1.5
Maintenance services	2,859	0.8	2,713	0.6	2,161	0.3
Total	**362,687**	**100.0**	**444,160**	**100.0**	**669,813**	**100.0**

We primarily sell our gas measurement instrument products in the PRC through our established sales network to customers that are mainly engaged in the gas industry. We also sell a small amount of our products to overseas customers. The following table sets out a breakdown of our sales by geographical region for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
China	**360,383**	**99.4**	**440,099**	**99.1**	**664,062**	**99.1**
East China	133,623	36.8	170,330	38.3	255,993	38.2
North China	53,905	14.9	85,440	19.2	165,479	24.7
Headquarters[(1)]	59,981	16.5	54,808	12.3	54,801	8.2
Central China	22,055	6.1	35,321	8.0	52,265	7.8
Southwest China	37,350	10.3	37,193	8.4	51,767	7.7
Northeast China	29,052	8.0	24,466	5.5	32,753	4.9
South China	17,239	4.8	24,142	5.4	31,226	4.7
Northwest China	7,178	2.0	8,399	2.0	19,778	2.9
Overseas	**2,304**	**0.6**	**4,061**	**0.9**	**5,751**	**0.9**
Total	**362,687**	**100.0**	**444,160**	**100.0**	**669,813**	**100.0**

Note:

(1) Headquarters refer to sales conducted directly from our headquarters in Cangnan County, Wenzhou City, Zhejiang Province.

Our revenue increased significantly from RMB362.7 million in 2015 to RMB444.2 million in 2016, and further increased to RMB669.8 million in 2017.

Our revenue in 2016 increased significantly from the previous year, and our revenue increased significantly in 2017 compared with 2016, mainly due to the increase in our revenue generated from the sales of industrial and commercial gas flowmeter products, which represented 81.9%, 87.1% and 89.3% of our revenue in 2015, 2016 and 2017, respectively. Our revenue from the sales of industrial and commercial gas flowmeter products increased by 30.3% from RMB296.9 million in 2015 to RMB386.9 million in 2016, and further increased by 54.5% to RMB597.9 million in 2017.

Our revenue generated from the sales of residential gas meter products remained relatively stable in 2015 and 2016 at RMB48.0 million and RMB45.2 million, respectively. In 2017, due to the increased market demand, our revenue generated from the sales of residential gas meter products increased significantly by 31.5% to RMB59.5 million compared with 2016.

Our revenue generated from the sales of nuclear-related products decreased from RMB14.9 million in 2015 to RMB9.3 million in 2016, and increased slightly to RMB10.3 million in 2017, which was in accordance with our provision of nuclear throttling devices based on the progress of the relevant nuclear power projects. We are monitoring the progress of a number of new potential nuclear power projects and aim to secure new nuclear related products purchase contracts after these potential projects commence construction.

Such significant increases in our revenue were mainly due to the following reasons:

- **Market growth**: according to Frost and Sullivan, the aggregate sales value of the natural gas flowmeter market in China was RMB1,076.6 million in 2015, which increased by 10.9% to RMB1,193.8 million in 2016 and further increased by 36.2% to RMB1,625.5 million in 2017.

- **Increasing demand from existing customers**: Leveraging our efforts and commitment to solidify our technological advantages and upgrade our product portfolio throughout the Track Record Period, we were able to retain our existing customers and fulfil their increasing demand for our products. For example, our large customers increased their purchases from us significantly during the Track Record Period. Our top four customers remained unchanged throughout the Track Record Period and accounted for RMB110.3 million, RMB131.9 million and RMB214.6 million of our revenue in 2015, 2016 and 2017, respectively, showing increases by 19.5% from 2015 to 2016 and 62.7% from 2016 to 2017. Our top 20 customers, most of which were existing customers, accounted for RMB173.7 million, RMB211.2 million and RMB328.4 million of our revenue in 2015, 2016 and 2017, respectively, showing increases by 21.6% from 2015 to 2016 and 55.5% from 2016 to 2017.

  We believe that the demand from existing customers for our products increased faster than the average market growth mainly because our existing customers include large-scale national gas enterprise groups and companies in economically more developed regions in

China, which were able to achieve higher-than-industry-average growth by leveraging their large scale and favourable operating territories. For example, one leading gas enterprise group in China that ranked the third largest, the second largest and the second largest customer of our Group in 2015, 2016 and 2017, respectively, increased its purchases from us by RMB6.9 million and RMB23.3 million in 2016 and 2017, respectively.

- **Development of new customers**: we developed a large number of new customers during the Track Record Period, which contributed significantly to our revenue increases. In 2016 and 2017, we had 514 and 967 new customers compared with the previous year, respectively. These new customers included subsidiaries of large-scale gas enterprise groups that had not purchased from us before, local gas operators and gas equipment integrators that mainly purchased industrial and commercial flowmeter products from us, and also included commercial and other entities that purchased residential gas meter products from us. Purchase amounts of individual new customers range from millions of RMB to under RMB100.

  Our new customers in 2016 included 87 significant customers with purchase orders of RMB100,000 or above in the year (the "Significant New Customers"), most of which purchased industrial and commercial flowmeter products from us. Geographically, Significant New Customers in 2016 were mainly from North China, East China and Central China.

  We had 185 Significant New Customers in 2017. The largest new customer was a petrochemical equipment company from Southwest China that purchased industrial and commercial flowmeter products from us with total purchase orders of RMB9.2 million. Geographically, Significant New Customers in 2017 were mainly from East China and Southwest China, while we also continued to develop new customers in North China and Northeast China.

  We carried out a restructuring of our sales agents in June 2017, which involved the closing down of six agents (three in East China, two in Southwest China and one in Northeast China). The customers of such agents may have switched to purchasing directly from us and may have been recognised as our new customers in 2017, in particular in East China, Southwest China and Northeast China. For further details of our sales through agents and the restructuring, see "Business – Sales – PRC Sales."

  We believe that we were able to develop a large number of new customers and generate significant sales from them during the Track Record Period primarily because of our comprehensive competitive advantage as a market leader in the highly concentrated niche market of industrial and commercial flowmeter products. We believe that, as the natural gas industry in China grows rapidly and gas operators generate increasing demand for industrial and commercial flowmeter products, they are generally inclined to choose leading flowmeter providers, which are more competitive compared with smaller-scale providers in terms of market reputation, product variety, functionality and specification, production scale, quality control, product delivery capability, pricing, training and aftersales services. Therefore, as a market leader, we were not only able to capture market growth and realise revenue increases but also outperform the industry average and increase our market share. According to Frost & Sullivan, our market share in the PRC industrial and commercial flowmeter products market increased from 27.6% in 2015 to 32.4% in 2016 and further to 36.8% in 2017.

- **Significant growth in key regional markets**: during the Track Record Period, we achieved significant growth in certain key regional markets:

  - Revenue from customers in East China increased by 27.5% from RMB133.6 million to RMB170.3 million in 2016, and further increased by 50.3% to RMB256.0 million in 2017;

  - Revenue from customers in North China increased by 58.5% from RMB53.9 million to RMB85.4 million in 2016, and further increased by 93.7% to RMB165.5 million in 2017; and

  - Revenue from customers in Central China increased by 60.1% from RMB22.1 million to RMB35.3 million in 2016, and further increased by 48.0% to RMB52.3 million in 2017.

We believe that our significant growth in North and East China was mainly attributable to the following factors:

- The PRC government stepped up its "coal-to-gas" efforts to use natural gas to substitute coal as fuel for industrial, commercial and residential use. In particular, in February 2017, certain PRC ministries and provincial governments jointly issued the Notice on the 2017 Working Plan on Air Pollution Prevention and Treatment in Beijing, Tianjin and Adjacent Areas (the "2017 Work Plan") to increase efforts on air pollution treatment. The 2017 Work Plan sets out specific targets on coal-to-gas and coal-to-electricity projects for 28 cities along the transmission route of air pollution in East China (Shandong), North China (Beijing, Tianjin and Hebei) and Central China (Shanxi and Henan). The regional markets in these areas for gas measurement instruments increased along with the increasing gas consumption.

- Leveraging the favourable government policies, we focused on regional markets of high growth and extended our sales and marketing network. During the Track Record Period, we opened three new local offices in North China (two in Beijing and one in Hebei), one in East China (Shandong) and one in Central China (Henan) to develop new customers, enhance communication with customers and provide better aftersales services.

Cost of sales

Our cost of sales primarily consists of raw materials and consumables used and employee benefit expense. The following table sets out a breakdown of our cost of sales for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Raw materials and consumables used	140,665	85.1	110,718	71.2	133,008	72.2
Employee benefit expense	21,093	12.8	22,153	14.2	26,423	14.3
Changes in inventories of finished goods and work in progress	(12,674)	(7.7)	10,162	6.5	10,505	5.7
Depreciation and amortisation	6,369	3.9	5,724	3.7	5,300	2.9
Utilities	3,455	2.1	2,884	1.9	3,379	1.8
Other expenses	6,362	3.8	3,966	2.5	5,661	3.1
Total	**165,270**	**100.0**	**155,607**	**100.0**	**184,276**	**100.0**

Our cost of sales was approximately RMB165.3 million, RMB155.6 million and RMB184.3 million in 2015, 2016 and 2017, respectively, representing 45.6%, 35.0% and 27.5% of our revenue for the same periods, respectively. Our cost of sales decreased as a percentage of our revenue during the Track Record Period, for reasons of which see "– Gross profit and gross profit margin" below.

The cost of raw materials and consumables used was the largest component of our cost of sales for the Track Record Period, representing 85.1%, 71.2% and 72.2% of our cost of sales in 2015, 2016 and 2017, respectively. Raw materials and consumables used for the manufacture of our gas measurement instrument products primarily consist of aluminium ingots, steel and electronic component parts. The cost of aluminium ingots was the largest component of our cost of raw materials and consumables used. During the Track Record Period, we procured aluminium ingots mainly from reputable aluminium suppliers in the PRC.

Our cost of raw materials and consumables used decreased by 21.3% from RMB140.7 million in 2015 to RMB110.7 million in 2016, mainly due to the reduction in the raw materials we used through the development and improvement in design and production process and the decrease in the prices of the major raw materials (such as aluminium, steel and electronic component parts) we purchased.

Our cost of raw materials and consumables used increased by 20.1% from RMB110.7 million in 2016 to RMB133.0 million in 2017, the increase of which was significantly less compared with the increase of our revenue by 50.8% in 2017 compared with 2016, mainly due to the reduction in the raw materials we used through the development and improvement in design and production process and the decrease in the prices of certain major raw materials we purchased.

Employee benefit expense was the other major component of our cost of sales for the Track Record Period, representing 12.8%, 14.2% and 14.3% of our total cost of sales in 2015, 2016 and 2017, respectively. Our employee benefit expense during the Track Record Period was primarily affected by the number of employees and the general level of salaries and benefits for our staff. As at 31 December 2015, 2016 and 2017, we had a total of 197, 201 and 217 production employees, respectively. In 2015, 2016 and 2017, our average employee benefit expense per employee was RMB107,071, RMB110,214 and RMB121,765, respectively.

The following table sets out changes in our inventories of finished goods and work in progress during the Track Record Period:

	For the year ended 31 December		
	2015	2016	2017
	(RMB'000)	(RMB'000)	(RMB'000)
Work-in-progress	(6,940)	7,815	(3,137)
Finished goods	(5,734)	2,347	13,642
	(12,674)	10,162	10,505

We consider changes in our inventories of finished goods and work in progress during the Track Record Period to be normal, which remained within 15% of total inventories as at the end of the corresponding year. The significant reduction in our finished goods inventory during 2017 was mainly due to the increased dispatch of products to customers in accordance with increasing market demand.

The following table sets out a breakdown of our cost of sales by product category for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Industrial and commercial gas flowmeter products	120,817	73.1	117,456	75.5	139,085	75.5
Residential gas meter products	35,467	21.5	33,962	21.8	40,053	21.7
Nuclear-related products	8,677	5.2	3,955	2.5	4,721	2.6
Maintenance services	309	0.2	234	0.2	417	0.2
Total	**165,270**	**100.0**	**155,607**	**100.0**	**184,276**	**100.0**

While our cost of sales increased during the Track Record Period along with the increase in revenue, such cost of sales increased slower than revenue, leading to increased gross profit margins of our products. Please refer to the gross profit and gross profit margin analysis below for further details.

Gross profit and gross profit margin

The following table sets out our gross profit and gross profit margin by product category for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	Gross profit (RMB '000)	Gross profit margin (%)	Gross profit (RMB '000)	Gross profit margin (%)	Gross profit (RMB '000)	Gross profit margin (%)
Industrial and commercial gas flowmeter products	176,052	59.3	269,437	69.6	458,825	76.7
Residential gas meter products	12,578	26.2	11,254	24.9	19,413	32.6
Nuclear-related products	6,237	41.8	5,383	57.6	5,555	54.1
Maintenance services	2,550	89.2	2,479	91.4	1,744	80.7
Total	**197,417**	**54.4**	**288,553**	**65.0**	**485,537**	**72.5**

In 2015, 2016 and 2017, our gross profit was approximately RMB197.4 million, RMB288.6 million and RMB485.5 million, respectively, and our gross profit margin was approximately 54.4%, 65.0% and 72.5%, respectively. The increases in our gross profit and gross profit margin during the Track Record Period were primarily due to the increase in the percentage of the sales of industrial and commercial gas flowmeter products with higher gross profit margin in our total sales, and the increase in the gross profit margin of the industrial and commercial gas flowmeter products.

The gross profit margin for the sales of industrial and commercial gas flowmeter products was 59.3%, 69.6% and 76.7% in 2015, 2016 and 2017, respectively. The continuous increase in such gross profit margin was mainly due to the following factors:

(i) **We reduced the use of raw materials through the development and improvement in the design and production processes.** In particular, we developed our new EVC300 Volume Corrector to replace our previous EVC200 Volume Corrector. Compared with EVC200, EVC300 has a number of cost-saving advantages:

- It uses a single digital pressure sensor as opposed to the previous two to three analog sensors. Using our mathematical model software for real time and in-the-field usage, EVC300 can carry out analysis and calculation and use alternate value or analysed value for alternative compensation upon detecting data anomaly, thereby eliminating the need for a second sensor while at the same time increase measurement precision and stability.

- We made a number of improvements on circuit design and optimised hardware to delegate functions from hardware to software, thereby saving the raw materials used. As an example, as we replaced analog sensors with digital sensors, EVC300 uses a new bus communication and saved the use of various IC components such as analog value sampling and analog value switch IC components and peripheral accessory devices.

- We also optimised power provision and signal output modules. EVC300 uses high-power discharge battery voltage compensation mode to replace and save the previous booster IC component and optimised digital communication circuit and protocol, thereby rendering the previous analog value communication IC components optional.

- We acquired and installed an automatic melt line comprising an automatic board loader, printing machine, automatic melting machine, automatic reflow furnace and automatic board unloader. Such melt line allows us to produce IC by ourselves as compared with purchasing from third parties previously and to further integrate various components to reduce steps in the production process to increase efficiency, reduce labour costs and raw materials costs while improving quality control and increasing signal strength and anti-interference ability of the product.

The following table sets out a comparison of EVC200 and EVC300 and relevant cost-saving implications:

	EVC200	**EVC300**	**Cost-saving and other implications for EVC300**
Pressure sensor	Two to three analog sensors	One digital sensor	Saving the cost of installing additional sensors
IC	Analog-to-digital conversion circuit	Digital IC with more delegation from hardware to software	Simpler and uses less materials
Communication	Analog with IC support	Digital and modularised	Analog communication component and accessories optional
Battery	Booster IC	High-power discharge battery voltage compensation	Cost of booster IC component saved
Production	External purchases and manual assembly	Self-production using automatic line and further integration	Saving labour and raw materials costs, enhanced efficiency and quality

(ii) **We lowered the prices of certain major raw materials.** In particular, we optimised our purchase channels regarding the purchase of digital pressure sensor, which is used in EVC300. As a result, the unit price of such digital pressure sensor that we use was reduced from close to RMB400 at the beginning of 2016 to around RMB320 in the second half of 2016, and further to around RMB220 in the first half of 2017. Such reduction of price of digital pressure sensor adds to the overall reduction of costs of EVC300. Although certain product improvements in EVC300 led to comparatively minor cost increases, the overall effect is a significant cost reduction of generally over RMB1,000 per unit of EVC300.

Typically, each industrial and commercial flowmeter that we sell is accompanied with a volume corrector. The average unit price of a flowmeter (including a volume corrector) ranged between RMB9,473 and RMB10,196 during the Track Record Period. The aforementioned cost reduction of more than RMB1,000 per unit therefore had a significant positive impact on the gross profit margin of our industrial and commercial flowmeter products. EVC300 replaced EVC200 by large scale in the second half of 2016, and the full-year effect of such cost reduction is shown in our financial results for 2017.

(iii) **We increased our production efficiency through the improvement in our production process and the introduction of advanced production equipment.** Other than our acquisition and installation of automatic melt line as mentioned above, we also improved the casting process for the production of meter shells. We switched from the previous sand casting process to low-pressure casting in the second half of 2016, which enabled us to elevate the overall passage rate of meter shells from mainly around 50% to 60% to mainly around 80% to 90%, save costs and increase production efficiency.

(iv) **We have implemented strict cost control measures**:

- We strengthened the management of raw materials usage and strictly implemented internal rules on raw materials intake, dispatch and storage. We require all raw materials dispatch to various steps of the production process to be based on the Bills of Materials recorded in our ERP system and designate specific personnel to be responsible for the management of dispatched raw materials.

- We leverage our procurement system to reduce raw materials procurement costs. Such system include profiling on and monitoring of suppliers, building a system to maintain price records and review pricing, setting standard procurement prices and performance-based remuneration for our procurement team.

- Based on specific features of our operations, we have set up a "manufacturing costs" item in our management accounts to collect and allocate manufacturing costs. In particular, we allocate costs of certain items such as tools and fixtures down to individual workers, set cost management standards and incentivise our employees to follow our cost control measures through awards and bonuses.

- We enhanced training and production review to control losses of waste products and record waste product rectification costs separately for better management and control.

(v) **We have maintained a stable and gradually increasing average unit price of our industrial and commercial flowmeters.** While reducing the raw materials costs, we maintained a unit price of RMB9,473, RMB9,811 and RMB10,196 for our industrial and commercial flowmeters in 2015, 2016 and 2017, respectively, benefiting from the following factors:

- As disclosed above, the reduction of raw materials costs is mainly a result of our continued investments in R&D and the accompanying production equipment such as our automatic melt line. Such investments demand additional returns and ensure that we operate on a high value-adding model;

- The raw materials we use are highly diversified. Accordingly, we have not encountered any significant pressure from our customers to lower product prices because of reduction of raw materials unit prices during the Track Record Period;

- From our customers' perspective, our products maintained consistent quality with progressively enhanced functionality and additional features, thereby justifying a gradually increasing average unit price;

- Due to increasing market demand in recent years, we are in a favourable position to maintain and gradually increase the average unit price. We believe that, despite such increase in the average unit price, our flowmeters maintain their strong competitiveness in the industrial and commercial flowmeter market in China; and

- While our major customers include leading national gas enterprise groups with strong bargaining power, the effect of such strong bargaining power is shown in our need to satisfy or accommodate such customers in terms of product specification and customisation, quality, production scale, timely delivery, aftersales services and possibly longer receivables turnover days. We also hold considerable leverage in the negotiation with our major customers because, in view of our market share and comprehensive competitiveness, it would have been difficult for our major customers to secure sufficient alternative providers for flowmeter products in time, or at all.

Therefore, as the result of the combination of significant lowered raw materials costs and stable and gradually increasing average selling price, the gross profit margin of our industrial and commercial flowmeter products increased significantly during the Track Record Period.

The gross profit margin for the sales of residential gas meter products remained generally stable at 26.2% and 24.9% in 2015 and 2016. In 2017, the gross profit margin for the sales of residential gas meter products increased to 32.6%, which was primarily due to an increase in the sales of IC card residential gas meters, which have higher profit margins compared with residential gas meters without the IC card function, as a percentage of the total sales of residential gas meters.

The gross profit margin for the sales of our nuclear-related products increased from 41.8% in 2015 to 57.6% in 2016, and slightly decreased to 54.1% in 2017. The nuclear-related products we sold during the Track Record Period varied in terms of product type and gross profit margin on a case-by-case basis in accordance with their respective contracts.

Selling and distribution expenses

Our selling and distribution expenses primarily consist of employee benefit expense, sales service fee travel and office expenses, commission, warranties provisions and transportation expenses. The following table sets out a breakdown of our selling and distribution expenses for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Employee benefit expense	6,931	12.2	13,051	16.6	14,891	13.7
Sales service fee	13,342	23.5	16,799	21.4	32,740	30.2
Travel and office expenses	11,605	20.4	12,789	16.3	11,180	10.3
Commission	9,797	17.2	10,413	13.2	9,073	8.4
Warranties provisions	3,255	5.7	6,449	8.2	9,377	8.7
Transportation expenses	4,204	7.4	5,337	6.8	7,060	6.5
Promotion costs	1,206	2.1	2,557	3.2	4,726	4.4
Other expenses	6,544	11.5	11,214	14.3	19,298	17.8
Total	**56,884**	**100.0**	**78,609**	**100.0**	**108,345**	**100.0**

In 2015, 2016 and 2017, our selling and distribution expenses were RMB56.9 million, RMB78.6 million and RMB108.3 million, respectively. The increases in our selling and distribution expenses were mainly due to (i) increases in our employee benefit expense, which was mainly due to an increase in the general level of salaries and benefits for such employees and a slight increase in the number of employees engaged in the sales and marketing operations from 39 as at 31 December 2015 to 40 as at 31 December 2017 as we increased our sales and marketing efforts; (ii) increases in our sales service fee along with increases in our revenue. We provide sales service to customers that mainly include the installation and cleaning of flowmeters. During the Track Record Period, we gradually switched from using our own employees to using third party service providers for the provision of sales service, which increased sales service fee. We pay such service providers periodically based on pre-agreed pricing schedule which set unit prices by type of work; and (iii) increases in our promotion costs mainly because we increased our spending in promotion activities to promote our products.

Administrative expenses

Our administrative expenses primarily consist of employee benefit expense, travel and office expenses, depreciation and amortization and provision for the impairment of receivables. The following table sets out a breakdown of our administrative expenses for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Employee benefit expense	22,406	46.9	23,894	44.8	29,484	47.8
Travel and office expenses	5,116	10.7	4,828	9.1	7,753	12.6
Depreciation and amortisation	3,990	8.4	3,806	7.1	3,852	6.3
Provision for impairment of receivables	7,268	15.2	9,552	17.9	8,533	13.8
Promotion costs	640	1.3	387	0.7	437	0.7
Professional service fee	715	1.5	1,247	2.3	2,005	3.3
Real estate tax, stamp duty and other taxes	786	1.6	951	1.8	1,128	1.8
Expenses relating to the Company's conversion into a joint stock company	–	–	3,050	5.7	–	–
Other expenses[(1)]	6,864	14.4	5,598	10.6	8,427	13.7
Total	**47,785**	**100.0**	**53,313**	**100.0**	**61,619**	**100.0**

Note:

(1) Other expenses mainly include car fare, maintenance fees for plants and insurances.

In 2015, 2016 and 2017, our administrative expenses were RMB47.8 million, RMB53.3 million and RMB61.6 million, respectively. The increases in our administrative expenses were mainly due to (i) increases in our employee benefit expense, which was mainly due to the increase in the number of employees whose salaries were accounted for in the administrative expenses and the increase in the general level of salaries and benefits for such employees. The number of our administrative staff increased from 93 as at 31 December 2015 to 144 as at 31 December 2017, and the average salary of such staff increased from RMB240,925 in 2015 to RMB287,880 in 2016 and RMB204,750 in 2017, respectively our administrative expenses also increased due to an increase in our professional service fee which was mainly because we incurred such fees with respect to the disposal of our former subsidiary of GFO Europe.

Research and development expenses

Our research and development expenses primarily consist of employee benefit expense of research and development personnel, raw materials and consumables used in the research and development activities and the costs for the moulds used in research and development and the design of new products. The following table sets out a breakdown of our research and development expenses for the years indicated:

	Year ended 31 December					
	2015		2016		2017	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Raw materials and consumables used	4,364	23.8	5,642	22.1	8,347	23.9
Employee benefit expense	10,673	58.1	13,576	53.1	20,359	58.3
Utilities	205	1.1	322	1.3	422	1.2
Costs for the moulds used in research and development and the design of new products	1,762	9.6	5,040	19.7	4,790	13.7
Depreciation and amortisation	1,356	7.4	963	3.8	982	2.9
Total	**18,360**	**100.0**	**25,543**	**100.0**	**34,900**	**100.0**

As the market condition improved since 2016, our research and development expenses increased from RMB18.4 million in 2015 to RMB25.5 million in 2016 and RMB34.9 million in 2017. In particular, our employee benefit expense increased by 90.8% from 2015 to 2017 mainly due to an increase in the number of our research and development staff by 12.4% from 89 in 2015 to 100 in 2017 and the increase in the general level of salaries and benefits for such employees.

Other income

Our other income primarily consists of tax refund and government grants related to expenses. The following table sets out a breakdown of our other income and gains for the years indicated:

	Year ended 31 December		
	2015	2016	2017
		(RMB'000)	
Government grants	12,320	12,577	20,421
Amortisation of deferred income related to government grants	180	180	180
Total	**12,500**	**12,757**	**20,601**

Government grants mainly represent (i) value-added tax refund to our subsidiary Dongxing Software under the favourable tax treatment due to its status as a government-recognised software enterprise; (ii) the refund of our contribution to the water conservancy fund due to a change in the

Zhengjiang provincial tax policy, according to which we are no longer subject to the water conservancy fund contribution obligation from November 2016, certain land use tax and property tax due to favourable local tax treatment based on our contribution to the local economy; and (iii) amounts awarded or subsidised by the government for various reasons such as awarding outstanding enterprise performance, encouragement of research and development and hiring of high-level technology talents. For example, we were recognised as an Enterprises of Outstanding Contribution in 2014 by the Cangnan County government, for which we received an awarded amount of RMB1.2 million in 2015.

Amortisation of deferred income related to government grants mainly represents our entitlement to Zhejiang Province government grants of RMB1.8 million in total for our technological development of nuclear throttling device and gas pressure regulating equipment, which was granted in 2011 and amortised over ten years, the expected useful lives of the corresponding property, plant and equipment.

Other losses – net

Our other losses primarily consist of guarantee losses and litigation losses. The following table sets out a breakdown of our other losses for the years indicated:

	Year ended 31 December		
	2015	**2016**	**2017**
		(RMB'000)	
Losses from financial guarantees provided to third parties	35,845	–	2,587
Litigation losses	–	–	12,503
Donation	983	630	761
Losses on disposal of property, plant and equipment	34	46	152
Foreign exchange gains – net	(182)	(172)	(37)
Others	9	380	(912)
Total	**36,689**	**884**	**15,054**

In 31 December 2015, 2016 and 2017, our net other losses were approximately RMB36.7 million, RMB0.9 million and RMB15.1 million, respectively, representing approximately 10.1%, 0.2% and 2.2% of our revenue for the same periods, respectively. Our relatively high losses in 2015 were mainly due to guarantee losses, for details of which see "Business – Legal Compliance and Risk Management – Legal proceedings". We recorded litigation losses of RMB12.5 million in 2017 mainly due to the outcome of two cases of litigation during the period.

Finance expenses

Our finance expenses mainly include our interest expense on borrowings and the provision for the unwinding of discounts. Our financial income mainly includes our interest income on deposits with financial institutions. The following table sets out a breakdown of our net finance expenses for the years indicated:

	Year ended 31 December		
	2015	2016	2017
		(RMB'000)	
Financial expenses:			
– Interest expense on borrowings	6,010	5,275	3,563
– Provisions: unwinding of discounts	1,936	2,182	2,268
Financial income:			
– Interest income	(645)	(1,583)	(1,541)
Finance expenses – net	7,301	5,874	4,290

Our net finance expenses gradually decreased during the Track Record Period, which was mainly due to the decrease in interest expense on borrowings as a result of the decrease in loans, and the increase in interest income as a result of the increase in deposits.

Our provision for the unwinding of discounts mainly relates to our guarantee losses. We estimate the amount and timing of payment of the relevant guarantee losses and make provisions in the amount of the estimated amount discounted based on the estimated timing of payment. When guarantee losses actually occur, we record the difference between the discounted amount used in provisioning and the actual payment amount as financial expenses from the unwinding of the discount. For further details on the guarantee losses, see "Other losses – net" in this prospectus.

Income tax expense

Income tax consists of current income tax and deferred income tax by the Group. Current tax primarily comprises PRC corporate income tax payable by the Company and its PRC subsidiaries. We recorded income tax expenses in 2015, 2016 and 2017 of approximately RMB6.4 million, RMB19.2 million and RMB40.2 million, respectively.

The Company was entitled to a 15% preferential enterprise income tax rate during the Track Record Period as a result of its recognition by the PRC government as a High and New Technology Enterprise until 2017. Furthermore, our subsidiary Dongxing Software has been recognised as a Software Enterprise by the PRC government since 2013, and is entitled to a two-year exemption from enterprise income tax followed by three years at 50% tax reduction starting from 2013. Our Directors are of the view that there is no impediment to our renewal of the High and New Technology Enterprise status of our Company and the Software Enterprise status of Dongxing Software upon their respective expiration. While GFO Europe, which was incorporated in the Netherlands, was our subsidiary during the Track Record Period before its disposal on 29 January 2018, no Dutch profits tax was recorded during the Track Record Period as we had no taxable profit earned or derived in the Netherlands. For a more detailed discussion on our income tax, please see note 11 to our consolidated financial statements included in the Accountant's Report in Appendix I to this prospectus.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATION

Year ended 31 December 2017 compared with year ended 31 December 2016

Revenue. Revenue increased by 50.8% from RMB444.2 million in 2016 to RMB669.8 million in 2017, primarily due to an increase in our sales of industrial and commercial gas flowmeter products and residential gas meter products, which in turn is primarily due to strong market demand and enhanced market competitiveness of our products. Our sales of nuclear-related products increased slightly by 10.0%, from RMB9.3 million in 2016 to RMB10.3 million in 2017, which was in accordance with our provision of nuclear throttling devices based on the progress of the relevant nuclear power projects.

Cost of sales. Cost of sales increased by 18.4% from RMB155.6 million in 2016 to RMB184.3 million in 2017. Cost of sales increased much slower compared with revenue, primarily because (i) we made significant improvements to our processing structure and replaced certain casting parts with moulding parts, thereby lowering the cost of raw materials and consumables used; (ii) we further reduced wastes in our production process; (iii) the prices of certain raw materials that we purchased decreased in 2017 compared with 2016; and (iv) we achieved greater economies of scale.

Gross profit. Gross profit increased by 68.3% from RMB288.6 million in 2016 to RMB485.5 million in 2017. Our gross profit margin increased from 65.0% in 2016 to 72.5% in 2017, primarily due to (i) an increase in the gross profit margin of our industrial and commercial gas flowmeter products; and (ii) an increase in the revenue contribution of our higher margin sales of industrial and commercial gas flowmeter products.

Selling and distribution expenses. Selling and distribution expenses increased by 37.8% from RMB78.6 million in 2016 to RMB108.3 million in 2017, primarily due to (i) an increase in promotion costs as we stepped up our marketing efforts; and (ii) an increase in sales service fee along with increases in our revenue.

Administrative expenses. Administrative expenses increased by 15.6% from RMB53.3 million in 2016 to RMB61.6 million in 2017, primarily due to (i) an increase in employee benefit expense as we increased the number of management personnel along the expansion of our business operations, and (ii) an increase in our professional service fee.

Research and development expenses. Research and development expenses increased by 36.6% from RMB25.5 million in 2016 to RMB34.9 million in 2017, primarily due to increases in raw materials and consumables used and employee benefit expense.

Other income. Other income increased by 61.5% from RMB12.8 million in 2016 to RMB20.6 million in 2017, primarily due to an increase of government grants by RMB7.8 million.

Other losses – net. Other losses-net increased from RMB0.9 million in 2016 to RMB15.1 million in 2017, primarily due to the outcome of two cases of litigation in 2017.

Operating profit. As a result of the foregoing, operating profit increased by 100.2% from RMB143.0 million in 2016 to RMB286.2 million in 2017, and operating profit margin increased from 32.2% in 2016 to 42.7% in 2017.

Finance expenses – net. Finance expenses – net decreased by 27.0% from RMB5.9 million in 2016 to RMB4.3 million in 2017, primarily due to a decrease in interest expense on borrowings as the amount on our borrowings decreased.

Income tax expenses. Income tax expenses increased by 109.6% from RMB19.2 million in 2016 to RMB40.2 million in 2017, primarily due to the increase in profit before income tax. Our effective tax rate slightly increased from 14.0% in 2016 to 14.3% in 2017.

Profit for the year. As a result of the foregoing, profit for the year increased by 105.0% from RMB117.9 million in 2016 to RMB241.7 million in 2017, and net profit margin increased from 26.5% in 2016 to 36.1% in 2017.

Year ended 31 December 2016 compared with year ended 31 December 2015

Revenue. Revenue increased by 22.5% from RMB362.7 million in 2015 to RMB444.2 million in 2016, primarily due to increases in our sales of industrial and commercial gas flowmeter products and residential gas meter products, which in turn is primarily due to strong market demand and enhanced market competitiveness of our products. Our sales of nuclear-related products decreased by 37.4% from 2015 to 2016, mainly due to a decrease of payments for our nuclear throttling device in accordance with contractual arrangements with our customers based on the progress of the relevant nuclear power projects.

Cost of sales. Cost of sales decreased by 5.8% from RMB165.3 million in 2015 to RMB155.6 million in 2016, primarily due to a decrease in cost of raw materials and consumables used by 21.3% from RMB140.7 million in 2015 to RMB110.7 million in 2016, which in turn is mainly because we reduced the raw materials that we use through our research and development and improvements to our design and production process.

Gross profit. Gross profit increased by 46.2% from RMB197.4 million in 2015 to RMB288.6 million in 2016. Our gross profit margin increased from 54.4% in 2015 to 65.0% in 2016, primarily due to (i) an increase in the gross profit margin of our industrial and commercial gas flowmeter products; and (ii) an increase in the revenue contribution of our higher margin sales of industrial and commercial gas flowmeter products.

Selling and distribution expenses. Selling and distribution expenses increased by 38.2% from RMB56.9 million in 2015 to RMB78.6 million in 2016, primarily due to increases in employee benefit expense as we strengthened incentives for our employees.

Administrative expenses. Administrative expenses increased by 11.6% from RMB47.8 million in 2015 to RMB53.3 million in 2016, primarily due to (i) the non-recurring expenses relating to the Company's conversion into a joint stock company of RMB3.1 million; (ii) an increase in employee benefit expense as we expanded our administrative staff; and (iii) an increase in provision for impairment of receivables.

Research and development expenses. Research and development expenses increased by 39.1% from RMB18.4 million in 2015 to RMB25.5 million in 2016, primarily due to increases in employee benefit expense and the costs for the moulds used in research and development and the design of new products.

Other income. Other income remained relatively stable at RMB12.5 million in 2015 and RMB12.8 million in 2016.

Other losses – net. Other losses-net decreased significantly by 97.6% from RMB36.7 million in 2015 to RMB0.9 million in 2016, primarily because we recorded guarantee losses in 2015 but not in 2016.

Operating profit. As a result of the foregoing, operating profit increased by 184.8% from RMB50.2 million in 2015 to RMB143.0 million in 2016, and operating profit margin increased from 13.8% in 2015 to 32.2% in 2016.

Finance expenses – net. Finance expenses – net decreased by 19.5% from RMB7.3 million in 2015 to RMB5.9 million in 2016, primarily due to (i) a decrease in interest expense on borrowings as both the amount and the interest rates on our borrowings decreased; and (ii) an increase in interest income as our deposits with financial institutions increased.

Income tax expenses. Income tax expenses increased by 202.3% from RMB6.4 million in 2015 to RMB19.2 million in 2016, primarily due to an increase in profit before income tax partially offset by the tax effect of the High and New Technology Enterprise status of the Company and the Software Enterprise status of our subsidiary Dongxing Software. Our effective tax rate decreased from 14.8% in 2015 to 14.0% in 2016.

Profit for the year. As a result of the foregoing, profit for the year increased by 222.6% from RMB36.5 million in 2015 to RMB117.9 million in 2016, and net profit margin increased from 10.1% in 2015 to 26.5% in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Our use of cash primarily relates to operating activities, capital expenditure and repayment of bank borrowings. We financed our operations primarily through a combination of capital contribution from our Shareholders, cash flow generated from our operation and bank borrowings. We had sufficient cash flow to enable us to repay our obligations under bank borrowings when they became due. We did not experience any difficulties in rolling over our bank borrowings during the Track Record Period. We currently expect that there will not be any material change in the sources and uses of cash of the Group, except that we would have additional funds from proceeds of the Global Offering for implementing our future plans as detailed under the section headed "Future Plans and Use of Proceeds" in this prospectus.

Cash flow

As at 31 December 2015 and 2016 and 2017, we had cash and cash equivalents of RMB96.8 million, RMB138.1 million and RMB157.4 million, respectively. The following table set out our cash flows for the years indicated:

	Year ended 31 December		
	2015	2016	2017
		(RMB'000)	
Net cash generated from operating activities	86,711	101,752	117,210
Net cash used in investing activities	(36,528)	(6,370)	(13,101)
Net cash used in financing activities	(34,385)	(54,380)	(84,157)
Net increase in cash and cash equivalents	15,798	41,002	19,952
Cash and cash equivalents at beginning of year	81,095	96,762	138,059
Exchange differences on translation of cash and cash equivalents	(131)	295	(621)
Cash and cash equivalents at end of year	96,762	138,059	157,390

Cash flow of operating activities

We derive our cash inflow from operating activities principally from the receipt of payments for the sales of our gas flowmeter products. Our cash outflow from operating activities is principally for our purchases of parts and components used for the manufacture of our gas flowmeter products.

In 2017, we had net cash generated from operating activities of RMB117.2 million, which was comprised of cash generated from operations of RMB135.6 million and interest received of RMB0.5 million offset by the income tax paid of RMB18.8 million. Significant working capital movements within net cash generated from operating activities included an increase in trade and other receivables and prepayments of RMB197.6 million due to the increase in our operating income, an increase in inventories of RMB5.2 million due to the preparation for production activities for the second half of the year, and a decrease in restricted cash relating to operating activities of RMB9.9 million due to the decrease in balance of bill deposits.

In 2016, we had net cash generated from operating activities of RMB101.8 million, which was comprised of cash generated from operations of RMB115.0 million and interest received of RMB0.6 million offset by income tax paid of RMB13.8 million. Significant working capital movements within net cash generated from operating activities included an increase in trade and other receivables and prepayments of RMB67.8 million due to the increase in our operating income, an increase in trade and other payables of RMB23.7 million as we increased the purchase amount as our expanded business and a decrease in inventories of RMB13.9 million due to our intensified inventory management efforts.

In 2015, we had net cash generated from operating activities of RMB86.7 million, which was comprised of cash generated from operations of RMB96.5 million and interest received of RMB0.6 million offset by income tax paid of RMB10.3 million. Significant working capital movements within net cash generated from operating activities included an increase in trade and other receivables and prepayments of RMB27.0 million due to the delay of payments by customers, and a decrease in inventories of RMB9.8 million due to our intensified inventory management efforts.

Cash flow of investing activities

Our cash outflow for investing activities primarily consisted of payment or prepayment for the purchases of property, plant and equipment. Our cash inflow for investing activities primarily consisted of proceeds received from the disposal of property, plant and equipment.

In 2017, our net cash used in investing activities was RMB13.1 million, including the payment of RMB13.2 million for the purchase of property, plant and equipment.

In 2016, our net cash used in investing activities was RMB6.4 million, which was mainly used for the purchase of property, plant and equipment.

In 2015, our net cash used in investing activities was RMB36.5 million, including the payment of RMB5.8 million for purchase of property, plant and equipment and an increase in restricted cash of RMB31.8 million due to the relevant litigation arising from the guarantees provided to third parties, which was offset by the proceeds of RMB1.0 million from the disposal of property, plant and equipment.

Cash flow of financing activities

Our cash inflow for financing activities primarily consisted of proceeds from short-term borrowings. Our cash outflow for financing activities primarily consisted of repayment of short-term borrowings, interest paid and dividends paid to the Company's shareholders.

In 2017, we had net cash used in financing activities of RMB84.2 million including dividends paid to the Company's equity holders of RMB36.3 million, repayment of short-term borrowings of RMB78.1 million, payments in relation to financial guarantees of RMB16.2 million, listing fees paid of RMB9.3 million, interests paid of RMB3.6 million and dividends paid to non-controlling interests of RMB0.6 million, partially offset by proceeds from short-term borrowings of RMB59.9 million.

In 2016, we had net cash used in financing activities of RMB54.4 million, which was comprised of repayment of short-term borrowing, interest paid, payments made in respect of financial guarantees, dividends paid to the Company's shareholder and dividends paid to non-controlling interest, of RMB104.4 million, RMB5.3 million, RMB12.2 million, RMB29.1 million and RMB0.5 million, respectively, offset by proceeds from short-term borrowings of RMB97.1 million.

In 2015, we had net cash used in financing activities of RMB34.4 million, which was comprised of repayment of short-term borrowing, interest paid, payments made in respect of financial guarantees and dividends paid to the Company's shareholders, of RMB98.0 million, RMB6.0 million, RMB2.2 million and RMB28.5 million, respectively, offset by proceeds from short-term borrowings of RMB100.4 million.

Current assets and liabilities

The following table sets out details of our current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
		(RMB'000)		**(Unaudited)**
Current assets				
Trade and other receivables and prepayment	311,106	370,373	569,818	537,788
Inventories	86,960	73,077	78,243	89,051
Restricted cash	11,609	19,947	9,417	14,686
Cash and cash equivalents	96,762	138,059	157,056	202,445
Assets classified as held for sales	–	–	10,020	–
Total current assets	506,437	601,456	824,554	843,970
Current liabilities				
Trade and other payables	115,227	139,023	151,411	122,911
Current income tax liabilities	13,886	21,568	46,071	42,127
Borrowings	85,400	78,100	59,900	74,700
Deferred income	180	180	180	180
Warranties provision	3,469	4,184	8,398	9,037
Provisions for other liabilities and charges	11,927	60,297	68,587	68,888
Liabilities directly associated with assets classified as held for sales	–	–	109	–
Total current liabilities	230,089	303,352	334,656	317,843
Net current assets	276,348	298,104	489,898	526,127

As at 31 December 2015, 2016, 2017 and 30 April 2018, we had net current assets of approximately RMB276.3 million, RMB298.1 million, RMB489.9 million and RMB526.1 million, respectively.

As at 31 December 2015, we had net current assets of approximately RMB276.3 million, with current assets of approximately RMB506.4 million and current liabilities of approximately RMB230.1 million. Current assets were mainly comprised of trade and other receivables and prepayments, inventories and cash and cash equivalents, with approximately RMB311.1 million, RMB87.0 million and RMB96.8 million, respectively. And current liabilities were mainly comprised of trade and other payables and borrowings, with RMB115.2 million and RMB85.4 million, respectively.

As at 31 December 2016, we had net current assets of approximately RMB298.1 million, with current assets of approximately RMB601.5 million and current liabilities of approximately RMB303.4 million. Current assets were mainly comprised of trade and other receivables and prepayments, inventories and cash and cash equivalents, with approximately RMB370.4 million, RMB73.1 million and RMB138.1 million, respectively. And current liabilities were mainly comprised of trade and other payables and borrowings, with RMB139.0 million and RMB78.1 million, respectively.

As at 31 December 2017, we had net current assets of RMB489.9 million, representing a 64.3% increase compared to 31 December 2016, primarily due to an increase in our trade and other receivables and prepayment along with the increase of our sales and an increase in our inventories as we increased our raw materials and work-in-progress in preparation for subsequent production.

As at 30 April 2018, being the latest practicable date for ascertaining certain financial information of the Group, we had net current assets of RMB526.1 million. The continuous improvement in our net current assets was primarily due to the fact that we continuously recorded operation income.

Working capital

Our Directors believe that after taking into consideration the financial resources available to us, including cash flows from our operations, available banking facilities and estimated proceeds from the Global Offering, we have sufficient working capital for our present and future requirements for at least 12 months commencing from the date of this prospectus.

CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Property, plant and equipment mainly consist of buildings, furniture and fixtures, machinery and equipment motor vehicles. As at 31 December 2015, 2016 and 2017, the net book value of our property, plant and equipment amounted to RMB68.6 million, RMB64.9 million and RMB66.7 million. The decreases from 31 December 2015 to 31 December 2016 were primarily due to depreciation. As at 31 December 2017, the net book value of our property, plant and equipment increased slightly compared with 31 December 2016, because we made investment in equipment, vehicles and furniture in the first half of 2017.

