



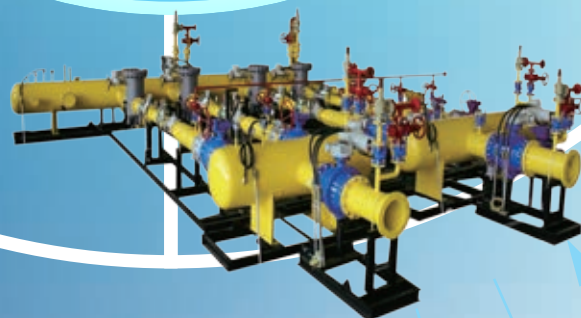
Zhejiang Cangnan Instrument Group Company Limited 浙江蒼南儀錶集團股份有限公司

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

Stock code : 1743



2018
Annual Report



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Company Profile

We (stock code: 1743) are a leading industrial and commercial gas flowmeter manufacturer in China. The Company has been successfully listed on the Main Board of the Stock Exchange since 4 January 2019. The total number of issued share capital of the Company was 69,791,167 Shares.

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. 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. 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.

Corporate Information

Legal name of the Company

浙江蒼南儀錶集團股份有限公司

English name of the Company

Zhejiang Cangnan Instrument Group Company Limited

Directors

Executive Directors

Mr. Hong Zuobin (*Chairman*)
Mr. Huang Youliang (*General Manager*)
Mr. Yin Xingjing
Mr. Zhang Shengyi
Ms. Lin Zichan
Mr. Lin Zhongzhu
Mr. Lin Jingdian

Non-executive Directors

Mr. Ye Xiaosen
Mr. Hou Zukuan

Independent Non-executive Directors

Mr. Ng Jack Ho Wan
Mr. Wong Hak Kun
Mr. Wang Jingfu
Mr. Li Jing
Mr. Su Zhongdi

Supervisors

Mr. Huang Xijun (*Chairman*)
Mr. Ye Sigong
Mr. Zhou Xiaoding

Legal representatives of the Company

Mr. Hong Zuobin

Authorized representative

Mr. Huang Youliang
Mr. Chan Chun Wai

Joint Company Secretaries

Ms. Lin Zichan
Mr. Chan Chun Wai

Committees of the Board

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

Corporate Information

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

Room 1503, 15/F
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wan Chai
Hong Kong

Auditor

PricewaterhouseCoopers
Certified Public Accountants
22/F, Prince's Building
Central, Hong Kong

Legal Advisors

As to Hong Kong Law

Herbert Smith Freehills
23/F Gloucester Tower
15 Queen's Road Central
Central, Hong Kong

As to PRC law

Haiwen & Partners
20/F, Fortune Financial Center
5 Dong San Huan Central Road
Chaoyang District, Beijing
China

Principal Bankers

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

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

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

Stock Abbreviation and Stock Code

CANGNAN INST (1743)

Compliance Advisor

First Shanghai Capital Limited
19/F, Wing on House
71 Des Voeux Road Central
Hong Kong

Investor Enquiry

Special telephone line for investors:
+86-577-64837701, +86-577-64839376
Fax: +86-577-64839306
Website: www.zjcnby.com
E-mail: investor@zjcnby.com

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of Zhejiang Cangnan Instrument Group Company Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (hereinafter referred to as the "Group") for the year ended 31 December 2018 to all the shareholders.

2018, the fortieth anniversary of China's reform and opening-up, the Group has experienced growth through persistent trying and hard working for two decades since our structural reform in 1998. In recent years, the global economy is in a process of profound change and rebalances, the Chinese economy has ushered in a new era of high-quality development, and the gas industry has achieved steady growth with the help of the China's reform. With the implementation of national strategies such as "coal-to-gas switching projects" and "green water and blue sky project", and the national policies, particularly in 2017, the Group achieved a substantial growth. However, certain market weaknesses, including insufficient gas sources, inadequate pipeline construction and interconnection, and insufficient gas storage resources, resulting in shortage of supply of natural gas in many parts of the country, had also exposed in 2017. With all these impacts, the "coal-to-gas switching projects" was progressed rationally in 2018.