Available-for-sale financial assets

We recorded RMB100,000 of available-for-sale financial assets as at 31 December 2015, 2016 and 2017, which represented 12.19% of our minority equity interest in Zhejiang Zhenxing Instrument and Apparatus Co., Ltd., a company jointly established by measurement instrument companies in Zhejiang Province including the Company that provides consultancy and information services to shareholders.

Restricted cash

Our restricted cash primarily consist of restricted cash pledged for notes payable, loans and financial guarantees provided to third parties. The following table sets out a breakdown of our restricted cash as at the dates indicated:

	As at 31 December		
	2015	**2016**	**2017**
		(RMB'000)	
Restricted cash pledged for notes payable	–	17,870	2,178
Restricted cash pledged for loans	10,000	–	–
Restricted cash pledged for financial guarantees provided to third parties	21,780	31,780	31,780
Others	2,923	3,407	9,234
	34,703	**53,057**	**43,192**
Non-current portion of restricted cash	23,094	33,110	33,775
Current portion of restricted cash	11,609	19,947	9,417
	34,703	**53,057**	**43,192**
Non-current portion of restricted cash:			
Restricted cash pledged for financial guarantees provided to third parties	21,780	31,780	31,780
Others	1,314	1,330	1,995
	23,094	33,110	33,775

For further details regarding restricted cash pledged for financial guarantees provided to third parties, see note 30 of the Accountant's Report set out in Appendix I to this prospectus.

Inventories

Our inventories primarily consist of raw materials, work-in-progress and finished goods. The following table sets out a breakdown of our inventories as at the dates indicated:

	As at 31 December		
	2015	2016	2017
		(RMB'000)	
Raw materials	25,686	22,078	37,681
Work-in-progress	25,570	17,755	20,892
Finished goods	35,422	33,075	19,433
Packaging materials and consumables	282	169	237
Total	**86,960**	**73,077**	**78,243**

Our inventories decreased by 16.0% from RMB87.0 million as at 31 December 2015 to RMB73.1 million as at 31 December 2016, mainly due to a decrease in work-in-progress through our improvement of inventory management. The decreases of work-in-progress and finished goods in 2016 compared with 2015 were mainly due to our improvement of inventory management.

As at 31 December 2017, our inventories increased by 7.1% to RMB78.2 million from RMB73.1 million as at 31 December 2016, mainly because we increased our raw materials and work-in-progress in preparation for subsequent production.

The following table sets out our average inventory turnover days for the years indicated:

	Year ended 31 December		
	2015	2016	2017
Average inventory turnover days(1)	203	188	150

Note:

(1) Average inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant financial year divided by cost of sales of the relevant financial year and multiplied by 365 days.

Our inventory turnover days during the Track Record Period were relatively long, which was mainly due to the following reasons:

- In our production of industrial and commercial flowmeter products, we produce a wide variety of products using a wide variety of raw materials. To accommodate different production processes of different products using different materials, our production steps and facilities have to be separated and our raw materials, work-in-progress, finished goods and waste products all need to go through multiple warehouse-in and warehouse-out processes. As a result, our production processes are relatively long and complex, resulting in relatively large amount of inventory.

- We maintain a relatively high level of finished goods inventory in order to achieve fast delivery of products to customers, which we believe will enhance customer experience and increase our competitiveness in the market.

As at 30 April 2018, 95.5% of our inventories as at 31 December 2017 had been used or sold.

The average inventory turnover days decreased from 203 days in 2015 to 188 days in 2016, and further decreased to 150 days in 2017, primarily due to improvements in our inventory management.

Trade and other receivables and prepayment

Our trade receivables primarily relate to receivables for our gas flowmeter products sold to our customers. We generally grant credit periods to our customers within three months.

	As at 31 December		
	2015	**2016**	**2017**
		(RMB'000)	
Trade receivables – third parties	294,349	354,566	533,131
Less: Allowance for impairment of receivables	(24,620)	(34,140)	(42,630)
Trade receivables – net	269,729	320,426	490,501
Notes receivable	21,626	34,406	50,001
Prepayments	7,106	6,596	20,612
Interests receivable	90	1,043	2,081
Other receivables	12,566	7,945	6,709
Less: Provision for impairment of other receivables	(11)	(43)	(86)
Other receivables – net	12,555	7,902	6,623
Total	**311,106**	**370,373**	**569,818**

Our trade receivables increased by 20.5% from RMB294.3 million as at 31 December 2015 to RMB354.6 million as 31 December 2016, mainly due to an increase in our sales. As at 31 December 2017, we have trade receivables of RMB533.1 million.

Our notes receivable are mainly bank acceptance bills. Our notes receivable increased by 59.1% from RMB21.6 million as at 31 December 2015 to RMB34.4 million as at 31 December 2016, mainly because more customers chose to pay us through bank acceptance bills for the latter period. Our prepayments are mainly the prepayment for purchase of raw materials, while the prepayment for the year 2017 also includes listing expenses. Our prepayments increased as at 31 December 2017 mainly due to the incurrence of listing expenses. Our other receivables mainly include deposit, prepayment to employees to cover traveling and other costs, and certain payment under a corporate guarantee to be reimbursed from the guaranteed party. Our other receivables decreased as at 31 December 2016 mainly due to the collection of reimbursement from the guaranteed party under the afore-mentioned corporate guarantee and further decreased as at 31 December 2017 mainly due to a decrease in our prepayment to employees as we have implemented internal rules to manage such prepayments more strictly.

Our management closely and actively monitors the recoverability of our trade and other receivables on a regular basis and provides for impairment for these receivables where deemed appropriate. We typically review the recovery status of our trade and other receivables from the individual customer on a case-by-case basis and maintain strict control over our outstanding receivables and overdue balances in order to minimise our credit risk.

The following table sets out an aging analysis of our trade receivables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
		(RMB'000)	
Within 1 year	222,445	282,540	452,542
1 year to 2 years	47,384	31,167	32,355(1)
2 years to 3 years	9,276	19,672	17,680(1)
Over 3 years	15,244	21,187	30,554(2)
Total	**294,349**	**354,566**	**533,131**

Notes:

(1) Our trade receivables aged from one year to three years as at 31 December 2017 were mainly due from gas operators and gas equipment integrators. Our Directors assessed the impairment according to their respective aging and historical default rates as these customers are of similar credit risk characteristics and financial standing. We made provisions for 10% of trade receivables aged from one to two years, and 50% of trade receivables aged from two to three years, respectively.

(2) For trade and notes receivables aged over three years as at 31 December 2017, 44.7% was due from Zhongde, with which we are in certain legal proceedings. See "Business – Legal Compliance and Risk Management – Legal Proceedings – Legal Proceedings Relating to a Former Shareholder." We made provisions for all trade and notes receivables aged over three years in full.

The following table sets forth our impaired trade receivables and corresponding provisions. We assess impairments according to their aging and historical default rates as these customers are of similar credit risk characteristics.

	As at 31 December		
	2015	2016	2017
		(RMB'000)	
Impaired trade receivables	71,904	72,026	80,589
Provision for impaired trade receivables	24,620	34,140	42,630

The following table sets out the aging analysis of our impaired trade receivables.

	As at 31 December		
Group	2015	2016	2017
	(RMB'000)	(RMB'000)	(RMB'000)
1 year to 2 years	47,384	31,167	32,355
2 years to 3 years	9,276	19,672	17,680
Over 3 years	15,244	21,187	30,554
	71,904	72,026	80,589

The following table sets out the average turnover days of our trade and notes receivables for the years indicated:

	Year ended 31 December		
	2015	2016	2017
Average turnover days of our trade and notes receivables[(1)]	246	227	209

Note:

(1) Average turnover days of our trade and notes receivables equal to the average of the opening and closing balances of net trade and notes receivables of the relevant financial year divided by 1.17 times of revenue (the 1.17 here to address value-added tax at the rate of 17% in the PRC, which has been included in trade and notes receivables but not in revenue) of the relevant financial year and multiplied by 365 days.

Our average turnover days generally exceeded the credit terms we granted to our customers during the Track Record Period mainly because:

- A considerable lapse of time may occur between the dispatch of our products, upon which we typically recognise revenue, and when we issue an invoice to the customer, which serves as the starting point for the calculation of the contractual credit period.

- We may allow longer credit periods for customers that had long-term relationships with us; and/or where we are satisfied that the relevant receivables would not be impaired based on the amount of such receivables and the payment record and reputation of the relevant customer. In particular, our major customers included leading national gas enterprise groups that have relatively strong bargaining power over us. Our other customers also include regional gas operators with monopoly within the regions covered by their gas pipeline networks that predicts stable and reliable future cash inflow. We may take these factors into consideration when agreeing to longer credit periods.

Our average turnover days of trade and notes receivables decreased from 246 days in 2015 to 227 days in 2016 and further decreased to 209 days in 2017, primarily due to better payment management of our major customers.

As at 30 April 2018, 29.8% of our trade receivables as at 31 December 2017 had been settled.

We typically do not require our customers to pay any deposit for orders placed. As a result of the long trade and notes receivable turnover days, our daily operation has to rely on our internal sources and bank borrowings to maintain our cash flow and satisfy the needs of our daily operations, which may have a negative effect on our working capital management and financial costs. See "Risk Factors – Risks Relating to Our Business and Industry – We have recorded significant and increasing trade receivables and our trade and notes receivable turnover days significantly exceeded the credit terms we granted to our customers. If we fail to manage account receivables effectively or suffer losses significantly beyond our provisioning, our business, results of operations and financial position may be materially and adversely affected."

Trade and other payables

Our trade and other payables primarily consist of trade payables to third parties, taxes payable, fees pre-paid by employees and notes payable. The following table sets out a breakdown of our trade and other payables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
		(RMB'000)	
Trade payables – third parties	42,157	51,009	59,525
Taxes payable	27,300	31,317	46,824
Notes payable	–	12,241	1,500
Advances from customers	8,627	6,706	9,004
Salaries and bonuses payable	465	668	960
Interests payable	135	72	75
Advances from employees for sundry expenses	14,460	13,197	7,568
Loans from employees	7,485	6,976	–
Sales commission payable	3,204	3,784	5,146
Others	11,394	13,053	20,809
Total	**115,227**	**139,023**	**151,411**

Our trade payables increased significantly during the Track Record Period mainly because we obtained credit period more favourable to us from our suppliers based on our long-term cooperative relationships with them. Our advances from customers decreased significantly during the Track Record Period mainly due to that such advances from our customers mainly came from our nuclear-related product business with decreasing revenue during the Track Record Period.

The following table sets out an analysis of our trade payables based on invoice date as at the dates indicated.

	As at 31 December		
Group	2015	2016	2017
	(RMB'000)	(RMB'000)	(RMB'000)
With 1 year	39,474	46,055	56,051
1 year to 2 years	1,287	3,082	978
2 years to 3 years	674	763	1,010
Over 3 years	722	1,109	1,486
	42,157	51,009	59,525

The following table sets out the average turnover days of our trade and notes payables for the years indicated:

	For the year ended 31 December		
	2015	2016	2017
Average turnover days of our trade and notes payables[1]	88	106	105

Note:

(1) Average turnover days of our trade and notes payables equal to the average of the opening and closing balances of trade and notes payables to third parties for the relevant financial year divided by 1.17 times of cost of sales (the 1.17 here to address value-added tax at the rate of 17% in the PRC, which has been included in trade and notes payables but not in cost of sales) for the relevant financial year and multiplied by 365 days.

Our average turnover days of trade and notes payables increased from 88 days in 2015 to 106 days in 2016, and remained stable at 105 days in 2017, mainly because of our financial management in view of our extended trade receivables turnover days.

As at 28 February 2018, 47.8% of our trade payables as at 31 December 2017 had been settled.

Warranties provision

We provide warranties for our products sold. Within the warranty period that is usually one or two years, customers are entitled to free repairs and maintenance services for the products sold. We make provision for warranty claims based on historical experience and actual costs incurred in the past. All of our warranties are recognised as current liabilities. The following table sets out our warranty provisions as at the dates indicated:

	As at 31 December		
Group	2015	2016	2017
	(RMB'000)	(RMB'000)	(RMB'000)
Current	3,469	4,184	8,398

Provisions for other liabilities and charges

The following table sets out a breakdown of our provisions for other liabilities and charges as at the dates indicated:

	As at 31 December		
	2015	2016	2017
		(RMB'000)	
Non-current	83,043	24,655	17,523
Current	11,927	60,297	68,587
Total	**94,970**	**84,952**	**86,110**

Our provisions for other liabilities and charges at the beginning of 2015 was RMB59.4 million. We made additional provisions of RMB35.8 million during 2015. Both amounts represent provisions for certain legal claims brought against the Company as the guarantor for the overdue bank loans granted to two third-party companies. During the period from 2012 to 2014, the Company provided financial guarantees in favour of the bank borrowings granted to these two companies. The repayments of the principals and/or interests of the bank borrowings were in default in 2014 and 2015, and therefore, the Company was held liable for the performance of loan contracts as the guarantor. Based on certain court judgements and the terms of guarantee contracts, the Company made provisions against the legal claims in 2014 and 2015. The last legal claim was judged by the court in 2017, and the Company made an additional provision of RMB2.6 million accordingly. . Payments will be made during the period from 2015 to 2019. The carrying amount represents the discounted balance after considering the anticipated payment dates and the discount rate ranging from 2.30% to 3.26% during the period.

We made no provisions for other liabilities and charges during 2016, and made provisions of RMB12.5 million during 2017, which mainly represents provisions for two legal claims brought against us by an ex-shareholder for unpaid dividend, and by a company for a purchase transaction in dispute, respectively. For further details, see "Business – Legal Compliance and Risk Management – Legal proceedings".

INDEBTEDNESS

Borrowings

Our borrowings were short-term bank borrowings primarily for our working capital purposes. Our borrowings as at 31 December 2015, 2016, 2017 and 30 April 2018, for the purpose of calculating indebtedness, were as follows:

	As at 31 December			As at 30 April
	2015	**2016**	**2017**	**2018**
		(RMB'000)		**(Unaudited)**
Secured and guaranteed	19,000	60,100	44,900	44,900
Secured	25,900	–	–	14,800
Pledged	9,500	–	–	–
Guaranteed	31,000	18,000	15,000	15,000
Total borrowings	**85,400**	**78,100**	**59,900**	**74,700**

As at 31 December 2015, 31 December 2016 and 31 December 2017, the weighted average effective interest rates on borrowings from banks were 5.25%, 4.79% and 4.57%, respectively.

The carrying amounts of our borrowings from banks were denominated in RMB, repayable within one year, and approximated their fair values as at the respective balance sheet dates.

As at 30 April 2018, also being the latest practicable date for the purpose of indebtedness statement in this prospectus, our bank loans amounted to RMB74.7 million. The bank loans were primarily used for our general working capital purposes. We plan to service our indebtedness primarily using expected cash generated from operations. As at 30 April 2018, we did not have any significant unutilised banking facilities. Our Directors confirm that we had not had any material default with regard to any bank loans and other borrowings, and had not breached any financial covenants in our bank loans during the Track Record Period and up to the Latest Practicable Date. We also did not experience any difficulty in obtaining credit facilities, withdrawal of facilities, default in payment of bank borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

Except as disclosed above, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptance or acceptance credits or any guarantees outstanding as at 30 April 2018. There are no material covenants relating to our outstanding debt that would prevent us from raising additional bank or other external financing. Our Directors also confirm that there has not been any material change to our indebtedness since 30 April 2018 and that we do not foresee or expect any difficulties in meeting our future financial obligations. We did make provisions for payment obligations under certain enforced historical financial guarantees, for details of which see "– Certain Items of Consolidated Statements of Financial Position – Provisions for other liabilities and charges".

Contingent liabilities

As at 30 April 2018, we had no material contingent liabilities. The Company has made sufficient provision for law claims in respect of guarantee provided to the third parties and law disputes with individuals and the third-party companies. Saved as disclosed, we are not involved in any current material legal proceedings and nor are we aware of any pending or potential material legal proceedings that involve the Group. If we were involved in such material legal proceedings, we would record any loss contingencies when, based on information then available, it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Our Directors confirm that there have not been any material change in the contingent liabilities of the Group since 30 April 2018.

CAPITAL EXPENDITURES

Historical capital expenditures

The following table sets out our historical capital expenditures during the years indicated:

	Year ended 31 December		
	2015	**2016**	**2017**
		(RMB'000)	
Plant	232	–	537
Machinery	2,708	2,610	7,320
Vehicles	1,015	–	1,232
Furniture, fittings and equipment	95	113	477
Construction in progress	1,741	3,651	3,594
Total	**5,791**	**6,374**	**13,160**

The capital expenditures incurred in 2015, 2016 and 2017 represented addition of plant, machinery, vehicles and construction of new production plants at our Batou production site. We financed our capital expenditures primarily through our cash generated from our operating activities and bank loans.

Planned capital expenditures

As part of our future development strategies, we currently expect to incur approximately RMB462 million in capital expenditures through the year ending 31 December 2019.

The following table sets out a summary of our planned capital expenditures for the years indicated:

	Year ended 31 December	
	2018	2019
	(RMB'000)	
Intelligent gas flowmeter product modification and upgrade project	159,821	195,337
Construction project of Internet-of-Things gas measurement, transmission and distribution management platform	43,129	–
Flowmeter testing and inspection laboratory project	14,121	87,753
Total	**217,071**	**283,090**

We anticipate that our planned capital expenditures will be financed by proceeds from the Global Offering. The estimated amounts of expenditures set out above may vary from the actual amounts of expenditures for a variety of reasons, including changes in market conditions, competition and other factors. Our planned capital expenditures for 2018 and 2019 include all planned capital expenditures for the projects that we intend to carry out using the proceeds from the Global Offering, while we plan to use the remainder of the proceeds for non-capitalised expenditures of these projects and working capital.

Our current plan with respect to future capital expenditures is subject to change based on the evolution of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding in the future is subject to a variety of uncertainties including our future results of operations, economic, political and other conditions in the PRC and elsewhere, government policies relating to our industry and relevant rules and regulations in the PRC and elsewhere. Other than as required by laws and relevant rules and regulations, we do not undertake any obligation to publish updates of our capital expenditure plans. Please also refer to the section headed "Forward-Looking Statements" in this prospectus.

CONTRACTUAL COMMITMENTS

Capital commitments

Our capital commitments as at the respectively balanced sheet dates during the relevant periods were as follows:

	As at 31 December		
	2015	2016	2017
		(RMB'000)	
Contracted but not provided for: Property, plant and equipment	3,124	224	–

Our capital commitments as at 31 December 2015 were primarily related to the construction in progress and the purchase of equipment for our Batou production site. Our capital commitments as at 31 December 2016 were primarily related to the purchase of equipment.

Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases were as follows:

	As at 31 December		
	2015	2016	2017
		(RMB'000)	
No later than 1 year	430	576	615
Later than 1 year and no later than 2 years	430	576	615
Later than 2 years and no later than 5 years	1,113	1,513	1,001
Later than 5 years	216	–	–
Total	**2,189**	**2,665**	**2,231**

Our commitments under operating lease mainly relates with the renting of offices by our subsidiaries.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we entered into certain related party transactions. In the opinion of the Directors, each of the significant related party transactions set out in note 35 of the Accountant's Report in this prospectus were carried out in the normal course of business, at terms negotiated between the Group and the respective related parties and were conducted on an arm's length basis. The directors also consider that our related party transactions during the Track Record Period would not retort our track record results or make the historical results not reflective of our future performance. These transactions mainly include: (i) paying sales commission to Shandong Dongxing Instrument Limited Company (山東東星儀錶有限公司) controlled by a director of the

Company. As the Company reorganised our sales network, such transaction was ceased since 30 June 2017; (ii) paying interests to a director of the Company in respect of our borrowings from such Director, the Company has paid the interests and the principal of the borrowings in full before 31 December 2017; and (iii) paying short-term employee benefits to our key managements of the Company. In addition, certain Directors and their respective spouse provided guarantee for the Company's borrowing as required by relevant banks. All of such borrowings have been repaid as at 31 December 2017.

FINANCIAL RATIO

The following table sets forth certain financial ratios as at the dates or for the years indicated.

	As at or for the year ended 31 December		
	2015	**2016**	**2017**
Gearing ratio(1)	0.27	0.19	0.10
Current ratio(2)	2.20	1.98	2.46
Quick ratio(3)	1.82	1.74	2.23
Return on equity(4) (%)	11.7	29.4	40.0
Return on total assets(5) (%)	5.8	16.2	25.2
Net debt to equity ratio(6)	-0.07	-0.20	-0.18
Interest coverage(7)	6.4	19.4	49.4

Notes:

(1) calculated by dividing total debts, i.e. our borrowings (all of which are short-term bank borrowings) by total equity as at the end of respective year.

(2) calculated by dividing our current assets by our current liabilities as at the end of the respective year.

(3) calculated by dividing our current assets minus inventories by our current liabilities as at the end of the respective year.

(4) equals our net profit for each of the year divided by the closing balance of our total equity as at the end of the respective year, multiplied by 100%.

(5) equals our net profit for the year divided by the closing balance of our total assets as at the end of the respective year, multiplied by 100%.

(6) calculated by dividing our net debt, being our total borrowings (all of which are short-term bank borrowings) net of cash and cash equivalents and restricted cash by total equity as at the respective year end date.

(7) equals our profit before finance interest expenses and tax for each of the year divided by our finance expenses.

Our gearing ratio reduced significantly as at 31 December 2016 and 2017, mainly due to increases in our total equity.

Our return on equity and return on total assets increased significantly as at 31 December 2016 and 2017 mainly due to increases in our net profit.

Our interest coverage increased significantly for 2016 and 2017, mainly due to increases in our profit before interest expenses and tax and decreases in our finance costs.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT FINANCIAL RISKS

The Group's activities expose it to a variety of financial risks. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Market risk

Foreign exchange risk

For our operation in Mainland China, most of our transactions are denominated and settled in RMB. Therefore, our foreign exchange risk is limited. Our exposure to foreign exchange risk is mainly on our cash and cash equivalents. The Group has not purchased forward contracts to hedge the exposure to foreign exchange risk. For the Group's operation in Europe, most of the transactions, assets and liabilities are denominated in Euro ("**EUR**"). The Group's trade and other receivables, cash and cash equivalents and trade and other payables as at 31 December 2015, 2016 and 2017 included EUR, US$ or other foreign currencies ("**Other foreign currencies**") are disclosed in notes 18, 21 and 26 of the Accountant's Report set out in Appendix I to this prospectus. As at 31 December 2015, 2016 and 2017, the Group did not have any significant foreign exchange risk from operation.

Cash flow and fair value interest rate risk

Except for cash and cash equivalents and restricted cash, the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group does not hedge its cash flow and fair value interest rate risk.

Credit risk

Credit risk arises from cash and cash equivalents, restricted cash and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash and cash equivalents, bank deposits are placed with highly reputable financial institutions.

For trade receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred have been within management's expectations.

For other receivables, management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience. Our Directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

The Company provided guarantees to third parties during Track Record Period. As disclosed in Note 30 to the Accountant's Report set forth in Appendix I to this prospectus, provisions have been made in respect of certain legal claims against the Company as the guarantor due to the defaults in payment from the third parties. In view of this, the Board of the Company has resolved that the Company will not provide any guarantees in favour of any parties, other than its subsidiaries.

Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by our finance department. Our finance department monitors rolling forecasts of our liquidity requirements to ensure that we have sufficient cash to meet operational needs. Such forecasting takes into consideration our debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company had reserves of approximately RMB171.9 million available for distribution to our Shareholders, being retained earnings.

DIVIDEND POLICY

In 2015, 2016 and 2017, we paid dividends of RMB28.5 million, RMB29.1 million and RMB36.3 million, respectively, to our then equity holders.

After the Global Offering, we intend to declare and pay dividends every year. The declaration, payment and the amount of dividends will be subject to our discretion and will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute dividends in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis as set out on page II-1 to II-2, for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 as if the Global Offering had taken place on that date.

This unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group had the Global Offering been completed as at 31 December 2017 or at any future date.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 31 December 2017	Unaudited pro forma adjusted net tangible assets per Share	
	Note 1	Note 2		Note 3	Note 4
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$37.1 per H Share	591,901	475,634	1,067,535	15.43	18.85
Based on an Offer Price of HK$51.9 per H Share	591,901	677,792	1,269,693	18.35	22.43

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at 31 December 2017 of RMB592,321,000, with adjustment for intangible assets as at 31 December 2017 of RMB420,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$37.1 and HK$51.9 per H Share after deduction of the estimated underwriting fees and other related expenses (excluding listing expenses of approximately RMB3,174,000 which have been accounted for in the consolidated statements of profit or loss prior to 31 December 2017) payable by us, and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 69,186,667 Shares were in issue assuming that the Global Offering has been completed on 31 December 2017 but takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(4) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balance stated in Renminbi are converted in to Hong Kong dollars at the rate of RMB0.81835 to HK$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) The unaudited pro forma adjusted net tangible assets does not take into account the dividends of approximately RMB41,512,000 declared and paid in May 2018. Had such dividends been taken into account, the unaudited pro forma adjusted net tangible assets per Share would be approximately RMB14.83 (equivalent to HK$18.12), assuming an Offer Price of HK$37.1 per Share, and approximately RMB17.75 (equivalent to HK$21.69), assuming an Offer Price of HK$51.9 per Share.

(6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2017.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there had been no material adverse change in our financial or trading position since 31 December 2017 and there is no event since 31 December 2017 that would materially affect the information shown in the accountant's report in Appendix I to this prospectus. For recent development relating to our financial position, see "Summary – Recent Developments".

LISTING EXPENSES

Listing expenses represent the professional expenses, underwriting commissions and other expenses incurred in respect of the Listing and the Global Offering. We estimate that our listing expenses will be approximately HK$68.9 million (assuming an Offer Price of HK$44.5 per H share, being the mid-point of the indicative Offer Price range, and no exercise of the Over-allotment Option), of which approximately HK$63.0 million is attributable to the issue of H Shares to the public and will be capitalised, approximately HK$3.7 million was recognised in our consolidated statements of profit and loss during the Track Record Period, and approximately HK$2.2 million is expected to be expensed in our consolidated statements of profit and loss. Our Directors do not expect such expenses to materially impact our results of operations for 2018.

FUTURE PLANS

See "Business – Our Strategies" for detailed description of our future plans.

USE OF PROCEEDS

We currently estimate that our Offer Price will not be more than HK$51.9 per Offer Share and not less than HK$37.1 per Offer Share. Assuming an Offer Price of HK$44.5 per Offer Share, which represents the mid-point of the indicative Offer Price range, and assuming that the Over-allotment Option is not exercised, we estimate that the proceeds receivable by the Company from the Global Offering, after deducting underwriting fees and commissions and other estimated expenses paid and payable by the Company will be approximately HK$704.7 million.

We intend to use such net proceeds for the following purposes:

- approximately HK$387.6 million, or approximately 55% of our net proceeds, for the intelligent gas flowmeter modification and upgrade project, which mainly adopt flow measurement, new sensors, new automatic instruments and meters, electronic and information technology, advanced industrial robot, automated production line and other relevant technologies or processes. Among them, the flow measurement technology used in this project include velocity and positive displacement flow measurement technology. Velocity flow measurement technology refers to the technique of directly measuring the flow speed of mediums and converting it into flow, which is mainly applied to turbine flowmeter. With respect to positive displacement flow measurement technology which is mainly applied to rotary flowmeter, the flow is measured by using a small standard volume to continuously measure the volume of a fluid. The key parts of these two kinds of flowmeters require higher processing precision. Through technological improvement, the metering performance such as turndown ratio and precision of flowmeters can be improved. In addition, the project introduces internationally leading equipments such as gas flow detection instrument, five-axis turn milling machine centre, drilling and milling machine centre, turning machine centre, and purchases domestically manufactured equipment such as horizontal machine centre, drilling and milling machine centre, automatic manipulator for machine centre, CNC lathe, automatic assembly line, full-automatic packaging assembly line, including equipment purchase funds of approximately HK$342.0 million (including: foreign currency project funds of approximately HK$88.2 million) and start-up working capital of approximately HK$45.6 million.

  Intelligent gas flowmeter is integrated with the fault self-diagnosis function, the historical data storage function, the event logging function, the anti-gas-stealing function, the IC card-based prepayment function and the internal wireless function, while ordinary mechanical flowmeter is not integrated with the functions above, and can only measure the gas volume.

For illustration purposes only, the following table sets out the designed production capacity, actual production volume, and the utilisation rate of the major production equipments for the project in the year indicated:

	2015	2016	2017	2018 (if not upgraded)	2018 (if upgraded)	2019 (if not upgraded)	2019 (if upgraded)	2020	2021 (Investment Payback Period)
Industrial and commercial flowmeter products									
Designed production capacity (pieces)	48,000	48,000	48,000	54,000	76,000	54,000	129,000	129,000	129,000
Actual production volume (pieces)	38,314	45,743	47,042	61,155	61,155	79,501	79,501	95,401	114,481
Utilisation rate (%)	79.8(1)	95.3(1)	98.0(1)	113.3(2)	80.5(3)	147.2(2)	61.6(3)	74.0(3)	88.7(3)
Residential flowmeter products									
Designed production capacity (pieces)	300,000	300,000	300,000	300,000	400,000	300,000	600,000	700,000	800,000
Actual production volume (pieces)	227,655	202,514	268,732	330,000	330,000	440,000	440,000	520,000	650,000
Utilisation rate (%)	75.9(4)	67.5(5)	89.6(6)	110.0(6)	82.5(6)	146.7(6)	73.0(7)	74.0(7)	81.0(7)

Notes:

(1) The calculation basis of utilisation rate of industrial and commercial flowmeter products in 2015, 2016 and 2017 is as follows: CNC lathes (two shifts per day), vertical machine centres (two shifts per day) and other major instruments (three shifts per day).

(2) The calculation basis of utilisation rate of industrial and commercial flowmeter products in 2018 (if not upgraded) and 2019 (if not upgraded) is as follows: CNC lathes (two shifts per day), vertical machine centres (three shifts per day) and other major instruments (three shifts per day).

(3) The calculation basis of utilisation rate of industrial and commercial flowmeter products in 2018 (if upgraded) and 2019 (if upgraded), 2020 and 2021 is as follows: CNC lathes (one shift per day), vertical machine centres (one shift per day) and other major instruments (one shift per day).

(4) The calculation basis of utilisation rate of residential flowmeter products in 2015 is as follows: smart meter workshop (two shifts per day) and calibration workshop (two shifts per day).

(5) The calculation basis of utilisation rate of residential flowmeter products in 2016 is as follows: smart meter workshop (two shifts per day).

(6) The calculation basis of utilisation rate of residential flowmeter products in 2017, 2018 (if not upgraded), 2018 (if upgraded) and 2019 (if not graded) is as follows: smart meter workshop (two shifts per day), calibration workshop (two shifts per day) and base table workshop (two shifts per day).

(7) The calculation basis of utilisation rate of industrial and commercial flowmeter products in 2019 (if upgraded), 2020 and 2021 is as follows: smart meter workshop (one shift per day), calibration workshop (one shift per day) and base table workshop (one shift per day).

(8) Taking into consideration the long term operation and benefit of the project, our Directors consider that the optimal utilisation rate of the equipments of the intelligent gas flowmeter modification and upgrade project remain around 70% to 80% based on one shift per day.

The production capacity of the Group will be enhanced by this project after completion, which is expected to increase the annual production capacities of commercial gas flowmeter, residential gas meter, throttling device and gas regulator box by 75,000 units, 500,000 units, 2,000 sets and 4,000 sets, respectively. Such products are featured by intelligence, high precision, high reliability, wide range, corrosion resistance and explosion-proof protection.

In the cost and benefit analysis conducted, the future revenue as a result of the enhancement plan ("**Enhancement Plan Revenue**") is estimated with reference to the forecast growth rate of the Group and the average growth rate for the industrial and commercial flowmeter market and the residential flowmeter market in terms of sales revenue according to Frost & Sullivan; for details, please refer to the section headed "Industry Overview – Analysis of Natural Gas Flowmeter Market in China – Market Size of Natural Gas Flowmeter Market in China". Based on the unaudited management accounts prepared by our management, our revenue has increased by 7.2% for the first four months in 2018, compared with the same period in 2017. The future cost as a result of the enhancement plan mainly consists of depreciation cost and staff cost, sum of which should account for approximately 5% of the enlarged total cost each year from 2018 onwards, and in particular, depreciation cost is estimated assuming capital expenditure in relation to enhancement plan will depreciate over a period of 20 years, and staff cost is estimated assuming fixed number of employees and fixed salary per person. Based on the above parameters, the estimated breakeven period and the estimated investment payback period for the enhancement plan are expected to occur within the next one to three years.

In addition, the Company has a leading position ranking the second in the industrial and commercial flowmeter industry in the PRC, in which the top two players accounted for nearly 75% of the market share as at 31 December 2017; and revenue derived from the relevant products and service accounted for nearly 90% of the Group's total revenue as at 31 December 2017. Moreover, the PRC government stepped up its "coal-to-gas" efforts to use natural gas to substitute coal as fuel for industrial, commercial and residential use. In particular, in February 2017, certain PRC ministries and provincial governments jointly issued the Notice on the 2017 Working Plan on Air Pollution Prevention and Treatment in Beijing, Tianjin and Adjacent Areas, on which our sales and service network typically focuses. During the Track Record Period, the Group's revenue in North and East China, which are the region closely subject to the above mentioned policies already demonstrated significant growth; for details, please refer to the section headed "Financial Information – Principal Income Statement Component – Revenue".

Therefore, our Directors are of the view that even based on an Enhancement Plan Revenue estimation in line with the market average growth rate, the estimated breakeven period and the estimated investment payback period can be expected in the near future; furthermore, given the market leading position of the Group and the high entry barriers of the industrial and commercial flowmeter market, it is possible that the Group will significantly benefit from the macro-environment and government policies. Hence, our Directors are of the view that they have reasonable bases to believe the future demand should be sufficient to support the Group's enhancement plan.

- approximately HK$140.9 million, or approximately 20% of our net proceeds, for the construction project of Internet-of-Things gas measurement and transmission and distribution management platform (蒼南儀表物聯網燃氣計量及輸配管理平臺). This project mainly consists of three parts, covering investment in software and hardware for private cloud platform, research and development expenses for Internet-of-Things terminal devices, research and development expenses for sub-system software, and the expenses required for each is approximately HK$27.3 million, HK$57.7 million and HK$55.9 million, respectively.

  The Internet-of-Things gas measurement and transmission and distribution management platform of Cangnan Instrument is a comprehensive management platform that is based on cloud servers and integrates software and hardware. This platform will provide gas companies with one-stop service covering remote meter reading, air charging, wireless valve control, online price adjustment, online payment, service, safety inspection, on-site inspection and equipment management and control, making itself an important management platform for the information-based, Internet-based, intelligent, meticulous and efficient management of gas companies.

  Faced with the rapid development of China's natural gas industry and fierce competition in the industry, the Group further strengthened the R&D of its products. Internet-of-Things gas measurement, transmission and distribution management platform, as auxiliary facilities for production, do not produce new products by itself. Upon its operation, it serves the upgrading of the Group's existing products mainly via technological innovation and enhancement of functions. Users will be provided with various new products (including the intelligent data acquisition instruments with GPRS/CDMA, Narrow Band Internet of Things or long-range functions, wireless volume corrector, wireless remote IC card gas flowmeter volume corrector, household wireless remote Internet-of-Things meter, household wireless remote IC card Internet-of-Things meter, etc.) to keep up with the development trend of the industry to meet the market demand. The investment in this project will consolidate the technical advantages and enhance the product competitiveness and maintain competitive edges in the industry of the Company in the gas flowmeter market in China, which in turn will contribute to the enhancement of the operational and financial performance of the Group.

  After the Internet-of-Things gas measurement and transmission and distribution management platform is put into operation, the Group plans to charge users for platform access, and then charge a certain amount of platform usage fee each year. The benefits of this project are reflected in the revenue generated by the overall performance improvement of the Group's production products. Therefore, the revenue of Dongxing Software, the Company's subsidiary in charge of this project, will be taken as the proxy in calculating the estimated investment payback and estimated breakeven period of this project. The Group's costs for the project mainly include expenses in relation to R&D investment in the early stage, expenditure for cloud platform construction, training and communication. Among them, the project's estimated R&D investment in 2018, 2019, and 2020 is approximately HKD6.7 million, HKD80.2 million, and HKD26.7 million, respectively, representing an increase of 16%, 194% and 64%, compared with the original R&D investment prior to the project;

- approximately HK$105.7 million, or approximately 15% of our net proceeds, for the flowmeter testing and inspection laboratory project which targets EN12261 and other European standard requirements, covering calibration of high-pressure actual flow for velocity flowmeters such as turbine flowmeter for trade measure and ultrasonic flowmeter, including approximately HK$45.3 million for loop circulation device, HK$15.0 million for flow transmission standard and relevant testing device, HK$30.3 million for pressure, temperature and flow regulation devices, HK$7.5 million for in-process gas cooling and dehydrating devices, and HK$7.6 million for other investments; and

- approximately HK$70.5 million, or approximately 10% of our net proceeds, to be used for working capital related to our principal businesses and other general corporate purposes.

In respect of the above intelligent gas flowmeter modification and upgrade project and construction project of Internet-of-Things gas measurement and transmission and distribution management platform, the Company will endeavour to accomplish the plans below within the period from the Listing of the Company to about the year of 2021. However, given that the projects progress may be affected by various uncertainties and unforeseeable factors, especially the risk factors set out in the section headed "Risk Factors" in this prospectus, there can be no assurance that the Company will accomplish the business plans as per the estimated time schedule, or as to whether its future plans can be accomplished at all.

Use of Proceeds	**Estimated Time Period**	**Estimated Amount of Expenditure**	**Estimated Breakeven Period**	**Estimated Investment Payback Period**
Intelligent gas flowmeter modification and upgrade project	November 2018-January 2019	HK$171 million	September 2019-December 2019	September 2019-August 2021
	February 2019-April 2019	HK$171 million		
	May 2019-August 2019	HK$45.6 million		
Construction project of Internet-of-Things gas measurement, transmission and distribution management platform	September 2018-November 2018	HK$41.5 million	July 2020-December 2020	July 2020-October 2021
	December 2018-June 2019	HK$33.1 million		
	July 2019-June 2020	HK$66.3 million		

Notes:

(1) "Breakeven period" refers to the point at which the monthly revenue to be generated from the relevant project after its commencement of operation is at least equal to its monthly expenses.

(2) "Investment Payback period" refers to the amount of time it takes for the accumulated net profit from the relevant project to cover the costs of launching such project up to that point (including incurred capital expenditures and ongoing cash and non-cash operating expenses).

According to aforesaid estimated timetable of the intelligent gas flowmeter modification and upgrade project, for the first stage, the Group will purchase imported equipments such as 5 sets of gas flow detection instruments, 8 five-axis turn milling machine centres, 10 drilling and milling machine centres, 8 turning machine centres, and domestically manufactured equipments such as 7 CNC gear hobbing machines, 12 horizontal machine centres, 12 vertical machine centres, 20 automatic manipulator for machine centres, 32 CNC lathes, 5 automatic assembly lines, 5 full-automatic packaging assembly lines to meet production needs. The types and quantities of major equipments purchased in the second stage are the same as those in the first stage. The Company currently doesn't expect to purchase any major equipment during the third stage of the project.

In respect of the costs in relation to intelligent gas flowmeter modification and upgrade project, it mainly consists of the above-mentioned capital investment during the period of project construction and the depreciation of fixed assets, new staff expenses and other costs. Among them, the depreciation of fixed assets in this project was estimated to be approximately RMB8.00 million in 2018, and this cost is estimated to be approximately RMB17.76 million per year from 2019 to 2021. In addition, staff expenses for the project are expected to increase by RMB3.75 million annually after its commencement of operation. With regard to the revenues and benefits of intelligent gas flowmeter modification and upgrade project, this project is expected to put into production and generate revenues in 2019, and reach a breakeven point within the same year, it is expected that the additional sales revenue attributable to this project can reach approximately RMB88.5 million, RMB99.2 million, and RMB111.1 million in 2019, 2020 and 2021, respectively. Accordingly, after around two years of operation, this project will recover all relevant investment costs in 2021. Thus, taking into account the analysis of the above-mentioned project costs and revenues and the continuous growth trend of the national market demand for gas-meter equipment during the next three to five years, the Company believes that the intelligent gas flowmeter modification and upgrade project is necessary for the Group's business operation and future development.

For risks relating to our use of proceeds, see "Risk Factors – Risks Relating to Our Business and Industry – We are exposed to risks relating to our planned use of proceeds from the Global Offering."

The applications of the net proceeds as stated above are only current estimates and are subject to changes based on prevailing economic, market and business conditions. The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated Offer Price range or the Over-allotment Option is exercised.

In the event that the Offer Price is set at the high end of the proposed Offer Price range, we estimate that the Company will receive net proceeds of approximately HK$828.2 million, after deducting underwriting fees and commission and other estimated expenses paid and payable by the Company in connection with the Global Offering (assuming the Over-allotment Option is not exercised).

In the event that the Offer Price is set at the low end of the proposed Offer Price range, we estimate that the Company will receive net proceeds of approximately HK$581.2 million, after deducting underwriting fees and commission and other estimated expenses paid and payable by the Company in connection with the Global Offering (assuming the Over-allotment Option is not exercised).

If the Over-allotment Option is exercised in full, the net proceeds of the Global Offering will increase to approximately HK$816.1 million, assuming the Offer Price is set at the mid-point of the indicative Offer Price range. If the Offer Price is set at the high end of the indicative Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase to approximately HK$958.2 million. If the Offer Price is set at the low end of the indicative Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will decrease to approximately HK$674.1 million. We intend to apply the net proceeds from the exercise of the Over-allotment Option to the above purposes on a pro rata basis.

To the extent that the above net proceeds of the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds in interest-bearing accounts with licensed commercial banks or financial institutions in the PRC or Hong Kong. We expect to utilise net proceeds receivable by the Company from the Global Offering to finance the above purposes. However, to the extent that such net proceeds are unable to fully finance the above purposes, we will use our internal working capital.

In the event that the use of proceeds experiences significant changes compared to the plans stated above, an announcement will be released in Hong Kong.

INDUSTRY REGULATION

Relating to measuring instrument

Pursuant to the Metrology Law of the People's Republic of China (《中華人民共和國計量法》) released by the Standing Committee of the National People's Congress on 6 September 1985 with effect from 1 July 1986, which was newly amended on 27 December 2017 and came into force on 28 December 2017, and the Rules for the Implementation of the Metrology Law of the People's Republic of China (《中華人民共和國計量法實施細則》) which was newly amended by the State Council and came into force on 1 March 2017, the enterprises which are engaged in the manufacturing and repairing of measurement instruments should be equipped with the facilities, staff and examination and determination equipment aligned with the measurement instruments manufactured and repaired and obtain the License for Manufacturing Measurement Instruments or License for Repairing Measurement Instruments after passing the examination by the administrative department for measurement at the county-level people's government or above. The product design of a new measurement instrument, which has never been produced in the country, must be appraised before it can be manufactured. When the product design has been finalised, it is necessary to go through formalities of model approval and obtain the relevant certificate. New products whose designs have been finalised in the country but have never been produced by the producer must be tested and their prototypes be made. A certificate of quality shall be issued after the test of prototype is passed. Those measurement instruments which have not obtained model approval or certificates of quality of their prototypes shall not be allowed to be produced.

Pursuant to the Measures for the Examination of Standards of Measurement (《計量標準考核辦法》) released by the State Metrological Bureau with effect from 10 July 1987, which was amended and released by the AQSIQ on 14 January 2005 and came into force on 1 July 2005, the examination of standards of measurement shall refer to the assessment on the measuring capability of standards of measurement and the confirmation of qualifications for dissemination of the values of quantities, as made by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China and local quality and technology supervision departments at all levels. The examination of standards of measurement shall include the examination of the newly established standards of measurement and the re-examination of standards of measurement.

Pursuant to the Provisions Concerning Implementation of Verification on the Work Measuring Instruments Subject to Compulsory Verification (Trial Implementation) (《強制檢定的工作計量器具實施檢定的有關規定》(試行)) released by the State Bureau of Quality and Technical Supervision (now known as the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China) and effective on 6 August 1991, any work measuring instrument listed in the Catalog of Work Measuring Instruments for Compulsory Examination of the People's Republic of China and directly used in trade settlement, security protection, health care and environmental supervision and those relating to the above fields and used for the supervision of law enforcement must implement compulsory examination. The gas meter, water meter and energy meter in life used directly by the gas supply, water supply and electricity supply departments for settlement can only be conducted compulsory examination for the first time when using, used in a limited period and replaced upon expiration.

Relating to industrial products

Pursuant to the Regulation of the People's Republic of China on the Administration of Production Licence for Industrial Products (《中華人民共和國工業產品生產許可證管理條例》) released by the State Council on 9 July 2005 with effect from 1 September 2005, the state shall implement the system of production licence for the enterprises undertaking the production of important industrial products such as gas-fired water heater and other products subject to the administration of production licence as required by laws and administrative regulations in accordance with the provisions of the Regulation. No enterprise that fails to obtain the production licence shall produce any of the products listed in the Catalog of Industrial Products subject to the system of production licence. No entity or individual may sell or use any product listed in the Catalog in the business activities without obtaining production licence.

Pursuant to the General Rules for the Implementation of Industrial Products Production Licence (《工業產品生產許可證實施通則》) and the Detailed Rules for the Implementation of Production Licence for Sixty Industrial Products released by the AQSIQ on 30 September 2016 and effective on 30 October 2016, an enterprise shall meet the following conditions for obtaining a production licence: (1) having the business licence necessary for the production activities in which they intend to engage; (2) having professional technicians qualified for the products it produces; (3) having production conditions and means of inspection that are suitable for the products it produces; (4) having technical documents and technique documents matching the products it produces; (5) having sound and effective quality control system and responsibility system; (6) the product complying with the relevant national standards, industrial standards and requirements for ensuring personal health and personal and property safety and the provisions of state industrial policy, and (7) having no such conditions as backward technique, high energy cost, polluting of environment, or waste of resources, etc. as washed out by public proclamation of the state and prohibited from being invested and constructed.

Relating to special equipment

Pursuant to the Special Equipment Safety Law of the People's Republic of China (《中華人民共和國特種設備安全法》) released by the Standing Committee of the National People's Congress on 29 June 2013 with effect from 1 January 2014, the state should apply a licensing system to the production of special equipment under the principle of categorised supervision and administration. The state conducts categorised and full-course safety supervision and administration of the production, trading, and use of special equipment. Special equipment producers, traders or users, as well as the primary persons in charge thereof, shall be responsible for the safety of special equipment produced, marketed or used by them. Special equipment producers, traders and users shall have special equipment safety management personnel, testing personnel and operating personnel according to the relevant state provisions, and provide necessary safety education and skill training for them. A special equipment producer shall meet the following conditions and be licensed by the department responsible for special equipment safety supervision and administration before production: (1) having professional technical personnel required by its production; (2) having equipment, facilities and work places required by its production; and (3) having sound quality assurance, safety management and job responsibility rules.

Relating to radio equipment

Pursuant to the Radio Regulation of the People's Republic of China (《中華人民共和國無線電管理條例》) released by the State Council and the Central Military Commission on 11 September 1993 and effective on the same day, which was subsequently amended and released on 11 November 2016 and came into force on 1 December 2016, it should be applied to the radio regulatory authority of the state for the type approval before production or import of radio transmission equipment which will be sold and used in China, except for micro power short-distance radio transmission equipment. The Type Approval List for radio transmission equipment was published by the radio regulatory authority of the state. The conditions that must be satisfied to obtain the type approval for radio transmission equipment include: the applicant should have the corresponding production capability, technical forces and quality assurance system; the technical specifications of radio transmission equipment, such as working frequency and power should meet the national standards and the relevant provisions on radio regulation of the state.

Relating to radiation safety

Pursuant to the Law of the People's Republic of China on Prevention and Control of Radioactive Pollution (《中華人民共和國放射性污染防治法》) released by the Standing Committee of the National People's Congress on 28 June 2003 with effect from 1 October 2003, an entity producing, selling or using radioisotope and ray devices shall, in accordance with the relevant provisions of the State Council on prevention of radioactivity from the radioisotope and ray devices, apply to obtain a permit, and make registration accordingly. An entity producing, selling, using or storing radioactive sources shall set up a sound and safe security system, designate special persons to be responsible for the system, ensure the implementation of the system of liability for safety, and formulate the necessary measures for addressing emergencies in accidents. In case of an accident that the radioactive sources are lost or stolen or a radioactive pollution accident, the relevant entity and individual must immediately take emergency measures, and make a report to the public security department, the administrative department of health and the administrative department of environmental protection.

ENVIRONMENTAL PROTECTION

The Chinese government has formulated and implemented various laws and regulations on environmental protection, which mainly consist of the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》), the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》), the Law on Prevention and Control of Pollution From Environmental Noise of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》), the Law on the Prevention and Control of Environment Pollution Caused by Solid Wastes of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》) and so on.

Pursuant to the Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》) released by the Standing Committee of the National People's Congress on 26 December 1989 with effect on the same day, which was subsequently amended and released on 24 April 2014 and came into force on 1 January 2015, an entity must adopt measures to prevent and control pollution and harm caused to the environment by waste gas, wastewater, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, ray radiation and electromagnetic radiation generated in the course of production, construction or other activities.

Pursuant to the Atmospheric Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國大氣污染防治法》) released by the Standing Committee of the National People's Congress on 5 September 1987 with effect from 1 June 1988, which was newly amended and released on 29 August 2015 and came into force on 1 January 2016, enterprises shall take effective measures to prevent or reduce atmospheric pollution and shall assume legal responsibility for the damage they have caused.

Pursuant to the Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》) released by the Standing Committee of the National People's Congress on 11 May 1984 with effect from 1 November 1984, which was newly amended and released on 27 June 2017 and came into force on 1 January 2018, the discharge of water pollutants shall be within the state or local standards for the discharge of water pollutants and indicators for the total discharge control of major water pollutants.

Pursuant to the Law on Prevention and Control of Pollution From Environmental Noise of the People's Republic of China (《中華人民共和國環境噪聲污染防治法》) released by the Standing Committee of the National People's Congress on 29 October 1996 with effect from 1 March 1997, entities that produce environmental noise pollution shall take measures to control it and pay fees for excessive emission of such pollution according to the regulations of the state.

Pursuant to the Law on the Prevention and Control of Environment Pollution Caused by Solid Wastes of the People's Republic of China (《中華人民共和國固體廢物污染環境防治法》) released by the Standing Committee of the National People's Congress on 30 October 1995 with effect from 1 April 1996, which was newly amended and released and came into force on 7 November 2016, enterprises that discharge solid wastes shall adopt measures to prevent or reduce the environmental pollution by solid wastes.

LABOUR, SOCIAL INSURANCE AND HOUSING ACCUMULATION FUNDS

Labour contract

Pursuant to the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) released by the Standing Committee of the National People's Congress on 29 June 2007 with effect from 1 January 2008, which was then amended and released on 28 December 2012 and came into force on 1 July 2013, the principle of lawfulness, fairness, equality, free will, negotiation for agreement and good faith shall be observed in the formation of a labour contract. An employer shall establish a sound system of employment rules in accordance with the laws so as to ensure that its employees enjoy the labour rights and perform the employment obligations.

Social insurance and housing accumulation funds

Pursuant to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) which was released by the Standing Committee of the National People's Congress on 28 October 2010 and came into force on 1 July 2011, an employer shall pay the social insurance premiums for its employees in accordance with the relevant provisions of the state, including basic endowment insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance.

Pursuant to the Regulation on the Administration of Housing Accumulation Funds (《住房公積金管理條例》) released by the State Council on 3 April 1999 and came into force on the same day, which was then amended and came into force on 24 March 2002, an employer shall pay the housing accumulation funds for its employees in accordance with the relevant provisions of the state.

PRODUCT QUALITY AND SAFETY PRODUCTION

Product quality

Pursuant to the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》) released by the Standing Committee of the National People's Congress on 22 February 1993 with effect from 1 September 1993, which was newly amended and effective on 27 August 2009, the law applies to all the production and sales activities of any product in the PRC. The producer and the seller shall bear the responsibilities for product quality in accordance with the provisions of this law. Victims who suffer personal injury or property losses due to product defects may claim for compensation either from the producer or the seller. Where the responsibility lies with the producer and the compensation is paid by the seller, the seller shall have the right to recover such compensation from the producer. Where the responsibility lies with the seller and the compensation is paid by the producer, the producer shall have the right to recover such compensation from the seller.

Safety production

Pursuant to the Safety Production Law of the People's Republic of China (《中華人民共和國安全生產法》) released by the Standing Committee of the National People's Congress on 29 June 2002 with effect from 1 November 2002, which was newly amended on 31 August 2014 and effective from 1 December 2014, the production and business operation entities shall be equipped with the conditions for safe production as provided in this law and other relevant laws, administrative regulations, national standards and industrial standards. Any entity that is not equipped with the conditions for safe production may not engage in production and business operation activities. The principal supervisor of a production and business entity shall assume the responsibility for the production safety of the entity, including the establishment and perfection of its production safety accountability, and the formulation of rules, regulations and operation procedures on production safety. The production and business entity shall provide funds for labour protection articles and training on production safety.

Pursuant to the Administrative Measures of the Review of Safety Production Standardisation of Enterprises (Trial Implementation) (《企業安全生產標準化評審工作管理辦法(試行)》) released by the State Administration of Work Safety and effective on 3 June 2014, an enterprise is required to establish the corporate safety production management system based on safety production standardisation by building the standardisation of safety production to maintain effective operation, timely identification and resolution of production safety issues and continuous improvement so as to continuously improve the safety level.

INTELLECTUAL PROPERTY RIGHTS

Trademark

Pursuant to the Trademark Law of the People's Republic of China (《中華人民共和國商標法》) released by the Standing Committee of the National People's Congress on 23 August 1982 with effect from 1 March 1983, which was newly amended on 30 August 2013 and came into force on 1 May 2014, and the Implementation Regulations on the Trademark Law of the People's Republic of China (《中華人民共和國商標法實施條例》) which was amended by the State Council on 29 April 2014 and became effective from 1 May 2014, any enterprise which needs to acquire the right to exclusively use a trademark on the goods or services thereof in the course of its business operation shall apply to the Trademark Office for trademark registration. The period of validity of a registered trademark shall be ten years from the day the registration is approved. Without the authorisation of the owner of the registered trademark, using a trademark that is identical with or similar to a registered trademark on the same goods or that is identical with or similar to a registered trademark on the similar goods which could possibly cause confusion, constitutes an infringement of the exclusive right of a registered trademark. The infringer shall, in accordance with the regulations, cease the infringement, take remedial action and pay damages, etc.

Patent

Pursuant to the Patent Law of the People's Republic of China (《中華人民共和國專利法》) released by the Standing Committee of the National People's Congress on 12 March 1984 with effect from 1 April 1985, which was newly amended on 27 December 2008 and came into force on 1 October 2009, after granting the patent right for an invention or utility model, except otherwise provided in the Patent Law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process for production or business purposes. And after a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, manufacture, offer to sell, sell, or import any product containing the patented design for production or business purposes. Once the infringement of patent is decided, the infringer shall, in accordance with the regulations, cease the infringement, take remedial action, and pay damages, etc.

Software copyright

Pursuant to the Measures for the Registration of Computer Software Copyright (《計算機軟件著作權登記辦法》) released by the National Copyright Administration on 20 February 2002 and effective on the same day, in order to promote the development of the software industry of China, and to improve the capacity of innovation and competitive power of the information industry of China, the national administrative authorities of copyright encourage the registration of software copyright, and give emphasised protection to the registered software. The applicant for the registration of software copyright shall be the copyright owner of the said software and the natural person, legal person or other organisation that inherits, acquires or receives the software copyright.

Domain Name

Pursuant to the Administrative Measures of Internet Domain Name (《互聯網域名管理辦法》) released by the Ministry of Industry and Information Technology on 24 August 2017 with effect from 1 November 2017, those who carry out such activities as service provision, operation and maintenance as well as supervision and administration of Internet domains within the territory of the People's Republic of China shall be subject to the said measures. The registration of a domain name shall follow the principle of "registration being granted to the first applicant", and if it is otherwise provided for in relevant detailed rules for the implementation of domain name registration, such rules shall prevail.

Cross-border Investment

The Measures for Overseas Investment Management was released by MOFCOM on 6 September 2014 and came into force on 6 October 2014. As defined by the Measures, overseas investment means that the enterprises legally incorporated in the People's Republic of China own the non-financial enterprises or obtain the ownership, control and operation management rights of the existing non-financial enterprises in foreign countries through incorporation, merger and acquisition and other means. If the overseas investments involve sensitive countries and regions, they shall be subject to the approval of the competent authorities. For other overseas investments, they shall be subject to filing administration. Local enterprises shall be filed with the provincial commercial administration authorities where they are located. The qualified enterprises will be put into record and granted with Overseas Investment Certificate for Enterprise by the relevant provincial commercial administration authorities.

The Circular on Issuing Provisions on Foreign Exchange Administration for Overseas Direct Investment of Domestic Institutions was released by State Administration of Foreign Exchange on 13 July 2009 and came into force on 1 August 2009. The Circular of State Administration of Foreign Exchange on Further Simplifying and Improving Foreign Exchange Administration Policy for Overseas Direct Investment was released by State Administration of Foreign Exchange on 13 February 2015 and came into force on 1 July 2015. According to these circulars, the requirement on foreign exchange registration and approval for overseas direct investment was lifted, and it was changed to the mechanism that the banks directly review and complete the foreign exchange registration for overseas direct investment, and State Administration of Foreign Exchange and its branches will implement indirect regulation over the foreign exchange registration for overseas direct investment through the banks. The relevant market participants can freely select the banks at their registered address to have the foreign exchange registration for overseas direct investment completed. Only when the foreign exchange registration for overseas direct investment is completed can be subsequent investment-related businesses be conducted, such as account opening and fund transfer (including remittance and repatriation of profit and dividend).

The Administrative Measures for Overseas Investment by Enterprises was released by National Development and Reform Commission on 26 December 2017 which shall come into effect from 1 March 2018. As defined therein, overseas investment means any investment activity in which a domestic enterprise of the PRC obtains overseas ownership, control, operation and management rights and other relevant interests directly or through its controlled overseas enterprise by way of contributing asset and/or interest or providing financing and/or guarantee.

To conduct overseas investment, certain procedures shall be complied with, which include: approval and record-filing of overseas investment project, reporting relevant information and cooperating with the supervision and inspection.

The aforementioned approval procedure shall apply to any sensitive overseas investment projects carried out by the investor directly or through its controlled overseas enterprise(s) which include (1) projects involving sensitive countries and regions; (2) projects involving sensitive industries. Whereas, the aforementioned record-filing procedure shall apply to any non-sensitive projects carried out by the investor directly which represent projects not involving sensitive countries and regions and not involving sensitive industries, or in other worlds non-sensitive projects involving direct contribution of asset and/or interest or direct provision of financing and/or guarantee by the investor.

As for a project under the aforementioned record-filing procedure, if the investor is a local enterprise and the investment out of the PRC investor of such project is below $300 million, the record-filing authority will be the development and reform department of the provincial government governing the locality where the investor is registered. The investor shall submit a project record-filing form attached with related documents to the record-filing authority though the network system. Where such form and attachments are complete in content and in line with the legal form, the record-filing authority shall accept the filing application, and then issue a record-filing notice to the investor within seven business days from the date that the project record-filing form is accepted by it.

HONG KONG UNDERWRITERS

ABCI Securities Company Limited
Changjiang Securities Brokerage (HK) Limited
Dongxing Securities (Hong Kong) Company Limited
First Capital Securities Limited
First Shanghai Securities Limited
KGI Capital Asia Limited
RHB Securities Hong Kong Limited
Well Link Securities Limited
Yue Xiu Securities Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offer

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering 1,729,700 Hong Kong Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

(a) the Listing Committee granting the listing of, and permission to deal in, our H Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently being revoked; and

(b) certain other conditions set out in the Hong Kong Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Sole Global Coordinator (for itself and on behalf of the other Underwriters)),

the Hong Kong Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers for, the Hong Kong Offer Shares which are being offered but are not taken up under the Hong Kong Public Offer, on the terms and conditions set out in this prospectus, the Application Forms and the Hong Kong Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters), the Global Offering will not proceed and will lapse.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares will be subject to termination by notice in writing to our Company from the

Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

(a) there has come to the notice of the Sole Global Coordinator:

(i) that any statement contained in any offer documents and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Global Offering (including any supplement or amendments thereto) (collectively, the "**Relevant Documents**"), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or

(iii) any breach of any of the obligations imposed or to be imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or

(iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company and our executive Directors (the "**Warrantors**") pursuant to the indemnities given by them under the Hong Kong Underwriting Agreement or under the International Underwriting Agreement; or

(v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders' equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group ("**Group Company**"); or

(vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties, agreements and undertakings to be given by the Warrantors respectively in terms set out in the Hong Kong Underwriting Agreement; or

(vii) the approval by the Listing Committee of the listing of, and permission to deal in, the H Shares (including any additional H Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(viii) our Company withdraws any of the Relevant Documents or the Global Offering; or

(ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the offer documents or to the issue of any of the offer documents; or

(x) that a petition or an order is presented for the winding-up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or

(xi) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors, supervisors and senior management member of the Group as set out in the "Directors, Supervisors and Senior Management" section of this prospectus; or

(xii) a portion of the orders in the bookbuilding process, which is considered by the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its absolute opinion to be material, at the time the International Underwriting Agreement is entered into, have been withdrawn, terminated or cancelled, and the Sole Global Coordinator, in its sole and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or

(xiii) any loss or damage has been sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) in its sole absolute opinion to have material adverse effect; or

(b) there shall develop, occur, exist or come into effect:

(i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation); or

(ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or

(iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or

(iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgement(s), decree(s) or ruling(s) of any governmental authority ("**Law(s)**"), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of Hong Kong, the PRC, the United States, the Netherlands, the European Union (or any member thereof) or any other jurisdictions relevant to any Group Company or the Global Offering (the "**Specific Jurisdictions**"); or

(v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or

(vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or

(vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or

(viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(ix) any litigation or claim of any third party being threatened or instigated against any Group Company or any of the Warrantors; or

(x) any of the Directors, supervisors and senior management member of our Company as set out in the "Directors, Supervisors and Senior Management" section of this prospectus being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or

(xi) the chairman or chief executive of our Company vacating his or her office; or

(xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or

(xiii) a contravention by any Group Company or any Director of the Hong Kong Listing Rules, the Companies Ordinance or any other Laws applicable to the Global Offering; or

(xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Global Offering; or

(xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Global Offering with the Hong Kong Listing Rules or any other Laws applicable to the Global Offering; or

(xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Global Offering pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Hong Kong Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or

(xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity,

which in each case individually or in aggregate in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters):

(a) has or is or will or may or could be expected to have a material adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, results of operation, financial, trading or other condition or position or prospects or risks of our Company or our Group or any Group Company or on any present or prospective shareholder of our Company in his, her or its capacity as such; or

(b) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Hong Kong Public Offer or the level of interest under the International Offering; or

(c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or implemented or proceeded with as envisaged or to market the Global Offering or shall otherwise result in an interruption to or delay thereof; or

(d) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings given to the Stock Exchange pursuant to the Listing Rules

By our Company

We have undertaken to the Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules.

Undertakings given to the Hong Kong Underwriters

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that except pursuant to the Global Offering (including pursuant to the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "**First Six-Month Period**"), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters) and unless in compliance with the requirements of the Hong Kong Listing Rules:

(a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect ("**Encumbrance**") over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depositary in connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; or

(b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or

(c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or

(d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Mr. Hong and Mr. Huang

Each of Mr. Hong and Mr. Huang has undertaken jointly and severally to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers and the other Hong Kong Underwriters that, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Hong Kong Underwriters), at any time during the First Six-Month Period, he shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for him and the companies controlled by he (together, the "**Controlled Entities**") shall not:

(i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by him directly or indirectly through its Controlled Entities (the "**Relevant Securities**"), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; or

(iii) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (i), (ii) or (iii) above, which any of the foregoing transactions referred to in sub-paragraphs (i), (ii), (iii) or (iv) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within such period).

Each of Mr. Hong and Mr. Huang has further undertaken to each of our Company, the Stock Exchange, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Joint Lead Managers and the other Hong Kong Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, he will:

(i) when he pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Hong Kong Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and

(ii) when he receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Underwriters' interests in our Group

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as at the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

As at 31 December 2017 up to the Latest Practicable Date, the aggregate amount due to Agricultural Bank of China from our Group amounted to RMB44.9 million, which represented approximately 4.7% of the total assets of our Group as at 31 December 2017. The aggregate amount due to Agricultural Bank of China from our Group constitutes a minimal percentage of the consolidated total assets of Agricultural Bank of China, the Sole Sponsor's ultimate holding company, as at 31 December 2017. In the circumstances, the materiality thresholds under Rules 3A.07(5) and 3A.07(6) of the Hong Kong Listing Rules have not been exceeded. Accordingly, the Sole Sponsor has confirmed that it satisfies the independence criteria as set out in Rule 3A.07 of the Hong Kong Listing Rules.

The International Offering

International Offering

In connection with the International Offering, we expect to enter into the International Underwriting Agreement on the Price Determination Date with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the International Offering Shares or procure purchasers for the International Offering Shares initially being offered pursuant to the International Offering. Please refer to the section headed "Structure of the Global Offering – The International Offering" in this prospectus.

Under the International Underwriting Agreement, we intend to grant to the International Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Sole Global Coordinator on behalf of the International Underwriters from the Listing Date until the 30th day from the last day for the lodging of applications under the Hong Kong Public Offer to require us to issue and allot up to an aggregate of 2,594,500 additional Offer Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering and at the Offer Price, to cover any over-allocations in the International Offering, if any.

Total Commission and Expenses

We will pay the Sole Global Coordinator (for itself and on behalf of the other Underwriters) an underwriting commission of 3.5% of the aggregate Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offer (excluding any International Offering Shares reallocated to the Hong Kong Public Offer and any Hong Kong Offer Shares reallocated to the International Offering), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the Sole Global Coordinator and the relevant International Underwriters, but not the Hong Kong Underwriters.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK$44.5 (being the mid-point of the stated range of the Offer Price between HK$37.1 and HK$51.9), the aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Global Offering, are estimated to amount in aggregate to HK$68.9 million in total and are payable by us.

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters (for itself and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- the Hong Kong Public Offering of initially 1,729,700 Offer Shares (subject to adjustments as mentioned below) in Hong Kong as described below in the paragraph headed "The Hong Kong Public Offering"; and

- the International Offering of initially 15,566,967 Offer Shares (subject to adjustments and the Over-allotment Option as described below) outside the United States (including to professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for the Offer Shares in Hong Kong) in offshore transactions in reliance on Regulation S.

Investors may either:

- apply for the Hong Kong Offer Shares under the Hong Kong Public Offering; or

- apply for or indicate an interest for the International Offering Shares under the International Offering,

but may not do both.

The 17,296,667 Offer Shares in the Global Offering will represent approximately 25% of our enlarged share capital immediately after the completion of the Global Offering, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of our enlarged share capital immediately following the completion of the Global Offering.

References to applications, application forms, application monies or procedure for applications relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering for subscription by the public in Hong Kong 1,729,700 Offer Shares, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares offered under the Hong Kong Public Offering will represent approximately 2.5% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Hong Kong Public Offering is subject to the conditions as set forth below in "Conditions of the Global Offering".

Allocation

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary depending on the number of Hong Kong Offer Shares validly applied for by applicants. We may, if necessary, allocate the Hong Kong Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the total number of Offer Shares available under the Hong Kong Public Offering is to be divided into two pools:

- ***Pool A***: The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of HK$5 million or less (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable); and

- ***Pool B***: The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares with an aggregate subscription price of more than HK$5 million and up to the value of pool B (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the "subscription price" for the Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications under the Hong Kong Public Offering and any application for more than 864,800 shares of the Hong Kong Offer Shares will be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation at the discretion of the Sole Global Coordinator, subject to the following:

(a) where the International Offering Shares are fully subscribed or oversubscribed:

(i) if the Hong Kong Offer Shares are undersubscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate;

(ii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 1,729,700 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 3,459,400 Offer Shares, representing approximately 20% of the total number of the Offer Shares initially available under the Global Offering;

(iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents (1) 15 times or more but less than 50 times, (2) 50 times or more but less than 100 times, and (3) 100 times or more of the number of Offer Shares initially available under the Hong Kong Public Offering, the Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering in accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Hong Kong Listing Rules, so that the total number of Hong Kong Offer Shares will be increased to 5,189,100 Offer Shares (in the case of (1)), 6,918,700 Offer Shares (in the case of (2)) and 8,648,400 Offer Shares (in the case of (3)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively;

(b) where the International Offering Shares are undersubscribed:

(i) if the Hong Kong Offer Shares are also undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this Prospectus, the Application Forms and the Underwriting Agreements; and

(ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 1,729,700 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 3,459,400 Offer Shares, representing approximately 20% of the total number of the Offer Shares initially available under the Global Offering.

In the event of reallocation of Offer Shares from the International Offering to the Hong Kong Public Offering in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price Range (i.e. HK$37.1 per Offer Share) according to HKEX Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

In all cases of reallocation of Offer Shares from the International Offering to the Hong Kong Public Offering, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the International Offering will be correspondingly reduced.

Applications

Each applicant under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offering Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated International Offering Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, maximum price of HK$51.9 per Offer Share in addition to brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% on each Offer Share. If the Offer Price, as finally determined on the Price Determination Date in the manner as described below in the paragraph headed "Pricing and Allocation", is less than the maximum price of HK$51.9 per Offer Share, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For further details, see "How to Apply for Hong Kong Offer Shares" in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the International Offering 15,566,967 Offer Shares, representing approximately 90% of the Offer Shares under the Global Offering. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of Offer Shares offered under the International Offering will represent approximately 22.5% of our enlarged issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised.

Allocation

The International Offering Shares will conditionally be offered to selected professional, institutional and corporate investors and other investors anticipated to have a sizeable demand for our Offer Shares in Hong Kong and other jurisdictions outside the United States in offshore transactions in reliance on Regulation S. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Prospective professional, institutional and other investors will be required to specify the number of the International Offering Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building," is expected to continue up to the Price Determination Date.

Allocation of the International Offering Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its H Shares, after the listing of the H Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the International Offering Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that they are excluded from any applications of Hong Kong Offer Shares under the Hong Kong Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the International Offering may change as a result of the clawback arrangement as described above in the paragraph headed "The Hong Kong Public Offering – Reallocation" or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, it is expected that we will grant the Over-allotment Option to the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters will have the right, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) at any time from the Listing Date until 30 days from the last date for the lodging of applications under the Hong Kong Public Offering, to require the Company to issue up to 2,594,500 H Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, at the Offer Price under the International Offering to, among other things (such as effecting the permitted stabilising actions as set out in the section headed "Stabilisation" below), cover over-allocations in the International Offering, if any.

If the Over-allotment Option is exercised in full, the additional H Shares to be issued pursuant thereto will represent approximately 3.6% of our enlarged issued share capital immediately following the completion of the Global Offering. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of our H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any persons acting for it, to conduct any such stabilising action. Such stabilising action, if taken, will be conducted at the absolute discretion of the Stabilising Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering.

Stabilisation action permitted in Hong Kong under the Securities and Futures (Price Stabilizing) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our H Shares, (ii) selling or agreeing to sell our H Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our H Shares, (iii) purchasing, or agreeing to purchase, our H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our H Shares for the sole purpose of preventing or minimising any reduction in the market price of our H Shares, (v) selling or agreeing to sell any H Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in H Shares should note that:

- the Stabilising Manager (or any person acting for it) may, in connection with the stabilising action, maintain a long position in the H Shares;

- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager (or any person acting for it) will maintain such a long position;

- liquidation of any such long position by the Stabilising Manager (or any person acting for it) and selling in the open market, may have an adverse impact on the market price of the H Shares;

- no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date and is expected to expire on the 30th day after the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the H Shares, demand for the H Shares, and therefore the price of the H Shares, could fall;

- the price of the H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and

- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price, which means that stabilising bids or transactions effected may be made at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

OVER-ALLOCATION

Following any over-allocation of H Shares in connection with the Global Offering, the Stabilising Manager (or any person acting for it) may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, using H Shares purchased by the Stabilising Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price.

PRICING AND ALLOCATION

Our Company and the Sole Global Coordinator (on behalf of the Underwriters) will determine the Offer Price and sign an agreement on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around 6 July 2018, and in any event, not later than 11 July 2018.

The Offer Price will not be more than HK$51.9 per Offer Share and is expected to be not less than HK$37.1 per Offer Share, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. If you apply for the Offer Shares under the Hong Kong Public Offering, you must pay the maximum price of HK$51.9 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

If the Offer Price, as finally determined in the manner described below, is lower than HK$51.9, we will refund the respective difference, including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, see "How to Apply for Hong Kong Offer Shares" in this prospectus.

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the Offer Price Range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering publish a notice in The Standard (in English) and the Hong Kong Economic Times (in Chinese) of the reduction. Such notice will also be posted on our website at **www.zjcnyb.com** and the website of the Stock Exchange at **www.hkexnews.hk** (the contents of the website do not form a part of this prospectus). Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon by us, will be fixed within such revised offer price range.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price Range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also confirm or revise, as appropriate, the working capital statement, the Global Offering statistics as currently set out in "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with the Company and the Sole Global Coordinator (on behalf of the Underwriters) will under no circumstances be set outside the Offer Price Range as stated in this prospectus.

If you have already submitted an application for the Hong Kong Offer Shares before the last day for lodging applications under the Hong Kong Public Offering, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price Range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised).

The final Offer Price, the level of indication of interest in the International Offering, the basis of allotment of Offer Shares available under the Hong Kong Public Offering and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering are expected to be made available in a variety of channels in the manner described in "How to Apply for Hong Kong Offer Shares – 11. Publication of Results" in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for Offer Shares is conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, our H Shares in issue and to be issued as described in this prospectus (including the H Shares which may be issued pursuant to the exercise of the Over-allotment Option);

- the Offer Price having been agreed between us and the Sole Global Coordinator (on behalf the Underwriters);

- the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and

- the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (on behalf of the Underwriters) on or before 11 July 2018, the Global Offering will not proceed and will lapse.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by the Company in The Standard (in English) and the Hong Kong Economic Times (in Chinese) and our website at **www.zjcnyb.com** and the website of the Stock Exchange at **www.hkexnews.hk** on the next day following such lapse. In such an event, all application monies will be returned, without interest, on the terms set out in "How to Apply for Hong Kong Offer Shares – 13. Refund of Application Monies" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

UNDERWRITING AGREEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to, among other conditions, us and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price on the Price Determination Date.

We expect to enter into the International Underwriting Agreement relating to the International Offering on or around the Price Determination Date.

Certain terms of the underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement, are summarised in the section headed "Underwriting" in this prospectus.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 13 July 2018, it is expected that dealings in our H Shares on the Stock Exchange will commence at 9:00 a.m. on 13 July 2018.

The H Shares will be traded in board lots of 100 H Shares each.

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offering Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at **www.eipo.com.hk**; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **White Form elPO** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** service for the Hong Kong Offer Shares.

Unless permitted by the Hong Kong Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any of its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Hong Kong Listing Rules) of any of the above;
- a connected person (as defined in the Hong Kong Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Offering Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 28 June 2018 until 12:00 noon on Friday, 6 July 2018 from:

(i) any of the following offices of the Hong Kong Underwriter(s):

ABCI Securities Company Limited
13/F Fairmont House
8 Cotton Tree Drive
Central, Hong Kong

Changjiang Securities Brokerage (HK) Limited
Suite 1908, 19/F., Cosco Tower
183 Queen's Road C.
Central, Hong Kong

Dongxing Securities (Hong Kong) Company Limited
6805 – 6806A, International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

First Capital Securities Limited
Unit 4512, 45/F, The Center
99 Queen's Road
Central, Hong Kong

First Shanghai Securities Limited
19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

KGI Capital Asia Limited
41/F Central Plaza
18 Harbour Road
Wanchai, Hong Kong

RHB Securities Hong Kong Limited
12/F, World-Wide House
19 Des Voeux Road Central
Hong Kong

Well Link Securities Limited
Unit 16-18, 11/F China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Yue Xiu Securities Company Limited
13/F Yue Xiu Building
Lockhart Road
Wanchai, Hong Kong

(ii) any of the following branches of the receiving bank:

Bank of China (Hong Kong) Limited

District	Branch	Address
Hong Kong Island	Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui
Kowloon	Telford Plaza Branch	Shop Unit, P2-P7, Telford Plaza, No. 33 Wai Yip Street, Kowloon Bay, Kowloon
	Whampoa Garden Branch	Shop G8B, Site 1, Whampoa Garden, Hung Hom
New Territories	Metro City Branch	Shop 209, Level 2, Metro City Phase 1, Tseung Kwan O

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 28 June 2018 until 12:00 noon on Friday, 6 July 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to BANK OF CHINA (HONG KONG) NOMINEES LIMITED – CANGNAN INSTRUMENT PUBLIC OFFER for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Thursday, 28 June 2018 – 9:00 a.m. to 5:00 p.m.
Friday, 29 June 2018 – 9:00 a.m. to 5:00 p.m.
Saturday, 30 June 2018 – 9:00 a.m. to 1:00 p.m.
Tuesday, 3 July 2018 – 9:00 a.m. to 5:00 p.m.
Wednesday, 4 July 2018 – 9:00 a.m. to 5:00 p.m.
Thursday, 5 July 2018 – 9:00 a.m. to 5:00 p.m.
Friday, 6 July 2018 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 6 July 2018, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **White Form eIPO** service, among other things, you:

(i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;

(iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;

(v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;

(vi) agree that none of the Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);

(vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to the Company, our H Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;

(xiii) warrant that the information you have provided is true and accurate;

(xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;

(xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;

(xvii) understand that the Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

(xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and

(xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **Yellow** Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in "2. Who Can Apply" in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

Time for Submitting Applications under the White Form eIPO service

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Thursday, 28 June 2018 until 11:30 a.m. on Friday, 6 July 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 a.m. on Friday, 6 July 2018 or such later time under the "10. Effects of Bad Weather on the Opening of the Applications Lists" in this section.

No Multiple Applications

If you apply by means of **White Form eIPO** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** service more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. The H Share Registrar, being the designated **White Form eIPO** Service Provider, will contribute HK$2 for each "Zhejiang Cangnan Instrument Group Company Limited" **White Form eIPO** application submitted via the website to support the funding of "Dongjiang River Source Tree Planting" project initiated by Friends of the Earth (HK).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (**https://ip.ccass.com**) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that the Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

- agree that none of the Company, the Sole Global Coordinators, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);

- agree to disclose your personal data to the Company, our H Share Registrar, receiving banks, the Sole Global Coordinators, the Underwriters and/or its respective advisers and agents;

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;

- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

- agree with the Company, for itself and for the benefit of each shareholder of the Company (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each shareholder of the Company, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Company Law, the Special Regulations on Listing Overseas and the Articles of Association of the Company;

- agree with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving **electronic application instructions**):

  (a) to refer all differences and claims arising from the Articles of Association of the Company or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association of the Company;

  (b) that any award made in such arbitration shall be final and conclusive; and

  (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;

- agree with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders; and

- authorise the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association of the Company.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of number 100 Hong Kong Offer Shares. Instructions for more than 100 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Thursday, 28 June 2018	–	**9:00 a.m. to 8:30 p.m.[(1)]**
Friday, 29 June 2018	–	**8:00 a.m. to 8:30 p.m.[(1)]**
Tuesday, 3 July 2018	–	**8:00 a.m. to 8:30 p.m.[(1)]**
Wednesday, 4 July 2018	–	**8:00 a.m. to 8:30 p.m.[(1)]**
Thursday, 5 July 2018	–	**8:00 a.m. to 8:30 p.m.[(1)]**
Friday, 6 July 2018	–	**8:00 a.m.[(1)] to 12:00 noon**

Note:

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Thursday, 28 June 2018 until 12:00 noon on Friday, 6 July 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 6 July 2018, the last application day or such later time as described in "10. Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company, the H Share Registrar, the receiving bankers, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **White Form eIPO** service is also only a facility provided by the **White Form eIPO** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Sole Bookrunner, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 6 July 2018, the last day for applications, or such later time as described in "– Applications for Hong Kong Offer Shares – Effect of bad weather on the opening and closing of the application lists" below.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **White Form eIPO** service in respect of a minimum of 100 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 100 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.hk**.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure of the Global Offering – Pricing and Allocation".

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warming signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 6 July 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 6 July 2018 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, 12 July 2018 in The Standard (in English) and the Hong Kong Economic Times (in Chinese) on the Company's website at **www.zjcnyb.com** and the website of the Stock Exchange at **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at **www.zjcnyb.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 9:00 a.m., Thursday, 12 July 2018;

- from the designated results of allocations website at **www.iporesults.com.hk** (alternatively: English **https://www.eipo.com.hk/en/Allotment**; Chinese **https://www.eipo.com.hk/zh-hk/Allotment** with a "search by ID" function on a 24-hour basis from Thursday, 12 July 2018 to Wednesday, 18 July 2018;

- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 12 July 2018 to Sunday, 15 July 2018;

- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 12 July 2018 to Saturday, 14 July 2018 at all the receiving bank designated branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Global Coordinators, the **White Form eIPO** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offering Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions on the designated website;

- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;

- the Underwriting Agreements do not become unconditional or are terminated;

- the Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

- your application is for more than 864,800 shares of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK$51.9 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering – Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Thursday, 12 July 2018.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and

- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Thursday, 12 July 2018. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 13 July 2018 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 500,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 12 July 2018 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the H Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 500,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, 12 July 2018, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 500,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 500,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, 12 July 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 12 July 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

  For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

  The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "11. Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 12 July 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the White Form eIPO service

If you apply for 500,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 12 July 2018, or such other date as notified by the Company in the newspapers as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 500,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, 12 July 2018 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 12 July 2018, or, on any other date determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "11. Publication of Results" above on Thursday, 12 July 2018. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 12 July 2018 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 12 July 2018. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 12 July 2018.

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-2, received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of HKSIR 200 Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

pwc 羅兵咸永道

ACCOUNTANT'S REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF ZHEJIANG CANGNAN INSTRUMENT GROUP COMPANY LIMITED AND ABCI CAPITAL LIMITED

Introduction

We report on the historical financial information of Zhejiang Cangnan Instrument Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-3 to I-55, which comprises the consolidated balance sheets as at 31 December 2015, 2016 and 2017, the balance sheets of the Company as at 31 December 2015, 2016 and 2017, and the consolidated statements of profit or loss, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-55 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 June 2018 (the "Prospectus") in connection with the initial listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountant's responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

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Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountant's report, a true and fair view of the financial position of the Company as at 31 December 2015, 2016 and 2017 and the consolidated financial position of the Group as at 31 December 2015, 2016 and 2017 and of its consolidated financial performance and its consolidated cash flows for the Track Record Period in accordance with the basis of preparation set out in Note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-3 have been made.

Dividends

We refer to Note 31 to the Historical Financial Information which contains information about the dividends paid by the Company in respect of the Track Record Period.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong
28 June 2018

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountant's report.

The financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by PricewaterhouseCoopers in accordance with International Standards on Auditing issued by the IAASB ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Section II	**Year ended 31 December**		
	Note	**2015**	**2016**	**2017**
		RMB'000	**RMB'000**	**RMB'000**
Revenue	*5*	362,687	444,160	669,813
Cost of sales	*8*	(165,270)	(155,607)	(184,276)
Gross profit		197,417	288,553	485,537
Selling and distribution expenses	*8*	(56,884)	(78,609)	(108,345)
Administrative expenses	*8*	(47,785)	(53,313)	(61,619)
Research and development expenses	*8*	(18,360)	(25,543)	(34,900)
Other income	*6*	12,500	12,757	20,601
Other losses – net	*7*	(36,689)	(884)	(15,054)
Operating profit		50,199	142,961	286,220
Finance income	*10*	645	1,583	1,541
Finance expenses	*10*	(7,946)	(7,457)	(5,831)
Finance expenses – net		(7,301)	(5,874)	(4,290)
Profit before income tax		42,898	137,087	281,930
Income tax expenses	*11*	(6,353)	(19,204)	(40,247)
Profit for the year		36,545	117,883	241,683
Attributable to:				
Equity holders of the Company		35,985	117,495	239,352
Non-controlling interests		560	388	2,331
		36,545	117,883	241,683
Earnings per share for profit attributable to equity holders of the Company				
Basic and diluted earnings per share (expressed in RMB per share)	*12*	0.69	2.26	4.61

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Profit for the year	36,545	117,883	241,683
Other comprehensive income:			
Item that may be reclassified subsequently to profit or loss:			
Currency translation difference	(166)	178	(587)
Total comprehensive income for the year	36,379	118,061	241,096
Attributable to:			
Equity holders of the Company	35,819	117,673	238,765
Non-controlling interests	560	388	2,331
	36,379	118,061	241,096

CONSOLIDATED BALANCE SHEETS

	Section II Note	As at 31 December 2015	2016	2017
		RMB'000	RMB'000	RMB'000
Assets				
Non-current assets				
Land use rights	*14*	6,682	6,486	6,290
Property, plant and equipment	*15*	68,568	64,896	66,697
Intangible assets	*17*	950	685	420
Deferred income tax assets	*29*	20,350	22,662	25,762
Available-for-sale financial assets		100	100	100
Restricted cash	*20*	23,094	33,110	33,775
		119,744	127,939	133,044
Current assets				
Trade and other receivables and prepayments	*18*	311,106	370,373	569,818
Inventories	*19*	86,960	73,077	78,243
Restricted cash	*20*	11,609	19,947	9,417
Cash and cash equivalents	*21*	96,762	138,059	157,056
		506,437	601,456	814,534
Assets classified as held for sale	*37(a)*	–	–	10,020
		506,437	601,456	824,554
Total assets		626,181	729,395	957,598
Equity and liabilities				
Equity attributable to equity holders of the Company				
Capital/Share capital	*23*	51,890	51,890	51,890
Other reserves	*24*	40,846	45,236	338,475
Retained earnings	*25*	208,528	292,753	201,956
		301,264	389,879	592,321
Non-controlling interests		10,760	10,664	12,433
Total equity		312,024	400,543	604,754
Liabilities				
Non-current liabilities				
Deferred income	*28*	1,025	845	665
Provisions for other liabilities and charges	*30*	83,043	24,655	17,523
		84,068	25,500	18,188
Current liabilities				
Trade and other payables	*26*	115,227	139,023	151,411
Current income tax liabilities		13,886	21,568	46,071
Borrowings	*27*	85,400	78,100	59,900
Deferred income	*28*	180	180	180
Warranties provision	*30*	3,469	4,184	8,398
Provisions for other liabilities and charges	*30*	11,927	60,297	68,587
		230,089	303,352	334,547
Liabilities directly associated with assets classified as held for sale	*37(a)*	–	–	109
		230,089	303,352	334,656
Total liabilities		314,157	328,852	352,844
Total equity and liabilities		626,181	729,395	957,598

BALANCE SHEETS OF THE COMPANY

	Section II Note	As at 31 December 2015	2016	2017
		RMB'000	RMB'000	RMB'000
Assets				
Non-current assets				
Land use rights	*14*	6,682	6,486	6,290
Property, plant and equipment	*15*	39,202	38,002	41,764
Investment properties	*16*	19,842	18,354	16,960
Intangible assets	*17*	950	685	420
Investments in subsidiaries	*33*	52,838	54,280	36,703
Deferred income tax assets	*29*	18,712	20,485	24,715
Available-for-sale financial assets		100	100	100
Restricted cash	*20*	23,094	33,110	33,775
		161,420	171,502	160,727
Current assets				
Trade and other receivables and prepayments	*18*	297,441	347,157	522,619
Inventories	*19*	73,006	54,746	53,413
Restricted cash	*20*	11,609	19,947	9,417
Cash and cash equivalents	*21*	60,995	89,933	115,544
		443,051	511,783	700,993
Assets classified as held for sale	*33*	–	–	923
		443,051	511,783	701,916
Total assets		604,471	683,285	862,643
Equity and liabilities				
Equity attributable to equity holders of the Company				
Capital/Share capital	*23*	51,890	51,890	51,890
Other reserves	*24*	40,491	44,703	338,529
Retained earnings	*25*	208,991	293,826	171,854
Total equity		301,372	390,419	562,273
Liabilities				
Non-current liabilities				
Deferred income	*28*	1,025	845	665
Provisions for other liabilities and charges	*30*	83,043	24,655	17,523
		84,068	25,500	18,188
Current liabilities				
Trade and other payables	*26*	110,178	112,706	116,035
Current income tax liabilities		8,405	12,705	30,898
Borrowings	*27*	85,400	78,100	59,900
Deferred income	*28*	180	180	180
Warranties provision	*30*	2,941	3,378	6,582
Provisions for other liabilities and charges	*30*	11,927	60,297	68,587
		219,031	267,366	282,182
Total liabilities		303,099	292,866	300,370
Total equity and liabilities		604,471	683,285	862,643

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to equity holders of the Company					
	Capital/ Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	51,890	30,791	210,157	292,838	–	292,838
Comprehensive income						
Profit for the year	–	–	35,985	35,985	560	36,545
Other comprehensive income						
Currency translation differences	–	(166)	–	(166)	–	(166)
Total comprehensive income	–	(166)	35,985	35,819	560	36,379
Transactions with owners						
Capital contribution from non-controlling interests of subsidiaries	–	–	–	–	10,200	10,200
Profit appropriation to statutory reserves	–	9,074	(9,074)	–	–	–
Share-based award	–	1,147	–	1,147	–	1,147
Dividends declared	–	–	(28,540)	(28,540)	–	(28,540)
Total transactions with owners, recognized directly in equity	–	10,221	(37,614)	(27,393)	10,200	(17,193)
Balance at 31 December 2015	51,890	40,846	208,528	301,264	10,760	312,024
Balance at 1 January 2016	51,890	40,846	208,528	301,264	10,760	312,024
Comprehensive income						
Profit for the year	–	–	117,495	117,495	388	117,883
Other comprehensive income						
Currency translation differences	–	178	–	178	–	178
Total comprehensive income	–	178	117,495	117,673	388	118,061
Transactions with owners						
Profit appropriation to discretionary surplus reserves	–	4,212	(4,212)	–	–	–
Dividends declared	–	–	(29,058)	(29,058)	(484)	(29,542)
Total transactions with owners, recognized directly in equity	–	4,212	(33,270)	(29,058)	(484)	(29,542)
Balance at 31 December 2016	51,890	45,236	292,753	389,879	10,664	400,543
Balance at 1 January 2017	51,890	45,236	292,753	389,879	10,664	400,543
Comprehensive income						
Profit for the year	–	–	239,352	239,352	2,331	241,683
Other comprehensive income						
Currency translation differences	–	(587)	–	(587)	–	(587)
Total comprehensive income	–	(587)	239,352	238,765	2,331	241,096
Transactions with owners						
Profit appropriation to discretionary surplus reserves	–	5,245	(5,245)	–	–	–
Transfer to reserves upon the Company's conversion into a joint stock company	–	288,581	(288,581)	–	–	–
Dividends declared	–	–	(36,323)	(36,323)	(562)	(36,885)
Total transactions with owners, recognized directly in equity	–	293,826	(330,149)	(36,323)	(562)	(36,885)
Balance at 31 December 2017	51,890	338,475	201,956	592,321	12,433	604,754

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Section II Note	Year ended 31 December		
		2015	2016	2017
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash generated from operations	32	96,474	114,956	135,551
Interest received		555	630	503
Income tax paid		(10,318)	(13,834)	(18,844)
Net cash generated from operating activities		86,711	101,752	117,210
Cash flows from investing activities				
Purchases of property, plant and equipment		(5,791)	(6,374)	(13,160)
Proceeds from disposals of property, plant and equipment		1,043	4	59
Increase in restricted cash		(31,780)	(10,000)	–
Proceeds from maturity of restricted cash		–	10,000	–
Net cash used in investing activities		(36,528)	(6,370)	(13,101)
Cash flows from financing activities				
Proceeds from short-term borrowings		100,400	97,100	59,900
Repayment of short-term borrowings		(98,000)	(104,400)	(78,100)
Interest paid		(6,042)	(5,338)	(3,560)
Payments in relation to financial guarantees	30	(2,203)	(12,200)	(16,200)
Dividends paid to the Company's equity holders		(28,540)	(29,058)	(36,323)
Dividends paid to non-controlling interests		–	(484)	(562)
Listing expenses paid		–	–	(9,312)
Net cash used in financing activities		(34,385)	(54,380)	(84,157)
Net increase in cash and cash equivalents		15,798	41,002	19,952
Cash and cash equivalents at beginning of year	21	81,095	96,762	138,059
Exchange differences on translation of cash and cash equivalents		(131)	295	(621)
Cash and cash equivalents at end of year	21	96,762	138,059	157,390

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Company was incorporated on September 15, 1982 in the People's Republic of China (the "PRC") with limited liability under the Company Law of the PRC. The address of its registered office is Industrial Zone, Cangnan County, Wenzhou City, Zhejiang Province, the PRC. The Company was originally incorporated under the name of Zhejiang Cangnan Instrument Group Limited (浙江蒼南儀表集團有限公司) with registered capital of RMB51,890,000.