During the past year, we continued to adhere to the basic policies of "deepening reform, accelerating innovation, expanding opening-up, and implementing scientific management", taking the strategic opportunities with the features of "transformation, efficiency, quality, and upgrading" in the industrial revolution. We were listed on the Hong Kong Stock Exchange in January 2019, marking a new beginning for the reform and development of the Group!

In 2018, our products were certified with "Zhejiang Manufacturing", which enhanced the competitiveness of the Group's leading products in the market. The Group also won several honorary titles such as the "Entity with Outstanding Contribution Award from China Gas Association" (中國城市燃氣協會單位突出貢獻獎), the "Meritorious Member Award" from China Instrument Manufacturers Association (中國儀器儀錶行業協會 "功勳會員獎"), the "Enterprise Innovation Award of Zhejiang" (浙江省創新大獎企業) and the "Model Enterprise with High-quality Development in Wenzhou" (溫州市高質量發展示範企業等榮譽).

We have been monitoring on improving the R&D incentive mechanism while continuously increasing investment in R&D. This enhance the profitability of the Group's high-tech and high value-added products. We make the most of the opportunities of the current technological and industrial revolution, and exploit the national big data, the "Internet + Action Plan", "Made in China 2025", and other strategies. We focus on tracking the latest technological developments in "Internet + Energy" to develop a variety of cloud service platforms. We actively introduce and adopt new technologies, new processes, new materials, and new equipment, and being more opening-up and fully utilize the advantages in cooperation with research institutes, so as to accelerate technological innovation and product transformation.

Chairman's Statement

We work to promote the reform of the marketing system and mechanism, and to innovate marketing thinking. Focusing on greater regional marketing, the Group consolidate and use the resources to consolidate our existing market share, strengthen the development of new markets, make the best use of our increasingly mature marketing service platforms plus existing sales channels and customer resources, leverage on the established brand image and status in the industry, to achieve our service principle of “Cangnan Instrument always stays by its customers and customers are always at the heart of us”. We also make great efforts to build a new multi-level interactive service system through utilizing the internet and big data technologies as well as collaborating our service outlets.

In 2018, we focused on promoting the reform of the management system, including and among others, a series of successful adjustments on internal management and internal control, and reorganized the Group's future core strategy. We improved the talent structure and talent development plan for the Group through appointing and promoting a group of young managers with abilities, visions, responsibilities and passion, to lay the foundation for the Group's sustainable development. Taking the supply-side structural reform as the starting point, we systematically promoted technological transformation, technological innovation and cultivation of workers at the grass-roots level. We pushed ahead with manufacturing process innovation and improved machining accuracy and efficiency, thus reducing production costs. We implemented the strategy of revitalizing the Group through quality, and put the quality policy that “providing satisfactory products and services to users is our ultimate goal” into practice.

China is in an era where energy undergoes major transformation. Clean energy such as natural gas is playing an increasingly important part in national energy structure and strategy. Environmental problems such as prevention and control of air pollution are becoming more prominent, and correspondingly the gas industry will also show vigorous and rapid development. Accelerating the development of the natural gas industry and increasing the proportion of natural gas in primary energy consumption are the only way for China to speed up the construction of a clean, low-carbon, safe, and efficient modern energy system. Gas and related industries have confronted with major opportunities and challenges in the midst of profound changes.

In 2019, we will remain true to our original aspiration and again embark on the journey of stepping forward. Supported by knowledgeable people and investors from all sectors of society, we will continue to strength our core business and contribute to the local economy and the industry! We strive to maximize the economic benefits and optimize the social benefit by adhering to the business philosophy of “dedication and integrity and commitment to excellence”, with promoting the prosperity of the national industries as our mission.

Chairman's Statement

Finally, on behalf of the Board, I would like to express my sincere gratitude to my colleagues and investors who are understanding and supporting us. In the new year, we will continue to be conscientious and work diligently to create value for all shareholders, customers and employees!