On 13 June 2017, the Company was converted into a joint stock company with limited liability with registered capital of RMB51,890,000. Following the conversion, the Company was renamed as Zhejiang Cangnan Instrument Group Company Limited (浙江蒼南儀表集團股份有限公司).

The Company does not have any controlling shareholders.

The Company and its subsidiaries listed below (together the "Group") are principally engaged in the manufacturing and sales of gas metering instruments and other related products (the "Listing Business") in Cangnan, Zhejiang Province, the PRC.

The Company's direct interests in its subsidiaries as at 31 December 2015, 2016 and 2017 and as at the date of this report are set out as below:

					Equity interest held				
Company name	Date of incorporation	Country of incorporation, legal status	Registered capital	Issued and fully paid capital	31 December 2015	31 December 2016	31 December 2017	The date of this report	Principal activities
Zhejiang Dongxing Software Development Limited (浙江東星軟件開發有限公司)(1)*	14 November 2012	The PRC, limited liability company	RMB11,902,500	RMB11,902,500	100%	100%	100%	100%	Development of software and hardware technologies; manufacturing and sales of intelligent instruments and meters (excluding measuring instruments and meters).
Dongxing Energy Technology Limited (浙江蒼南儀表集團東星能源科技有限公司)(2)*	4 May 2015	The PRC, limited liability company	RMB20,000,000	RMB20,000,000	65%	65%	65%	65%	Research, manufacturing and sales of instruments and meters of new energy, petrochemical and nuclear power related equipment, gas equipment and pressure vessel.
Dongxing Intelligent Instrument Limited (浙江蒼南儀表集團東星智能儀表有限公司)(3)*	4 May 2015	The PRC, limited liability company	RMB31,800,000	RMB15,000,000	78.66%	78.66%	78.66%	78.66%	Research, manufacturing and sales of gas meters and ancillary products.
GFO Europe B.V.(4)	9 April 2013	The Netherlands, limited liability company	Euro280,000	Euro280,000	100%	100%	100%	N/A	Research and development, assembly and sales of instruments and meters.

Notes:

(1) The statutory financial statements were audited by 杭州英泰會計師事務所有限公司 (Hangzhou Intime Certified Accountants Co., Ltd.) for the years ended 31 December 2015, 2016 and 2017.

(2) The statutory financial statements were audited by 蒼南立業會計師事務所 (Cang Nan Liye Certified Public Accountants Partnership) for the years ended 31 December 2015, 2016 and 2017.

(3) The statutory financial statements were audited by 蒼南立業會計師事務所 (Cang Nan Liye Certified Public Accountants Partnership) for the years ended 31 December 2015, 2016 and 2017.

(4) No statutory financial statements have been audited for this company since its incorporation.

* The English name of these subsidiaries represents the best effort by the management of the Group in translating their Chinese names as they do not have an official English name.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the Historical Financial Information are set out below. These policies have been consistently applied throughout the Track Record Period, unless otherwise stated.

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The Historical Financial Information has been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets.

The preparation of the Historical Financial Information in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

Impact of new or revised standards and amendments to existing standards that are effective on or after 1 January 2018

The following new standards, amendments and interpretations to existing standards which have been issued but are effective for the fiscal year beginning on or after 1 January 2018 and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
IFRS 15	Revenue from contracts with customers	1 January 2018
IFRS 9	Financial instruments	1 January 2018
IFRS 2 (Amendment)	Classification and measurement of share-based payments transactions	1 January 2018
IFRS 16	Leases	1 January 2019
Amendment to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
IFRIC 22	Foreign Currency Transactions and Advance Consideration	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 4 (Amendment)	Amendments regarding implementation of IFRS 9	1 January 2018
IAS 40 (Amendment)	Transfer of property regarding Investment property	1 January 2018
IFRS 9 (Amendment)	Financial instruments on prepayment features with negative compensation	1 January 2019

The Company's directors have performed an assessment on these new standards, amendments and interpretations, and have concluded on a preliminary basis that these new standards, amendments and interpretations would not have a significant impact on the Company's consolidated financial statements.

(a) IFRS 15 establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. IFRS 15 supersedes existing revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

IFRS 15 requires the application of a 5 steps approach to revenue recognition:

(a) Step 1: Identify the contract(s) with a customer

(b) Step 2: Identify the performance obligations in the contract

(c) Step 3: Determine the transaction price

(d) Step 4: Allocate the transaction price to each performance obligation

(e) Step 5: Recognise revenue when each performance obligation is satisfied

IFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under IFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue. The Group is in the process of making an assessment of the impact on the financial statements. The Group will adopt IFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption will be recognized in retained earnings as at 1 January 2018 and that comparatives will not be restated. The adoption of IFRS 15 is not expected to have a significant effect on the financial statements of the Group, except for the disclosure.

(b) IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group is analyzing its business models, trade receivables and other financial contract terms and changes to its existing credit exposures to assess the potential impact on its consolidated financial statements resulting from the adoption of IFRS 9. The Group will apply IFRS 9 retrospectively from 1 January 2018, with the practical expedients permitted under the standard and comparatives will not be restated. The adoption of IFRS 9 is not expected to have significant impact on the Group's financial statements.

(c) The Group is a lessee of certain offices which are currently classified as operating leases. The Group's current accounting policy for such leases, as set out in Note 2.29, is to record the rental expenses in the Group's consolidated statements of profit or loss. As at 31 December 2017, the Group has aggregate minimum lease payments, which are not reflected in the consolidated balance sheet, under non-cancellable operating lease of RMB2,231,000 as set out in Note 34.

IFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognise leases outside of the balance sheet. Instead, all non-current leases must be recognised in the form of assets (for the right of use) and financial liabilities (for the payment obligations) in the Group's consolidated balance sheet. Short-term leases of less than twelve months and leases of low-value assets are exempt from such reporting obligation. The new standard will therefore result in a derecognition of prepaid operating leases, increase in right-of-use assets and increase in lease liabilities in the consolidated balance sheet. In the consolidated statements of profit or loss, as a result, the annual rental and amortisation expenses of prepaid operating lease under otherwise identical circumstances will decrease, while depreciation of right-of-use of assets and interest expense arising from the lease liabilities will increase. The new standard is not expected to apply until the financial year beginning on or after 1 January 2019. It is not expected to have significant impact on the Group's financial statements.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealised gains/losses on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker (the "CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions. The Group's internal reporting does not distinguish financial results between segments and reports financial results of the Group as a whole. Hence, the Group has only one reporting segment. As a majority of the Group's long-lived assets and revenues are located in and derived from the PRC, no geographical segments are presented.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Historical Financial Information is presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statements of profit or loss.

Foreign exchange gains and losses are presented in the consolidated statements of profit or loss within 'Other losses – net'.

(c) Group companies

The results and financial positions of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

2.5 Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. The Group's interests in land use rights represent prepaid operating lease payments, which are amortised over the useful terms of 40 years using the straight-line method.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statements of profit or loss during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Plant	10-20 years
– Machinery	10 years
– Vehicles	3-5 years
– Furniture, fittings and equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other losses – net' in the consolidated statements of profit or loss.

Construction-in-progress ("CIP") represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for the intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.7 Investment property

Investment properties comprise land use rights and plant, held for long-term rental yields or for capital appreciation or both and not occupied by the Company, and is measured initially at its cost, including related transaction costs. After initial recognition, the Company chooses the cost model to measure all of its investment properties, which are stated at historical costs less accumulated depreciation and accumulated impairment losses, if any. Depreciation of land use rights and plant is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives from 10 to 40 years.

2.8 Intangible assets

2.8.1 Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

2.9 Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets as loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "Trade and other receivables", "Cash and cash equivalents" and "Restricted cash" in the consolidated balance sheets (Notes 18, 21 and 20).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated statements of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss as "gains and losses from investment securities".

Dividends on available-for-sale equity instruments are recognised in the statement of profit or loss as part of other income when the group's right to receive payments is established.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.12 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statements of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated statements of profit or loss.

(b) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of profit or loss on equity instruments are not reversed through the consolidated statement of profit or loss.

2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold and services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.10.2 for further information about the group's accounting for trade receivables and Note 2.12 for a description of the group's impairment policies.

2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, and deposits held at call with banks.

2.16 Capital/Share capital

Shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statements of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the consolidated statements of profit or loss in the period in which they are incurred.

Borrowing costs include interest expense and finance charges.

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated statements of profit or loss, except to the extent that it relates to items recognised in other comprehensive income ("OCI") or directly in equity. In this case, the tax is also recognised in OCI or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.21 Employee benefits

(a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefits expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.22 Share-based payments

The Group granted certain equity interests of its subsidiaries to the employees of the Group for their past services provided to the Group. The fair value of the equity interests granted was recognized in profit or loss immediately upon the grant of the equity interests to the employees of the Group.

2.23 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Government grants

Government assistance is the action by government designed to provide an economic benefit specific to an entity. The government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity are not recognised.

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognised as other income in the consolidated statements of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statements of profit or loss on a straight-line basis over the expected useful lives of the related asset.

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of products

Revenue from the sales and distribution of products is recognised when significant risks and rewards of ownership of the products are transferred to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assumed.

(b) Sales of services

The Group also provides maintenance services to customers. For sales of services, revenue is recognised in the accounting period in which the services are rendered.

2.26 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.27 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use;

(b) management intends to complete the intangible asset and use it;

(c) there is an ability to use the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and

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

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.28 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of third-party companies to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the company's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated statement of profit or loss within other operating expenses.

2.29 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

2.30 Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

2.31 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk, fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group's operations are predominantly conducted in Mainland China, and most of its transactions were denominated and settled in RMB, and therefore its foreign exchange risk is limited. Its exposure to foreign exchange risk is mainly arising from balances of cash and cash equivalents denominated in foreign currencies. The Group has not purchased any forward contracts to hedge its exposure to foreign exchange risk. During the Track Record Period, the Company operates in Europe through its subsidiary in the Netherlands, which conducts its transactions and records corresponding assets and liabilities in Euro ("EUR"). The Group's trade and other receivables, cash and cash equivalents and trade and other payables as at 31 December 2015, 2016 and 2017 included foreign currencies, denominated in either EUR, United States Dollars ("US$") or other foreign currencies ("Other foreign currencies"), are disclosed in Notes 18, 21 and 26.

As at 31 December 2015, 2016 and 2017, the Group did not have any significant foreign exchange risk from operation.

(ii) Cash flow and fair value interest rate risk

Except for cash and cash equivalents and restricted cash (Note 21 and 20), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulting from the changes in interest rates as the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from borrowings. The Group only has borrowings obtained at fixed rates and hence is exposed to fair value interest rate risk. The Group does not hedge its fair value interest rate risk arising from fixed rates borrowings.

(b) Credit risk

Credit risk arises from cash at banks, restricted cash and trade and other receivables. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash at banks and restricted cash, bank deposits are placed with highly reputable financial institutions.

For trade receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintains a provision for doubtful accounts and actual losses incurred are, in general, within management's expectations.

For other receivables, management makes periodic collective assessments as well as individual assessments on the recoverability of other receivables based on historical settlement records and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables.

The Company provided guarantees to third parties during Track Record Period. As disclosed in Note 30, provisions have been made in respect of certain legal claims against the Company as the guarantor due to the defaults in payment from the third parties. In view of this, the Board of the Company has resolved that the Company will not provide any guarantees in favour of any parties, other than its subsidiaries.

(c) Liquidity risk

Cash flow forecasting is performed by individual operating entities which is then aggregated by the group finance team. Group finance team monitors the cash flow rolling forecasts based on the Group's liquidity requirements to ensure it has sufficient cash to meet the operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal target ratios and, if applicable, the external regulatory or legal requirements – for example, requirement on currency restrictions.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2015				
Borrowings	88,164	–	–	88,164
Interest payables for borrowings	135	–	–	135
Trade and other payables	78,700	–	–	78,700
Provisions for other liabilities and charges – financial guarantees	12,200	61,894	26,537	100,631
	179,199	61,894	26,537	267,630
At 31 December 2016				
Borrowings	81,190	–	–	81,190
Interest payables for borrowings	72	–	–	72
Trade and other payables	100,260	–	–	100,260
Provisions for other liabilities and charges – financial guarantees	61,894	8,000	18,537	88,431
	243,416	8,000	18,537	269,953
At 31 December 2017				
Borrowings	62,228	–	–	62,228
Interest payables for borrowings	75	–	–	75
Trade and other payables	94,548	–	–	94,548
Provisions for other liabilities and charges – financial guarantees	56,298	18,537	–	74,835
	213,149	18,537	–	231,686

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity attributable to equity holders of the Company' as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 31 December 2015, 2016 and 2017 were as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Total borrowings *(Note 27)*	85,400	78,100	59,900
Less: cash and cash equivalents *(Note 21)*	(96,762)	(138,059)	(157,056)
Net cash	(11,362)	(59,959)	(97,156)
Total equity attributable to equity holders of the Company	301,264	389,879	592,321
Total capital	289,902	329,920	495,165
Gearing ratio	N/A	N/A	N/A

3.3 Fair value estimation

The Group adopts the amendment to IFRS 13 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

(c) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 2015, 2016 and 2017, except for available-for-sale financial assets, the Group had no financial instruments that are measured at fair value.

The carrying amounts of the Group's financial assets, including trade and other receivables, cash and cash equivalents, restricted cash and short-term liabilities, including trade payables, other payables and borrowings are assumed to approximate their fair values due to their short-term maturities.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Control assessment on certain companies established by the Group's employees

Certain employees of the Group established a number of trading companies together with third party individuals in different regions in the PRC and such companies are focused on selling the Group's products to end customers. Considering the facts that the Group does not hold any non-trade debt or equity securities in these companies, does not have power to direct the relevant decisions of these companies and its exposure to variability of returns of these companies is relatively small compared to their respective owners, the Group does not have control over these companies.

(b) Revenue recognition for goods delivered to the companies established by the Group's employees as discussed in (a) above

The companies established by the Group's employees as discussed in (a) above are regarded as the Group's sales agents considering the facts that the Group is the primary obligor in the arrangement, the inventory risk of the companies established by the Group's employees is low, the latitude for these companies to establish price is very limited and the amount earned by these companies is relatively small portion as compared with individual transaction amounts. The Group recognises revenue when products are sold to end customers by these companies.

(c) Current and deferred income taxes

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

(d) Allowances for doubtful receivables

The Group's management reviews its receivables for objective evidence of impairment at least quarterly. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or significant delay in payments are considered objective evidence that a receivable is impaired. In determining this, management makes judgement as to whether there is observable data indicating that there has been a significant change in the payment ability of the debtor, or whether there have been significant changes with adverse effect in the technology, market, economic or legal environment in which the debtor operates in.

Where there is objective evidence of impairment, management makes judgements as to whether an impairment loss should be recorded as an expense. In determining this, management uses estimates based on historical loss experience for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between the estimated loss and actual loss experience.

The carrying amounts of the Group's trade and other receivables are disclosed in Note 18.

5 REVENUE

Revenue by product categories are analysed as below:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Industrial and commercial gas flowmeter products	296,869	386,893	597,910
Residential gas meter products	48,045	45,216	59,466
Nuclear-related products	14,914	9,338	10,276
Maintenance services	2,859	2,713	2,161
	362,687	444,160	669,813

Revenue by geographical areas are analysed as below:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
The PRC	360,383	440,099	664,062
Other countries	2,304	4,061	5,751
	362,687	444,160	669,813

Customers contributing more than 10% of the Group's total revenue for the years ended 31 December 2015, 2016 and 2017 are as follows:

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Customer 1	*	*	11%

*: Less than 10%.

6 OTHER INCOME

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Government grants	12,320	12,577	20,421
Amortisation of deferred income related to government grants *(a)*	180	180	180
	12,500	12,757	20,601

(a) In 2011, the Group was entitled to government grants amounted to RMB1,800,000 for their technological development of nuclear throttling device and gas pressure regulating device which was recorded as deferred government grants and credited to the consolidated statements of profit or loss on a straight-line basis over the expected useful lives of the corresponding property, plant and equipment.

7 OTHER LOSSES – NET

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Losses from financial guarantees provided to third parties *(Note 30)*	35,845	–	2,587
Litigation losses *(Note 30)*	–	–	12,503
Donation	983	630	761
Losses on disposals of property, plant and equipment	34	46	152
Foreign exchange gains – net	(182)	(172)	(37)
Others	9	380	(912)
	36,689	884	15,054

8 EXPENSES BY NATURE

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Changes in inventories of finished goods and work in progress	(12,674)	10,162	10,505
Raw materials and consumables used	145,029	116,360	141,355
Employee benefits expense *(Note 9)*	61,103	72,674	91,157
Sales service fee	13,342	16,799	32,740
Travel and office expenses	16,721	17,617	18,933
Depreciation and amortization *(Notes 14, 15 and 17)*	11,715	10,493	10,134
Provision for impairment of receivables – net	7,268	9,552	8,533
Utilities	3,681	3,225	3,806
Commission	9,797	10,413	9,073
Warranties provision *(Note 30)*	3,255	6,449	9,377
Transportation expenses	4,204	5,337	7,060
Costs for the moulds used in research and development and the design of new products	1,762	5,040	4,790
Promotion costs	1,846	2,944	5,163
Professional service fee	715	1,247	2,005
Real estate tax, stamp duty and other taxes	786	951	1,128
Auditor's remuneration			
– Audit service	193	91	69
Expenses relating to the Company's conversion into a joint stock company	–	3,050	–
Other expenses (*)	19,556	20,668	33,312
	288,299	313,072	389,140

* Other expenses mainly consist of repair and maintenance expenses, packaging expenses, outsourced production costs, insurance fees and other miscellaneous expenses.

9 EMPLOYEE BENEFITS EXPENSE

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Salaries, wages and bonuses	47,743	60,517	75,823
Pension	2,358	2,386	2,414
Housing fund, medical insurance and other social insurance	9,855	9,771	12,920
Share-based payment expense *(Note 22)*	1,147	–	–
Total employee benefits expense	61,103	72,674	91,157

(a) Pension costs – defined contribution plans

The employees of the Company and its subsidiaries participate in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group is required to make monthly contributions to these plans at the percentages of the employees' monthly salaries and wages, subject to certain ceilings.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included four directors during the year ended 31 December 2017 (year ended 31 December 2016: three, year ended 31 December 2015: three), whose emoluments are reflected in the analysis shown in Note 38. The emoluments paid to the remaining individual(s) during the Track Record Period were as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Wages, salaries and bonus	464	920	857
Pension, housing fund, medical insurance and other social insurance	24	24	13
Share-based payment expense	293	–	–
	781	944	870

Emoluments of RMB870,000 for the year ended 31 December 2017 represent the emoluments of an individual whose emoluments were among the five highest in the Group. Such individual had served as a director of the Company, who resigned on 13 June 2017 and remained as an employee of the Group. The emoluments of such individual solely in the capacity of a director is disclosed in Note 38.

The number of highest paid non-director individuals, whose remuneration for the Track Record Period fell within the following bands:

	Year ended 31 December		
	2015	**2016**	**2017**
Emolument bands (in Hong Kong Dollars ("HK$"))			
Nil to HK$1,000,000	2	2	–
HK$1,000,000 to HK$2,000,000	–	–	1
	2	2	1

During the Track Record Period, no emoluments have been paid to the non-director highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10 FINANCE EXPENSES – NET

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Finance expenses:			
– Interest expense on borrowings	6,010	5,275	3,563
– Provisions: unwinding of discounts *(Note 30)*	1,936	2,182	2,268
Finance income:			
– Interest income	(645)	(1,583)	(1,541)
Finance expenses – net	7,301	5,874	4,290

11 INCOME TAX EXPENSES

The applicable enterprise income tax rate for Mainland China enterprises is 25%, with the exception of any preferential treatments received, such as the 15% preferential tax rate that the Company can enjoy for the years reported as a result of its qualification as a High and New Technology Enterprise ("HNTE") until 2017. Furthermore, Zhejiang Dongxing Software Development Limited has been qualified as a Software Enterprise ("SE") since 2013, and is entitled to a two-year exemption from enterprise income tax followed by three years at 50% tax reduction starting from 2013.

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Current income tax	14,071	21,516	43,347
Deferred income tax *(Note 29)*	(7,718)	(2,312)	(3,100)
Total income tax expenses	6,353	19,204	40,247

(a) PRC enterprise income tax ("EIT")

EIT is provided on the assessable income of entities within the Group incorporated in the PRC. The applicable EIT tax rate is 25% for the Track Record Period except for the entities eligible for HNTE and SE qualification as discussed above.

(b) Netherlands profits tax

No Netherlands profits tax has been provided, as the Group has no taxable profit earned or derived in the Netherlands. The applicable Netherlands profit tax rate is 20% for the Track Record Period.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Profit before income tax	42,898	137,087	281,930
Applicable tax rates	25%	25%	25%
Tax calculated at applicable tax rate	10,724	34,272	70,482
Tax effects of:			
Income not subject to tax	(105)	(180)	(374)
Expenses not deductible for tax purposes	1,978	1,626	2,148
Tax losses and unrealized profits for which no deferred income tax assets were recognised	829	216	566
Additional deduction of research and development expenses *(a)*	(1,397)	(1,573)	(3,615)
Tax effect from HNTE qualification	518	(6,887)	(17,361)
Tax effect from SE qualification	(6,402)	(8,325)	(11,740)
Effect of different taxation rates	208	55	141
Income tax expenses	6,353	19,204	40,247

(a) According to a policy promulgated by the State Tax Bureau of the PRC, enterprises engaged in research and development activities are entitled to claim 150% of the research and development expenses so incurred in a year as tax deductible expenses in determining its taxable profits for that year ("Super Deduction"). The Company and certain of its subsidiaries successfully claimed the Super Deduction in ascertaining the taxable profits for the periods reported.

12 EARNINGS PER SHARE

On 13 June 2017, the Company was converted into a joint stock company with limited liability with registered capital of RMB51,890,000 and 51,890,000 shares in issue. In calculating earnings per share, it is assumed that 51,890,000 shares had been issued at the beginning of year 2015.

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of shares in issue or deemed to be in issue during the Track Record Period. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The fully diluted earnings per share for the Track Record Period is the same as the basic earnings per share as there is no dilutive potential share during the Track Record Period.

	Year ended 31 December		
	2015	**2016**	**2017**
Profit attributable to the equity holders of the Company (RMB'000)	35,985	117,495	239,352
Weighted average number of shares in issue or deemed to be in issue (in thousands)	51,890	51,890	51,890
Basic and diluted earnings per share (RMB)	0.69	2.26	4.61

13 NET FOREIGN EXCHANGE GAINS

The exchange differences credited to the consolidated statements of profit or loss are included as follows:

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Other gains – net	182	172	37

14 LAND USE RIGHTS

The Group's and Company's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Year ended 31 December		
Group and Company	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
At beginning of year	6,878	6,682	6,486
Amortisation *(Note 8)*	(196)	(196)	(196)
At end of year	6,682	6,486	6,290

The land use rights are held under medium-term leases with lease term of 40 years and the land is located at Wenzhou, Zhejiang Province, the PRC.

As at 31 December 2015, 2016 and 2017, certain land use rights of the Group and the Company were pledged to secure short-term bank borrowings as disclosed in Note 27.

15 PROPERTY, PLANT AND EQUIPMENT

Group	Plant	Machinery	Vehicles	Furniture, fittings and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015						
Cost	55,554	61,957	9,914	2,440	–	129,865
Accumulated depreciation	(19,869)	(26,963)	(5,855)	(1,986)	–	(54,673)
Net book amount	35,685	34,994	4,059	454	–	75,192
Year ended 31 December 2015						
Opening net book amount	35,685	34,994	4,059	454	–	75,192
Currency translation differences	–	(82)	(2)	–	–	(84)
Additions	232	2,708	1,015	95	1,741	5,791
Disposals	–	(1,068)	(9)	–	–	(1,077)
Depreciation charge *(Note 8)*	(3,313)	(6,043)	(1,534)	(364)	–	(11,254)
Closing net book amount	32,604	30,509	3,529	185	1,741	68,568
At 31 December 2015						
Cost	55,786	62,522	10,687	2,534	1,741	133,270
Accumulated depreciation	(23,182)	(32,013)	(7,158)	(2,349)	–	(64,702)
Net book amount	32,604	30,509	3,529	185	1,741	68,568
Year ended 31 December 2016						
Opening net book amount	32,604	30,509	3,529	185	1,741	68,568
Currency translation differences	–	34	2	–	–	36
Additions	–	2,610	–	113	3,651	6,374
Disposals	–	(34)	–	(16)	–	(50)
Depreciation charge *(Note 8)*	(2,875)	(5,854)	(1,222)	(81)	–	(10,032)
Closing net book amount	29,729	27,265	2,309	201	5,392	64,896
At 31 December 2016						
Cost	55,786	64,616	10,689	2,104	5,392	138,587
Accumulated depreciation	(26,057)	(37,351)	(8,380)	(1,903)	–	(73,691)
Net book amount	29,729	27,265	2,309	201	5,392	64,896
Year ended 31 December 2017						
Opening net book amount	29,729	27,265	2,309	201	5,392	64,896
Currency translation differences	–	70	1	–	–	71
Additions	537	7,320	1,232	477	3,594	13,160
Transfer	8,986	–	–	–	(8,986)	–
Disposals	–	(211)	–	–	–	(211)
Classified as held for sale	–	(1,537)	(9)	–	–	(1,546)
Depreciation charge *(Note 8)*	(3,004)	(5,601)	(934)	(134)	–	(9,673)
Closing net book amount	36,248	27,306	2,599	544	–	66,697
At 31 December 2017						
Cost	65,309	70,407	11,922	2,581	–	150,219
Accumulated depreciation	(29,061)	(41,564)	(9,314)	(2,037)	–	(81,976)
Classified as held for sale	–	(1,537)	(9)	–	–	(1,546)
Net book amount	36,248	27,306	2,599	544	–	66,697

Company	Plant	Machinery	Vehicles	Furniture, fittings and equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015						
Cost	55,554	57,358	9,877	2,389	–	125,178
Accumulated depreciation	(19,869)	(26,200)	(5,847)	(1,975)	–	(53,891)
Net book amount	35,685	31,158	4,030	414	–	71,287
Year ended 31 December 2015						
Opening net book amount	35,685	31,158	4,030	414	–	71,287
Additions	232	1,469	1,015	112	1,741	4,569
Disposals	–	(6,560)	(305)	(57)	–	(6,922)
Transfer to investment properties	(20,587)	–	–	–	–	(20,587)
Depreciation charge	(2,568)	(4,732)	(1,509)	(336)	–	(9,145)
Closing net book amount	12,762	21,335	3,231	133	1,741	39,202
At 31 December 2015						
Cost	29,895	46,911	10,244	2,357	1,741	91,148
Accumulated depreciation	(17,133)	(25,576)	(7,013)	(2,224)	–	(51,946)
Net book amount	12,762	21,335	3,231	133	1,741	39,202
Year ended 31 December 2016						
Opening net book amount	12,762	21,335	3,231	133	1,741	39,202
Additions	–	1,803	–	101	3,651	5,555
Disposals	–	(8)	–	(16)	–	(24)
Depreciation charge	(1,387)	(4,119)	(1,171)	(54)	–	(6,731)
Closing net book amount	11,375	19,011	2,060	164	5,392	38,002
At 31 December 2016						
Cost	29,895	48,198	10,244	1,915	5,392	95,644
Accumulated depreciation	(18,520)	(29,187)	(8,184)	(1,751)	–	(57,642)
Net book amount	11,375	19,011	2,060	164	5,392	38,002
Year ended 31 December 2017						
Opening net book amount	11,375	19,011	2,060	164	5,392	38,002
Additions	459	5,466	1,232	355	3,594	11,106
Transfer	8,986	–	–	–	(8,986)	–
Disposals	–	(828)	–	–	–	(828)
Depreciation charge	(1,532)	(4,001)	(888)	(95)	–	(6,516)
Closing net book amount	19,288	19,648	2,404	424	–	41,764
At 31 December 2017						
Cost	39,340	50,404	11,476	2,270	–	103,490
Accumulated depreciation	(20,052)	(30,756)	(9,072)	(1,846)	–	(61,726)
Net book amount	19,288	19,648	2,404	424	–	41,764

During the Track Record Period, the amounts of depreciation expense charged to cost of sales, administrative expenses and research and development expenses are as follows:

Group	Year ended 31 December 2015	2016	2017
	RMB'000	RMB'000	RMB'000
Cost of sales	6,369	5,725	5,300
Administrative expenses	3,528	3,345	3,391
Research and development expenses	1,357	962	982
	11,254	10,032	9,673

As at 31 December 2015, 2016 and 2017, certain plants of the Group and the Company classified as property, plant and equipment were pledged to secure short-term bank borrowings as disclosed in Note 27. Part of such plants were included in "Investment properties" in the balance sheets of the Company as at 31 December 2015, 2016 and 2017 (Note 16).

As at 31 December 2015, 2016 and 2017, the Group and the Company have not obtained the title certificate of auxiliary buildings with a total net book value of RMB1,675,000, RMB1,528,000 and RMB1,675,000, respectively.

16 INVESTMENT PROPERTIES

Company	Plants
	RMB'000
Year ended 31 December 2015	
Opening net book amount	–
Transfer from property, plant and equipment	20,587
Depreciation charge	(745)
Closing net book amount	19,842
At 31 December 2015	
Cost	25,768
Accumulated depreciation	(5,926)
Net book amount	19,842
Year ended 31 December 2016	
Opening net book amount	19,842
Depreciation charge	(1,488)
Closing net book amount	18,354
At 31 December 2016	
Cost	25,768
Accumulated depreciation	(7,414)
Net book amount	18,354
Year ended 31 December 2017	
Opening net book amount	18,354
Additions	78
Depreciation charge	(1,472)
Closing net book amount	16,960
At 31 December 2017	
Cost	25,846
Accumulated depreciation	(8,886)
Net book amount	16,960

As at 31 December 2017, the fair value of the Company's investment properties is RMB18,587,000 (31 December 2016: RMB19,910,000, 31 December 2015: RMB21,422,000).

As at 31 December 2015, 2016 and 2017, certain investment properties of the Company with a total net book value of RMB13,684,000, RMB12,755,000 and RMB1,736,000, respectively, were pledged to secure short-term bank borrowings.

17 INTANGIBLE ASSETS

Group and Company	Computer software
	RMB'000
At 1 January 2015	
Cost	1,318
Accumulated amortisation and impairment	(103)
Net book amount	1,215
Year ended 31 December 2015	
Opening net book amount	1,215
Amortisation charge *(Note 8)*	(265)
Closing net book amount	950
At 31 December 2015	
Cost	1,318
Accumulated amortisation and impairment	(368)
Net book amount	950
Year ended 31 December 2016	
Opening net book amount	950
Amortisation charge *(Note 8)*	(265)
Closing net book amount	685
At 31 December 2016	
Cost	1,318
Accumulated amortisation and impairment	(633)
Net book amount	685
Year ended 31 December 2017	
Opening net book amount	685
Amortisation charge *(Note 8)*	(265)
Closing net book amount	420
At 31 December 2017	
Cost	1,318
Accumulated amortisation and impairment	(898)
Net book amount	420

During the Track Record Period, the amounts of amortisation expense are charged to administrative expenses.

18 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

Group	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables – third parties	294,349	354,566	533,131
Less: Allowance for impairment of receivables	(24,620)	(34,140)	(42,630)
Trade receivables – net	269,729	320,426	490,501
Notes receivable *(a)*	21,626	34,406	50,001
Prepayments	7,106	6,596	20,612
Interest receivable	90	1,043	2,081
Other receivables	12,566	7,945	6,709
Less: Provision for impairment of other receivables	(11)	(43)	(86)
Other receivables – net	12,555	7,902	6,623
	311,106	370,373	569,818

Company	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables – third parties	275,847	327,144	487,295
Less: Allowance for impairment of receivables	(24,620)	(33,789)	(41,382)
Trade receivables – subsidiaries	9,707	11,397	13,446
Trade receivables – net	260,934	304,752	459,359
Notes receivable *(a)*	19,407	28,766	37,689
Prepayments	5,002	5,690	16,963
Interest receivable	90	1,043	2,081
Other receivables	12,019	6,949	6,613
Less: Provision for impairment of other receivables	(11)	(43)	(86)
Other receivables – net	12,008	6,906	6,527
	297,441	347,157	522,619

The carrying amounts of trade and other receivables are denominated in the following currencies:

Group	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
RMB	303,621	362,860	549,117
EUR	379	574	–
US$	–	343	89
	304,000	363,777	549,206

Company	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
RMB	286,719	335,565	498,731
EUR	5,720	5,559	6,836
US$	–	343	89
	292,439	341,467	505,656

As at 31 December 2015, 2016 and 2017, the carrying amounts of trade and other receivables approximated their fair values due to short maturity.

Customers who are given credit are generally granted with credit terms within 3 months.

As at 31 December 2015, 2016 and 2017, the aging analysis of trade receivables based on invoice date is as follows:

	As at 31 December		
Group	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Within 1 year	222,445	282,540	452,542
1 year to 2 years	47,384	31,167	32,355
2 years to 3 years	9,276	19,672	17,680
Over 3 years	15,244	21,187	30,554
	294,349	354,566	533,131

	As at 31 December		
Company	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Within 1 year	211,206	264,712	422,839
1 year to 2 years	49,828	30,526	28,608
2 years to 3 years	9,276	22,116	17,209
Over 3 years	15,244	21,187	32,085
	285,554	338,541	500,741

As at 31 December 2017, the Group's trade receivables of RMB80,589,000 (31 December 2016: RMB72,026,000, 31 December 2015: RMB71,904,000) were impaired and the corresponding provision was RMB42,630,000 (31 December 2016: RMB34,140,000, 31 December 2015: RMB24,620,000). The impairment is assessed according to their aging and historical default rates as these customers are of similar credit risk characteristics. Aging analysis of these impaired receivables at respective balance sheet dates are as follows:

	As at 31 December		
Group	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
1 year to 2 years	47,384	31,167	32,355
2 years to 3 years	9,276	19,672	17,680
Over 3 years	15,244	21,187	30,554
	71,904	72,026	80,589

As at 31 December 2017, the Company's trade receivables of RMB74,901,000 (31 December 2016: RMB68,513,000, 31 December 2015: RMB71,904,000) were impaired and the corresponding provision was RMB41,382,000 (31 December 2016: RMB33,789,000, 31 December 2015: RMB24,620,000). The impairment is assessed according to their aging and historical default rates as these customers are of similar credit risk characteristics. Aging analysis of these impaired receivables at respective balance sheet dates are as follows:

	As at 31 December		
Company	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
1 year to 2 years	47,384	27,654	28,365
2 years to 3 years	9,276	19,672	15,982
Over 3 years	15,244	21,187	30,554
	71,904	68,513	74,901

As at 31 December 2017, the Group's trade receivables of RMB172,811,000 (31 December 2016: RMB88,716,000, 31 December 2015: RMB90,281,000) were past due but not impaired. These balances relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	As at 31 December		
Group	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
3 months to 12 months	90,281	88,716	172,811

As at 31 December 2017, the Company's trade receivables of RMB175,310,000 (31 December 2016: RMB80,653,000, 31 December 2015: RMB91,051,000) were past due but not impaired. These balances relate to a number of independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	As at 31 December		
Company	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
3 months to 12 months	91,051	80,653	175,310

Movements on the provision for impairment of trade and other receivables are as follows:

	Year ended 31 December		
Group	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
At beginning of year	17,363	24,631	34,183
Provision for impairment of receivables	8,752	14,046	16,221
Unused amounts reversed	(1,484)	(4,494)	(7,688)
At end of year	24,631	34,183	42,716

Company	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
At beginning of year	17,363	24,631	33,832
Provision for impairment of receivables	8,752	13,695	15,143
Unused amounts reversed	(1,484)	(4,494)	(7,507)
At end of year	24,631	33,832	41,468

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated statements of profit or loss (Note 8). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

(a) Notes receivable

As at 31 December 2016, certain notes receivable of the Group and the Company were pledged to secure notes payable as disclosed in Note 26.

As at 31 December 2015 and 2017, no notes payable were pledged by notes receivable.

19 INVENTORIES

Group	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Raw materials	25,686	22,078	37,681
Work-in-progress	25,570	17,755	20,892
Finished goods	35,422	33,075	19,433
Packaging materials and consumables	282	169	237
	86,960	73,077	78,243

Company	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Raw materials	20,266	11,082	18,793
Work-in-progress	24,415	13,402	15,657
Finished goods	28,199	30,181	18,834
Packaging materials and consumables	126	81	129
	73,006	54,746	53,413

During the years ended 31 December 2015, 2016 and 2017, the cost of the Group's inventories recognised as an expense and included in 'cost of sales' was RMB127,991,000, RMB120,879,000, and RMB143,512,000 respectively (Note 8).

During the years ended 31 December 2015, 2016 and 2017, the cost of the Group's inventories recognised as an expense and included in 'research and development expenses' was RMB4,364,000, RMB5,643,000, and RMB8,348,000 respectively (Note 8).

20 RESTRICTED CASH

Group and Company	As at 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000
Restricted cash pledged for notes payable *(Note 26)*	–	17,870	2,178
Restricted cash pledged for loans *(Note 27)*	10,000	–	–
Restricted cash pledged for financial guarantees provided to third parties *(i)*	21,780	31,780	31,780
Others	2,923	3,407	9,234
	34,703	53,057	43,192
Less: non-current portion of restricted cash	(23,094)	(33,110)	(33,775)
	11,609	19,947	9,417
Non-current portion of restricted cash:			
Restricted cash pledged for financial guarantees provided to third parties *(i)*	21,780	31,780	31,780
Others	1,314	1,330	1,995
	23,094	33,110	33,775

Restricted cash are all denominated in RMB.

(i) Due to providing financial guarantees to third parties (Note 30), bank deposit amounted to RMB21,780,000 with maturity of 5 years was pledged in 2015, and additional bank deposit amounted to RMB10,000,000 with maturity of 3 years was pledged in 2016.

21 CASH AND CASH EQUIVALENTS

Group	As at 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000
Cash on hand	288	27	48
Cash at bank	96,474	138,032	157,008
Cash and cash equivalents	96,762	138,059	157,056

Company	As at 31 December 2015 RMB'000	2016 RMB'000	2017 RMB'000
Cash on hand	94	7	17
Cash at bank	60,901	89,926	115,527
Cash and cash equivalents	60,995	89,933	115,544

Cash at bank and on hand are denominated in the following currencies:

Group	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
RMB	93,676	129,313	152,031
US$	1,907	2,702	3,308
EUR	1,179	6,044	1,717
	96,762	138,059	157,056

Company	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
RMB	59,120	85,936	110,519
US$	1,875	2,553	3,308
EUR	–	1,444	1,717
	60,995	89,933	115,544

22 SHARE-BASED AWARD

During the year ended 31 December 2015, 35% equity interests of Zhejiang Dongxing Energy Technology Limited and 21.34% equity interests of Zhejiang Dongxing Intelligent Instrument Limited were transferred to certain employees of the Group to extinguish the Group's borrowings owed to these employees of RMB7,000,000 and RMB3,200,000 respectively. The carrying value of the borrowings were below the fair values of the related equity interests of the subsidiaries with the difference being accounted for as share-based payment expense as management considered that the difference was for past services of the employees. The share-based payment expense amounting to RMB1,147,000 was recognised in consolidated statement of profit or loss for the year ended 31 December 2015. The Group adopted discounted cash flow method in determining related equity interests' valuation and key assumptions in valuation at the grant date includes the discount rate of 14.60% and projections of future performance.

23 CAPITAL/SHARE CAPITAL

The paid-in capital of the Company as at 31 December 2015 and 2016 was RMB51,890,000.

On 13 June 2017, the Company was converted into a joint stock company with limited liability with registered capital of RMB51,890,000 and 51,890,000 shares in issue.

The Share capital of the Company as at 31 December 2017 was RMB51,890,000 with 51,890,000 shares in issue.

24 OTHER RESERVES

Group	Capital reserves	Statutory reserves	Discretionary surplus reserves	Translation reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	3,370	26,401	1,646	(626)	30,791
Share-based award	1,147	–	–	–	1,147
Profit appropriation to statutory reserve or discretionary surplus reserves *(a)*	–	9,074	–	–	9,074
Currency translation differences	–	–	–	(166)	(166)
Balance at 31 December 2015	4,517	35,475	1,646	(792)	40,846
Balance at 1 January 2016	4,517	35,475	1,646	(792)	40,846
Profit appropriation to statutory reserve or discretionary surplus reserves *(a)*	–	–	4,212	–	4,212
Currency translation differences	–	–	–	178	178
Balance at 31 December 2016	4,517	35,475	5,858	(614)	45,236
Balance at 1 January 2017	4,517	35,475	5,858	(614)	45,236
Profit appropriation to statutory reserve or discretionary surplus reserves *(a)*	–	–	5,245	–	5,245
Transfer to reserves upon the Company's conversion into a joint stock company *(b)*	335,159	(35,475)	(11,103)	–	288,581
Currency translation differences	–	–	–	(587)	(587)
Balance at 31 December 2017	339,676	–	–	(1,201)	338,475

Company	Capital reserve	Statutory reserves	Discretionary surplus reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2015	3,370	26,401	1,646	31,417
Profit appropriation to statutory reserve or discretionary surplus reserves *(a)*	–	9,074	–	9,074
Balance at 31 December 2015	3,370	35,475	1,646	40,491
Balance at 1 January 2016	3,370	35,475	1,646	40,491
Profit appropriation to statutory reserve or discretionary surplus reserves *(a)*	–	–	4,212	4,212
Balance at 31 December 2016	3,370	35,475	5,858	44,703
Balance at 1 January 2017	3,370	35,475	5,858	44,703
Profit appropriation to statutory reserve or discretionary surplus reserves *(a)*	–	–	5,245	5,245
Transfer to reserves upon the Company's conversion into a joint stock company *(b)*	335,159	(35,475)	(11,103)	288,581
Balance at 31 December 2017	338,529	–	–	338,529

(a) Statutory reserve or discretionary surplus reserves

Pursuant to the Company Law of the PRC and the articles of association of the Company and its PRC subsidiaries, the entities in the PRC are required to appropriate 10% of each year's net profit (after offsetting previous years' losses) to statutory reserve until the fund aggregates to 50% of their registered capital; after the appropriation to statutory reserve, the enterprises in the PRC can appropriate profit, subject to respective equity holders' approval, to discretionary surplus reserve.