Hong Zuobin

Chairman

Financial Highlights

The table below sets out the financial highlights of the Company for the periods indicated:

	Year Ended 31 December			
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	630,323	669,813	444,160	362,687
Gross profit	461,304	485,537	288,553	197,417
Operating profit	258,513	286,220	142,961	50,199
Profit for the year	221,415	241,683	117,883	36,545

	As at 31 December			
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000
Assets				
Non-current assets	120,396	133,044	127,939	119,744
Current assets	1,030,318	824,554	601,456	506,437
Total assets	1,150,714	957,598	729,395	626,181

Equity and liabilities				
Total equity	785,858	604,754	400,543	312,024
Non-current liabilities	485	18,188	25,500	84,068
Current liabilities	364,371	334,656	303,352	230,089
Total liabilities	364,856	352,844	328,852	314,157
Total equity and liabilities	1,150,714	957,598	729,395	626,181

Management Discussion and Analysis

I. INDUSTRY OVERVIEW

The PRC economy has maintained a steady growth in recent years, resulting in increases in consumers' spending and acceleration of urbanization, which in turn drives demand for natural gas. According to Frost & Sullivan's market report, natural gas consumption volume in China during 2012 to 2018 witnessed a rapid growth at a CAGR of 11.3%.

Driven by the intensifying of urbanization and favorable policy environment for natural gas industry in China, natural gas flowmeter market has also experienced rapid growth from 2012 to 2018. According to Frost & Sullivan's market report, during that periods, the total sales value of industrial and commercial natural gas flowmeter market increased at a CAGR of 12.2%, the total sales value of residential natural gas flowmeter market increased at a CAGR of 13.8%.

II. BUSINESS OVERVIEW

The Company is a leading industrial and commercial gas flowmeter manufacturer in China. Leveraging over 40 years of industry experience, the Company is 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. The Company is engaged in a comprehensive business research and development, manufacture, sales and aftersales services. According to Frost & Sullivan's market report, the Company ranked second in the industrial and commercial gas flowmeter industry in China in terms of revenue in 2018, with our revenue from the sales of industrial and commercial gas flowmeter products amounting to RMB630.3 million.

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 last few years. As at 31 December 2018, we had maintained business relationships with these customers for 8 to 14 years. In 2018, sales to our top five customers accounted for approximately 37.8% of our revenue in the same period.

Management Discussion and Analysis

The following table sets out a breakdown of our sales by product category in 2018:

	Revenue (RMB'000)	Cost (RMB'000)	Gross profit (RMB'000)
Industrial and commercial gas flowmeter products	561,982	125,724	436,258
Residential gas meter products	49,532	33,599	15,933
Nuclear-related products	15,642	8,444	7,198
Maintenance services	3,167	1,252	1,915
Total	630,323	169,019	461,304

The following table sets out a breakdown of our revenue by region in 2018 and 2017:

	2018 (RMB'000)	2017 (RMB'000)
China	627,780	664,062
North China	120,979	165,479
East China	287,297	255,993
Southwest China	66,870	51,767
South China	38,560	31,226
Central China	38,063	52,265
Headquarters	35,976	54,801
Northeast China	26,859	32,753
Northwest China	13,176	19,778
Overseas	2,543	5,751
Total	630,323	669,813

Management Discussion and Analysis

III. MANAGEMENT DISCUSSION AND ANALYSIS ON FINANCIAL POSITION AND OPERATING RESULTS

1. Overview

Our revenue decreased by RMB39.5 million from RMB669.8 million in 2017 to RMB630.3 million in 2018. Profit of the Group in 2018 was RMB221.4 million, representing a decrease of RMB20.3 million compared to profit of RMB241.7 million in 2017. Profit attributable to equity holders of the Company was RMB220.2 million for the year ended 31 December 2018, decreased by RMB19.2 million from RMB239.4 million for the year ended 31 December 2017. Cash and cash equivalents of the Group increased by RMB102.9 million from RMB157.1 million as at 31 December 2017 to RMB260.0 million as at 31 December 2018. Total assets of the Group increased by RMB193.1 million from RMB957.6 million as at 31 December 2017 to RMB1,150.7 million as at 31 December 2018. Our total liabilities increased by RMB12.1 million from RMB352.8 million as at 31 December 2017 to RMB364.9 million as at 31 December 2018. Return on total assets of the Group in 2018 was 19.2% compared to 25.2% in 2017.

2. Operating Results

2.1. Revenue

Our revenue decreased by 5.9% from RMB669.8 million in 2017 to RMB630.3 million in 2018, primary due to a more progress development of the coal-to-gas switching projects in 2018 when compared to 2017. In 2017, the Group experienced explosive growth of revenue benefiting from the effect of the coal to gas switching projects. However, as a result of lacking adequate gas resources, pipeline construction interconnection and gas storage reservoirs, these shortfalls led to the shortage of gas supply in many local markets across the country. Our sales of nuclear-related products increased by 51.5% from RMB10.3 million in 2017 to RMB15.6 million in 2018, mainly due to the increase in demand as a result of the increase in the nuclear power projects as planned by the PRC government, which in turn resulted in a significant increase in revenue from nuclear power products.

2.2. Cost of sales

Our cost of sales decreased by 8.3% from RMB184.3 million in 2017 to RMB169.0 million in 2018, mainly due to (i) a decrease in our sales revenue; (ii) a decrease in the prices of major materials such as aluminium ingots and bearings; and (iii) technical innovation and improvement in the production capacity, improved the production efficiency and lowered the labour costs .

Management Discussion and Analysis

2.3. Gross profit

Our gross profit decreased by 5.0% from RMB485.5 million in 2017 to RMB461.3 million in 2018 and our gross profit margin increased from 72.5% in 2017 to 73.2% in 2018, mainly attributable to a decrease in our sales revenue and relevant cost of sales as discussed above.

2.4. Selling and distribution expenses

Our selling and distribution expenses increased by 4.2% from RMB108.3 million in 2017 to RMB112.9 million in 2018, mainly due to the provision of more professional and value-added services (such as cleaning) to customer and, promotion of brand awareness and sales channels expansion. Those incurred additional marketing expenses and led to increase in overall selling expenses.

2.5. Administrative expenses

Our administrative expenses increased by 2.1% from RMB53.1 million in 2017 to RMB54.2 million in 2018, mainly due to the professional fees and other relevant hospitality expenses incurred during our listing preparation in year 2018.

2.6. Net impairment losses on financial assets

Our net impairment losses on financial assets increased by 2.4% from RMB8.5 million in 2017 to RMB8.7 million in 2018, mainly due to an increase in loss allowance of trade receivables.

2.7. Research and development expenses

Our research and development expenses increased by 18.9% from RMB34.9 million in 2017 to RMB41.5 million in 2018, mainly due to the fact that, in order to adapt for the latest development of technologies in the industry, we added four research and development projects in 2018, namely the Research and Development of Internet-of-Thing Gas Flowmeter and Transmission and Distribution Management Cloud Service Platforms (物聯網氣體流量計及輸配管理雲服務平台研發), the Research and Development of Anti-theft Gas Turbine Flowmeters (防盜型氣體渦輪流量計研發), the Research and Development of Gas Roots Flowmeters (防盜型氣體羅茨流量計研發) and the Research and Development of Non-touch Rotary Stop Waves (無接觸旋轉切斷閥研發), resulting in an increase in research and development expenses.

Management Discussion and Analysis

2.8. Other income

Our other income decreased by 18.9% from RMB20.6 million in 2017 to RMB16.7 million in 2018, mainly due to less government grants received for the year as compared with that in previous year.

2.9. Other losses – net

Our other losses – net decreased by 84.8% from RMB15.1 million in 2017 to RMB2.3 million in 2018, mainly due to, comparing to the last year, no expenditures incur in respect of litigation and guarantee in this year.

2.10. Operating profit

Our operating profit decreased by 9.7% from RMB286.2 million in 2017 to RMB258.5 million in 2018, mainly due to a decrease in our revenue and increase in expenses arising from increased value-added services and the intensified research and development efforts.