The appropriation to statutory and discretionary surplus reserves must be made before distribution of dividends to equity holders. These reserves shall only be used to make up for previous years' losses, to expand production operations, or to increase the capital of the respective company. The entities in the PRC may transfer their respective statutory reserves into paid-in capital, provided that the balance of the statutory reserve after such transfer is not less than 25% of the registered capital.

(b) On 13 June 2017, the Company was converted from a limited liability company into a joint stock company with limited liability. By reference to the Company's net asset value as at 31 December 2016, the Company issued 51,890,000 shares with a nominal value of RMB1 each. The difference between the net asset value and the share capital was recognised as capital reserve of the Company.

25 RETAINED EARNINGS

Group

	RMB'000
Balance at 1 January 2015	210,157
Profit for the year	35,985
Profit appropriation to statutory reserve or discretionary surplus reserves	(9,074)
Dividends	(28,540)
Balance at 31 December 2015	208,528
Balance at 1 January 2016	208,528
Profit for the year	117,495
Profit appropriation to statutory reserve or discretionary surplus reserves	(4,212)
Dividends	(29,058)
Balance at 31 December 2016	292,753
Balance at 1 January 2017	292,753
Profit appropriation to statutory reserve or discretionary surplus reserves	(5,245)
Transfer to reserves upon the Company's conversion into a joint stock company	(288,581)
Profit for the year	239,352
Dividends	(36,323)
Balance at 31 December 2017	201,956

Company

	RMB'000
Balance at 1 January 2015	204,950
Profit for the year	41,655
Profit appropriation to statutory reserve or discretionary surplus reserves	(9,074)
Dividends	(28,540)
Balance at 31 December 2015	208,991
Balance at 1 January 2016	208,991
Profit for the year	118,105
Profit appropriation to statutory reserve or discretionary surplus reserves	(4,212)
Dividends	(29,058)
Balance at 31 December 2016	293,826
Balance at 1 January 2017	293,826
Profit appropriation to statutory reserve or discretionary surplus reserves	(5,245)
Transfer to reserves upon the Company's conversion into a joint stock company	(288,581)
Profit for the year	208,177
Dividends	(36,323)
Balance at 31 December 2017	171,854

26 TRADE AND OTHER PAYABLES

Group	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade payables – third parties *(a)*	42,157	51,009	59,525
Taxes payable	27,300	31,317	46,824
Notes payable *(b)*	–	12,241	1,500
Advances from customers	8,627	6,706	9,004
Salaries and bonuses payable	465	668	960
Interests payable	135	72	75
Advances from employees for sundry expenses	14,460	13,197	7,568
Loans from employees	7,485	6,976	–
Sales commission payable	3,204	3,784	5,146
Others	11,394	13,053	20,809
	115,227	139,023	151,411

Company	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade payables – third parties *(a)*	19,403	16,203	24,081
Trade payables – subsidiaries *(a)*	20,750	16,086	12,855
Taxes payable	22,994	26,654	40,564
Notes payable – third parties *(b)*	–	12,241	1,500
Advances from customers	13,253	7,047	5,895
Salaries and bonuses payable	371	527	831
Interests payable	135	72	75
Advances from employees for sundry expenses	13,777	12,258	6,823
Loans from employees	7,485	6,976	–
Sales commission payable	3,204	3,784	5,146
Others	8,806	10,858	18,265
	110,178	112,706	116,035

The carrying amounts of the Group and the Company's trade and other payables excluding taxes payable, advances from customers and salaries and bonuses payable are denominated in the following currencies:

Group	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
RMB	78,288	98,887	94,623
EUR	547	1,445	–
	78,835	100,332	94,623

Company	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
RMB	73,551	77,849	68,745
EUR	9	629	–
	73,560	78,478	68,745

The carrying amounts of trade and other payables approximate their fair values.

(a) Trade payables

As at 31 December 2015, 2016, and 2017, the aging analysis of the trade payables based on invoice date is as follows:

Group	As at 31 December 2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 1 year	39,474	46,055	56,051
1 year to 2 years	1,287	3,082	978
2 years to 3 years	674	763	1,010
Over 3 years	722	1,109	1,486
	42,157	51,009	59,525

Company	As at 31 December 2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 1 year	37,635	28,117	34,196
1 year to 2 years	1,122	2,465	538
2 years to 3 years	674	598	882
Over 3 years	722	1,109	1,320
	40,153	32,289	36,936

(b) Notes payable

The Group and the Company's notes payable as at 31 December 2017 were as follows:

Notes payable Amount	Type	Collateral net book value (RMB'000) Restricted Cash	Notes receivable
(RMB'000)			
1,500	Pledged	2,178	–

The Group and the Company's notes payable as at 31 December 2016 were as follows:

Notes payable Amount	Type	Collateral net book value (RMB'000) Restricted Cash	Notes receivable
(RMB'000)			
12,241	Pledged	17,870	1,150

As at 31 December 2015, no notes payable were pledged by notes receivable or restricted cash.

27 BORROWINGS

Group and Company	As at 31 December 2015	2016	2017
	RMB'000	RMB'000	RMB'000
Short-term bank borrowings			
– Secured and guaranteed	19,000	60,100	44,900
– Secured	25,900	–	–
– Pledged	9,500	–	–
– Guaranteed	31,000	18,000	15,000
Total borrowings	85,400	78,100	59,900

(a) Borrowings from banks

The Group and the Company's bank borrowings as at 31 December 2017 were as follows:

Borrowing Amount (RMB'000)	Type of borrowings	Collateral net book value (RMB'000) Plant	Land use rights	Guarantor
44,900	Secured and guaranteed	11,044	1,233	Zhejiang Dongxing Software Development Limited
15,000	Guaranteed	–	–	Zhejiang Dongxing Software Development Limited
59,900		11,044	1,233	

The Group and the Company's bank borrowings as at 31 December 2016 were as follows:

Borrowing Amount (RMB'000)	Type of borrowings	Collateral net book value (RMB'000) Plant	Land use rights	Guarantor
44,900	Secured and guaranteed	12,069	1,280	Zhejiang Dongxing Software Development Limited
15,200	Secured and guaranteed	10,701	5,206	Hong Zuobin (Chairman), Huang Youliang (Director), Chen Yuhua (Spouse of a director) and Lin Yingzi (Spouse of a director)
18,000	Guaranteed	–	–	Zhejiang Dongxing Software Development Limited
78,100		22,770	6,486	

The Group and the Company's bank borrowings as at 31 December 2015 were as follows:

		Collateral net book value (RMB'000)			
Borrowing Amount	**Type of borrowings**	**Plant**	**Land use rights**	**Restricted cash**	**Guarantor**
(RMB'000)					
19,000	Secured and guaranteed	11,311	5,355	–	Hong Zuobin (Chairman), Huang Youliang (Director), Chen Yuhua (Spouse of a director) and Lin Yingzi (Spouse of a director)
25,900	Secured	13,472	1,327	–	–
9,500	Pledged	–	–	10,000	–
20,000	Guaranteed	–	–	–	Zhejiang Dongxing Software Development Limited
11,000	Guaranteed	–	–	–	Huazheng Plastics Group Co., Ltd. (a third party) and Hong Zuobin (Chairman)
85,400		24,783	6,682	10,000	

As at 31 December 2015, 2016 and 2017, the weighted average effective interest rates on borrowings from banks were 5.25%, 4.79% and 4.57%, respectively.

The carrying amounts of the Group and the Company's borrowings from banks were denominated in RMB, repayable within 1 year, and approximated their fair values as at the respective balance sheet dates.

28 DEFERRED INCOME

	As at 31 December		
Group and Company	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Government grants relating to property, plant and equipment	1,205	1,025	845
Less: Current portion	(180)	(180)	(180)
Non-current portion	1,025	845	665

The government grants were subsidies received from local governments for purchases of property, plant and equipment. The amounts are amortised to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above government grants during the Track Record Period were as follows:

	Year ended 31 December		
Group and Company	**2015**	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
At beginning of year	1,385	1,205	1,025
Amortised as income *(Note 6(a))*	(180)	(180)	(180)
At end of year	1,205	1,025	845

29 DEFERRED INCOME TAX ASSETS

The analysis of deferred tax assets is as follows:

Group	As at 31 December 2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
– Deferred tax assets to be recovered after more than 12 months	18,271	20,066	22,164
– Deferred tax assets to be recovered within 12 months	2,079	2,596	3,598
Deferred tax assets (net)	20,350	22,662	25,762

Company	As at 31 December 2015	2016	2017
	RMB'000	RMB'000	RMB'000
Deferred tax assets:			
– Deferred tax assets to be recovered after more than 12 months	18,271	19,978	21,852
– Deferred tax assets to be recovered within 12 months	441	507	2,863
Deferred tax assets (net)	18,712	20,485	24,715

The movement of the deferred income tax assets (net) is as follows:

Group	Year ended 31 December 2015	2016	2017
	RMB'000	RMB'000	RMB'000
At beginning of year	12,632	20,350	22,662
Income statement credit *(Note 11)*	7,718	2,312	3,100
At end of year	20,350	22,662	25,762

Company	Year ended 31 December 2015	2016	2017
	RMB'000	RMB'000	RMB'000
At beginning of year	11,992	18,712	20,485
Income statement credit	6,720	1,773	4,230
At end of year	18,712	20,485	24,715

The movement in deferred income tax assets during the year, without taking consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Group	Impairment of assets	Provisions for other liabilities and charges	Warranties provision	Unrealised profits – sales of inventories	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	2,605	8,909	478	640	12,632
Credited to the consolidated statements of profit or loss	1,090	5,667	95	866	7,718
At 31 December 2015	3,695	14,576	573	1,506	20,350
Credited to the consolidated statements of profit or loss	1,468	327	135	382	2,312
At 31 December 2016	5,163	14,903	708	1,888	22,662
Credited/(charged) to the consolidated statements of profit or loss	1,369	2,604	733	(1,606)	3,100
At 31 December 2017	6,532	17,507	1,441	282	25,762

Company	Impairment of assets	Provisions for other liabilities and charges	Warranties provision	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	2,605	8,909	478	11,992
Credited/(charged) to profit or loss	1,090	5,667	(37)	6,720
At 31 December 2015	3,695	14,576	441	18,712
Credited to profit or loss	1,380	327	66	1,773
At 31 December 2016	5,075	14,903	507	20,485
Credited to profit or loss	1,146	2,604	480	4,230
At 31 December 2017	6,221	17,507	987	24,715

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB3,022,400 as at 31 December 2017 (31 December 2016: RMB2,438,000, 31 December 2015: RMB2,250,000) in respect of losses amounting to RMB15,112,000 (31 December 2016: RMB12,191,000, 31 December 2015: RMB11,250,000) that can be carried forward against future taxable income. The expiry years of these losses are as follows:

	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
2022	2,169	2,169	2,169
2023	4,629	4,629	4,629
2024	4,452	4,452	4,452
2025	–	941	941
2026	–	–	2,921
	11,250	12,191	15,112

30 WARRANTIES PROVISION AND PROVISIONS FOR OTHER LIABILITIES AND CHARGES

(a) Warranties provision

Group	Warranties provision
	RMB'000
Balance at 1 January 2015	3,191
Charged to profit or loss:	
Additional provisions	3,255
Utilised during year	(2,977)
Balance at 31 December 2015	3,469
Balance at 1 January 2016	3,469
Charged to profit or loss:	
Additional provisions	6,449
Utilised during year	(5,734)
Balance at 31 December 2016	4,184
Balance at 1 January 2017	4,184
Charged to profit or loss:	
Additional provisions	9,377
Utilised during year	(5,163)
Balance at 31 December 2017	8,398

Company	Warranties provision
	RMB'000
Balance at 1 January 2015	3,191
Charged to profit or loss:	
Additional provisions	2,113
Utilised during year	(2,363)
Balance at 31 December 2015	2,941
Balance at 1 January 2016	2,941
Charged to profit or loss:	
Additional provisions	5,452
Utilised during year	(5,015)
Balance at 31 December 2016	3,378
Balance at 1 January 2017	3,378
Charged to profit or loss:	
Additional provisions	8,066
Utilised during year	(4,862)
Balance at 31 December 2017	6,582

Analysis of total warranties provisions:

Group	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current	3,469	4,184	8,398

Company	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current	2,941	3,378	6,582

The Group provides warranties for its products sold. Within the warranty period, customers are entitled to free repairs and maintenance services for the products sold. The Group makes provision for warranty claims based on historical experience and actual costs incurred in the past.

(b) Provisions for other liabilities and charges

Group and Company	Legal claims
	RMB'000
Balance at 1 January 2015 *(i)*	59,392
Charged to profit or loss:	
Additional provisions	
– Financial guarantees provided to third parties *(i)*	35,845
Unwinding of discount	1,936
Paid during year	(2,203)
Balance at 31 December 2015	94,970
Balance at 1 January 2016	94,970
Charged to profit or loss:	
Unwinding of discount	2,182
Paid during year	(12,200)
Balance at 31 December 2016	84,952
Balance at 1 January 2017	84,952
Charged to profit or loss:	
Additional provisions	
– Financial guarantees provided to third parties *(i)*	2,587
– Litigation *(ii)*	12,503
Unwinding of discount	2,268
Paid during year	(16,200)
Balance at 31 December 2017	86,110

Analysis of total provisions:

Group and Company	As at 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Non-current	83,043	24,655	17,523
Current	11,927	60,297	68,587
	94,970	84,952	86,110

(i) The amounts represent provisions for certain legal claims brought against the Company as the guarantor for the overdue bank loans granted to two third-party companies. During the years 2012 to 2014, the Company provided financial guarantees in favour of the bank borrowings granted to these two companies. The repayments of the principals and/or interests of these bank borrowings were in default in 2014 and 2015, and therefore, the Company was held liable for the performance of loan contracts as the guarantor. Based on certain court decisions and the terms of the guarantee contracts, the Company made provisions against the legal claims in 2014 and 2015. During the year 2017, a court decision was reached for the remaining one legal claim, and the Company made additional provision of RMB2,587,000 accordingly. Payments shall be made during the years 2015 to 2019. The carrying amount represents the discounted balance after considering the anticipated payment dates and the discount rate ranging from 2.30% to 3.26% during the period.

The provision charge is recognised in profit or loss within 'Other losses – net'.

(ii) In April and December 2014, the board of directors of the Company passed resolutions to retrieve and transfer the shareholding held by an ex-shareholder to a number of current employees of the Company as he carried out competing business activities in breach of the Company's then articles of association. The aggregate consideration for the transfer of RMB4.3 million was received in full from the current employees and recorded under "trade and other payables – others". Payment has not been made to the ex-shareholder pending the outcome of the legal claims brought against the Company by the ex-shareholder. The amounts provided under "provisions for other liabilities and charges" represent provisions for two legal claims brought against the Company by the ex-shareholder for the unpaid dividend, and by Shanghai Zhongde Energy (Group) Co., Ltd. ("Zhongde"), of which the ex-shareholder was a shareholder and director, for a purchase transaction in dispute. Provision has been made against these legal claims in 2017 considering the facts and circumstances and after seeking advice from legal counsel. In the directors' opinion, the final outcome of these legal claims will not give rise to any significant loss beyond the amounts provided as at 31 December 2017.

The provision charge is recognised in profit or loss within 'Other losses – net'.

31 DIVIDENDS

The dividends declared in the years ended 31 December 2015, 2016 and 2017 were RMB28,540,000 RMB29,058,000 and RMB36,323,000 respectively.

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Dividends declared and paid	28,540	29,058	36,323

32 CASH GENERATED FROM OPERATIONS AND RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

(a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Profit before income tax	42,898	137,087	281,930
Adjustments for:			
– Depreciation of property, plant and equipment	11,254	10,032	9,673
– Amortisation of intangible assets	265	265	265
– Amortisation of land use rights	196	196	196
– Losses on disposals of property, plant and equipment	34	46	152
– Share-based award	1,147	–	–
– Finance expenses – net	7,301	5,874	4,290
– Provision for impairment of trade and other receivables	7,268	9,552	8,533
– Losses from financial guarantees provided to third parties	35,845	–	2,587
– Litigation losses	–	–	12,503
– Amortisation of deferred income related to government grants	(180)	(180)	(180)
Changes in working capital			
– Inventories	9,754	13,883	(5,166)
– Trade and other receivables and prepayments	(27,018)	(67,846)	(197,627)
– Restricted cash	4,859	(18,354)	9,865
– Trade and other payables	2,573	23,686	12,347
– Warranties provision	278	715	4,214
– Assets classified as held for sale	–	–	(8,140)
– Liabilities directly associated with assets classified as held for sale	–	–	109
Cash generated from operations	96,474	114,956	135,551

(b) Proceeds from disposal of property, plant and equipment

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Net book value *(Note 15)*	1,077	50	211
Losses on disposal of property, plant and equipment *(Note 7)*	(34)	(46)	(152)
Proceeds from disposals of property, plant and equipment	1,043	4	59

(c) Reconciliation of liabilities arising from financing activities

	1 January 2015	Additional provision	Unwinding of discount	Cash flows	31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	83,000	–	–	2,400	85,400
Provisions for other liabilities and charges – financial guarantees	59,392	35,845	1,936	(2,203)	94,970
Liabilities from financing activities	142,392	35,845	1,936	197	180,370

	1 January 2016	Additional provision	Unwinding of discount	Cash flows	31 December 2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	85,400	–	–	(7,300)	78,100
Provisions for other liabilities and charges – financial guarantees	94,970	–	2,182	(12,200)	84,952
Liabilities from financing activities	180,370	–	2,182	(19,500)	163,052

	1 January 2017	Additional provision	Unwinding of discount	Cash flows	31 December 2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Borrowings	78,100	–	–	(18,200)	59,900
Provisions for other liabilities and charges – financial guarantees	84,952	2,587	2,268	(16,200)	73,607
Liabilities from financing activities	163,052	2,587	2,268	(34,400)	133,507

(d) Reconciliation to consolidated statements of cash flows

	Year ended 31 December		
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Balances of cash and cash equivalents per consolidated balance sheets	96,762	138,059	157,056
Cash and cash equivalents of disposal group classified as held for sale	–	–	334
Balances of cash and cash equivalents per consolidated statements of cash flows	96,762	138,059	157,390

(e) Non-cash transaction

As disclosed in note 22, in 2015, the Company transferred 35% and 21.34% of the equity interests of two subsidiaries of the Company to certain employees of these two subsidiaries to extinguish the Group's borrowings due to these employees amounting to RMB10,200,000.

33 INVESTMENT IN SUBSIDIARIES AND ASSETS CLASSIFIED AS HELD FOR SALE – COMPANY

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Investment in subsidiaries – at cost, unlisted	52,838	54,280	54,280
Less: provision for impairment of investment in a subsidiary	–	–	(16,654)
Investment in subsidiaries	52,838	54,280	37,626
Less: classified as held for sale *(Note 37)*	–	–	(923)
Investment in subsidiaries – net	52,838	54,280	36,703

As a result of the shift in business focus of the Company between geographical areas in the third quarter of 2017, a provision for impairment of RMB16,654,000 was recognised against the Company's investment in GFO Europe B.V.. The recoverable amount of the Company's investment in GFO Europe B.V. was determined by its fair value less cost of disposal and provision was provided based on the difference between the cost of the investment and the recoverable amount.

34 COMMITMENTS

(a) Capital commitments

The capital commitments of the Group and the Company as at the respective balance sheet dates during the Track Record Period were as follows:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Contracted but not provided for:			
Property, plant and equipment	3,124	224	–

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases of the Group are as follows:

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Not later than 1 year	430	576	615
Later than 1 year and not later than 2 years	430	576	615
Later than 2 years and not later than 5 years	1,113	1,513	1,001
Later than 5 years	216	–	–
	2,189	2,665	2,231

35 SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions. Name and relationship with related parties are set out below:

Related party	**Relationship**
Shandong Dongxing Instrument Co. Ltd ("Shandong Dongxing")	Controlled by a director cum shareholder of the Company
Mr. Hong Zuobin	Chairman
Mr. Huang Youliang	Director
Mr. Yin Xingjing	Director
Ms. Chen Yuhua	Spouse of a director
Ms. Lin Yingzi	Spouse of a director

(a) Significant related party transactions

The following significant transactions were carried out between the Group and its related parties during the Track Record Period. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

(i) Sales commission paid

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Shandong Dongxing	1,131	1,993	1,149

(ii) Interest paid

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Mr. Yin Xingjing	11	11	3

(iii) Key management compensation

	Year ended 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Short-term employee benefits			
– Wages, salaries and bonus	2,022	3,908	5,628
– Pension, housing fund, medical insurance and other social insurance	96	98	104
– Share-based payment expense	293	–	–
	2,411	4,006	5,732

(b) Balance with related parties

(i) Guarantee received for bank borrowings

As at 31 December 2015 and 2016, certain bank borrowings were guaranteed by related parties of the Group as disclosed in Note 27.

As at 31 December 2017, no bank borrowings were guaranteed by related parties of the Group.

(ii) Other payables

	As at 31 December		
	2015	**2016**	**2017**
	RMB'000	**RMB'000**	**RMB'000**
Mr. Yin Xingjing	110	110	–

The payables are unsecured in nature and repayable on demand.

36 CONTINGENCIES

(a) Contingent liabilities of the Group

Provision for legal claims has been made for the guarantees provided to third parties and legal disputes with an individual and a third-party company. Please refer to Note 30 for details.

(b) Contingent assets of the Group

The Company had another legal proceeding with Zhongde related to payment of goods. According to the judgement by the relevant court, Zhongde was ordered to pay the Company RMB13,644,000 plus relevant interest and the Company was ordered to pay Zhongde RMB2,628,000 plus relevant interest. The enforcement of the judgement of this legal proceeding was suspended as Zhongde filed an application for retrial, which has been accepted by the court for review. The Company has not recognised any contingent assets related to this legal proceeding in view of the uncertainty of the outcome at this stage.

Other than the matter as mentioned above, there are no other contingencies which might have a significant impact to the financial statements.

37 EVENTS AFTER THE BALANCE SHEET DATE

(a) Disposal of a subsidiary

Starting from the fourth quarter of 2017, the Company decided to dispose of GFO Europe B.V. and started to actively locate potential buyers in the market. Accordingly, as at 31 December 2017, assets and liabilities of GFO Europe B.V. were presented as "assets classified as held for sale" and "liabilities directly associated with assets classified as held for sale" in the consolidated balance sheet, respectively. The Company's investment in GFO Europe B.V. was classified as held for sale in the Company's balance sheet as at 31 December 2017. On 25 January 2018, the Company entered into a sale and purchase agreement to sell its entire equity interest in GFO Europe B.V. to a third party at a consideration of USD145,000. The disposal is not expected to have a significant impact to the financial statements.

(b) Declaration of dividend

On 18 May 2018, the Company's shareholders' meeting has resolved to declare a dividend of RMB41,512,000 to the shareholders of the Company.

38 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and the chief executive's emoluments

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2015 is set out as follows:

	Fees	Salary	Discretionary bonuses	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman							
Mr. Hong Zuobin	–	42	248	–	–	–	290
Executive Directors							
Mr. Huang Youliang	–	32	221	–	12	–	265
Mr. Lin Deqing	–	120	167	–	12	–	299
Mr. Zhang Shengyi	–	32	208	–	12	–	252
Ms. Lin Zichan	–	31	198	–	12	–	241
Mr. Lin Zhongzhu	–	29	198	–	12	–	239
Mr. Yin Xingjing	–	32	200	–	12	–	244
Mr. Lin Jingdian	–	28	202	–	12	–	242
Mr. Huang Xijun	–	24	101	–	12	–	137
Supervisors							
Mr. Deng Zhaoming	–	26	182	–	12	–	220
Mr. Ye Sigong	–	27	182	–	12	–	221
Mr. Zhou Xiaoding	–	120	144	–	12	–	276
	–	543	2,251	–	132	–	2,926

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2016 is set out as follows:

	Fees	Salary	Discretionary bonuses	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman							
Mr. Hong Zuobin	–	42	558	–	–	–	600
Executive Directors							
Mr. Huang Youliang	–	32	401	–	12	–	445
Mr. Lin Deqing	–	120	348	–	12	–	480
Mr. Zhang Shengyi	–	32	428	–	12	–	472
Ms. Lin Zichan	–	31	427	–	12	–	470
Mr. Lin Zhongzhu	–	29	427	–	12	–	468
Mr. Yin Xingjing	–	32	418	–	12	–	462
Mr. Lin Jingdian	–	28	299	–	12	–	339
Mr. Huang Xijun	–	24	143	–	12	–	179
Supervisors							
Mr. Deng Zhaoming	–	26	248	–	12	–	286
Mr. Ye Sigong	–	27	248	–	12	–	287
Mr. Zhou Xiaoding	–	120	163	–	12	–	295
	–	543	4,108	–	132	–	4,783

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2017 is set out as follows:

	Fees	Salary	Discretionary bonuses	Allowances and benefits in kind	Employer's contribution to a retirement benefit scheme	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Chairman							
Mr. Hong Zuobin	–	152	793	–	–	–	945
Executive Directors							
Mr. Huang Youliang	–	160	702	–	13	–	875
Mr. Lin Deqing *(ii)*	–	60	204	–	6	–	270
Mr. Zhang Shengyi	–	100	580	–	13	–	693
Ms. Lin Zichan	–	100	550	–	13	–	663
Mr. Lin Zhongzhu	–	98	568	–	13	–	679
Mr. Yin Xingjing	–	91	550	–	13	–	654
Mr. Lin Jingdian	–	78	377	–	13	–	468
Non-executive Directors							
Mr. Ye Xiaosen *(iv)*	–	48	–	–	–	–	48
Mr. Hou Zukuan *(v)*	–	48	–	–	–	–	48
Supervisors							
Mr. Huang Xijun *(i)*	–	22	203	–	13	–	238
Mr. Deng Zhaoming *(iii)*	–	31	146	–	6	–	183
Mr. Ye Sigong	–	78	265	–	13	–	356
Mr. Zhou Xiaoding	–	139	247	–	13	–	399
	–	1,205	5,185	–	129	–	6,519

(i) Mr. Huang Xijun resigned from the board of directors and was appointed as supervisor on 13 June 2017. The emolument was comprised of remuneration generated from the position as both a director and a supervisor.

(ii) Mr. Lin Deqing resigned on 13 June 2017.

(iii) Mr. Deng Zhaoming resigned on 13 June 2017.

(iv) Mr. Ye Xiaosen was appointed as non-executive director on 15 August 2017.

(v) Mr. Hou Zukuan was appointed as non-executive director on 15 August 2017.

There were no remuneration paid to the directors of the Company by the shareholders for the years ended 31 December 2015, 2016 and 2017.

For the years ended 31 December 2015, 2016 and 2017, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

For the years ended 31 December 2015, 2016 and 2017, no consideration was provided to third parties for making available directors' services.

(b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at each of the year ended 31 December 2015, 2016 and 2017 or at any time during the years, except as disclosed in Note 35.

(c) Retirement benefits of directors

During the years ended 31 December 2015, 2016 and 2017, there were no additional retirement benefit received by the directors except for the contribution to a retirement benefit scheme as disclosed in note (a) above.

(d) Termination benefits of directors

During the years ended 31 December 2015, 2016 and 2017, there were no termination benefits received by the directors.

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the years ended 31 December 2015, 2016 and 2017, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favour of directors, except as disclosed in Note 35.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 December 2017 and up to the date of this report. Save as disclosed in note 37 to the notes to the Historical Financial Information, no dividend or distribution has been declared, made or paid by the Company or any companies comprising the Group in respect of any period subsequent to 31 December 2017.

The information set out in this Appendix II does not form part of the "Accountant's Report" from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the "Accountant's Report" set out in Appendix I to this prospectus.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group which has been prepared in accordance with Rule 4.29 of the Listing Rules and on the basis as set out on pages II-1 to II-2, for the purpose of illustrating the effect of the Global Offering on the net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 as if the Global Offering had taken place on that date.

This unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the net tangible assets of the Group had the Global Offering been completed as at 31 December 2017 or at any future date.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 31 December 2017	Unaudited pro forma adjusted net tangible assets per Share	
	Note 1	Note 2		Note 3	Note 4
	RMB'000	RMB'000	RMB'000	RMB	HK$
Based on an Offer Price of HK$37.10 per H Share. . . .	591,901	475,634	1,067,535	15.43	18.85
Based on an Offer Price of HK$51.90 per H Share. . . .	591,901	677,792	1,269,693	18.35	22.43

Notes:

(1) The audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2017 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as at 31 December 2017 of RMB592,321,000, with adjustment for intangible assets as at 31 December 2017 of RMB420,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$37.10 and HK$51.90 per H Share after deduction of the estimated underwriting fees and other related expenses (excluding listing expenses of approximately RMB3,174,000 which have been accounted for in the consolidated statements of profit or loss prior to 31 December 2017) payable by us, and takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 69,186,667 Shares were in issue assuming that the Global Offering has been completed on 31 December 2017 but takes no account of any shares which may be issued upon the exercise of the Over-allotment Option.

(4) For the purpose of this unaudited pro forma statement of adjusted net tangible assets, the balance stated in Renminbi are converted in to Hong Kong dollars at the rate of RMB0.81835 to HK$1.00. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

(5) The unaudited pro forma adjusted net tangible assets does not take into account the dividends of approximately RMB41,512,000 declared and paid in May 2018. Had such dividends been taken into account, the unaudited pro forma adjusted net tangible assets per Share would be approximately RMB14.83 (equivalent to HK$18.12), assuming an Offer Price of HK$37.10 per Share, and approximately RMB17.75 (equivalent to HK$21.69), assuming an Offer Price of HK$51.90 per Share.

(6) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2017.

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

pwc 羅兵咸永道

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Zhejiang Cangnan Instrument Group Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Zhejiang Cangnan Instrument Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2017, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 28 June 2018, in connection with the proposed initial public offering of the shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 December 2017 as if the proposed initial public offering had taken place as at 31 December 2017. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the year ended 31 December 2017, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420, *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*, issued by the HKICPA. This standard requires that the reporting accountant plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the proposed initial public offering at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 28 June 2018

TAXATION

Certain PRC and Hong Kong tax consequences on investors relating to the ownership of H shares by an investor who purchases such H Shares in the Global Offering and holds the H shares as capital assets are summarised as follows. This summary does not purport to and is not intended to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investor, some of which may be subject to special provisions.

This summary is based on the tax laws of the PRC and Hong Kong (including the tax treaties to which PRC or Hong Kong is a party thereto) in effect as at the Latest Practicable Date, all of which are subject to change (or changes in interpretation), possibly with retroactive effect.

This section in this prospectus does not address any aspect of the PRC or Hong Kong taxation other than income tax, capital tax, business tax, stamp duty and estate duty. Potential investors are urged to consult their tax advisors regarding the PRC, Hong Kong and other tax consequences of investing in H Shares.

PRC TAXATION OF THE NON-RESIDENT INVESTORS

Taxation on Dividends

Individual investors

According to the *Individual Income Tax Law of the PRC* (中華人民共和國個人所得稅法) ("**IIT Law**"), as latest amended on 30 June 2011 and implemented on 1 September 2011, and its implementation rules, dividends paid to individuals by PRC companies are generally subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, his/her receipt of dividends from a PRC company is normally subject to PRC withholding tax of 20% unless specifically exempted by the taxation authority of the State Council or exempted or reduced by an international convention or applicable tax treaty which the PRC Government has signed or acceded to.

Pursuant to the *Circular on Questions Concerning the Collection of Individual Income Tax Following the Repeal of Guo Shui Fa [1993] No. 045* (Guo Shui Han [2011] No. 348) (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) promulgated for implementation by the SAT on 28 June 2011, foreign resident individual investors are entitled to enjoy the relevant preferential tax treatments in accordance with the taxation treaties entered into between their respective countries and the PRC and the taxation arrangements between the PRC and Hong Kong for public offer by non-foreign invested PRC enterprises in Hong Kong. Generally, the PRC individual income tax at the rate of 10% is applicable to dividends paid by a non-foreign invested PRC enterprise (the "**Relevant Non-foreign Invested PRC Enterprise**") to foreign individual investors (the "**Relevant Individual Investors**") holding shares publicly offered by the Relevant Non-foreign PRC Enterprise in Hong Kong and no application for approval from the taxation authority in the PRC is required. In case the 10% tax rate is not applicable, the Relevant Non-foreign Invested PRC

Enterprise shall: (i) apply on behalf of the investors to seek entitlement of the preferential tax treatment for lower tax rates if the countries of the Relevant Individual Investors have entered into income tax treaties with the PRC with tax rates lower than 10%, and arrange for refund of over payment upon approval by the tax authority; (ii) withhold the tax at such rates as agreed if the countries of the Relevant Individual Investors have entered into income tax treaties with the PRC with tax rates higher than 10% but lower than 20%, and no application is required; (iii) withhold the tax at the rate of 20% if the countries of the Relevant Individual Investors have not entered into any taxation treaties with the PRC or otherwise.

Enterprises

In accordance with the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (the "**EIT Law**") as latest amended and implemented on 24 February 2017 and the Implementation Rules of the EIT Law (《中華人民共和國企業所得稅法實施條例》) implemented on 1 January 2008, a non-PRC resident enterprise is generally subject to a 10% enterprise income tax on PRC-sourced income, including dividends received from a PRC resident enterprise whose shares are issued and listed in Hong Kong, if such non-PRC resident enterprise does not have an establishment or premises in the PRC, or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such withholding tax may be reduced or eliminated under an applicable treaty for the avoidance of double taxation. The aforesaid income tax payable by the non-PRC resident enterprises shall be withheld at source by the company paying the dividend as the withholding agent.

Notice on the Issues Concerning Withholding and Remitting Enterprise Income Tax on the Dividends Payable by PRC Resident Enterprises to Overseas Non-PRC Resident Enterprise Shareholders of H Share (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知) (Guo Shui Han [2008] No. 897) issued by the SAT on 6 November 2008, further clarified that a PRC resident enterprise must withhold enterprise income tax at a rate of 10% on dividends paid to non-PRC resident enterprise shareholders of H Shares which are derived out of profit generated since 1 January 2008. A non-PRC resident enterprise which is entitled to a preferential tax rate under an applicable tax treaty or arrangement may, directly or through its agent, apply to the competent tax authorities for a refund of the excess amount of tax withheld.

Tax Treaties or Arrangements

Non-PRC resident investors residing in countries which have entered into treaties with the PRC for the avoidance of double taxation or residing in Hong Kong or Macau may be entitled to preferential treatment of the withholding tax imposed on dividends received by such investors from the PRC company. For example, according to the *Agreement of the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Tax on Income* (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) signed on 21 August 2006, the PRC Government may impose tax on dividends paid to a Hong Kong resident (including natural person and legal entity) by a PRC company, but such tax shall not exceed 10% of the gross amount of the dividends payable. If a Hong Kong resident directly holds at least 25% of equity interest in a PRC company, such tax shall not exceed 5% of the gross amount of dividends payable by that PRC company.

The PRC has entered into arrangements for the avoidance of double taxation with Hong Kong and Macau, respectively, and has entered into treaties for the avoidance of double taxation with certain other countries, including Australia, Canada, France, Germany, Japan, Malaysia, Netherlands, Singapore, the United Kingdom and the United States. A non-PRC resident enterprise which is entitled to a preferential tax rate under a relevant income tax treaty or arrangement may apply to the PRC tax authorities for a refund of the difference between the amount of tax withheld and tax computed based on the treaty rate.

Taxation on Gains from Share Transfer

Individual Investors

Under the *Circular Declaring that Individual Income Tax Continues to Be Exempted over Individual Income from Transfer of Shares* (財政部、國家稅務總局關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) (Cai Shui Zi [1998] No. 61) issued by the SAT on 20 March 1998, effective from 1 January 1997, gains of individuals from the transfer of shares of listed enterprises continues to be exempted from individual income tax. After the latest amendment to the IIT Law on 30 June 2011 and its implementing rules amended on 19 July 2011 and implemented on 1 September 2011, the SAT has not explicitly stated whether it will continue to exempt individuals from income tax on income derived from the transfer of the listed shares acquired from the public offering and transfer market of listed companies on Shanghai Stock Exchange and Shenzhen Stock Exchange. However, on 31 December 2009, the MOF, the SAT and the CSRC jointly issued the *Circular on Relevant Issues Concerning the Collection of Individual Income Tax over the Income Received by Individuals from Transfer of Listed Shares Subject to Sales Limitation* (關於個人轉讓上市公司限售股所得徵收個人所得稅有關問題的通知) (Cai Shui [2009] No. 167), which provides that individuals' income from transferring listed shares on certain domestic exchanges shall continue to be exempted from the individual income tax, except for certain shares which are subject to sales limitations (as defined in the supplementary notice of such Circular issued on 10 November 2010).

On 7 December 2014, the SAT promulgated the *Administrative Measures for Individual Income Tax on Equity Transfer Incomes (Provisional)* (股權轉讓所得個人所得稅管理辦法(試行)), which became effective on 1 January 2015. The foregoing measures provide that the transfer of equity interest in the enterprises or entities incorporated in the PRC by individuals are subject to the individual income tax. These measures are not applicable to transfer of the listed shares acquired from the public offering and transfer market of listed companies on Shanghai Stock Exchange and Shenzhen Stock Exchange by individuals, transfer of shares that are subject to sales limitations, and other equity interest transfers that are subject to special provisions. The aforesaid provision has not expressly provided that individual income tax shall be collected from non-PRC resident individuals on the sales of shares of PRC resident enterprises listed on overseas stock exchanges.

Enterprises

In accordance with the EIT Law and its implementation rules, a non-PRC resident enterprise is generally subject to enterprise income tax at the rate of 10% with respect to PRC-sourced income, including gains derived from the disposition of shares in a PRC resident enterprise, if it does not have an establishment or premises in the PRC, or has an establishment or premises in the PRC but the PRC-sourced income is not actually connected with such establishment or premises in the PRC. Such tax may be reduced or eliminated under applicable tax treaties or arrangements.

PRC stamp duty

Under the Provisional Regulations of the *PRC Concerning Stamp Duty* (中華人民共和國印花稅暫行條例) amended on 8 January 2011, all units and individuals who execute or receive documents in the categories specified in these Regulations shall pay stamp tax. Taxable documents include (1) contracts or documents in the nature of a contract with regard to purchases and sales, the undertaking of processing, contracting for construction projects, property leasing, commodity transport, warehousing, loans, property insurance, technology; (2) documents of transfer of property rights; (3) business books of account; (4) certificates evidencing rights or licences; (5) other documents that are taxable as determined by the Ministry of Finance.

Estate duty

The PRC currently does not impose any estate duty.

MAJOR TAXES ON THE COMPANY IN THE PRC

Income tax

According to the EIT Law, any enterprise established within China under laws shall pay the enterprise income tax on the proceeds derived from both inside and outside China. The enterprise income tax rate shall be 25%.

Value-added tax

Pursuant to the *Pilot Scheme for the Conversion of Business Tax to Value-added Tax* ("**VAT**") (營業稅改徵增值稅試點方案) (Cai Shui [2011] No. 110) promulgated by the MOF and the SAT on 16 November 2011, effective from 1 January 2012, the State started the taxation reform of collecting VAT in lieu of business tax in certain regions (including Shanghai and Beijing) and in certain service industries (including transportation and certain modern service industries) on a trial basis.

On 23 March 2016, the MOF and the SAT promulgated the *Circular on Overall Implementation of the Pilot Scheme for Converting Business Tax to VAT* (關於全面推開營業稅改徵增值稅試點的通知) (Cai Shui [2016] No. 36), the pilot scheme for the conversion of business tax to VAT shall be implemented nationwide effective from 1 May 2016 and all business tax payers in construction industry, real estate industry, finance industry and livelihood service industry, etc. shall be included in the scope of the pilot scheme and pay VAT instead of business tax. In accordance with one of the appendices to such Circular, *Implementation Measures of the Pilot Scheme for the Conversion of Business Tax to Value-added Tax* (營業稅改徵增值稅試點實施辦法), effective on 1 May 2016, entities and individuals engaging in the sales of services, intangible assets or real property within the territory of the PRC shall pay VAT instead of business tax. Sales of services refers to the provisions of transportation services, postal services, telecommunication services, construction services, financial services, modern services and livelihood services.

HONG KONG TAXATION

Tax on Dividends

Under the current practices of the Inland Revenue Department of Hong Kong, no tax is payable in Hong Kong in respect of dividends paid by us.

Capital Gains and Profit Tax

No tax is imposed in Hong Kong in respect of capital gains from the sales of H shares. However, trading gains from the sales of H shares by persons carrying on a trade, profession or business in Hong Kong, where such gains are derived from or arise in Hong Kong from such trade, profession or business will be subject to Hong Kong profits tax, which is currently imposed at the maximum rate of 16.5% on corporations and at the maximum rate of 15% on unincorporated businesses. Certain categories of taxpayers (for example, financial institutions, insurance companies and securities dealers) are likely to be regarded as deriving trading gains rather than capital gains unless these taxpayers can prove that the investment securities are held for long-term investment purposes. Trading gains from sales of H shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H shares effected on the Hong Kong Stock Exchange realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the ad valorem rate of 0.1% on the higher of the consideration for or the market value of the H Shares, will be payable by the purchaser on every purchase and by the seller on every sale of Hong Kong securities, including H shares (in other words, a total of 0.2% is currently payable on a typical sale and purchase transaction involving H shares). In addition, a fixed duty of HK$5.00 is currently payable on any instrument of transfer of H Shares. Where one of the parties is a resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee. If stamp duty is not paid on or before the due date, a penalty of up to ten times the duty payable may be imposed.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong, pursuant to which no Hong Kong estate duty is payable, and no estate duty clearance papers are needed for the application of a grant of representation in respect of holders of H Shares whose deaths occur on or after 11 February 2006.

FOREIGN EXCHANGE CONTROLS OF THE PRC

On 20 June 1996, the PBOC promulgated the *Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange* (結匯、售匯及付匯管理規定) ("**Settlement Regulations**") which became effective on 1 July 1996. The Settlement Regulations set forth requirements on the exchange settlement and purchase, opening of foreign exchange account and payment to overseas accounts by domestic institutions, individual residents, foreign institutions in China and foreigners during their business trip in China.

On 25 October 1998, the PBOC and the SAFE jointly promulgated the *Notice Concerning the Discontinuance of Foreign Exchange Swapping Business* (關於停辦外匯調劑業務的通知), pursuant to which and with effect from 1 December 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On 21 July 2005, the PBOC announced that, China started to implement a floating exchange rate system regulated and managed based on market supply and demand and by referring to a basket of currencies from 21 July 2005. Since then, the exchange rate of RMB no longer pegged to the USD, and the RMB exchange rate mechanism became more flexible. The PBOC will publish the closing exchange rate of USD and other transaction currencies against RMB in the inter-bank foreign exchange market for the day after the closing of each business day, which will be used as the median price of the transactions between such currency and RMB for the next business day.

Since 4 January 2006, the PBOC improved the quotation of the mid exchange rate of Renminbi by introducing an enquiry system while keeping the match-making system in the inter-bank foreign exchange spot market. In addition, the liquidity of the foreign exchange market was also improved by adopting a market-making system in the inter-bank foreign exchange market.

On 5 August 2008, the State Council promulgated the revised *Regulations for the Control of Foreign Exchange of the PRC* (中華人民共和國外匯管理條例) ("**Revised Foreign Exchange Control Regulations**"), which have made substantial changes to the foreign exchange regulatory system of the PRC. First, the Revised Foreign Exchange Control Regulations adopted an approach of balancing the inflow and outflow of foreign exchange fund. Foreign exchange income received overseas can be repatriated or deposited overseas, and foreign exchange and foreign exchange settlement funds under the capital account are required to be used only for purposes as approved by the competent authorities and foreign exchange administration authorities. Second, the Revised Foreign Exchange Control Regulations improved the mechanism for determining the Renminbi exchange rate based on market supply and demand. Third, the Revised Foreign Exchange Control Regulations enhanced the monitoring of cross-border foreign exchange fund flows. In the event that international revenues and costs suffer or may suffer a material misbalance, or the national economy encounters or may encounter a severe crisis, the State may adopt necessary safeguard or control measures. Fourth, the Revised Foreign Exchange Control Regulations enhanced the supervision and administration of foreign exchange transactions and granted extensive authority to the SAFE to strengthen its supervisory and administrative ability.

Pursuant to the relevant rules and regulations of the State, all foreign exchange income generated from current account transactions of the PRC enterprises may be either retained or sold to financial institutions engaging in the settlement or sale of foreign exchange.

Current account foreign exchange expenditure shall be paid by the relevant entity by using its own foreign exchange fund or by purchasing foreign exchange from the financial institutions engaged in foreign exchange sale and purchase business based on effective certificates according to the relevant administrative regulations of the foreign exchange administration department under State Council on the foreign exchange payment and foreign exchange purchase. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and PRC enterprises (like us) which, in accordance with regulations, are required to pay dividends to shareholders in foreign exchange, may on the strength of board resolutions or shareholders' resolutions on the distribution of profits, effect payment from their foreign exchange accounts or convert and pay at the designated foreign exchange banks.

The *Decision of the State Council on Cancelling and Adjusting a Group of Administrative Approval Items and Other Matters* (國務院關於取消和調整一批行政審批項目等事項的決定) (Guo Fa [2014] No. 50), which was issued and became effective on 23 October 2014, cancelled the administrative approval by the SAFE and its branches over matters concerning the repatriation and settlement of foreign exchange of overseas-raised funds through overseas listing.

According to the *Circular on Relevant Issues Concerning the Foreign Exchange Administration of Overseas Listing* (關於境外上市外匯管理有關問題的通知) issued by SAFE on 26 December 2014, a domestic issuer shall, within 15 business days after the completion of the offering of shares for its overseas listing, register overseas listing with the local foreign exchange bureau at the place of its incorporation. The proceeds raised from overseas listing of a domestic issuer can be repatriated to PRC or deposited overseas, and the usage of such proceeds shall be consistent with the purpose as specified in the prospectus and other disclosure documents.

On 13 February 2015, the SAFE issued the *Circular of the State Administration of Taxation on Further Simplifying and Improving the Foreign Exchange Management Policies for Direct Investment* (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) ("**SAFE Circular**"), which came into effect on 1 June 2015. The SAFE Circular cancels the foreign exchange registration approval under domestic direct investment and foreign exchange registration approval under overseas direct investment, and requires the banks to review and carry out foreign exchange registration under domestic direct investment and foreign exchange registration under overseas direct investment directly. SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks. Furthermore, according to the SAFE Circular, new overseas enterprises established or controlled by overseas enterprises established or controlled by domestic investors through re-investment are not required to go through the foreign exchange filing procedures.

Summaries of certain aspects of PRC laws and regulations which are relevant to the Company's operations and business are generally set forth in this Appendix. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is not intended to include all the information which might be important to the potential investors, and shall not be construed as an exhaustive summary of all the relevant laws and regulations. This Appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain material differences between PRC and Hong Kong company law, certain requirements of the Hong Kong Listing Rules and additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of the PRC issuers.

Laws and regulations relating to taxation in the PRC are discussed separately in "Appendix III – Taxation and Foreign Exchange" to this prospectus. For discussion of laws and regulations which are relevant to the business of the Company, please refer to the section headed "Regulatory Environment."

THE PRC LEGAL SYSTEM

The PRC legal system is composed of constitution, laws, administrative regulations, local regulations, separate regulations, autonomous regulations, rules and regulations of departments, rules and regulations of local governments, international treaties of which the PRC Government is a signatory, and other regulatory documents. Judicial decisions do not constitute binding precedents. However, they may be used as judicial reference and guidance. The *PRC Constitution* (中華人民共和國憲法) (the "**Constitution**"), enacted by the National People's Congress (the "**NPC**"), is the basis of the PRC legal system and has the supreme legal authority.

According to the Constitution and *the Legislation Law of the PRC* (中華人民共和國立法法) (the "**Legislation Law**"), the NPC and the Standing Committee of the NPC (the "**SCNPC**") are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The SCNPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest administrative authority of the PRC and has the power to formulate administrative regulations based on the Constitution and laws.

The people's congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, the PBOC, the National Audit Office, and institutions with administrative functions directly under them may formulate department rules within the jurisdiction of their respective departments based on the laws and the administrative regulations, decisions and rulings of the State Council.

The people's congresses of cities divided into districts and their respective standing committees may formulate local regulations on aspects such as urban and rural construction and management, environmental protection and historical and cultural protection based on the specific circumstances and actual requirements of such cities, provided that such local regulations do not contravene any provision of the Constitution, laws, administrative regulations and local regulations of their respective provinces or autonomous regions. However, if there are separate provisions by law on the formulation of local regulations by cities divided into districts, those provisions shall prevail. Such local regulations will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the ethnic groups in the areas concerned.

The people's governments of the provinces, autonomous regions and municipalities directly under the PRC central government as well as cities divided into districts and autonomous prefectures may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities. The people's governments of cities divided into districts and autonomous prefectures may only formulate local regulations in respect of urban and rural construction and management, environmental protection and historical and cultural protection. Local regulations which have been enacted involving aspects other than those described above shall continue to be in effect.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations and separate regulations and rules may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the cities divided into districts within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The SCNPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the PRC central government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate rules and regulations of departments and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the PRC central government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The standing committees of the local people's congresses have the power to annul any inappropriate rules enacted by the people's governments at the corresponding level. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level. The authorising authorities have the power to annul any regulations enacted by the authorised authorities that transcends the authorised powers or contravenes the purpose of such authorisation, and may revoke such authorisation when necessary.

According to the Constitution, the power to interpret laws is vested in the Standing Committee of the NPC. According to the *Resolutions of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws* (全國人民代表大會常務委員會關於加強法律解釋工作的決議) passed on 10 June 1981, the Supreme People's Court has the power to give general interpretation on questions involving the specific application of laws and decrees in court trials. Interpretation of questions involving the specific application of laws and decrees in the procuratorial work of the procuratorates shall be provided by the Supreme People's Procuratorate. If the interpretations provided by the Supreme People's Court and the Supreme People's Procuratorate are at variance with each other in principle, they shall be submitted to the SCNPC for interpretation or decision. Interpretation of questions involving the specific application of laws and decrees in areas unrelated to judicial and procuratorial work shall be provided by the State Council and competent authorities. In case where the scope of local regulations needs to be further defined or additional stipulations need to be made, the standing committees of the people's congresses of provinces, autonomous regions and municipalities directly under the PRC central government which have enacted these regulations shall provide the interpretations or make the stipulations. Interpretation of questions involving the specific application of local regulations shall be provided by the competent authorities under the people's governments of provinces, autonomous regions and municipalities directly under the PRC central government.

PRC Judicial System

Under the Constitution and the *PRC Law on the Organization of the People's Courts* (中華人民共和國人民法院組織法), the People's Court of the People's Republic of China is the judicial organ in China, and the judicial power is exercised by the Supreme People's Court, the local people's courts, military courts and other special people's courts.

The local people's courts are composed of the primary people's courts, the intermediate people's courts and the higher people's courts. The primary people's courts may organise criminal division, civil division and economic division. The intermediate people's courts have similar divisions to those of the primary people's courts, and are entitled to organise other courts as needed.

The administration of justice of the People's Courts at tower levels is subject to the supervision of those at higher levels. The Supreme People's Court is the highest judicial body in the PRC which supervises the judicial administration of the local people's courts at all levels and all special people's courts. The people's procuratorates also have the right to exercise legal supervision over civil proceedings.

The people's courts apply a two-tier appellate system in the trail of cases. A party may appeal against a judgement or ruling of a local people's court to the people's court at the next higher level in accordance with the legal procedures. The people's procuratorate may appeal to the people's procuratorate at higher level to make a counterappeal against the people's court at the same level in accordance with the legal procedures. In the absence of any appeal by any parties to the case concerned and/or any appeal by the people's procuratorate within the stipulated period, the judgement and ruling of the first instance by the local people's courts shall be final. Second judgments or ruling given at the next higher level are final. However, if the Supreme People's Court or a people's court at a higher level finds an error in a judgement which has been given in any people's court at a lower level, or the president of the people's court finds an error in a judgement which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures. The death penalty shall be reported to the Supreme People's Court for approval unless it is otherwise adjudged by the Supreme People's Court.

The *PRC Civil Procedure Law* (《中華人民共和國民事訴訟法》) (the "**Civil Procedure Law**"), which was promulgated in 1991 and amended in 2007, 2012 and 2017, sets forth the criteria for instituting a civil action, the jurisdiction of the people's courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law.

A civil lawsuit brought against a citizen shall be under the jurisdiction of the people's court located in the place where the defendant has its domicile; or the people's court located in the place where the defendant has its habitual residence if the domicile of the defendant is different from its habitual residence. A civil lawsuit brought against a legal person or an organisation shall be under the jurisdiction of the people's court located in the place where the defendant has its domicile. The parties to a contract or any other property right dispute may agree to choose in their written agreement the people's court in the places actually related to such dispute, such as the place where the defendant has its domicile, where the contract is performed, where the contract is signed, where the plaintiff has its domicile or where the object of the action is located to exercise jurisdiction over the case, provided that the provisions of this Law regarding jurisdiction by level and exclusive jurisdiction are not violated. Aliens, stateless persons, foreign enterprises and organisations that bring suits or enter appearance in the people's court shall have the same litigation rights and obligations as citizens, legal persons and other organisations of the People's Republic of China. If the court of a foreign country imposes restrictions on the civil litigation rights of the citizens, legal persons and other organisations of the People's Republic of China, the people's courts of the People's Republic of China shall follow the principle of reciprocity regarding the civil litigation rights of the citizens, enterprises and organisations of that foreign country. The parties must comply with the legally effective judgement or written order in a civil case. If either party refuses to do so, the other party may apply to the people's court for execution, or the judge may refer the matter to the execution officer for enforcement. The time limit for the application for execution shall be two years. The execution officer shall, after receiving the application for execution or the writ of referral directing execution, send an execution notice to the person subject to execution, and may conduct compulsory measures immediately.

If a party applies for enforcement of a legally effective judgement or written order made by the people's court, and the opposite party or its property is not within the territory of the People's Republic of China, the applicant may directly apply for recognition and enforcement to the foreign court which has jurisdiction. The people's court may also, in accordance with the relevant provisions of the international treaty concluded or acceded to by the People's Republic of China, or with the principle of reciprocity, request recognition and enforcement by the foreign court. If a legally effective judgement or written order made by a foreign court requires recognition and enforcement by the people's court of the People's Republic of China, the party may directly apply for recognition and enforcement to the intermediate people's court of the People's Republic of China which has jurisdiction. The foreign court may also, in accordance with the provisions of the international treaties concluded or acceded to by both the foreign country and the People's Republic of China or with the principle of reciprocity, request recognition and enforcement by the people's court. In case of an application or request for recognition and enforcement of a legally effective judgement or written order of a foreign court, the people's court shall, after examining it in accordance with the international treaty concluded or acceded to by the People's Republic of China or with the principle of reciprocity and arriving at the conclusion that it does not contradict the basic principles of the law of the People's Republic of China nor violates state sovereignty, security and social and public interest of the country, recognise the validity of the judgement or written order, and if required, issue a writ of execution to enforce it in accordance with the relevant provisions of this Law. If the application or request contradicts the basic principles of the law of the People's Republic of China or violates state sovereignty, security and social and public interest of the country, the people's court shall not recognise or enforce it.

The Company Law, Special Regulations and Mandatory Provisions

The SCNPC promulgated the Company Law on 29 December 1993, and amended it on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively. The latest revision came into effect on 1 March 2014. The Company Law was formulated with a view to regulating the organisations and activities of the companies incorporated in the PRC, protecting the legitimate rights and interests of the companies and their shareholders and creditors, maintaining the social and economic orders and to promoting and facilitating the development of the socialist market economy. The latest amendment to the Company Law in 2013 has lifted the requirement of minimum registered capital. Paid-up capital requirement was also replaced by subscribed capital requirement.

Except for the Company Law, a joint stock limited company which is incorporated in the PRC and seeking a listing on the Hong Kong Stock Exchange is also mainly subject to the Special Regulations and the Mandatory Provisions.

The Special Regulations, which were promulgated by the State Council on 4 August 1994, are applicable to the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions, which were jointly promulgated by the former Securities Committee of the State Council and the State Economic Restructuring Commission on 27 August 1994, prescribe the mandatory provisions which must be incorporated into the articles of association of a joint stock limited company seeking an overseas listing. As such, the Mandatory Provisions are set out in the Articles of Association of the Company, the summary of which is set out in Appendix V – Summary of Articles of Association to this prospectus.

Copies of the Chinese versions of the Company Law, Special Regulations and Mandatory Provisions together with their unofficial English translations are available for inspection as mentioned in "Appendix VII – Documents Delivered to the Registrar of Companies and Available for Inspection" to this prospectus.

Set out below is a summary of the provisions of the Company Law, the Special Regulations and the Mandatory Provisions applicable to the Company.

General

A company is an enterprise legal person that has independent property and shall enjoy the right to the entire independent property of the legal person. A company shall be liable for its debts to the extent of all its assets. In the case of a joint stock limited company, shareholders shall assume liability towards the company to the extent of their respective shareholdings.

In conducting its business, a company must abide by laws and administrative rules and regulations, observe social morals and business ethics, conduct business in good faith, subject itself to the supervision of the government and the public and fulfil social responsibilities. A company may invest in other enterprises, however, unless otherwise stipulated by the law, the company making such investment shall not bear joint and several liability for the debts of the enterprise in which the company invests.

A joint stock limited company shall conduct its business in accordance with laws and professional ethics. It may invest in other limited liability companies and joint stock limited companies and its liabilities with respect to such invested companies are limited to the amount invested. Unless otherwise provided by law, the joint stock limited company may not be a capital contributor that undertakes joint and several liabilities for the debts of the invested companies.

Incorporation

A joint stock limited company may be incorporated by promotion or subscription. A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC.

For joint stock limited companies incorporated by promotion, the registered capital shall be the total capital subscribed for by all promoters as registered with the company registration authority. The company shall not raise capital from others before the promoters have fully paid the capital subscribed for by them. For joint stock limited companies incorporated by subscription, the registered capital shall be the amount of total paid-up capital as registered with the company registration authority.

The promoters must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before convening the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing over half of the shares in the company.

At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members of the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the registration authority for registration of the establishment of the joint stock limited company. A company is formally established and has the status of a legal person once the business licence has been issued by the relevant registration authority. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Allotment and Issue of Shares

All issue of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares shall enjoy equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. It may issue shares at par value or at a premium, but it may not issue shares below the par value.

A company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Regulations, shares issued to foreign investors by joint stock limited companies and listed overseas are known as "**overseas-listed and foreign invested shares**". Shares issued to investors within the PRC by joint stock limited companies, which also issues overseas listed and foreign shares, are known as "**domestic shares**". Upon approval of the CSRC, a company issuing overseas listed and foreign invested shares in total shares determined by the issuance programme may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed and foreign invested shares outside the underwritten amount. The issuance of the retained shares is deemed to be a part of this issuance.

Registered Shares

Under the Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valuated non-monetary property as physical items, intellectual property rights, and land-use rights that may be valued in monetary term and may be transferred in accordance with the law, except the property that cannot be used for capital contribution purpose as required by relevant laws and administrative regulations.

A joint stock limited company may issue registered or bearer shares. However, shares issued to promoter(s) or legal person(s) shall be in registered form and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

Pursuant to the Special Regulations, overseas listed and foreign invested shares shall be issued in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall be in registered form.

Under the Company Law, when the company issues shares in registered form, it shall maintain a register of shareholders, stating the following matters:

- the name and domicile of each shareholder;
- the number of shares held by each shareholder;
- the serial numbers of shares held by each shareholder; and
- the date on which each shareholder acquired the shares.

Increase of Share Capital

According to the Company Law, an issuance of new shares by a joint stock limited company shall be approved by the shareholders in general meeting. The matters to be resolved in such general meeting shall include:

- the type and number of shares;
- the issue price;
- the commencement date and ending date of the issuance;
- the type and numbers of shares to be issued to the existing shareholders.

When the company launches a public offering of new shares with the approval of the CSRC, it shall publish a prospectus and financial and accounting reports, and prepare the share subscription form. After the new share issuance has been paid up, the change shall be registered with the company registration authorities and an announcement shall be made.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- it shall prepare a balance sheet and a property list;
- the reduction of registered capital shall be approved by shareholders in general meeting;
- it shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;

- creditors may require the company to pay its debts or provide guarantees covering the debts within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received; and

- it shall apply to the relevant industry and commerce administration the registration of the reduction in registered capital.

Repurchase of Shares

According to the Company Law, a joint stock limited company may not purchase its shares other than for one of the following purposes:

- to reduce its registered share capital;

- to merge with another company that holds its shares;

- to grant its shares to its employees as incentives; and

- to purchase its shares from shareholders who are against the resolution regarding the merger or division with other companies at a shareholders' general meeting.

The purchase of shares on the grounds set out in (i) to (iii) above shall be approved by a resolution passed by the shareholders in general meeting. Following the purchase of shares in accordance with the foregoing, such shares shall be cancelled within ten days from the date of purchase in the case of (i) above and transferred or cancelled within six months in the case of (ii) or (iv) above. Shares acquired in accordance with (iii) above shall not exceed 5% of the total number of the company's issued shares. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the company's employees within one year.

The company shall not accept any pledge with its own shares as the subject matter.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Pursuant to the Company Law, transfer of shares by shareholders of a joint stock limited company shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No changes of registration in the share register caused by transfer of registered shares shall be effected within twenty days prior to the convening of shareholder's general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law on change of registration in the share register of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no modifications of registration in the share register caused by transfer of shares shall be carried out within thirty days prior to convening of shareholder's general meeting or five days prior to any base date for determination of dividend distributions.

Under the Company law, shares issued prior to the public issuance of shares shall not be transferred within one year from the date of the joint stock limited company's listing on a stock exchange. Directors, supervisors and the senior management shall declare to the company their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure. They shall not transfer the shares they hold within one year from the date on which the company's shares are listed and commenced trading on a stock exchange, nor within six months after their resignation from the company.

Shareholders

The shareholders of a joint stock limited company shall have the rights and obligations as set forth in the relevant laws and regulations and the company's articles of association. Under the Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- To receive the dividend and other forms of benefit distribution according to its shareholding;
- To attend or entrust shareholder agent to attend the general meeting and exercise voting right;
- To supervise and manage the business operation of the company, provide advice or make inquiry;
- To transfer shares according to laws, administrative regulations and the articles of association;
- To obtain the relevant information in accordance with the articles of association, including:

  1. Receiving the articles of association after paying the cost;

  2. Reviewing and copying the following documents after paying reasonable expense:

     (1) Any and all parts of the Register of shareholders;

     (2) Profiles of the directors, supervisors, managers and other senior executives of the company, including:

       (a) The current and previous names and alias;

       (b) Main address (domicile);

       (c) Nationality;

(d) Full-time job and other part-time jobs and the corresponding titles;

(e) Identity document and its number.

(3) The share capital status of the company;

(4) The report stating the total value, quantity, maximum price and minimum price of each type of shares repurchased by the company since the last fiscal year and all the expenses paid by the company for this;

(5) Meeting minute of the general meeting.

- in the event of the termination or liquidation of the company, the right to participate in the distribution of surplus property of the company in proportion to the number of shares held; and

- other rights granted by laws, administrative regulations and the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription amount in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares, not to abuse shareholders' rights to damage the interests of the company or other shareholders of the company, not to abuse the independent status of the company as a legal person and the limited liability to damage the interests of the creditors of the company and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

Under the Company Law and the Mandatory Provisions, the shareholders' general meeting exercises the following principal powers:

- to decide on the company's operational policies and investment plans;

- to elect or remove the directors and supervisors (other than the director and supervisor representatives of the employees of the company) and to decide on matters relating to the remuneration of directors and supervisors;

- to examine and approve reports of the board of directors;

- to examine and approve reports of the supervisory committee;

- to examine and approve the company's proposed annual financial budget and final accounts;
- to examine and approve the company's proposals for profit distribution plans and losses recovery plans;
- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution and liquidation or change of form of the company;
- to decide on the appointment and dismissal of accounting firm;
- to amend the company's articles of association;
- to decide on the proposals proposed by the shareholders holding more than 5% (inclusive) of the shares with voting rights; and
- other powers as provided for in the articles of association.

Shareholders' annual general meetings are required to be held once every year. Under the Company Law, an extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two thirds of the number specified in the articles of association;
- the aggregate losses of the company which are not recovered reach one-third of the company's total paid up share capital;
- when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- whenever the board of directors deems necessary;
- when the supervisory committee so requests; or
- other circumstances as provided for in the articles of associations.

Under the Company Law, shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the supervisory committee shall convene and preside over such meeting in a timely manner. In case the supervisory committee fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Under the Company Law, notice of shareholders' general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of our extraordinary shareholder's general meetings shall be given to all shareholders 15 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, such notice in writing shall be delivered to all the registered shareholders 45 days in advance to the meeting, and the matters to be considered and time and venue of the meeting shall be specified. The written reply of shareholders planning to attend the meeting shall be delivered to the company 20 days in advance of the meeting.

Pursuant to the Special Regulations and the Mandatory Provisions, shareholder's general meeting may be convened where the number of voting shares held by the shareholders present at the meeting reaches one-half or more of the company's total voting shares. Otherwise the company shall, within five days, notify the shareholders again of the matters to be considered and time and venue of the meeting to shareholders by public announcement.

The company may convene the shareholders' general meeting after such public announcement. Pursuant to the Mandatory Provisions, modification or abrogation of rights conferred to any class of shareholders shall be passed both by special resolution of shareholders' general meeting and by class meeting convened respectively by shareholders of the affected class.

Pursuant to the Special Regulations, where the company convenes annual shareholder's general meeting, shareholders holding more than 5% of voting shares have a right to submit to the company new proposals in writing, in which the matters falling within the scope of shareholder's general meeting shall be placed in the agenda of the meeting.

Under the Company Law, shareholders present at shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights.

Pursuant to the articles of the articles of association or a resolution of the shareholders' general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to vote equivalent to the number of director or supervisor to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the Company Law and the Mandatory Provisions, resolutions of the shareholders' general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting, with the exception of matters relating to the merger, division, dissolution, increase or reduction of the share capital, change of the form of the company or amendments to the articles of association, which shall be adopted by more than 2/3 of the voting rights held by the shareholders present at the meeting.

Shareholders may entrust a proxy to attend the shareholders' general meetings on his or her behalf by a power of attorney which set forth the scope of exercising the voting rights.

Under the Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' general meeting. Shareholders attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board of Directors

Under the Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors results in the number of directors being less than the quorum.

Under the Company Law, the board of directors mainly exercises the following powers:

- to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed at shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- making decisions on the establishment of the Company's internal management bodies;
- decide on appointment or dismissal of company managers and their remuneration, and decide on appointment or dismissal of deputy managers and person in charge of finance of the company based on the nomination by the managers as well as their remuneration;
- to formulate the company's basic management system; and
- to exercise any other power under the articles of association.

According to the Mandatory Provisions, the board of directors is also responsible for formulating the proposals for amendment of the articles of association of the company.

According to the Mandatory Provisions, the directors of the company are obliged to act with caution, diligence and skill of a reasonable and prudent person acting under the similar circumstances. The directors of the company shall abide by the principle of good faith, and shall not put themselves in a position where their own interests and obligations may conflict with each other or the company and its shareholders.

Board Meetings

Under the Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the supervisors. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf. The director so appointed shall be entitled to vote on behalf of the authorising director in addition to his or her own vote.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from that liability.

Chairman of the Board

Under the Company Law, the board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

According to the Mandatory Provisions, the legal representative of the company is the chairman of the board of directors.

Qualification of Directors

Under the Company Law, the following persons shall not serve as a director of the company:

- a person who is unable or has limited ability to undertake any civil liabilities;

- a person who has been convicted of an offence of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;

- a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;

- a person who has been a legal representative of a company or an enterprise that has had its business licence revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation;

- a person who is liable for a relatively large amount of debts that are overdue;

- other circumstances under which the person shall not serve as a director of the company set out in the Mandatory Provisions are included in the "Appendix V – Summary of Articles of Association".

Supervisory Committee

A joint stock limited company shall have a supervisory committee composed of not less than three members. The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company. The proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the employees shall not be less than one third of the supervisors. Representatives of the employees of the company in the supervisory committee shall be democratically elected by the employees at the employees' representative assembly, employees' general meeting or otherwise.

The directors and senior management may not act concurrently as supervisors.

The supervisory committee shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the supervisory committee are elected with approval of more than half of all the supervisors. The chairman of the supervisory committee shall convene and preside over the meetings of the supervisory committee. In the event that the chairman of the supervisory committee is incapable of performing or not performing his duties, the vice chairman of the supervisory committee shall convene and preside over the meetings of the supervisory committee. In the event that the vice chairman of the supervisory committee is incapable of performing or not performing his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the supervisory committee.

Each term of office of a supervisor is three years and he may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of supervisors results in the number of supervisors being less than the quorum.

According to the Company Law, the supervisory committee exercises the following powers:

- to review the company's financial condition;
- to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or the resolutions of shareholders' meeting;
- when the acts of directors and senior management are harmful to the company's interests, to require correction of those acts;
- to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' general meeting;
- to initiate proposals for resolutions to shareholders' general meeting;
- to initiate proceedings against directors and senior management; and
- other powers specified in the articles of association.

Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The supervisory committee may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist their work at the company's expense.

The circumstance under which a person shall not serve as a director of the company and the fiduciary duties of a director of the company described above shall apply mutates mutandis to the supervisors of the company.

The supervisors may propose the convening of interim meetings of the supervisory committee. The Company Law requires that the resolutions of the supervisory committee shall be passed by approval of more than half of all the supervisors of the company, whereas the *Letter of Opinions on the Supplementation and Amendment of Articles of Association of Companies Listing in Hong Kong* (關於到香港上市公司對公司章程作補充修改的意見的函) provides that those resolutions shall be passed by approval of more than 2/3 of all the supervisors of the company. Each supervisor shall have one vote for resolutions to be approved by the supervisory committee.

Senior Management

Under the Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- to manage the operation and administration of the company and arrange for the implementation of resolutions of the board of directors;
- to arrange for the implementation of the company's annual business plans and investment proposals;
- to formulate the establishment of the Company's internal management bodies;
- to formulate the general administration system of the company;
- to formulate the company's detailed rules;
- to recommend the appointment and dismissal of deputy managers and person-in-charge of finance;
- to appoint or dismiss other administration officers in charge (other than those required to be appointed or dismissed by the board of directors); and
- other powers conferred by the board of directors or the articles of association.

The manager may attend the meetings of the board of directors as a non-voting attendant.

According to the Company Law, senior management refers to the manager, deputy manager(s), person-in-charge of finance, board secretary (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

The circumstance under which a person shall not serve as a director of the company and the fiduciary duties of a director of the company described above shall apply mutates mutandis to the senior management of the company.

The articles of association of the company shall have binding effect on the shareholders, directors, supervisors, and senior management of the company.

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the company are required under the Company Law to comply with the relevant laws, regulations and the articles of association, and have the faithful and diligent duties to the company. Directors, supervisors and senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating of the company's properties. Directors and senior management are prohibited from:

- misappropriation of the company's capital;
- depositing the company's capital into accounts under his own name or the name of other individuals;
- loaning company funds to others or providing guarantees in favour of others supported by the company's assets in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting;
- using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;
- accepting and possessing commissions paid by a third party for transactions conducted with the company;
- unauthorised divulgence of confidential information of the company; or
- other acts in violation of their duty of loyalty to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Where a director, supervisor or senior management of a company is required to attend a shareholders' general meeting, the director, supervisor or senior management shall do so and answer the inquiries from shareholders. The directors and senior management shall truthfully provide relevant information and materials to the supervisory committee, and shall not obstruct the supervisory committee to exercise their powers.

Unless otherwise required by laws and regulations, the Company shall not provide loans to any director, supervisor or senior management.

Amendment of the Articles of Association

According to the Company Law and the Mandatory Provisions, the company may amend its articles of association according to the laws, administrative regulations and articles of the articles of association. Shareholders' general meeting exercises the power to amend the company's articles of association. The resolution of a shareholders' general meeting regarding any amendment to a company's articles of association requires affirmative votes by at least two-thirds of the votes held by shareholders present at the meeting. The board of directors is responsible to the shareholders' general meeting and exercises powers including formulating the proposed amendments to the company's articles of association. The amendment of articles of association involving content of Mandatory Provisions will only be effective upon approval of the company examination and approval authority authorised by the State Council and of the CSRC. It must process the registration of changes involving matters of the company registration in accordance with laws. The Mandatory Provisions requires that the company must not modify or delete those provisions in the articles of association related to the mandatory articles of the articles of association without authorisation, and that the company may include other contents which are not required to be included in the articles of association of the company by the Mandatory Provisions or may appropriately adjust the wordings and sequences of the articles without changing the meanings of the same.

Finance and Accounting

Under the Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall at the end of each financial year prepare a financial and accounting report which shall be audited by an accounting firm as required by law. The company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

Pursuant to the Company Law, the company's financial and accounting reports shall be available at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. The company offering shares to the public shall also publish its financial and accounting reports.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital).

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' general meeting, allocate discretionary reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

Shares held by the company shall not be entitled to any distribution of profit.

The premium received through issuance of shares at prices above par value and other incomes required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

The company's reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase the registered capital of the company. However, the capital reserve fund may not be applied to make up the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of any individual.

Appointment and Retirement of Auditors

The company is required to engage an independent PRC qualified accounting firm to audit the annual report of the company at the end of each year. The company shall have no other accounting books except the statutory accounting books. The company's assets shall not be deposited in any accounts opened in the name of an individual.

Pursuant to the Company Law, the appointment or dismissal of auditors responsible for the auditing of the company shall be determined by shareholders' general meeting or board of directors in accordance with provisions of articles of association. The auditors should be allowed to make representations when the shareholders' general meeting or board of directors conducts a vote on the dismissal of the auditors. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the auditors it engages without any refusal, withholding and misrepresentation.

The Special Regulations provide that a company shall engage an independent accounting firm complying with the relevant regulations of the State to audit its annual report and review and check other financial reports of the company. The accounting firm's term of office shall commence from its appointment at a shareholders' annual general meeting to the end of the next shareholders' annual general meeting. The appointment, removal or non re-appointment of accounting firm shall be decided by the shareholders' general meetings and shall be filed with CSRC for record.

Distribution of Profits

According to the Company Law, a company shall not distribute profits before losses have been made up and the statutory common reserve is provided. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable in respect of their overseas listed and foreign invested shares. According to the Special Regulations, the dividends and other distributions to be paid to the holders of overseas listed foreign invested shares shall be denominated and declared in Renminbi and paid in foreign currency.

Dissolution and Liquidation

According to the Company Law, a company shall be dissolved in any of the following event:

(i) the term of its operations set forth in the articles of association has expired or other events of dissolution specified in the articles of association have occurred;

(ii) the shareholders' general meeting has resolved to dissolve the company;

(iii) the company is dissolved by reason of merger or division;

(iv) the business licence of the company is revoked, or the company is ordered to close down or be dissolved; or

(v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all shareholders, on the grounds that the company suffers significant hardships in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders.

In the event of (i) above, the company may amend its articles of association to carry on its existence. Such amendment requires more than 2/3 of the voting rights of shareholders present at the shareholders' general meeting.

Where the company is dissolved for the reasons described in (i), (ii), (iv), or (v) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution.

The members of the company's liquidation group shall be composed of its directors or the personnel appointed by the shareholders' general meeting. If a liquidation group is not established within the stipulated period, creditors may apply to the people's court, requesting the court to appoint relevant personnel to form the liquidation group. The people's court should accept such application and form a liquidation group to conduct a liquidation in a timely manner.

The liquidation group shall exercise the following powers during the liquidation period:

- to dispose the company's assets and to prepare a balance sheet and an inventory of the assets;

- to notify creditors through notice or public announcement;

- to deal with the company's outstanding businesses related to liquidation;

- to pay any tax overdue as well as tax amounts arising from the process of liquidation;

- to claim credits and pay off debts;

- to handle the company's remaining assets after its debts have been paid off; and

- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within 10 days after its establishment, and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after the receipt of the notice, or within 45 days of the public notice if he did not receive any notice. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation group shall draw up a liquidation plan to be submitted to the shareholders' general meeting or people's court for confirmation.

The company's remaining assets after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and debt shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before payments are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to pay off its liabilities, it must apply to the people's court for a declaration of bankruptcy.

Following such declaration, the liquidation group shall hand over all matters relating to the liquidation to the people's court. Where a company is declared bankrupt, bankruptcy liquidation shall be carried out in accordance with the laws on enterprise bankruptcy.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the shareholders' general meeting or the people's court for verification. Thereafter, the report shall be submitted to the registration authority of the company in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation group are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation group shall be prohibited from abuse of their powers to accept bribes or other unlawful income and from misappropriating the company's properties. A member of the liquidation group is liable to indemnify the company or its creditors in respect of any loss arising from his intentional or gross negligence.

Overseas Listing

According to the Special Regulations, a company shall obtain the approval of the CSRC to list its shares overseas. A company's plan to issue overseas listed foreign shares and domestic shares which has been approved by the CSRC may be implemented by the board of directors of the company by way of separate issue within 15 months after obtaining the approval from the CSRC.

Loss of Share Certificates

If a registered share certificate is lost, stolen or destroyed, the respective shareholder may apply, in accordance with the relevant provisions set out in the Civil Procedure Law, to a people's court for a declaration that such certificate will no longer be valid. After the people's court declares the invalidity of such certificate, the shareholder may apply to the company for a replacement of share certificate.

A separate procedure regarding the loss of overseas listed and foreign invested share certificates is provided for in the Mandatory Provisions.

Merger and Division

Merger of companies may take place either through consolidation or incorporation. In the event of merger of companies, the parties thereto shall conclude a merger agreement, and prepare the balance sheet and inventory of assets. The company shall notify its creditors within 10 days following the resolution on merger is made, and issue public notices in newspapers within 30 days. A creditor shall request the company to pay off the debts or provide corresponding guarantees within 30 days after the receipt of the notice, or within 45 days of the public notice if he did not receive any notice. The credits and debts of the parties to the merger shall be assumed by the existing company or the newly-incorporated company after the merger.

The properties of the company shall be divided in the event of a division. The company shall prepare the balance sheet and inventory of assets. The company shall notify its creditors within 10 days following the resolution on division is made, and issue public notices in newspapers within 30 days. The debts incurred prior to the division shall be jointly and severally borne by the companies after the division, unless the written agreements in relation to the debt repayment entered into between the company and the creditors prior to the division otherwise stipulates.

In the event of merger or division, the formalities for change of registration shall be completed with the relevant company registration authority for changes of any registered item in accordance with the laws. The company deregistration formalities shall be completed in accordance with the laws if the company is dissolved; and the company establishment registration formalities shall be completed in accordance with the law if a new company is established.

Securities Law and Regulations

The PRC has promulgated a number of regulations relating to the issue and trading of shares and disclosure of information. In October 1992, the Securities Committee and the CSRC were established by the State Council. The Securities Committee was responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC was the regulatory body of the Securities Committee and responsible for the drafting of regulatory provisions of securities markets, supervising securities firms, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading the securities, compiling securities-related statistics and undertaking research and analysis. In 1998, the State Council dissolved the Securities Committee and assigned its functions to the CSRC. The CSRC is also responsible for the regulation and supervision of all stocks and futures market in China according to laws, regulations and authorizations.

The Securities Law took effect on 1 July 1999 and was last revised on 31 August 2014. The Securities Law is the first national securities law in the PRC, and comprehensively regulates activities in the securities market. It is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities firms and the duties and responsibilities of the State Council's securities regulatory authorities. Article 238 of the Securities Law provides that a PRC enterprise shall obtain prior approval from the State Council's securities regulatory authorities to list its shares outside the PRC. Article 239 of the PRC Securities Law provides that specific provisions in respect of shares of companies in the PRC which are to be subscribed for and traded in foreign currencies shall be separately formulated by the State Council. Currently, the issue and trading of foreign issued shares (including H shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

Arbitration and Enforcement of Arbitral Awards

The *Arbitration Law of the People's Republic of China* (中華人民共和國仲裁法) (the "**Arbitration Law**") passed by the SCNPC on 31 August 1994, became effective on 1 September 1995 and was amended on 1 September 2017. It is applicable to contract disputes and other property disputes between natural persons, legal persons and other organisations where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people's court will refuse to handle the case except when the arbitration agreement is declared invalid.

The Hong Kong Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer and, in the case of the Hong Kong Listing Rules, also in contracts between the issuer and each of its directors and supervisors, to the effect that any disputes or claims arising among the following parties will be referred to arbitration (i) between holders of the H shares and the issuer; (ii) between holders of the H shares and the issuer's directors, supervisors or senior management; and (iii) among shareholders. Matters in arbitration include any disputes or claims in relation to the issuer's affairs or as a result of any rights or obligations arising under its articles of association, the Company Law or other relevant laws and administrative regulations.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are the issuer or the shareholders, directors, supervisors, managers or other senior management of the issuer, must comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to the issuer's register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission ("**CIETAC**") in accordance with its rules or the Hong Kong International Arbitration Centre ("**HKIAC**") in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the HKIAC.

In accordance with the *Arbitration Regulations of China International Economic and Trade Arbitration Commission* (中國國際經濟貿易仲裁委員會仲裁規則) amended on 4 November 2014 and implemented on 1 January 2015, CIETAC shall deal with economic and trading disputes over contractual or non-contractual transactions, including disputes involving Hong Kong based on the agreement of the parties. The CIETAC is located in Beijing and it has set up several branches and centres such as in Shenzhen, Shanghai, Tianjin, Chongqing and Hong Kong.

Under the Arbitration Law and Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party may apply to the people's court for enforcement. A people's court shall refuse to enforce an arbitral award if any of the following events was involved:

- the parties have no arbitration clause in their contract, nor have subsequently reached a written agreement on arbitration;
- the matters dealt with by the award fall outside the scope of the arbitration agreement or are matters which the arbitral tribunal has no power to arbitrate;
- the composition of the arbitration tribunal or the procedure for arbitration contradicts the procedure prescribed by the law;

- the evidences based on which the arbitral award was made is falsified;
- the other parties conceal the evidences from the arbitral tribunal which are sufficient to affect the impartiality of the arbitral award;
- the arbitrators have committed embezzlement, accepted bribes or done malpractice for personal benefits or perverted the law in the arbitration of the case; or
- the people's court determines that the execution of the arbitral award is against the social and public interest.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the *Convention on the Recognition and Enforcement of Foreign Arbitral Awards* (承認及執行外國仲裁裁決公約) (the "**New York Convention**") adopted on 10 June 1958 pursuant to a resolution of the SCNPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the SCNPC simultaneously with the accession of the PRC that (i) the PRC will only apply the New York Convention to the recognition and enforcement of arbitral awards made in the territory of another contracting state on the principle of reciprocity; and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

Agreement has been reached between Hong Kong and the Supreme People's Court of the PRC for the mutual enforcement of arbitral awards. On 18 June 1999, the Supreme People's Court of the PRC adopted the *Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong SAR* (關於內地與香港特別行政區相互執行仲裁裁決的安排), which became effective on 1 February 2000. The arrangement is made in accordance with the spirit of the New York Convention. In accordance with this arrangement, awards made by PRC arbitral authorities acknowledged by Hong Kong arbitration rules can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in China.

Overseas Direct Investment Regulations

Pursuant to the *Regulations on the Administration of Overseas Investment* (境外投資管理辦法) promulgated by the MOFCOM which became effective on 6 October 2014, enterprises shall obtain approval from or register with the commerce authorities for conducting overseas investment according to such regulations.

Pursuant to *Regulations on Foreign Exchange Administration of the Overseas Direct Investment of Domestic Institutions* (境內機構境外直接投資外匯管理規定) promulgated by the SAFE which became effective on 1 August 2009, upon obtaining approval for overseas investment, a PRC enterprise shall apply for foreign exchange registration for its overseas direct investments. According to the *Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Policies of Foreign Exchange Administration Applicable to Direct Investment* (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知) ("**SAFE Notice**") promulgated by the SAFE which came into effect on 1 June 2015, the administrative approval for foreign exchange registration approval under overseas direct investment has been cancelled, and the banks are entitled to review and carry out foreign exchange registration under foreign exchange registration under overseas direct investment directly. SAFE and its branches shall implement indirect supervision over foreign exchange registration of direct investment via the banks.

In accordance with the *Administrative Measures for Verification and Registration of Overseas Investment Projects* (境外投資項目核准和備案管理辦法) amended by the NDRC and took effect on 27 December 2014, outbound investment projects involving sensitive countries and regions or sensitive industries shall be examined and approved by the NDRC. In the event that the Chinese investors invest US$2 billion or above in the foregoing projects, those projects are subject to the approval of the State Council after being examined by the NDRC. Other outbound investment projects shall be reported for the record.

HONG KONG LAWS AND REGULATIONS

Summary of Material Differences between Hong Kong and PRC Company Laws

Hong Kong company law is primarily set out in the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and is supplemented by common law and rules of equity applicable in Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to Hong Kong Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain pre-emptive provisions. A public company's articles of association do not contain such preemptive provisions.

Under the Company Law, a joint stock limited company may be incorporated by promotion or subscription. The latest amended Company Law removed the general provisions on statutory minimum registered capital, except that laws, administrative regulations and the State Council decisions have separate provisions on paid-up registered capital and the minimum registered capital, in which case the company should follow such provisions.

Share Capital

Under Hong Kong law, the directors of a Hong Kong company may, with the prior approval of the shareholders (if required), issue new shares of the company.

Under the Securities Law, a company which is authorised by the relevant securities regulatory authority to list its shares on a stock exchange shall have a total share capital of no less than RMB30 million. There is no requirement on minimum share capital in relation to the incorporation of a Hong Kong company by Hong Kong law.

Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisal must be carried out to ensure no over-valuation or under-valuation of the assets. A Hong Kong company is not subject to these restrictions according to Hong Kong law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons and other investment institutions as permitted by laws and regulations. Since April 2013, investors from Hong Kong, Macau and Taiwan may also open an A share account. Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors. In addition, pursuant to the *Announcement on Launching the Pilot Shanghai-Hong Kong Stock Connect* (關於開展滬港股票市場交易互聯互通機制試點的公告) jointly issued by CSRC and SFC, qualified PRC investors could buy specified overseas listed shares through systems such as Shanghai-Hong Kong Stock Connect.

Under the Company Law, shares in a joint stock limited liability company held by its promoters are not allowed to be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the stock exchange. Shares held by its directors, supervisors and senior management transferred each year during their term of office shall not exceed 25% of the total shares held by them, and the shares of the company held by such person cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after such person's resignation from the company. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and senior management. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares.

Financial Assistance for Acquisition of Shares

The Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance for acquisition of shares similar to those under the Hong Kong company law.

Variation of Class Rights

The Company Law has no special provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in the appendix entitled "Appendix V – Summary of Articles of Association" to this prospectus.

Under the Hong Kong Companies Ordinance, no rights attached to any class of shares can be varied except (i) with the approval of a special resolution of the holders of the relevant class at a separate meeting, (ii) with the written consent of the holders of three-fourths in nominal value of the shares of the class in question, (iii) by agreement of all the members of the Company, or (iv) if there are provisions in the Articles of Association relating to the variation of those rights, then in accordance with those provisions.

Directors

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors such as guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Company Law restricts any interested director of a listed joint stock limited company to vote in respect of any board resolutions involving any entities in which such director has an interest or a connected relationship. The Mandatory Provisions contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office. These provisions have been incorporated in the Articles of Association, which are summarised in the appendix entitled "Appendix V – Summary of Articles of Association" to this prospectus.

Supervisory Committee

Under the Company Law, a joint stock limited company's directors and managers are subject to the supervision of a supervisory committee. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. There is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of all shareholders of the company against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a shareholders' general meeting, thereby effectively preventing the company from suing the directors for breach of their duties in its own name.

The Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the supervisory committee to initiate proceedings in the people's court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the supervisory committee or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company.

Protection of Minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his/her interests may petition to the court to either wind up the company or seek an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary of Hong Kong government may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong.

The Mandatory Provisions contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' Meetings

Under the Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting, whereas notice a shareholder's special general meeting must be given not less than 15 days before the meeting. In the event the company issues bearer shares, notice of a shareholder's general meeting must be given at least 30 days before the meeting. Under the

Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a limited company incorporated in Hong Kong, the minimum period of notice of a shareholders' general meeting convened for the purpose of considering ordinary resolutions, is 14 days and, where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is 21 days.

Quorum for Shareholders' Meetings

The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter. Under Hong Kong law, the quorum for a shareholders' general meeting is two members unless the articles of association of the company otherwise provide, but must be at least two members.