2.11. Finance expenses – net

Our finance expenses – net decreased by 46.5% from RMB4.3 million in 2017 to RMB2.3 million in 2018, mainly due to a decrease in interest expense incurred and a lowering of discounted interest related to guarantee loss.

2.12. Income tax expense

Our net income tax expenses decreased by 13.4% from RMB40.2 million in 2017 to RMB34.8 million in 2018, mainly due to a decrease in profit before tax and that two of our subsidiaries were entitled to a 15% preferential enterprise income tax rate as High and New Technology Enterprises since 2018. (The research and development activities are entitled to claim 150% in 2017 or 175% in 2018 of the research and development expenses so incurred in a year as tax deductible expenses in accordance with the relevant national preferential policy, which in turn further lowered our income tax expenses.)

2.13. Profit for the year

As a result of the foregoing, our profit for the year decreased by 8.4% from RMB241.7 million in 2017 to RMB221.4 million in 2018, mainly due to a decrease in our revenue and increase in expenses arising from increased value-added services and the intensified research and development efforts, which resulted in a decrease in our profit for the year.

Management Discussion and Analysis

3. Cash and Cash equivalents

As at 31 December 2018, cash and cash equivalents of the Group increased by RMB102.9 million from RMB157.1 million as at 31 December 2017 to RMB260.0 million.

4. Current Assets and Liabilities

In 2017, we had net current assets of approximately RMB489.9 million. As at 31 December 2018, we had net current assets of approximately RMB665.9 million, representing an increase of 35.9% from the previous year, primarily due to an increase in net current assets contributed from earnings from operating activities for the year.

5. Indebtedness

Our borrowings were short-term bank borrowings primarily for our working capital purposes. As at 31 December 2018, our bank loans amounted to RMB69.7 million. We plan to service our indebtedness primarily using expected cash generated from operations.

6. Financial Ratio

The following table sets forth certain financial ratios as at the dates and for the years indicated.

	As at or for the year ended	
	31 December 2018	2017
Gearing ratio ⁽¹⁾	0.1	0.1
Current ratio ⁽²⁾	2.8	2.5
Quick ratio ⁽³⁾	2.6	2.2
Return on equity ⁽⁴⁾ (%)	28.2	40.0
Return on total assets ⁽⁵⁾ (%)	19.2	25.2
Net debt to equity ratio ⁽⁶⁾	-0.3	-0.2
Interest coverage ⁽⁷⁾	62.0	49.4

Management Discussion and Analysis

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.*

7. Significant Investment

For the year ended 31 December 2018, the Group had no significant investment.

8. Material Acquisition and Disposal

For the year ended 31 December 2018, the Group had no material acquisition or disposal.

Management Discussion and Analysis

9. Contingent Liabilities

For the year ended 31 December 2018, the Group had no material contingent liabilities.

10. Employees and Remuneration Policy

As at 31 December 2018, we had 507 full-time employees in China. We enter into individual labor contracts with our employees, with terms covering, among other things, positions, salaries, working hours, annual leave and other benefits. In 2018, 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 RMB86.8 million, representing approximately 13.8% of our revenue in 2018.

The Group did not have any share option scheme.

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 courses 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.

11. Pledge of Assets

The Group's borrowings are partially secured by property and plant. As at 31 December 2018, the total net carrying value of assets pledged was RMB37.8 million.

12. Liquidity and Sources of Capital

As at 31 December 2018, the Group's cash and cash equivalents increased by 65.5% to RMB260.0 million as compared with the balance of RMB157.1 million as at 31 December 2017, primarily due to the Company's day-to-day operating activities. The main sources of the Group's business capital comes from operating activities.

As at 31 December 2018, the Group's borrowings increased by 16.4% to RMB69.7 million as compared with RMB59.9 million as at 31 December 2017. Such borrowings were all short-term borrowings.

13. Capital Structure

The Group monitors the cash flows and cash balance on a regular basis and seek to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business and its various growth strategies. In the future, the Group intends to finance its operations through cash generated from operating activities, bank and other borrowings. Other than normal bank borrowings that the Group obtain from commercial banks and potential debt financing plans, the Group does not expect to have any material external debt financing plan in the near future.

Management Discussion and Analysis

IV. RISK FACTORS AND RISK MANAGEMENT

1. 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. The Group's trade and other receivables, cash and cash equivalents and trade and other payables in 2018 included Euro, US\$ or other foreign currencies ("Other Foreign Currencies"). In 2018, the Group did not have any significant foreign exchange risk from operation.

2. Risks to Business Outcomes arising from the Continued Expansion of Industry Capacity

The industrial and commercial gas flowmeter market is dominated by two major players, while with the rest of market highly fragmented. Because of today's upward market for the domestic oil, natural gas, coal and non-fossil energy, other competing companies have been expanding the scale of production. This leads to serious over-capacity in the industry and the industry competition is increasingly fierce. As the second largest manufacturer of industrial and commercial gas flowmeter in China, the Company will compete directly with the other leading competitor in the industrial and commercial gas flowmeter market. Meanwhile, with the rapid advancement of the coal-to-gas switching projects in 2017, insufficient gas resources, pipeline construction and interconnection, and gas storage reservoirs in the industry had resulted in tight supply of natural gas in various regions in China. After the adjustments, the coal-to-gas switching projects progressed in a rational and slow manner in 2018, and the Group's business adapted to the industry demand changes.

As for the residential gas meter market, the Group is currently unable to meet certain requirements on its residential gas meter products in certain aspects, such as production scale, track record and brand recognition. In the future capacity competition, the company may not be able to compete effectively in the market or increase market share.

As a result, market competition is becoming increasingly fierce, which brings uncertainty to market share growth for the Group.

3. Price Risks

With continuing support of the clean & heating policy in Northern China, industrial and commercial flowmeter and gas meter will enter the period for renewal and replacement, and the demand for renewal ushered in a periodic peak. Competing companies have been expanding the scale of production, which results in extremely fierce market competition and increased downward pressure on price.

Management Discussion and Analysis

V. OUTLOOK ON THE GROUP'S FUTURE DEVELOPMENT

(1) Current Conditions and Future Development Trends of the Development of the Industry

“BP Statistical Review of World Energy 2018” predicts that, by 2040, each of petroleum, natural gases, coal and non-fossil energy resources are expected to account for approximately one fourth in the energy consumption structure, with the natural gas consumption growing at an average annual rate of 1.6%. China's energy structure will continue to evolve. By 2040, the proportion of natural gas consumption will grow more than double to 13%, and the dependence on natural gases import will rise to 43% in 2040.

Benefiting from the rapid growth of the natural gas industry, industrial and commercial flowmeters on which the Group focuses have ushered in the window of opportunities for booming development. The Directors expect that upstream (exploitation and import of natural gases) and the midstream (storage and transportation), etc. are currently in a prosperous period for investment and construction, the infrastructures of natural gases will become increasingly full-fledged. With continuing support of the clean heating policy in Northern China, the guaranteed gas resources will be the key to the continuous promotion of the subsequent on improvement of gas penetration rates. In 2019, with the launching of West-East Nature Gas Transmission II/Shanxi Beijing Nature Gas Transmission III/Sichuan-East Nature Gas Transmission pipelines, the Directors believe the industrial and commercial flowmeters and gas meters to be applied in the production will enter into a period of renewal and replacement. With a stable increment in market size, the renewal demand will welcome a periodic peak. With the further increase in the proportion of natural gas energy in the energy consumption in China and the impact of the national environmental protection policy, these will stimulate the demand for our industrial and commercial flowmeters and gas meters will further grow, which in turn driving the market demand of the Group's products.