Voting

Under the Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting. Under Hong Kong law, an ordinary resolution is passed by a simple majority of affirmative votes cast by members present in person or by proxy at a shareholders' general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a shareholders' general meeting.

Financial Information Disclosure

Under the Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its 20 days before its shareholders' annual general meeting. In addition, according to the Company Law, a listed company must publish its financial position. Hong Kong Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report, and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting.

A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international accounting standards or the accounting standards of the listing places overseas and its financial statements must also contain a statement of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the articles of association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to the shareholders of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law is two years. The Mandatory Provisions require the relevant company to appoint a receiving agent for the Shareholders holding overseas listed foreign Shares to receive on behalf of holders of overseas listed foreign shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company to another company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies Ordinance (Winding Up and Miscellaneous Provisions) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Division 2 of Part 13 of the Hong Kong Companies Ordinance, which requires the sanction of the court.

Under PRC law, merger, division, dissolution or change the form of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders and a company or its directors may be resolved through the courts. The Mandatory Provisions provide that disputes between shareholders on the one hand, and a company incorporated in the PRC seeking a listing on Hong Kong Stock Exchange, may be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the Company Law, a joint stock limited liability company is required to set aside 10% of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital) when distributing each year's after-tax profits. After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' general meeting, allocate discretionary reserve fund from after-tax profits. There are no such requirements under Hong Kong law.

Remedies of the Company

Under the Company Law, if a director, supervisor or senior management in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or senior management should be responsible to the company for such damages. Such provisions are similar to those available under the Hong Kong law.

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under the PRC law, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors and senior management shall undertake a fiduciary obligation to the company and are not permitted to engage in any activities which compete with or damage the interests of the company.

Closure of Register of Shareholders

The Hong Kong Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year. According to the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

Hong Kong Listing Rules

Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to the Company.

Compliance Advisor

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from its listing date up to the date of the publication of its first full financial year's financial performance, to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws, regulations, rules, codes and guidelines, and to act at all times, in addition to the company's two authorised representatives, as the principal channel of communication with the Hong Kong Stock Exchange. The appointment of the compliance advisor may not be terminated until a replacement acceptable to the Hong Kong Stock Exchange has been appointed.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement. The compliance advisor must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended laws, regulations or codes in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

Accountant's Report

An Accountant's report for a PRC issuer will not normally be regarded as acceptable by the Hong Kong Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong or under international audit standards or PRC audit standards. Such report will normally be required to conform to Hong Kong or international accounting standards or China Accounting Standards for Business Enterprises. (For a PRC issuer that adopts China Accounting Standards for Business Enterprises for preparing annual financial statement).

Process Agent

The Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his/her appointment, the termination of his/her appointment and his/her contact particulars.

Public Shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("**foreign shares**") which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of such foreign shares and other issued securities held by the public must constitute not less than 25% of the issued share capital and that such foreign shares for which listing is sought must not be less than 15% of the total issued share capital if the company has an expected market capitalisation at the time of listing of not less than HK$50,000,000. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15% and 25% if the Company has an expected market capitalisation at the time of listing of over HK$10,000,000,000.

Independent Non-Executive Directors and Supervisors

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their positions as supervisors.

Mandatory Provisions

With a view to strengthening the protection on investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the Supervisory Committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in Appendix V to this Prospectus.

Redeemable Shares

The Company shall not issue any redeemable shares, unless the Hong Kong Stock Exchange is satisfied that relative rights of the holders of foreign shares are adequately protected.

Pre-emptive rights

Except in the circumstances mentioned below, the Directors of the Company are required to obtain the approval by a special resolution of shareholders at a shareholders' meeting, and the approvals by special resolutions of the holders of domestic shares and foreign shares (each being otherwise entitled to vote at shareholders' meetings) at separate class meetings conducted in accordance with the Company's Articles of Association, prior to authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required, but only to the extent that, the existing shareholders of the company have by special resolution in shareholders' meeting given a mandate to the directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20% of the existing domestic shares and foreign shares as at the date of the passing of the relevant special resolution or of such shares that are part of the company's plan at the time of its establishment to issue domestic shares and foreign shares and which plan is implemented within 15 months from the date of approval by the CSRC or other securities regulatory authorities under the State Council.

Supervisors

The Company is required to adopt rules governing dealings by its Supervisors in securities of the Company in terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

The Company is required to obtain the approval of its shareholders at a shareholders' meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to the Company or any of its subsidiaries entering into a service contract of the following nature with a Supervisor or proposed Supervisor of the Company or its subsidiary: (1) the term of the contract may exceed three years; or (2) the contract expressly requires the Company to give more than one year's notice or to pay compensation or make other payments equivalent to the remuneration of more than one year.

The Remuneration and Nomination Committee of the Company or an independent board committee must form a view in respect of service contracts that require shareholders' approval and advise shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of the Company and its Shareholders as a whole and advise Shareholders on how to vote.

Amendment to the Articles of Association

The Company shall not permit or cause any amendment to be made to its Articles of Association, which would cause the same to cease to comply with the provisions of the Hong Kong Listing Rules and the Mandatory Provisions or the Company Law.

Documents for Inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and its Shareholders free of charge, and for copying by Shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports of the Directors, auditors and Supervisors (if any) thereon;

- special resolutions of the Company;

- reports showing the number and nominal value of securities repurchased by the Company since the end of the last fiscal year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between domestic shares and H Shares);

- a copy of the latest annual return filed with State Administration for Industry and Commerce or other authorities of China; and

- for Shareholders only, copies of minutes of meetings of shareholders.

Receiving Agent(s)

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

Statements in Share Certificates

The Company is required to ensure that all of its listing documents and H share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect that the acquirer of shares:

- agrees with the Company and each Shareholder of the Company, and the Company agrees with each Shareholder of the Company, to observe and comply with the Company Law, the Special Regulations, and the Articles of Association;

- agrees with the Company, each Shareholder, Director, Supervisor, manager and officer of the Company, and the Company acting for itself and for each Director, Supervisor, manager and officer of the Company agrees with each shareholder, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- agrees with the Company and each Shareholder of the Company that the Shares are freely transferable by the holder thereof; and

- authorises the Company to enter into a contract on his/her behalf with each Director and officer of the Company whereby each such Director and officer undertakes to observe and comply with his/her obligation to Shareholders as stipulated in the Articles of Association.

Compliance with the Provisions of the Company Law, the Special Regulations and the Company's Articles of Association

The Company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

Contract between the Company and its Directors, Officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Takeovers Code and the Share Buy-backs Code and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his/her office is capable of assignment;

- an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his/her obligations to shareholders as stipulated in the Articles of Association;

- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant law and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its Securities Arbitration Rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive;

- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC;

- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;

- the award of the arbitral body is final and shall be binding on the parties thereto; and

- the disputes concerning the shareholder qualification and share registration can be resolved without resorting to arbitration.

The Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

ENGLISH TRANSLATION

All notices or other documents required under the Hong Kong Listing Rules to be sent by China issuer to the Hong Kong Stock Exchange or to holders of H Shares are required to be in the English language, or accompanied by a certified English translation.

GENERAL

If any change in the PRC law or market practices materially alters the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the H Shares of a PRC issuer subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirements and make special conditions in respect of the listing.

Other Legal and Regulatory Provisions

Upon the Company's listing, the provisions of the Securities and Futures Ordinance, the Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association, the Company Law and other applicable rules and regulations shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on the Stock Exchange so that PRC parties and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties, including witnesses and the arbitrators, being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Set out herein is a summary of the Articles of Association, the principal objective of which is to provide potential investors with an overview of the Articles of Association. As the information contained herein is in summary form, it may not contain all the information that is important to potential investors.

DIRECTORS AND OTHER SENIOR MANAGEMENT

Power to Allot and Issue Shares

There are no provisions in the Articles of Association empowering the Director(s) to allot and issue Shares. The increase of the registered capital of the Company must be passed by way of a special resolution at a general meeting.

Power to Dispose of the Assets of the Company or Its Subsidiaries

For disposal of any fixed assets by the Board, if the aggregate of the expected value of the fixed assets proposed to be disposed of and the value of the fixed assets which had been disposed of within four months immediately preceding such proposal for disposal exceeds 33% of the fixed assets value shown in the most recent balance sheet reviewed at a general meeting, the Board shall not dispose of or approve of the disposal of such fixed assets without the approval of the general meeting.

For the purposes of the Articles of Association, a disposition of fixed assets shall include an act involving the transfer of an interest in such assets, but shall exclude the provision of such assets as a form of security.

The validity of a disposition by the Company of fixed assets shall not be affected by the breach of the above paragraph.

REMUNERATION AND COMPENSATION FOR LOSS OF OFFICE

The Company shall enter into written contracts with the Director(s) and the Supervisor(s) of the Company regarding remuneration which are subject to the prior approval from the general meeting. The aforesaid emoluments include:

(i) remuneration for the Director(s), Supervisor(s) or senior management member(s) of the Company;

(ii) remuneration for the Director(s), Supervisor(s) or senior management member(s) of the subsidiary companies of the Company;

(iii) remuneration for those providing other services in connection with the management of the Company and its subsidiaries;

(iv) compensation to Director(s) or Supervisor(s) for loss of their office or upon retirement.

Except under an aforesaid contract, no proceedings may be brought by a Director or Supervisor against the Company for any benefit due to him/her in respect of the above matters.

Contracts concerning emoluments between the Company and our Director(s) or Supervisor(s) should provide that, in the event of a takeover of the Company, the Director(s) or Supervisor(s) of the Company shall, subject to the prior approval at the general meeting, have the right to receive compensation or other payment in respect of his loss of office or retirement. A "takeover of the Company" referred to in this paragraph means either:

(i) a takeover offer made by any person to all Shareholders; or

(ii) a takeover offer made by any person with a goal of making the offeror a controlling Shareholder of the Company. See the meaning of "controlling Shareholder(s)" below.

If the relevant Director or Supervisor does not comply with the preceding provision, any sum so received by him shall belong to those persons who have sold their Shares as a result of the said offer. The expenses incurred in distributing such sum pro rata amongst those persons shall be borne by the relevant Director or Supervisor and shall not be paid out of the sum to be received by him.

LOANS TO DIRECTOR(S), SUPERVISOR(S) AND SENIOR MANAGEMENT

The Company shall not, directly or indirectly, provide any loan or loan guarantee to the Director(s), Supervisor(s) and senior management member(s) of the Company, nor shall the Company provide the same to their related persons.

The preceding provision shall not apply in the following circumstances:

(i) the Company provides loans or loan guarantees to its subsidiaries;

(ii) the Company provides loans, loan guarantees or other funds to the Director(s), Supervisor(s) or senior management member(s) of the Company pursuant to their employment contracts which were approved by the general meeting, so that the foregoing persons can make payments in the interests of the Company or for the expenses incurred in performing their responsibilities;

(iii) the Company may provide loans or loan guarantee for its Director(s), Supervisor(s) and senior management member(s) and their related persons if the ordinary course of business of the Company includes the lending of money or the giving of guarantees.

If the Company provides a loan in breach of the preceding provisions, regardless of the terms of the loan the person who has received the loan shall repay it immediately.

FINANCIAL ASSISTANCE FOR THE ACQUISITION OF SHARES IN THE COMPANY

The Company or its subsidiaries shall not offer any financial assistance at any time by any means to purchasers or prospective purchasers who will or propose to purchase the Company's Shares. The aforementioned purchasers shall include the persons who have directly or indirectly assumed obligations due to purchasing the Company's Shares.

The Company or its subsidiaries shall not offer any financial assistance at any time by any means in order to reduce or discharge the obligations assumed by the aforesaid purchasers.

The following activities shall not be deemed to be prohibited activities:

(i) the provision of financial assistance by the Company where the financial assistance is given in good faith in the interest of the Company, and the principal purpose in giving such financial assistance is not for the acquisition of Shares, or the giving of such financial assistance is an incidental part of a major plan of the Company;

(ii) the lawful distribution of the Company's assets in the form of dividends;

(iii) the distribution of dividends in the form of Shares;

(iv) the reduction of registered capital, repurchase of Shares, and adjustment of shareholding structure, etc. in accordance with the Articles of Association;

(v) the provision of a loan by the Company within its scope of business and in the ordinary course of business (provided that this does not lead to a reduction in the net assets of the Company or that if this causes a reduction, the financial assistance is provided out of the Company's distributable profits);

(vi) provision of funds by the Company for an employee shareholding scheme (provided that this does not lead to a reduction in the net assets of the Company or that if there causes a reduction, the financial assistance is provided out of the Company's distributable profits).

"Financial assistance" for these purposes shall include, without limitation, the following means:

(i) gifts;

(ii) a guarantee (including the assumption of liability by the guarantor or the provision of assets by the guarantor to secure the performance of obligations by the obligor), indemnity (other than an indemnity in respect of the Company's own default) or the release or waiver of any rights;

(iii) the provision of loans or the entrance into any agreement under which the obligations of the Company are to be fulfilled before the obligations of another party, and a change in the parties to, or the novation of, or the assignment of rights arising under such loans or agreement; or

(iv) any other form of financial assistance given by the Company when the Company is insolvent or has no net assets, or when its net assets would be reduced to a material extent as a result of such financial assistance.

The "incurring obligations" referred to in the above paragraph shall include the incurring of obligations of an obligor which have arisen by entering into a contract or making an arrangement (regardless of whether the aforesaid agreement or arrangement is enforceable, or whether such obligations are assumed by the obligor individually or jointly with any other person) or any obligations that arise out of changes made in any other way to the obligor's financial condition.

DISCLOSURE OF INTERESTS IN CONTRACTS WITH THE COMPANY

Where the Director(s), Supervisor(s) or senior management member(s) of the Company are, directly or indirectly, materially interested in any executed or proposed contracts, transactions or arrangements with the Company (except the employment contracts between the Company and its Director(s), Supervisor(s) and senior management member(s)), regardless of whether such interests are usually subject to the approval or consent of the Board, such persons shall disclose the nature and extent of the interests to the Board as soon as possible.

Unless the interested Director(s), Supervisor(s) and senior management member(s) of the Company have disclosed their interests to the Board in accordance with the requirements of the preceding provision, and the Board has approved the matter without counting the interested persons into the quorum and without their participation in the vote, the Company shall have the right to rescind such contracts, transactions or arrangements, except in circumstances where the counterparty is unaware that the interested Director(s), Supervisor(s) and senior management member(s) are in breach of their obligations.

If the related persons of a Director, Supervisor or senior management member of the Company are interested in any contracts, transactions or arrangements, such Director, Supervisor and senior management member shall be deemed to be interested as well.

Before the Company considers entering into contracts, transactions or arrangements for the first time, and if the Director(s), Supervisor(s) and senior management member(s) of the Company have provided a written notice to the Board stating that they are interested in the contracts, transactions or arrangements which would be entered into by the Company in the future for the reasons set out in the notice, then the Director(s), Supervisor(s) and senior management member(s) concerned shall be deemed to have made the disclosure for the purpose of the above paragraphs to the extent as set out in the notice.

APPOINTMENT, REMOVAL AND RETIREMENT

The Board consists of 14 Director(s), including five independent non-executive Director(s), among which one Director is also a financial personnel or an accountant and meets the relevant requirements of the Listing Rules.

The Board has one chairman. Director(s) shall be elected at a general meeting. The term of office of a Director shall be three years, and a Director may be re-elected and re-appointed upon expiry of his/her term of office. The term of office of the chairman shall be elected and dismissed by a majority of all Director(s). The term of office of the chairman shall be three years, and a Director may be re-elected and re-appointed upon expiry of his/her term of office.

A Director may resign prior to the expiry of his/her term of office. When a Director intends to resign, he/she shall submit a written resignation to the Board. The Board shall disclose such resignation within two days thereof. If the resignation of a Director will result in the Board of the Company having less than the statutory minimum number of Director(s), the former Director shall perform his/her duties as a Director in accordance with laws, administrative regulations, department rules and the Articles of Association until a new Director is elected and takes his/her position. Other than the circumstances set out above, the resignation of a Director shall become effective at the time of submission of the resignation letter to the Board.

A person may not serve as a Director, Supervisor or any other senior management member of the Company if any of the following circumstances applies:

(i) a person without legal or with restricted legal capacity;

(ii) a person who has committed an offence of corruption, bribery, infringement of property, misappropriation of property or sabotaging the order of socialist market economy and has been punished because of committing such offence; or who has been deprived of his/her political rights, in each case where less than five years have elapsed since the date of the completion of implementation of such punishment or deprivation;

(iii) a person who is a former director, factory manager or general manager of a company or enterprise which has entered into insolvent liquidation and he/she is personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of the company or enterprise;

(iv) a person who is a former legal representative of a company or enterprise which had its business licence revoked or had been ordered to close down due to a violation of the law and who incurred personal liability, where less than three years has elapsed since the date of the revocation of the business licence;

(v) a person who has a relatively large amount of debts due and outstanding;

(vi) a person who is under criminal investigation or prosecution by a judicial organisation for violation of the criminal law where said investigation or prosecution is not yet concluded;

(vii) a person who is not eligible for enterprise leadership according to laws and administrative regulations;

(viii) a non-natural person;

(ix) a person sanctioned by the CSRC by a ban on entering the securities market, where such ban is yet to expire;

(x) a person convicted of the contravention of provisions of relevant securities regulations by a relevant competent authority, and such conviction involves a finding that he has acted fraudulently or dishonestly, where less than five years have elapsed since the date of the conviction;

(xi) as prescribed in laws, administrative regulations or departmental rules.

The validity of an act of a Director or any senior management member on behalf of the Company shall not, vis-a-vis a bona fide third party, be affected by any irregularity in his/her office, election or any defect in his/her qualification.

BORROWING POWERS

The Articles of Association do not specifically provide for the manner in which borrowing powers may be exercised nor do they contain any specific provision in respect of the manner in which such borrowing powers may be amended, except for:

(i) provisions which authorise the Board to formulate proposals for the issuance of bonds or other securities and the listing of the Company; and

(ii) provisions which provide that the issuance of bonds or any other kinds of stocks, warrants and other similar securities and listing of the Company shall be approved by the general meeting by a special resolution.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Company shall amend the Articles of Association if any of the following circumstances occurs:

(i) any matters contained in the Articles of Association becoming in conflict with the provisions of the amended Company Law or the relevant laws or administrative regulations;

(ii) certain changes of the Company resulting in inconsistency with the Articles of Association;

(iii) a resolution being passed by the general meeting to amend the Articles of Association.

If any amendment to the Articles of Association involves matters provided in the Mandatory Provisions, it shall become effective after approval by the company review and approval authorities authorised by the State Council; if registration matters are involved, the Company shall apply for registration of the changes in accordance with the law.

CHANGE OF RIGHTS OF CLASSES OF SHARES

Any variation or abrogation of the rights of any class of Shareholders proposed by the Company may only be carried out after the adoption of a special resolution at a meeting and approval by the affected Shareholders of that class at a separate meeting of Shareholders held in accordance with the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the rights of Shareholders of a certain class:

(i) to increase or decrease the number of Shares of a particular class, or increase or decrease the number of Shares of other class(s) having rights on voting, distribution or other privileges equal or superior to those of the Shares of such class;

(ii) to effect an exchange of all or part of Shares of such class into Shares of other classes, or to effect an exchange or grant a right of exchange of all or part of the Shares of other classes into Shares of such class;

(iii) to remove or reduce rights to receive accrued dividends or cumulative dividends attached to Shares of such class;

(iv) to reduce or remove the rights to a dividend preference or a liquidation preference to distribution of property attached to Shares of such class;

(v) to add, remove or reduce the rights to conversion, options, voting, transfer, pre-emptive rights to placement and acquire securities of the Company attached to Shares of such class;

(vi) to remove or reduce rights to receive payment payable by the Company in particular currencies attached to Shares of such class;

(vii) to create a new class of Shares having rights on voting, distribution or other privileges equal or superior to those of the Shares of such class;

(viii) to restrict transfer or ownership of the Shares of such class or increase such restrictions;

(ix) to issue subscription rights or Share conversion rights for Shares of such class or other classes;

(x) to increase the rights and privileges of Shares of other classes;

(xi) to restructure the Company where the proposed restructuring scheme will result in different classes of Shareholders bearing a disproportionate burden of obligations of such restructuring;

(xii) to vary or abrogate the terms provided in this chapter.

Shareholders of the affected class, whether or not having the right to vote at the meeting, shall nevertheless have the right to vote at class Shareholders' meetings on matters referred to in the above clauses (ii) to (viii) and (xi) to (xii) of these Articles of Association, but interested Shareholders shall not be entitled to vote at class Shareholders' meetings.

The interested Shareholders mentioned in the preceding paragraph shall have the following meanings:

(i) in the case of a repurchase of its own Shares by the Company by making offers to all Shareholders on a same pro rata basis or through public dealing on a stock exchange in accordance with these Articles of Association, "interested Shareholders" shall refer to the controlling Shareholders as defined in these Articles of Association;

(ii) in the case of a repurchase of its own Shares by the Company through an off-market agreement in accordance with the provisions of these Articles of Association, "interested Shareholders" shall refer to the Shareholders to which the proposed agreement relates;

(iii) in the case of a restructuring of the Company, an "interested Shareholder" shall refer to a Shareholder within a class who bears liabilities less than the proportion burden imposed on other Shareholders of that class or who has interests different from those held by Shareholders of the same class.

A resolution of the class Shareholders' meeting shall be passed in accordance with these Articles of Association by Shareholders representing not less than two-thirds of voting rights present in the meeting.

Written notice of a class Shareholders' meeting convened by the Company shall be dispatched forty-five days prior to the date of the class Shareholders' meeting to all Shareholders of such class whose names appear on the register of members, specifying the matters to be considered and the place, date and time of the meeting.

Notices of the class Shareholders' meeting only need to be served on Shareholders entitled to vote thereat.

The procedures for holding the class Shareholders' meeting shall be similar to those for holding the meeting as far as possible, and the provisions in the Articles of Association relating to the procedures for a meeting shall apply to the class Shareholders' meeting.

Save for Shareholders of Shares of other classes, the holders of domestic Shares and holders of overseas listed foreign Shares are deemed to be different classes of Shareholders.

The special procedures for voting by class Shareholders shall not apply in the following circumstances:

(i) where the Company issues, upon approval by a special resolution at a meeting, domestic Shares and overseas listed foreign Shares once every twelve months, either separately or concurrently, and the respective numbers of domestic Shares and overseas listed foreign Shares proposed to be issued do not exceed 20% of the respective numbers of the issued domestic Shares and overseas listed foreign Shares;

(ii) where the Company's plan to issue domestic Shares and overseas listed foreign Shares at the time of incorporation is carried out within fifteen months from the date of approval by the competent securities regulatory authorities of the State Council;

(iii) where the securities regulatory and administrative authorities of the State Council has given approval for the Shares held by the Shareholders of the domestic Shares of the Company to be transferred to overseas investors and listed and traded on an overseas stock exchange.

ORDINARY AND SPECIAL RESOLUTIONS

Resolutions of a general meeting shall be ordinary resolutions or special resolutions.

Ordinary resolutions shall be passed by votes representing half or more of the voting rights held by the Shareholders (including proxies) present at the meeting.

Special resolutions shall be passed by votes representing two-thirds or more of the voting rights held by the Shareholders (including proxies) present at the meeting.

VOTING RIGHTS

All Shareholders whose names appear on the register of members of the Company on the record date (or their proxies, as applicable) shall all be entitled to attend the general meeting and to exercise their voting rights in accordance with relevant laws and regulations and the Articles of Association. A shareholder may attend the general meeting in person or may appoint a proxy to attend and vote at the meeting on his behalf. Shareholders (including proxies) shall exercise their voting rights at a general meeting according to the number of voting Shares they represent, with one vote for each Share. Shares in the Company which are held by the Company do not carry any voting rights, and shall not be counted in the total number of voting Shares represented by Shareholders present at a general meeting

Resolutions at a general meeting shall be decided by show of hands unless a poll is demanded before or after any vote on a show of hands. A poll may be demanded by:

(i) the chairman of the meeting;

(ii) at least two Shareholders entitled to vote, present in person or by proxy;

(iii) one or more Shareholders present in person or by proxy holding individually or jointly 10% (inclusive) or more of the Shares carrying the right to vote at the meeting.

Unless a poll is demanded, the chairman's declaration of the results of the voting by show of hands and the record of the same in the minutes of the meeting shall be final evidence of the results of the voting. There is no need to provide evidence as to the number of votes for and against the resolution or the proportion of votes for and against in respect thereof.

On a poll taken at a meeting, a Shareholder (including proxy) entitled to two or more votes need not exercise all his/her voting rights with affirmative votes or negative votes.

REQUIREMENT FOR GENERAL MEETINGS

General meetings shall be divided into annual general meetings and extraordinary general meetings. The annual general meeting shall be held once every year within six months after the end of the previous accounting year.

The Board shall convene an extraordinary general meeting within two months upon the occurrence of one of the following circumstances:

(i) the number of Director(s) is less than the number required by the Company Law or less than two-thirds of the number required by the Articles of Association;

(ii) the uncovered losses reach one-third of the Company's total paid-in share capital;

(iii) Shareholders individually or jointly holding 10% or more of the Company's issued Shares with voting rights request in writing to hold the meeting;

(iv) the Board considers it is necessary to hold the meeting;

(v) the Supervisory Committee proposes to convene the meeting;

(vi) other circumstances as provided by laws, administrative regulations, departmental rules, the listing rules of the stock exchanges on which the Shares of the Company are listed or the Articles of Association.

ACCOUNTS AND AUDIT

Financial and Accounting Systems

The Company shall formulate financial and accounting systems in accordance with the applicable laws, administrative regulations and the provisions of the relevant departments of the PRC.

The Board shall have an audit committee which is accountable to the Board. The audit committee shall have at least three members and all such members must be non-executive Director(s). The majority of members of the audit committee shall be independent Director(s) and the chairman shall be an independent Director. The committee shall have such responsibilities and powers as prescribed by the Articles of Association.

The Board shall at each of the Shareholders' annual general meetings submit to Shareholders the financial reports prepared by the Company as required by relevant laws, administrative regulations and the normative documents issued by local governments and competent departments.

The Company's financial reports shall be made available at the Company for Shareholders' inspection twenty days before the date of annual general meeting. Each Shareholder of the Company shall be entitled to obtain a copy of the financial reports as referred to in the Articles of Association.

The Company shall send the aforesaid printed reports together with the balance sheet (including all the documents required by applicable laws to be included in such balance sheet) and the income statements or the financial summary reports to all the holders of overseas listed foreign Shares of the Company by prepaid post at least twenty-one days before the date of annual general meeting at the address as recorded in the register of Shareholders.

The Company shall not maintain separate accounting books except for statutory accounting books.

In addition to financial statements prepared in accordance with Chinese accounting standards and regulations, the Company may also prepare its financial statements according to the international or overseas accounting standards in the place where the Company's Shares are listed. Material differences between the financial statements prepared according to two different accounting standards shall be explicitly explained in the notes to the financial statements. When distributing the after-tax profits in the accounting year, the Company shall base on the lower of the after-tax profits in the aforesaid two financial statements.

The Company shall publish its financial reports twice each accounting year, i.e. the interim financial report within 60 days after the end of the first six months of each accounting year and the annual financial report within 120 days after the end of the each accounting year.

Engagement of an Accountants' Firm

The Company shall engage an independent firm of certified public accountants which is qualified under the relevant regulations of the State to audit the annual financial statements and to review other financial reports of the Company.

The certified public accountants' firm appointed by the Company shall hold office from the conclusion of the annual general meeting at which the appointment is made until the conclusion of the next annual general meeting.

Before the convening of the general meeting, the Board may fill any casual vacancy in the office of the certified public accountants' firm, but while any such vacancy continues, the surviving or continuing firm, if any, may act.

The remuneration of a certified public accountants' firm or the manner in which such firm is to be remunerated shall be determined by the Shareholders in general meeting. The remuneration of a certified public accountants' firm appointed to fill a vacancy by the Board shall be determined by the Board.

Change or Removal of an Accountants' Firm

The Company's appointment, removal and non-reappointment of a certified public accountants' firm shall be resolved by Shareholders in general meeting. The resolution of the general meeting shall be filed with the securities regulating authority of the State Council.

The Shareholders in general meeting may, by an ordinary resolution, remove a certified public accountants' firm before the expiration of its office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

Prior to the removal or the non-renewal of the appointment of a certified public accountants' firm, notice of such removal or non-renewal shall be given to the certified public accountants' firm concerned and such firm shall be entitled to make representation at the general meeting.

Where it is proposed that any resolution be passed at a general meeting concerning the appointment of a certified public accountants' firm, which is not an incumbent firm, to fill a casual vacancy in the office of the certified public accountants' firm, or to reappoint a retiring certified public accountants' firm which was appointed by the Board to fill a casual vacancy, or to remove the certified public accountants' firm before the expiration of its term of office, the following provisions shall apply:

(i) A copy of the proposal about appointment or removal shall be sent to the firm proposed to be appointed or proposing to leave its post or the firm which has left its post in the relevant accounting year before notice of meeting is given to the Shareholders.

Leaving includes leaving by removal, resignation and retirement.

(ii) If the leaving firm makes representations in writing and requests the Company to notify the Shareholders of such representations, the Company shall (unless the representations are received too late):

1. in any notice given to Shareholders about a resolution to be made, state the representations that has been made by the accountants' firm which is about to leave;

2. attach a copy of the representations to the notice and deliver it to the Shareholders in the manner stipulated in the Articles of Association.

(iii) If the firm's representations are not sent in accordance with paragraph (ii) above, the relevant firm may require that the representations be read out at the general meeting and may lodge further complaints.

(iv) A certified public accountants' firm which is leaving its post shall be entitled to attend:

1. the general meeting relating to the expiry of its term of office;

2. any general meeting at which it is proposed to fill the vacancy caused by its removal;

3. any general meeting convened on its resignation.

and to receive all notices of, and other communications relating to, any such meetings, and to speak at any such meeting in relation to matters concerning its role as the former certified public accountants' firm of the Company.

Resignation of an Accountants' Firm

Where the certified public accountants' firm resigns from its post, it shall make clear to the general meeting whether there has been any impropriety on the part of the Company.

(i) Where any certified public accountants' firm intends to resign from its office, it may deposit at the Company's legal residence a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

1. a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the Shareholders or creditors of the Company; or

2. a statement of any matters of which an account should be given.

(ii) Where a notice is deposited under the paragraph (i) of this Article, the Company shall within fourteen days send a copy of the notice to relevant competent authority. If the notice contains a statement referred to in subparagraph 2 under paragraph (i) of this Article, a copy of such statement shall be placed at the Company's registered office for Shareholders' inspection. The Company shall also send a copy of such statement to holders of overseas listed foreign Shares by prepaid post, to the registered addresses shown in the register of members.

(iii) Where the notice of resignation of a certified public accountants' firm contains a statement that shall be explained, the certified public accountants' firm may require the Board to convene an extraordinary general meeting for the purpose of giving an explanation of the circumstances connected with its resignation.

NOTICE OF MEETINGS AND MATTERS TO BE CONDUCTED THEREAT

A forty-five days' prior written notice for convening the general meeting shall be given to notify Shareholders whose names appear in the register of Shareholders of the matters proposed to be considered and the date and place of the meeting. Shareholders who intend to attend the meeting shall serve their written replies on the Company twenty days prior to the date of the meeting.

In the event the Company convenes a general meeting, the Board, the Supervisory Committee, and the Shareholders individually or jointly holding 3% or more of the Company's Shares are entitled to propose motions in writing to the Company.

Shareholders individually or jointly holding 3% or more of the Company's Shares may introduce ad hoc motions and submit the same in writing to the convenor ten days prior to the holding of the general meeting. The convenor shall issue a supplementary notice of the general meeting within two days from receipt thereof.

The Company shall, based on the written replies it received 20 days before the date of the general meeting from the Shareholders, calculate the number of Shares carrying voting rights represented by Shareholders who intend to attend the meeting. If the number of Shares carrying voting rights represented by the Shareholders who intend to attend the meeting reaches half or more of the Company's total number of the Shares carrying voting rights, the Company may hold the general meeting. If not, the Company shall, within five days, notify the Shareholders again by public announcement of the matters to be considered, and the date and the venue of the meeting. The Company may then hold the general meeting after publication of such notice.

A notice of a general meeting shall meet the following requirements:

(i) it shall be in written form;

(ii) it shall specify the place, date and time of the meeting;

(iii) it shall state the matters to be discussed at the meeting;

(iv) it shall provide Shareholders with such materials and explanation as are necessary for them to make decisions in connection with the matters to be discussed. This principle shall include but not be limited to where the Company proposes to merge, repurchase its Shares, restructure share capital or undergo other reorganisation. The specific conditions and contracts (if any) of the proposed transactions must be provided and the reasons and effects of the same must be properly explained;

(v) if any Director, Supervisor and senior management member have material interests in the matters subject to discussion, the nature and extent of such material interests shall be disclosed, and if the effect of the proposed matters on such Director, Supervisor and senior management member in their capacity as Shareholders is different from that of other Shareholders of the same class, the differences shall also be specified;

(vi) it shall set out the full text of any special resolutions proposed for approval at the meeting;

(vii) it shall contain a clear statement that Shareholders entitled to attend and vote at the meeting shall each have the right to appoint a proxy to attend and vote at the meeting on his/her behalf and that such proxies need not be Shareholders;

(viii) it shall state the date of registration of equity entitlements for Shareholders having the right to attend the general meeting;

(ix) it shall state the names and contact telephone numbers of the contact persons in connection with the meeting;

(x) it shall state the date and place for the service of the proxy forms for the meeting.

A notice of the general meeting shall be dispatched to Shareholders (regardless of their voting rights at the general meeting) by hand or by prepaid post. The addresses of the recipients shall be such addresses as shown in the register of members. For holders of domestic Shares, a notice of the general meeting may be made by way of announcement. The announcement referred in the preceding paragraph shall be published within a period of 45 to 50 days prior to the date of the meeting in one or more newspapers and journals designated by securities governing authorities of the State Council. Once an announcement is made, all holders of the domestic Shares are deemed to have received the relevant notice of the Shareholders' meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive such notice shall not invalidate the meeting and the resolutions passed at the meeting.

There are other matters required by laws, administrative regulations, listing rules of the stock exchange on which the Shares of the Company are listed or by the Articles of Association to be adopted by special resolutions.

The following matters shall be resolved by special resolutions at general meetings:

(i) increase or reduction of the registered capital and issue of Shares of any class, stock warrants or other similar securities;

(ii) issuance of corporate bonds;

(iii) division, merger, dissolution and liquidation or change of corporate forms of the Company;

(iv) amendments to the Articles of Association;

(v) matters in relation to purchases or sales within one year of material assets or guarantee amounts in excess of 30% of the most recent audited total assets of the Company;

(vi) share incentive schemes;

(vii) any other matters required to be passed by special resolutions by laws, administrative regulations, the listing rules of the stock exchange(s) where the Shares of the Company are listed and the Articles of Association, or those approved at a general meeting, by way of an ordinary resolution, to have a substantial impact on the Company and subject to approval by a special resolution.

TRANSFER OF SHARES

Unless otherwise provided by laws, administrative regulations, listing rules of the stock exchange on which the Shares of the Company are listed and the Articles of Association, Shares of the Company are freely transferable and are not subject to any lien. To transfer the overseas listed foreign Shares listed in Hong Kong, the transferor shall register with the stock registration organisation in Hong Kong appointed by the Company.

All the fully paid-up overseas listed foreign Shares that are listed in Hong Kong can be freely transferred in accordance with the Articles of Association. Unless the requirements under the Articles of Association are met, the Board may refuse to accept any transfer documents without giving any explanation for such refusal. Shares of the Company held by the promoters shall not be transferred within one year from the date of incorporation of the Company. Shares that have been issued before public offering of the Company shall not be transferred within one year from the date that the Shares of the Company are listed on a stock exchange. Director(s), Supervisor(s) and senior management member(s) of the Company shall declare to the Company that their shareholdings in the Company and any alternation of such shareholdings. They shall not transfer more than 25% of all the Shares in the same class held in the Company in any particular year during their tenure. They shall not transfer the Shares of the Company held within one year from the date of the Company's listing on a stock exchange, or six months after their termination of employment with the Company.

No modifications of registration in the share register caused by transfer of registered Shares shall be carried out within thirty days prior to the convening of Shareholders' meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by the securities regulatory and administrative authorities of the locality in which the Company's Shares are listed, those provisions shall prevail.

PLEDGE OF SHARES

The Company does not accept any pledge with its own Shares as the subject matters.

Unless otherwise provided by laws, administrative regulations, listing rules of the stock exchange on which the Shares of the Company are listed and the Articles of Association, Shares of the Company are freely transferable and are not subject to any lien.

POWER OF THE COMPANY TO PURCHASE ITS OWN SHARES

The Company may repurchase its outstanding Shares in the following circumstances in accordance with the Articles of Association and subject to the approval of relevant national governing authority:

(i) reducing the registered capital of the Company;

(ii) merging with any other companies holding Shares of the Company;

(iii) granting the Shares to employees of the Company as a reward;

(iv) being requested to repurchase the Shares of the Company by the Shareholders who object to the resolutions adopted at the Shareholders' meeting concerning merger or division of the Company;

(v) other circumstances permitted by laws and administrative regulations.

Where the Company repurchases its Shares under circumstances (i) to (iii), a resolution shall be passed at the general meeting. Where the Company repurchases its Shares under circumstance (i) above, it shall cancel the Shares within ten days from the date of such repurchase. Where the Company repurchases its Shares under circumstances (ii) and (iv), the Company shall transfer or cancel the Shares within six months thereafter.

The Shares repurchased by the Company under circumstance (iii) above shall not exceed 5% of the total issued Shares of the Company. The funds for repurchase shall be paid from the after-tax profits of the Company. The Shares redeemed shall be transferred to the employees within one year thereafter.

Changes in the registration of the Company as a result of the cancelling of certain Shares due to the Shares repurchased by the Company shall be registered with the original company registration authority for registration of such changes. The aggregate par value of the Shares so cancelled shall be deducted from the Company's registered capital.

The Company may repurchase its Shares in any of the following ways after being approved by relevant competent authorities:

(i) making a repurchase offer pro rata to all Shareholders;

(ii) repurchasing by means of public trading on a stock exchange;

(iii) repurchasing by an agreement outside of any stock exchange;

(iv) other methods as permitted by laws, administrative regulations and by relevant securities governing authority.

Where the Company repurchases its Shares by an agreement outside of any stock exchange, the prior approval of the general meeting shall be obtained in accordance with the Articles of Association. The Company may rescind or amend the contracts entered into in the aforementioned ways or waive its rights under a contract entered into in the aforementioned ways with the prior approval of the general meeting obtained in the same manner.

A contract to repurchase Shares referred to in the above paragraph shall include, without limitation, an agreement to become obliged to repurchase or an acquisition of the right to repurchase Shares.

The Company shall not assign a contract to repurchase its Shares or the rights thereunder.

For the redeemable Shares which can be repurchased by the Company, other than such repurchases made through the stock exchange or by tender, the price for repurchasing its Shares shall be limited to a certain single maximum price. If such repurchases are made by tender, such tenders shall be available to all Shareholders alike.

POWER OF A SUBSIDIARY OF THE COMPANY TO HOLD SHARES OF THE COMPANY

There are no provisions in the Articles of Association that restrict a subsidiary of the Company from holding any of the Shares in the Company.

DIVIDENDS AND OTHER METHODS OF PROFIT DISTRIBUTION

The Company may distribute dividends on Shares in the following manners: (1) cash; and (ii) Shares.

The Company shall appoint receiving agents on behalf of the holders of overseas listed foreign Shares to receive on behalf of such Shareholders dividends declared and all other monies owing by the Company in respect of such Shares.

The receiving agents appointed by the Company shall satisfy the relevant requirements of the laws of the place and relevant regulations of the stock exchange where the Company's Shares are listed. The receiving agents appointed for the holders of overseas listed foreign Shares listed on the Hong Kong Stock Exchange shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

PROXIES

A Shareholder may attend a general meeting in person or may appoint a proxy to attend the meeting and vote on his behalf, such person need not to be a Shareholder.

The proxies so appointed by the Shareholders shall exercise the following rights:

(i) have the same right as the Shareholder to speak at the meeting;

(ii) have authority to demand or, jointly with others, in demanding a poll; and

(iii) have the right to vote by show of hands or on a poll. Where more than one proxy is appointed, the proxies may only exercise the voting right on a poll.

The power of attorney shall be lodged with the domicile of the Company or other places specified in the notice of meeting 24 hours before the holding of the relevant meeting for voting according to the proxy form, or 24 hours before the designated time of voting; where the proxy form is signed by a person under a power of attorney on behalf of the appointer, the power of attorney or other authorisation documents authorised to be signed shall be notarised. The notarised power of attorney or other authorisation documents, together with the power of attorney, shall be deposited at the domicile of the Company or other places specified in the notice of meeting.

In the case of a legal person Shareholder, its legal representative or a person authorised by its legal representative shall attend the meeting. If the legal representative attends the meeting, he shall present his identity card as well as a valid certificate that can show such legal representative capacity; if a proxy is appointed to attend the meeting, the proxy shall present his identity card and the written power of attorney lawfully issued by the legal representative of the appointing legal person Shareholder.

Any form issued to a Shareholder by the Board for use by it for appointing a proxy shall allow the Shareholder to freely instruct the proxy to cast an affirmative or negative vote, and give respective instruction to the proxies on the voting of each meeting item to be resolved. Such letter of authorisation shall contain a statement that in the absence of instructions by the Shareholder, its proxy may vote as it thinks fit.

Where the appointer has deceased, incapacitated to act, withdrawn the appointment or the power of attorney, or where the relevant Shares have been transferred prior to the voting, a vote given by the proxy in accordance with the letter of authorisation shall remain valid provided that no written notice of such event has been received by the Company prior to the commencement of the relevant meeting.

CALLS ON SHARES AND FORFEITURE OF SHARES

The Company shall have the right to cease delivering dividend warrants by post to the Shareholders of overseas listed foreign Shares, but such right can only be exercised after the dividend warrants have not been redeemed twice consecutively. However, if a dividend warrant fails to reach the expected recipient in the initial mail delivery and is returned, the Company may exercise the right promptly.

The Company shall have the right to sell the Shares of the Shareholders of overseas listed foreign Shares who are untraceable through the methods the Board deems appropriate and subject to the following conditions:

(i) the Company has distributed dividends on such Shares for at least three times in a period of twelve years and the dividends are not claimed by anyone during that period; and

(ii) after the expiration of the twelve-year period, the Company makes a public announcement in one or more newspapers in the place of listing, stating its intention to sell such Shares, and notifies the stock exchange on which the Company's Shares are listed.

RIGHTS OF SHAREHOLDERS (INCLUDING INSPECTION OF REGISTER OF SHAREHOLDERS)

The Company shall maintain a complete register of Shareholders.

The Company may maintain its register of Shareholders of overseas listed foreign Shares and appoint an overseas agent to manage such register pursuant to an understanding or agreement reached between the securities regulatory and administrative authorities under the State Council and the overseas securities regulatory and administrative authorities. The original register of Shareholders of the overseas listed foreign Shares listed in the Hong Kong Stock Exchange shall be maintained in Hong Kong. The Company shall keep at its domicile a duplicate of the register of Shareholders of overseas listed foreign Shares. The appointed overseas agent shall ensure the consistency between the original and duplicate of such register at all times. In the event of any inconsistency between the original and duplicate of the register of Shareholders of overseas listed foreign Shares, the original shall prevail.

When the Company convenes general meetings, distributes dividends, undertakes liquidation, and carries out other actions for which the equity interests are required to be determined, the Board shall determine the record date of equity interest. Shareholders whose names appear in the register upon the end of the record date of equity interest are Shareholders of the Company.

Any person who objects to the register of Shareholders and requests to have his/its name registered or removed from the register of Shareholders may apply to a court of competent jurisdiction for amending the register.

Holders of ordinary Shares of the Company shall have the following rights:

(i) the right to dividends and other types of interest distributed in proportion to the number of Shares held;

(ii) to legally request, convene, preside over, personally attend or appoint a proxy to attend general meetings, and to exercise their voting rights;

(iii) the right of supervision over the Company's operations, and the right to present proposals or to raise inquires;

(iv) the right to transfer, bestow, pledge Shares in accordance with laws, administrative regulations and the provisions of the Articles of Association;

(v) the right to obtain relevant information in accordance with the provisions of the Articles of Association, including:

1. the right to obtain a copy of the Articles of Association, subject to payment of the cost of such copy;

2. the right to inspect and, subject to payment of a reasonable charge, obtain a copy of the following information:

(1) all parts of the register of Shareholders;

(2) personal particulars of each of Director(s), Supervisor(s) and senior management member(s) of the Company, including the present name, any former name and alias, principal address (residence), nationality, primary and all other part-time occupations, positions, identification document and its number;

(3) status of the Company's share capital;

(4) reports on the aggregate par value, number of Shares, and highest and lowest prices of each class of Shares in relation to any repurchase by the Company of its own Shares since the last accounting year, as well as all the expenses paid by the Company in relation to such repurchases;

(5) counterfoils of the bonds of the Company, minutes of general meetings, resolutions of Board meetings, resolutions of the Supervisory Committee and financial and accounting reports;

(6) latest audited financial statements of the Company, Director(s)' reports, auditors' reports and reports of the Supervisory Committee;

(vi) to participate in the distribution of the remaining assets of the Company based on the number of Shares held in the event of the Company's termination or liquidation;

(vii) to demand the Company to acquire their Shares (for Shareholders who disagree with the resolutions adopted at a general meeting in relation to the merger or division of the Company);

(viii) to have other rights conferred in accordance with the laws, administrative regulations, departmental rules or the Articles of Association.

QUORUM FOR THE GENERAL MEETINGS AND CLASS MEETINGS

The Company shall calculate the proportion of voting Shares held by Shareholders who intend to attend the meeting based on the written replies received twenty days before the general meeting that is convened by the Company. Where the proportion of voting Shares held by Shareholders who intend to attend the meeting reaches above half of the total voting Shares of the Company, the Company may convene a general meeting; if such proportion of voting Shares fails to reach above half of the total voting Shares of the Company, the Company shall inform the Shareholders again within five days via an announcement stipulating the matters to be considered and the date and venue of the meeting. Once this announcement is made, the Company may then proceed to convene the general meeting.

The Company may convene a meeting for a certain class of Shareholders if the number of Shareholders intending to attend the meeting represent above half of the total number of Shares with voting rights in that class. If this requirement is not met, the Company shall, within five days, issue another announcement informing the Shareholders of the matters to be considered at the meeting and the venue, date and time of the meeting again. Once this announcement is made, the Company may convene the meeting for that class of Shareholders.

RIGHTS OF MINORITY SHAREHOLDERS

In addition to the obligations as required under laws, administrative regulations or the listing rules of the stock exchange(s) where the Company's Shares are listed, when exercising his rights as a Shareholder, a controlling Shareholder of the Company shall not make decision on the following issues that are detrimental to the interest of all or some of the Shareholders by exercising their voting rights:

(i) relieving a Director or Supervisor of their responsibility to act in good faith for the best interests of the Company;

(ii) approving a Director or a Supervisor (for his/her own or for the benefit of others) in depriving the Company of its assets in any form, including (but not limited to) any business opportunities that are advantageous to the Company;

(iii) approving a Director or a Supervisor (for his/her own or for the benefit of others) in depriving other Shareholders of their personal interests, including (but not limited to) any distribution rights and voting rights, unless the deprivation is made pursuant to a Company restructuring submitted to and adopted at the general meeting in accordance with the Articles of Association.

The "controlling Shareholder(s)" referred to in the preceding paragraph shall refer to the person(s) satisfying any of the following conditions:

(i) the person may elect more than half of the Director(s) when acting alone or in concert with others;

(ii) the person may exercise or control the exercise of 30% or more of voting rights of the Company when acting alone or in concert with others;

(iii) the person holds 30% or more of the outstanding Shares of the Company when acting alone or in concert with others;

(iv) the person may *de facto* control the Company in any other manner when acting alone or in concert with others.

PROCEDURES ON LIQUIDATION

The Company shall be dissolved upon the occurrence of any of the following events:

(i) expiration of the Company's business term stipulated in the Articles of Association or the occurrence of any other cause of dissolution stipulated in the Articles of Association;

(ii) a resolution on dissolution is passed by Shareholders at a general meeting;

(iii) dissolution is necessary due to a merger or division of the Company;

(iv) the Company's business licence is revoked or the Company is ordered to close or to be cancelled for violation of laws or administrative regulations;

(v) the Company has encountered grave difficulties in its operation and management and its continued existence would result in material losses to the Shareholders, and there is no other way to resolve the issue, in which case Shareholders holding Shares representing more than 10% of the total voting rights of the Shareholders of the Company may make petition to the people's court requesting to dissolve the Company;

(vi) the Company is legally declared bankrupt due to its failure to repay debts due.

Where the Company is dissolved under subparagraphs (i), (ii), (iv) and (v) of the preceding Article, a liquidation committee shall be set up within fifteen days from the event of dissolution of the Company to commence the liquidation. The composition of the liquidation committee of the Company shall be determined by the Director(s) or the general meeting. If no liquidation committee is set up within the prescribed period to commence the liquidation, creditors may apply to the people's court to designate relevant persons to form a liquidation committee in order to carry out the liquidation. Where the Company is dissolved under subparagraph (vi) of the preceding Article, the people's court shall in accordance with the provisions of the relevant laws make arrangements for Shareholders, the relevant institutions and the relevant professionals to form a liquidation team to carry out liquidation.

Where the Board proposes to liquidate the Company due to causes other than where the Company has declared that it is insolvent, the Board shall include a statement in its notice convening a general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the Board is of the opinion that the Company will be able to pay its debts in full within twelve months from the commencement of the liquidation.

Upon the passing of the resolution by the Shareholders in general meeting for the liquidation of the Company, all functions and powers of the Board shall cease.

The liquidation committee shall act in accordance with the instructions of the general meeting to make a report at least once every year to the general meeting on the committee's receipts and payments, the business of the Company and the progress of the liquidation and to present a final report to the general meeting on completion of the liquidation.

The liquidation committee shall notify creditors within ten days from the date of its establishment and make newspaper announcement within sixty days of that date. Creditors shall, within thirty days of receipt of the notice, or in case they have not received such written notice, within forty-five days of the date of the announcement, declare their creditor's rights to the liquidation committee.

When declaring their creditor rights, the creditors shall detail matters pertaining to their rights and provide relevant evidence materials. The liquidation committee shall register the creditor's rights.

During the claims declaration period, the liquidation committee shall not settle any debt of the creditors.

OTHER PROVISIONS MATERIAL TO THE COMPANY AND ITS SHAREHOLDERS

General Provisions

Upon approval at the general meeting of the Company, the Articles of Association came into effect from the date on which the overseas listed foreign Shares were listed and traded on the Hong Kong Stock Exchange. From the date of the Articles of Association becoming effective, the Articles of Association constitute a legally binding document regulating the Company's organisation and activities, and the rights and obligations between the Company and each Shareholder and among the Shareholders, and are binding on the Company and its Shareholders, Director(s), Supervisor(s) and senior management member(s).

The Company may, according to its operating and development needs and in accordance with the laws and administrative regulations, subject to resolutions adopted at the general meeting, increase its registered capital in accordance with the relevant provisions of the Articles of Association.

The Company may increase its registered capital in the following ways:

(i) offering of new Shares to non-specific investors;

(ii) placing new Shares to existing Shareholders;

(iii) distributing new Share to its existing Shareholders;

(iv) capitalising its capital reserve;

(v) other methods as permitted by laws and administrative regulations.

The Company's increase of capital by issuing new Shares shall be conducted in accordance with the procedures provided in relevant laws, administrative regulations and the regulatory rules of the listing place in the PRC after being approved in accordance with the Articles of Association.

The Company must prepare a balance sheet and a list of assets when it intends to reduce its registered capital.

Ordinary Shareholders of the Company shall assume the following obligations:

(i) to abide by laws, administrative regulations and the Articles of Association;

(ii) to contribute to the share capital as determined by the number of Shares subscribed by them and the method of subscription;

(iii) not to withdraw their contributed share capital except in circumstances allowed by laws and administrative regulations;

(iv) not to abuse the Shareholder's rights to harm the interest of the Company or any other Shareholders; not to abuse the Company's independent status as a legal person and the Shareholders' limited liability to harm the interest of the creditors of the Company; and to be liable for indemnity in accordance with laws if a Shareholder of the Company abuses his Shareholders' rights and causes loss to the Company or other Shareholders;

A Shareholder of the Company shall be jointly and severally liable for the debts of the Company if he/she/it abuses the Company's independent status as a legal person and the Shareholders' limited liability and evades the repayment of debts, resulting in material damages to the interest of the creditors of the Company;

(v) to assume other obligations required by laws, administrative regulations and the Articles of Association.

Requirements for Director(s) to Hold Shares of the Company

A Director is not required to hold any Shares of the Company.

Board of Director(s)

The Board of Director(s) shall be accountable to the general meeting and exercises the following powers in accordance with laws:

(i) to be responsible for the convening of general meetings and report its work to the general meeting;

(ii) to implement the resolutions of general meetings;

(iii) to decide on the Company's business plans and investment plans;

(iv) to formulate the Company's plans on annual financial budgets and final accounts;

(v) to formulate the Company's profit distribution plans and plans on making up losses;

(vi) to formulate the proposal for increase or decrease of the registered capital of the Company and issue of bonds or other securities of the Company and listing thereof;

(vii) to formulate plans for major acquisition and repurchase of Shares of the Company;

(viii) to formulate plans for the merger, division, dissolution or alteration of corporate form of the Company;

(ix) to decide on matters including the Company's external investments, acquisition and disposal of assets, pledge of assets, entrust finance and connected transactions, except for those matters that shall be decided at general meetings;

(x) to decide on the establishment of an internal management organisation of the Company;

(xi) to appoint or dismiss the general manager and the secretary of the Board of the Company; to appoint or dismiss the deputy general manager, the chief financial officer and other senior management member(s) of the Company, and to decide their remunerations, incentives and punishments;

(xii) to formulate the basic management system of the Company;

(xiii) to formulate proposals for amendment to the Articles of Association;

(xiv) to manage the information disclosure of the Company;

(xv) to propose to the general meeting to appoint or change the accounting firm in charge of the audition of the Company;

(xvi) to listen to the work reported by the general manager of the Company and inspect the work of the general manager;

(xvii) to perform other duties as required by laws, administrative regulations, department rules and the Articles of Association or authorised by the general meeting.

At least two regular meetings of the Board of Director(s) shall be convened by the chairman every year; notice of the meeting shall be served on all the Director(s) and the Supervisor(s) at least ten days before the date of the meeting.

A Board meeting shall not be held unless more than half of the Director(s) are present.

Supervisory Committee

The Company shall establish a Supervisory Committee. The Supervisory Committee shall consist of three Supervisor(s), with one of them serving as the chairman of the Supervisory Committee.

The appointment and dismissal of the chairman of the Supervisory Committee shall be passed by more than two-thirds of its members.

The Supervisory Committee shall be accountable to the general meeting and exercise the following powers in accordance with laws:

(i) to examine the Company's financial affairs;

(ii) to supervise the conduct of Director(s) and other senior management member(s) in performing their duties to the Company and to recommend the removal of Director(s) and senior management member(s) who violated any laws, administrative regulations, the Articles of Association or resolutions of general meeting;

(iii) to demand rectification from Director(s) and senior management member(s) when the acts of such persons are harmful to the Company's interest;

(iv) to examine the financial information such as the financial report, business report and plans for profits distribution to be submitted by the Board to the general meetings and, should any queries arise, to engage, in the name of the Company, certified public accountants and practising auditors to conduct a re-examination;

(v) to propose the convening of an extraordinary general meeting and to convene and chair a general meeting when the Board fails to perform its duties of convening and chairing general meetings as stipulated by the Company Law;

(vi) to submit proposals to the general meetings;

(vii) to deal with Director(s) and senior management member(s), or take legal actions against them, on behalf of the Company in accordance with the provisions of the Company Law;

(viii) to conduct investigations upon the discovery of irregularities in the operation of the Company; and to engage, if necessary, accounting firms, law firms and other professional institutions to assist with its work at the expense of the Company;

(ix) to perform other duties as regulated by laws, administrative regulations, departmental rules and the Articles of Association.

The resolutions of the Supervisory Committee shall be passed by more than two-thirds of the members of the Supervisory Committee.

Chairman

The Board has one chairman.

The chairman exercises the following powers:

(i) to preside over general meetings and to convene and preside over Board meetings;

(ii) to supervise and check on the implementation of resolutions of the Board;

(iii) to sign the securities certificates issued by the Company;

(iv) to exercise other powers conferred by the Board.

DISPUTE RESOLUTION

Unless otherwise provided in the Articles of Association, the Company shall act according to the following principles to settle disputes:

(i) Whenever any disputes or claims arise between holders of the overseas listed foreign Shares and the Company, holders of the overseas listed foreign Shares and the Company's Director(s), Supervisor(s) or senior management member(s), or holders of the overseas listed foreign Shares and holders of domestic Shares, based on the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or any other relevant laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Disputes in relation to the identification of Shareholders and disputes in relation to the register of Shareholders need not be referred to arbitration.

(ii) A claimant may refer arbitration to either the China International Economic and Trade Arbitration Commission in accordance with its rules or the Hong Kong International Arbitration Centre in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. If a claimant elects arbitration at the Hong Kong International Arbitration Centre, either party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Centre.

(iii) If any disputes or claims of rights prescribed in subparagraph (1) above are referred to arbitration, the PRC laws shall apply, save as otherwise provided in laws and administrative regulations.

(iv) The award of an arbitration body shall be final and conclusive and shall be binding on all parties.

FURTHER INFORMATION ABOUT THE COMPANY

Incorporation

The predecessor of the Company was established in the PRC in September 1982 under the laws of the PRC with a registered capital of RMB1.01 million. On 14 June 2017, the Company was converted into a joint stock limited liability company and renamed Zhejiang Cangnan Instrument Group Company Limited (浙江蒼南儀錶集團股份有限公司).

The Company has established a place of business in Hong Kong at Flat B, 15/F, Kam Chung Commercial Building, 19-21 Hennessy Road, Wan Chai, Hong Kong and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 15 September 2017. Mr. Chan Chun Wai has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. The address for service of process on the Company in Hong Kong is the same as our principal place of business in Hong Kong as set out above.

As we are established in the PRC, our corporate structure and Articles of Association are subject to the relevant laws and regulations of the PRC. A summary of the relevant provisions of our Articles of Association is set out in Appendix V to this prospectus. A summary of certain relevant aspects of the laws and regulations of the PRC are set out in Appendix IV to this prospectus.

Changes in Share Capital

At our establishment, our initial registered capital was RMB1.01 million.

As at August 2012, our registered share capital had been increased to RMB51.89 million.

On 14 June 2017, the Company was converted into a joint stock limited liability company. Upon the conversion, our registered share capital remained at RMB51.89 million.

For further details, see "History, Development and Corporate Structure – Our History and Development" in this prospectus.

Save as disclosed in this prospectus, there has been no alterations in our share capital within two years immediately preceding the date of this prospectus.

Resolutions of our Shareholders

Pursuant to the Shareholders' resolutions passed on 29 August 2017 and on 17 September 2017, our Shareholders resolved that, among other things:

(a) The Global Offering has been approved and the number of H shares in issue shall represent approximately 25% of the total share capital after the Global Offering. The final issuance size for this issuance will be determined by the Board as authorised by the general meeting of the Company or persons as authorised by the Board in accordance with the legal requirements, regulatory approval and market situation.

(b) After the completion of the Global Offering, the Articles of Association with effect on the Listing Date will be adopted; and

(c) The Board and its authorised persons will be authorised to deal with matters in relation to the Global Offering and the Listing.

Our Subsidiaries

The list of our subsidiaries as at 31 December 2017, is set out in the Accountant's Report set out in Appendix I to this prospectus. There has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

Restriction on Share Repurchase

Please refer to the section headed "Appendix IV – Summary of Principal Legal and Regulatory Provisions – The Company Law, Special Regulations and Mandatory Provisions – Repurchase of shares" to this prospectus for details.

FURTHER INFORMATION ABOUT OUR BUSINESS

Summary of Material Contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years immediately preceding the date of this prospectus that are or may be material:

(a) the Hong Kong Underwriting Agreement; and

(b) the Share Sale and Purchase Agreement dated 25 January 2018 entered into between Portlead Import and Export (HongKong) Co., Limited ("GFO Purchaser") and the Company, pursuant to which the Company agreed to sell and GFO Purchaser agreed to purchase all of the issued and outstanding shares of GFO Europe.

Intellectual Property Rights

Trademarks

As at the Latest Practicable Date, we had registered the following material trademarks under the name of the Company.

No.	Trademark	Place of Registration	Class	Registration Number	Effective Period
1	東星	China	Class 9	1477816	21 November 2010 to 20 November 2020
2		China	Class 9	1610342	28 July 2011 to 27 July 2021
3		China	Class 9	1610343	28 July 2011 to 27 July 2021
4	CNM	China	Class 9	4841456	14 July 2008 to 13 July 2028
5	CNIM	China	Class 9	8454011	21 July 2011 to 20 July 2021
6	CNIM	China	Class 9	8454052	21 July 2011 to 20 July 2021
7	CNIM	China	Class 9	8454076	21 July 2011 to 20 July 2021
8	DX	China	Class 9	11692594	7 April 2014 to 6 April 2024
9	CC	China	Class 9	15071818	21 September 2015 to 20 September 2025
10	東星	Hong Kong	Class 7, 9, 11, 35	304278349	20 September 2017 to 19 September 2027
11	CNM	Hong Kong	Class 7, 9, 11, 35	304278330	20 September 2017 to 19 September 2027

Patents

As at the Latest Practicable Date, we had registered the following patents in the PRC that are material to our business:

No.	Patent	Patent Category	Patentee	Patent Number	Effective Period (yy/mm/dd)
1	Three-probe processional vortex flowmeter (三探頭式旋進漩渦流量計)	Invention patent	The Company	ZL 200910157026.6	2009.12.30 – 2029.12.29
2	A type of rotary gas flowmeter (一種氣體羅茨流量計)	Invention patent	The Company	ZL 201210203309.1	2012.06.18 – 2032.06.17
3	Rotary gas measuring equipment and relevant flow correction method (氣體羅茨流量測量裝置及其流量修正方法)	Invention patent	The Company	ZL 201310048891.3	2013.02.07 – 2033.07.06
4	Heat measuring equipment that users can customise the heat supply (用戶可自主調節供熱量的熱量計量裝置)	Invention patent	The Company	ZL 201310659721.9	2013.12.09 – 2033.12.08
5	A type of connection structure of EVC300 intelligent volume corrector (一種EVC300智能體積修正儀的連接結構)	Invention patent	The Company	ZL 201410016468.X	2014.01.15 – 2034.01.14
6	Rotary gas flowmeter (round counter) (氣體羅茨流量計(圓形計數器))	Design patent	The Company	ZL 201230431886.7	2012.09.11 – 2022.09.10
7	Rotary gas flowmeter (square counter) (氣體羅茨流量計(方形計數器))	Design patent	The Company	ZL 201230430562.1	2012.09.10 – 2022.09.09
8	Intelligent volume corrector (EVC300) (智能體積修正儀(EVC300))	Design patent	The Company	ZL 201330534022.2	2013.11.08 – 2023.11.07

No.	Patent	Patent Category	Patentee	Patent Number	Effective Period (yy/mm/dd)
9	Bell-type gas flow standard equipment adopting pulse insertion technology (採用脈衝插入技術的鐘罩式氣體流量標準裝置)	Utility model patent	The Company	ZL 200920215536.X	2009.12.30 – 2019.12.29
10	Joint part of roots of rotary gas flowmeter (氣體羅茨流量計的腰輪連接機構)	Utility model patent	The Company	ZL 201120374838.9	2011.09.30 – 2021.09.29
11	Rotary gas flowmeter (氣體羅茨流量計)	Utility model patent	The Company	ZL 201120375200.7	2011.09.30 – 2021.09.29
12	Dual-roots rotary gas flowmeter (雙腰輪氣體羅茨流量計)	Utility model patent	The Company	ZL 201120375208.3	2011.09.30 – 2021.09.29
13	Roots of rotary gas flowmeter (氣體羅茨流量計的腰輪)	Utility model patent	The Company	ZL 201120372491.4	2011.09.30 – 2021.09.29
14	Integrated detachable movement (一體化可拆卸機芯)	Utility model patent	The Company	ZL 201220060621.5	2012.02.23 – 2022.02.22
15	Gas rectifier (氣體整流器)	Utility model patent	The Company	ZL 201220060898.8	2012.02.23 – 2022.02.22
16	A novel flange pressure tapping and measuring equipment (新型法蘭取壓流量測量裝置)	Utility model patent	The Company	ZL 201220395708.8	2012.08.10 – 2022.08.09
17	A type of alarm equipment for flowmeter bypass device (一種流量計旁通裝置的報警裝置)	Utility model patent	The Company	ZL 201220284367.7	2012.06.18 – 2022.06.17
18	A type of diaphragm component (一種皮膜元件)	Utility model patent	The Company	ZL 201220291112.3	2012.06.18 – 2022.06.17
19	A type of non-touch switch ball valve of large-flow high-pressure controller (一種大流量高壓控制器無接觸式開關球閥)	Utility model patent	The Company	ZL 201220353144.1	2012.07.20 – 2022.07.19

No.	Patent	Patent Category	Patentee	Patent Number	Effective Period (yy/mm/dd)
20	A type of ultrasonic heat meter (一種超聲波熱能表)	Utility model patent	The Company	ZL 201220353119.3	2012.07.20 – 2022.07.19
21	A type of processional vortex flowmeter (一種旋進旋渦流量計)	Utility model patent	The Company	ZL 201220467597.7	2012.09.14 – 2022.09.13
22	Anti-reverse rotation mechanical counter (防逆向轉動機械計數器)	Utility model patent	The Company	ZL 201320114346.5	2013.03.14 – 2023.03.13
23	A type of rotary gas measuring equipment (一種氣體羅茨流量測量裝置)	Utility model patent	The Company	ZL 201320070475.9	2013.02.07 – 2023.02.06
24	A type of anti-frost equipment for screen of flowmeter (一種流量計顯示窗口防結凝裝置)	Utility model patent	The Company	ZL 201320250333.0	2013.05.10 – 2023.05.09
25	A type of heat measuring equipment that users can customise the heat supply (一種用戶可自主調節供熱量的熱量計量裝置)	Utility model patent	The Company	ZL 201320803004.4	2013.12.09 – 2023.12.08
26	A type of flip structure of EVC300 intelligent volume corrector (一種EVC300智慧體積修正儀的翻轉結構)	Utility model patent	The Company	ZL 201420023432.X	2014.01.15 – 2024.01.14
27	Ultrasonic measuring equipment for dual acoustic path gas flow (雙聲路氣體流量超聲測量裝置)	Utility model patent	The Company	ZL 201420416002.4	2014.07.25 – 2024.07.24
28	A type of ball valve structure adapting to installation at any angle (一種適應任意角度安裝的球閥結構)	Utility model patent	The Company	ZL 201520323804.5	2015.05.20 – 2025.05.19

No.	Patent	Patent Category	Patentee	Patent Number	Effective Period (yy/mm/dd)
29	A type of high-voltage cut-off equipment with guide shaft (一種帶導向軸的高壓截止裝置)	Utility model patent	The Company	ZL 201520362403.0	2015.06.01 – 2025.05.31
30	Mounting brackets of flowmeter and volume corrector (流量計體積修正儀安裝支架)	Utility model patent	The Company	ZL 201520252042.4	2015.04.23 – 2025.04.22
31	A type of metering adjustment structure of turbine flowmeter (一種渦輪流量計計量調節結構)	Utility model patent	The Company	ZL 201520362446.9	2015.06.01 – 2025.05.31
32	Low-pulse generator with anti-disassembling function (帶有防拆卸功能的低頻脈衝發生器)	Utility model patent	The Company	ZL 201621295424.6	2016.11.29 – 2026.11.28
33	Anti-disassembling pressure sensor (防拆卸的壓力感測器)	Utility model patent	The Company	ZL 201621295405.3	2016.11.29 – 2026.11.28
34	Anti-disengaging temperature sensor (防脱離的溫度感測器)	Utility model patent	The Company	ZL 201621295671.6	2016.11.29 – 2026.11.28
35	A type of gas flow measuring circuit with low power consumption and self-diagnosis function (一種具有自診斷功能的低功耗氣體流量測量電路)	Utility model patent	The Company	ZL 201621127304.5	2016.10.16 – 2026.10.15
36	A type of large-range gas flow measuring circuit with low power consumption and self-diagnosis function (一種低功耗自診斷的大量程氣體流量測量電路)	Utility model patent	The Company	ZL 201621127305.X	2016.10.16 – 2026.10.15

No.	Patent	Patent Category	Patentee	Patent Number	Effective Period (yy/mm/dd)
37	A type of circuit preventing the opening of gas-meter volume corrector with low power consumption (一種低功耗燃氣表體積修正儀防開蓋電路)	Utility model patent	The Company	ZL 201621123752.8	2016.10.16 – 2026.10.15
38	A type of anti-magnetic circuit for gas flowmeter with low power consumption (一種低功耗燃氣流量計防磁電路)	Utility model patent	The Company	ZL 201621123751.3	2016.10.16 – 2026.10.15
39	A type of double-battery power supply circuit for volume corrector (一種體積修正儀的雙電池供電電路)	Utility model patent	The Company	ZL 201621123750.9	2016.10.16 – 2026.10.15
40	Sealed protection equipment of standard modular circuit board (標準模組化線路板密封保護裝置)	Utility model patent	Dongxing Intelligent	ZL 201520799351.3	2015.10.16 – 2025.10.15
41	Online verifier of household diaphragm gas meter (家用膜式燃氣表在線檢定儀)	Utility model patent	Dongxing Intelligent	ZL 201120286450.3	2011.08.09 – 2021.08.08
42	A type of dust-proof structure of diaphragm gas meter (一種膜式燃氣錶的防塵結構)	Utility model patent	Dongxing Intelligent	ZL 200920112677.9	2009.01.13 – 2019.01.12
43	A type of sealing structure of metering chamber of diaphragm gas meter (一種膜式燃氣錶計量腔的密封結構)	Utility model patent	Dongxing Intelligent	ZL 200920112678.3	2009.01.13 – 2019.01.12

No.	Patent	Patent Category	Patentee	Patent Number	Effective Period (yy/mm/dd)
44	A type of transmission mechanism of valve cover of diaphragm gas meter (一種膜式燃氣錶氣門蓋傳動機構)	Utility model patent	Dongxing Intelligent	ZL 200920112754.0	2009.01.14 – 2019.01.13
45	A type of online fine-tuning instrument of diaphragm gas meter (一種膜式燃氣錶在線微調裝置)	Utility model patent	Dongxing Intelligent	ZL 200920112753.6	2009.01.14 – 2019.01.13
46	Signal acquisition counter for J-type gas meter (J型燃氣錶信號採集計數器)	Utility model patent	Dongxing Intelligent	ZL 201621202909.6	2016.11.08 – 2026.11.07
47	Signal acquisition counter for G-type gas meter (G型燃氣錶信號採集計數器)	Utility model patent	Dongxing Intelligent	ZL 201621203183.8	2016.11.08 – 2026.11.07
48	Counter for J-type diaphragm gas meter (J型膜式燃氣錶計數器)	Utility model patent	Dongxing Intelligent	ZL 201621203185.7	2016.11.08 – 2026.11.07
49	Gas pressure regulating box in building (樓棟燃氣調壓箱)	Utility model patent	Dongxing Energy	ZL 201720147383.4	2017.02.17 – 2027.02.16

As at the Latest Practicable Date, we had applied for the registration of the following patents in the PRC that are material to our business:

No.	Patent	Patent Category	Applicant	Application Number	Application date
1	A low energy gas flow measuring circuit with self-diagnosis function	Invention patent	The Company	201610901346.8	16 October 2016
2	A low power, self-diagnosis and large-range gas flow measuring circuit	Invention patent	The Company	201610901340.0	16 October 2016
3	A kind of protection circuit used for intrinsic safe power	Utility model patent	Dongxing Software	201721268022.1	29 July 2017

No.	Patent	Patent Category	Applicant	Application Number	Application date
4	A kind of shock-resistant gas flow meter	Utility model patent	Dongxing Software	201721272695.4	29 July 2017
5	A kind of flow meter housing	Utility model patent	The Company	201721239982.5	26 September 2017
6	A kind of tamper-proof flow meter volume corrector	Utility model patent	The Company	201721238754.6	26 September 2017
7	A kind of charging circuit and gas flow meter used for capacitor	Utility model patent	Dongxing Software	201721273340.7	29 September 2017
8	A kind of plunger flow meter	Utility model patent	The Company	201721276046.1	30 September 2017
9	A new type of propeller flow meter	Utility model patent	The Company	201721276648.7	30 September 2017
10	Vortex flow meter	Utility model patent	The Company	201721276636.4	30 September 2017
11	Mounting structure for meter housing of cabinet-mounted flow meter	Utility model patent	The Company	201721286632.4	30 September 2017
12	A kind of Roots gas flow meter	Utility model patent	The Company	201721277771.0	30 September 2017
13	Columnar flow meter	Utility model patent	The Company	201721764596.8	15 October 2017
14	Steam flow detection system	Utility model patent	The Company	201721762693.3	15 October 2017
15	A kind of prepaid gas meter	Utility model patent	The Company	201721763064.2	15 October 2017
16	A new type of water meter modification device	Utility model patent	The Company	201721762663.2	15 October 2017
17	A new type of gas Roots flow meter	Utility model patent	The Company	201721756729.7	15 October 2017
18	A kind of water meter counter	Utility model patent	The Company	201721762233.0	15 October 2017
19	A kind of Roots flow meter calibration device	Utility model patent	The Company	201721755910.6	15 October 2017
20	A kind of electromagnetic valve body for flow meter	Utility model patent	The Company	201721763061.9	15 October 2017
21	A kind of flow meter	Utility model patent	The Company	201721762710.3	15 October 2017
22	A kind of gas Roots flow meter with wireless transmission system	Utility model patent	The Company	201721762213.3	15 October 2017

No.	Patent	Patent Category	Applicant	Application Number	Application date
23	A kind of gas tube flow meter with purification device	Utility model patent	The Company	201721762895.8	15 October 2017
24	A kind of gas turbine meter with damping device	Utility model patent	The Company	201721764553.X	15 October 2017
25	A new type of photographic-reading water meter	Utility model patent	The Company	201721762830.3	15 October 2017
26	Water meter rectifier	Utility model patent	The Company	201721762804.0	15 October 2017
27	Combustible gas detector for gas meter	Utility model patent	The Company	201721763841.3	15 October 2017
28	Enclosed water meter module case	Utility model patent	The Company	201721764675.9	15 October 2017
29	A kind of diaphragm gas meter	Utility model patent	The Company	201721839447.3	25 November 2017
30	A kind of flow meter wear-resisting device	Utility model patent	The Company	201721837661.5	25 November 2017
31	A kind of composite flow meter	Utility model patent	The Company	201721840009.9	25 November 2017
32	A kind of ultrasonic flow meter	Utility model patent	The Company	201721841902.3	25 November 2017
33	A kind of flow meter with alarm function	Utility model patent	The Company	201721839159.8	25 November 2017
34	A kind of prepaid IC card gas flow meter	Utility model patent	The Company	201721838382.0	25 November 2017
35	A new type of rotor flow meter	Utility model patent	The Company	201721839117.4	25 November 2017
36	A new type of pre-rectification differential pressure flow meter	Utility model patent	The Company	201721841651.9	25 November 2017
37	A new type of detection flow meter	Utility model patent	The Company	201721841595.9	25 November 2017
38	A new type of pulse flow meter	Utility model patent	The Company	201721841784.6	25 November 2017
39	Housing castings for flow meter	Utility model patent	The Company	201721838517.3	25 November 2017
40	Piping section type flow meter	Utility model patent	The Company	201721837702.0	25 November 2017
41	A kind of gas Roots flow meter for gas application	Utility model patent	The Company	201721833956.5	25 December 2017

No.	Patent	Patent Category	Applicant	Application Number	Application date
42	A kind of gas turbine meter lubrication device	Utility model patent	The Company	201721832805.8	25 December 2017
43	A kind of gas turbine meter lubrication device	Utility model patent	The Company	201721831745.8	25 December 2017
44	A kind of circular wedge flow meter	Utility model patent	The Company	201721837643.7	25 December 2017
45	A kind of integrated IC card diaphragm gas meter	Utility model patent	The Company	201721841785.0	25 December 2017
46	Gas flow meter detection and measuring device	Utility model patent	The Company	201721837555.7	25 December 2017
47	Gas flow meter quick-acting clamping device	Utility model patent	The Company	201721834040.1	25 December 2017
48	Flow meter calibration device	Utility model patent	The Company	201721837484.0	25 December 2017
49	Oil-proof flow meter	Utility model patent	The Company	201721837378.2	25 December 2017

Software Copyrights

As at the Latest Practicable Date, we had registered the following material software copyrights in the PRC:

No.	Name	Version	Registered Owner	Date of Registration (yy/mm/dd)	Registration Number
1	CPU card prepayment management system software (CPU卡預付費管理系統軟件)	V1.0	The Company	2011.10.8	2011SR071655
2	Data remote collecting and reading management system software (數據遠程集抄管理系統軟件)	V1.0	The Company	2011.10.8	2011SR071589
3	General meter LJS-Bc software (普通表LJS-Bc軟件)	V1.0	The Company	2011.11.2	2011SR079384
4	Dongxing EVC volume corrector software (東星EVC體積修正儀軟件)	V1.0	Dongxing Software	2013.2.21	2013SR015461

No.	Name	Version	Registered Owner	Date of Registration (yy/mm/dd)	Registration Number
5	Dongxing IC card gas flow counter volume corrector software (東星IC卡燃氣流量計體積修正儀軟件)	V1.0	Dongxing Software	2013.2.21	2013SR015061
6	Dongxing gas sales management system software (東星售氣管理系統軟件)	V1.0	Dongxing Software	2013.2.21	2013SR015459
7	Dongxing wireless remote intelligent collecting system software (東星無線遠傳智能採集系統軟件)	V1.0	Dongxing Software	2013.2.21	2013SR015062
8	Dongxing restricting orifice resistance coefficient monitoring system software (東星限流孔板流阻係數監控系統軟件)	V1.0	Dongxing Software et al.	2013.2.22	2013SR016205
9	Dongxing RS485 communication testing software (東星RS485通信測試軟件)	V1.0	Dongxing Software et al.	2013.2.22	2013SR016200
10	Dongxing intelligent volume correction instrument software (東星智能體積修正儀軟件)	V1.0	Dongxing Software	2013.6.3	2013SR054079
11	Dongxing EVC300 volume corrector software (東星EVC300體積修正儀軟件)	V1.0	Dongxing Software	2014.12.29	2014SR214229
12	Dongxing WAI200 wireless data collecting device software (東星WAI200無線數據採集儀軟件)	V1.0	Dongxing Software	2014.12.29	2014SR214200

No.	Name	Version	Registered Owner	Date of Registration (yy/mm/dd)	Registration Number
13	Dongxing wireless remote billing management system software (東星無線遠傳計費管理系統軟件)	V1.0	Dongxing Software	2014.12.29	2014SR214208
14	Dongxing Android-powered search system software (東星安卓查詢系統軟件)	V1.0	Dongxing Software	2017.9.15	2017SR519391
15	Dongxing Apple-powered search system software (東星蘋果查詢系統軟件)	V1.0	Dongxing Software	2017.9.15	2017SR519378
16	Dongxing Cloud service management platform software (東星雲服務管理平臺軟件)	V1.0	Dongxing Software	2017.9.15	2017SR519334
17	Dongxing LKZ intelligent flow controller software (東星LKZ智能流量控制器軟件)	V1.0	Dongxing Software	2017.9.14	2017SR518303
18	Dongxing CEVC flow correcting and controlling instrument software (東星CEVC流量修正控制儀軟件)	V1.0	Dongxing Software	2017.9.15	2017SR519752
19	Dongxing EVC300 intelligent volume corrector software (東星EVC300智能體積修正儀軟件)	V2.0	Dongxing Software	2017.9.19	2017SR529278
20	Dongxing WAI200 wireless data collecting device software (東星WAI200無線數據採集儀軟件)	V2.0	Dongxing Software	2017.9.19	2017SR529469

Domain Names

As at the Latest Practicable Date, we had registered the following Internet domain names in the PRC:

No.	Domain Name	Registrant	Date of Registration (yy/mm/dd)	Expiry Date (yy/mm/dd)
1	zjcnyb.com	The Company	2000.6.20	2022.6.20
2	zjcnyb.cn	The Company	2016.5.13	2022.5.13
3	zjcnyb.com.cn	The Company	2006.10.17	2018.10.17
4	cnybyun.com	Dongxing Software	2016.6.12	2026.6.12
5	cnybjt.com	Dongxing Software	2016.6.12	2026.6.12
6	cnmcsp.com	Dongxing Software	2016.6.12	2026.6.12
7	cnybjt.cn	Dongxing Software	2016.6.12	2026.6.12
8	cnmcsp.cn	Dongxing Software	2016.6.12	2026.6.12

FURTHER INFORMATION ABOUT OUR DIRECTORS, SUPERVISORS, STAFF, MANAGEMENT AND SUBSTANTIAL SHAREHOLDERS

Interests and short positions of our Directors and the chief executive in the shares, underlying shares or debentures of the Company and our associated corporations

Immediately following the completion of the Global Offering and without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the interests or short positions of our Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be entered into in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange, will be as follows:

Name of Director/Supervisor/ Chief Executive	Long/short position	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company	Approximate percentage of shareholding in the Domestic Shares of the Company
Mr. Hong	Long position	Beneficial Owner	9,253,400	13.37%	17.83%
Mr. Huang	Long position	Beneficial Owner	6,697,900	9.68%	12.91%
Zhang Shengyi	Long position	Beneficial owner	2,005,100	2.90%	3.86%

Name of Director/Supervisor/ Chief Executive	Long/short position	Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company	Approximate percentage of shareholding in the Domestic Shares of the Company
Yin Xingjing	Long position	Beneficial owner	1,710,700	2.47%	3.30%
Lin Zichan	Long position	Beneficial owner	1,710,700	2.47%	3.30%
Lin Zhongzhu	Long position	Beneficial owner	729,500	1.05%	1.41%
Lin Jingdian	Long position	Beneficial owner	159,200	0.23%	0.31%
Huang Xijun	Long position	Beneficial owner	98,200	0.14%	0.19%
Ye Sigong	Long position	Beneficial owner	368,000	0.53%	0.71%
Zhou Xiaoding	Long position	Beneficial owner	920,000	1.33%	1.77%

Save as disclosed in the section headed "History, Development and Corporate Structure – Reorganisation and Corporate Structure – 1 Reorganisation at the level of our Shareholders" and "– 3 Our Corporate Structure after the Reorganisation" and "Substantial Shareholders" of this prospectus and the paragraph headed "Further Information about Our Directors, Supervisors, Staff, Management and Substantial Shareholders – Service contracts" below in this appendix, none of our Directors or their associates was engaged in any dealings with the Group during the two years preceding the date of this prospectus.

Up to the Latest Practicable Date, none of the Directors or Supervisors or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

Disclosure of Interests of Substantial Shareholders

For information on the persons who will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, see the section headed "Substantial Shareholders".

Interests of substantial shareholders in members of the Group (excluding the Company)

Our subsidiary	Registered capital	Party with 10% or more equity interest	Approximate percentage of shareholding (%)
Dongxing Energy	RMB20 million	Xie Shangpeng	10%

Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Directors' and Supervisors' Remuneration

Save as disclosed in the section headed "Directors, Supervisors and Senior Management" of this prospectus and under "Appendix I – Accountant's Report – II Notes to the Historical Financial Information – 38 Benefits and Interests of Directors – (a) Directors' and the chief executive's emoluments" to this prospectus, no Director or Supervisor received other remuneration or benefits in kind from the Company in respect of each of the three financial years ended 31 December 2017.

Disclaimers

Save as disclosed in this prospectus:

(a) none of our Directors or Supervisors and any of the parties listed in the paragraph headed "Qualification of Experts" of this Appendix is interested in our promotion, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to us;

(b) none of our Directors or Supervisors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business; and

(c) none of our Directors or Supervisors is a director or employee that has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO.

OTHER INFORMATION

Estate Duty

Our Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of our subsidiaries.

Litigation

During the Track Record Period and up to the Latest Practicable Date, save as disclosed in the prospectus, the Company was not involved in any litigation, arbitration or administrative proceedings of material importance which could have a material adverse effect on our financial condition or results of operations, and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us.

Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

ABCI Capital Limited is independent from the Company under Rule 3A.07 of the Listing Rules.

A fee of HK$5,000,000 is payable by the Company to the Sole Sponsor to act as a sponsor to the Company in connection with the Listing.

Preliminary Expenses

We have not incurred any material preliminary expense.

Qualification of Experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
ABCI Capital Limited	Licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Haiwen & Partners	PRC legal advisors
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Industry consultant
Zhejiang Yushan Law Firm (浙江玉山律師事務所)	PRC legal advisors representing the Company in the legal proceedings in relation to Mr. Ye Bin

Consents of Experts

Each of the experts referred to in the paragraph headed "**Qualification of Experts**" in this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or opinions and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in the Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of our subsidiaries.

Compliance Advisor

The Company has appointed ABCI Capital Limited to act as our compliance advisor upon Listing in compliance with Rule 3A.19 of the Listing Rules.

Taxation of Holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty. The current rate charged on each of the seller and purchaser is HK$1.00 for every HK$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

No Material Adverse Change

Except as disclosed in "Summary – Recent Developments" and "Financial Information – No Material Adverse Change", our Directors have confirmed, after performing all the due diligence work which the Directors consider appropriate, that, as at the date of this prospectus, there has been no other material adverse change in our financial position or prospects since 31 December 2017 and there has been no other event since 31 December 2017 which would have material adverse effect on the information presented in the Accountant's Report in Appendix I to this prospectus.

Binding Effect

This prospectus shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years preceding the date of this prospectus: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash; and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sales of any capital of the Group;

(b) no share or loan capital of the Group is under option or is agreed conditionally or unconditionally to be put under option;

(c) the Company has not issued nor agreed to issue any founder shares, management shares or deferred shares;

(d) there are no arrangements under which future dividends are waived or agreed to be waived;

(e) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;

(f) there are no contracts for hire or hire purchase of plant to or by us for a period of over one year which are substantial in relation to our business;

(g) there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;

(h) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;

(i) no part of the equity or debt securities of the Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Hong Kong Stock Exchange is currently being or agreed to be sought;

(j) the Company has no outstanding convertible debt securities or debentures; and

(k) the Company currently does not intend to apply for the status of a sino-foreign investment joint stock limited liability company and does not expect to be subject to the Law of the PRC on Sino-foreign Equity Joint Ventures.

The Company has adopted a code of conduct regarding Directors' and Supervisors' securities transactions on terms as required under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules with effect from the Listing Date.

Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

Promoters

The promoters included Hong Zuobin, Huang Youliang, Zhang Shengyi, Yin Xingjing, Lin Zichan, Jin Wensheng, Fan Zefeng, Lin Deqing, Xie Shangpeng, Zhou Xiaoding, Deng Zhaoming, Huang Ruihua, Lin Zhongzhu, Ye Sigong, Lin Shangyun, Ye Decai, Ma Jiaming, Chen Zhouqun, Tang Liangtao, Lin Tianqi, Lin Jingdian, Li Longqin, Huang Chaochuan, Huang Xijun, Lin Xinxia and Song Xianqing, and Dongxing LP, Cangyi LP, Changhua LP and Huashi LP. Save as disclosed in this prospectus, within the two years immediately preceding the Latest Practicable Date, no cash, security or benefit had been paid, allotted or given, or is proposed to be paid, allotted or given to the promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

(a) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;

(b) the written consents referred to in the paragraph headed "Other Information – Consents of Experts" in "Appendix VI – Statutory and General Information" to this prospectus; and

(c) a copy of each of the material contracts referred to in the paragraph headed "Further Information about Our Business – Summary of Material Contracts" in "Appendix VI – Statutory and General Information" to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Herbert Smith Freehills (23/F, Gloucester Tower, 15 Queen's Road Central, Hong Kong), during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Articles of Association;

(b) the accountant's report from PricewaterhouseCoopers in relation to historical financial information, the text of which is set out in Appendix I to this prospectus;

(c) the audited financial statements of the Group for the three years ended 31 December 2017;

(d) the report from PricewaterhouseCoopers in relation to unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;

(e) the material contracts referred to in the paragraph entitled "Further Information about Our Business – Summary of Material Contracts" in Appendix VI to this prospectus;

(f) the service contracts with Directors and Supervisors referred to in "Further Information about Our Directors, Supervisors, Staff, Management and Substantial Shareholders – Service Contracts" in Appendix VI to this prospectus;

(g) the written consents referred to in "Other Information – Consents of Experts" in Appendix VI to this prospectus;

(h) the legal opinion prepared by Haiwen & Partners, our legal advisor as to PRC law, in respect of the general matters and property interests of the Group, and the legal opinion on the legal proceedings in relation to Mr. Ye Bin issued by Zhejiang Yushan Law Firm, our legal advisor as to PRC law in relation to such legal proceedings;

(i) the Company Law, the Securities Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translations; and

(j) the industry report issued by Frost & Sullivan.

Zhejiang Cangnan Instrument Group Company Limited
浙江蒼南儀錶集團股份有限公司