(2) Development Strategy and Planning of the Company

The Group will continue to uphold the operating philosophy of “dedication and integrity and commitment to excellence”, deepen the reform, accelerate innovation, focus on the strategies with those projects related to the national energy development, the “Blue Sky Protection Campaign”, the coordinated development in the Beijing-Tianjin-Hebei region, and the “Internet + Action Plan”. The Group will closely capture the growing market demand brought by the controlling of air pollution and the strategic changes of energy structure in the national ecological civilization construction, endeavour to keep track with the latest technological development of “Internet + Energy” accelerate the development of new products, improve the core competitiveness and achieve the optimization and upgrade of product mix, so as to achieve our core value of maximizing the contribution to the society.

Management Discussion and Analysis

(3) Business Plan for 2019

1. Keep abreast of the market demand and accelerate the technological innovation of products

The Group will continue to value knowledge and creation and invest more in research and development under the principle of mastering core technologies so as to ensure that its featured products continue to keep the leading position nationwide. In order to improve the competitiveness of its products, the Group will utilize the Internet-of-Things, big data, cloud computing and other cutting-edge technologies to accelerate the technological innovation and to promote the informationization, intelligence and networking of its products. The Group will introduce and adopt new technologies, new processes, new materials and new equipment to continuously seek for breakthrough of key technological bottleneck with an aim to continuously upgrade the product technologies and accumulate the technological reserve for development of new products. In addition, the Group will carry out extensive survey to analyze the gas stealing behaviors in markets and to optimize the algorithm in order to improve the anti-stealing function of its products. Moreover, the Group will strengthen its foundation of technical management, optimize and allocate research and development forces and continue to promote the extensive cooperation with various universities and institutes.

2. Proactively explore the market and build a new marketing service system

The Group will keep abreast of the development trends of the gas industry, strive to capture the opportunities brought by the national strategies such as “Coal-to-Gas Switching Projects” and “Blue Sky Protection Campaign”, and proactively maintain and explore markets. Focusing on greater regional marketing, the Group will consolidate and use the resources to coordinate and collaborate the development of the entire regional market. We will adopt our new four-level interactive service system, with our group headquarter as the core service center, greater regional service sub-centers, provincial service offices and local urban service units.

3. Construct intelligent plants and achieve intelligent manufacturing

We will use the proceeds raised from our listing to promote the construction of intelligent gas flowmeter modification and upgrade project. The project will adopt flow measurement, new sensors, new automatic instruments and meters, electronic and information technology, advanced industrial robot, automated production line and other relevant technology or processes to build our intelligent plants. The Group will address overcapacity, reduce inventory, de-leverage, lower costs and bolster areas of weakness, and will strive to increase the adaptability and flexibility of the supply structure, and to raise the total factor productivity, so as to allow the supply system to better cater for the evolving demand structure.

4. Optimize the organizational structure and strengthen the team building

We will focus on the strategic development needs of the Group, perform to introduce all kinds of talents, be systematic to advance the cultivation of talent team and the grass-roots workforce in a planned manner, and progressively improve the performance appraisal mechanism. We will optimize our existing organizational structure and develop a sustainable organizational system that is suitable to establish ourselves as a modern, innovative and technological enterprise.

Directors, Supervisors and Senior Management

I. Executive 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 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.

Directors, Supervisors and Senior Management

Mr. Yin Xingjing (殷興景先生), aged 46, 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 51, 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.

Directors, Supervisors and Senior Management

Ms. Lin Zichan (林姿嬋女士), aged 41, is an executive Director, the vice general manager, the secretary to the Board of the Company and the deputy chairman of the Group's 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 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 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.

Directors, Supervisors and Senior Management

II. Non-executive Directors

Mr. Ye Xiaosen (葉小森先生), aged 67, 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.

III. Independent Non-executive Directors

Mr. Ng Jack Ho Wan (吳浩雲先生), aged 42, 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 in May 2000. Mr. Ng has been a senior 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.

Directors, Supervisors and Senior Management

Mr. Wong Hak Kun (王克勤先生), aged 62, 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. 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 served as a director of Zhejiang Institute of Certified Public Accountants, a visiting professor of Hangzhou Polytechnic, and chairman of accounting professional steering committee of Hangzhou Polytechnic. Mr. Wang currently serves as a director of Zhejiang Engineering Cost Association. 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.

Directors, Supervisors and Senior Management

Mr. Su Zhongdi (蘇中地先生), aged 62, 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.

IV. Supervisors

Mr. Huang Xijun (黃希俊先生), aged 42, is a Supervisor and the deputy director of production (department) 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 (department) 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 52, 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 Mazhan High School in July 1984.

Directors, Supervisors and Senior Management

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).

V. 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 “Executive Directors” in this section.

Mr. Yin Xingjing (殷興景先生), aged 46, is an executive Director and the vice general manager of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

Mr. Zhang Shengyi (章聖意先生), aged 51, is an executive Director and chief engineer of the Company. For the biographical details, please refer to the paragraph headed “Executive 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 41, 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 “Executive Directors” in this section.

Mr. Lin Zhongzhu (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 “Executive Directors” in this section.

Directors, Supervisors and Senior Management

Mr. Jin Wensheng (金文勝先生), aged 50, is the deputy general manager and CPC Party Secretary of the Group, and is also the chairman of the board of directors 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) from January 2004 to December 2009; executive vice factory director of the Company and diaphragm gauge branch plant manager from January 2010 to January 2012; diaphragm gauge branch plant manager from January 2012 to May 2015; manager of Dongxing Intelligent Instrument Co., Ltd from May 2015 to December 2018. 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.

Directors' Report

The Board hereby presents to Shareholders the annual report and the audited financial statements for the year ended 31 December 2018 (the "Financial Statements").

Share capital

Details of the movements in share capital of the Company for the year ended 31 December 2018 and as at 31 December 2018 are set out in note 22 to the Financial Statements.

Purchase, sale or redemption of the Company's listed securities

The H Shares of the Company were listed on the Main Board of the Stock Exchange on 4 January 2019. The over-allotment option was exercised in part on 25 January 2019, and over-allotment Shares were listed on the Main Board of the Stock Exchange on 30 January 2019.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities from the Listing Date to the date of this Report.

Pre-emptive rights

There are no provisions for pre-emptive rights for the Company under the Articles of Association or the PRC laws. As a result, the Company is not obliged to offer new shares to existing shareholders in proportion to their shareholdings.

Principal business

The Group is principally engaged in manufacturing and sales of industrial and commercial gas flowmeters.

Results

The results of the Group for the year ended 31 December 2018 and the financial position of the Group as at 31 December 2018 are set out in the audited Financial Statements on pages 64 to 67.

A discussion and analysis of the Company's performance and business review during the year and the material factors underlying its results, financial position, the financial key performance indicators and the principal risks and uncertainties are set out in the "Management Discussion and Analysis" on pages 9 to 19 and "Financial Highlights" on page 8 of this annual report.

Directors' Report

Profit distribution

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.

The Board recommended distributing a final dividend of RMB0.8 per share (tax inclusive) in cash for the year ended 31 December 2018 to shareholders. All dividends will be paid upon the approval by the shareholders in the 2018 annual general meeting of the Company.

Property, plant and equipment

Details of the movements in properties, plants and equipment of the Company and its subsidiaries during the year are set out in note 15 to the Financial Statements.

Reserves

Details of the movements in reserves of the Company during the year are set out in note 37 to the Financial Statements; details of reserves distributable to the shareholders are set out in note 37 to the Financial Statements.

Tax concession

The Company is not aware of any tax reduction or exemption available to the Shareholders of the Company by reason of their holding of the Company's securities.

Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and its Subsidiaries as of 31 December 2018 are set out in note 26 to the Financial Statements.

Directors' Report

Information and biographies of Directors, Supervisors and senior management

The following table sets forth information concerning the Directors, Supervisors and senior management of the Company for the year ended 31 December 2018.

Name	Age	Position Held in the Company	Date of Appointment
Mr. Hong Zuobin	71	Chairman, Executive Director	13 June 2017
Mr. Huang Youliang	53	Executive Director, General Manager	13 June 2017
Mr. Yin Xingjing	46	Executive Director, Vice General Manager	13 June 2017
Mr. Zhang Shengyi	51	Executive Director, Chief Engineer	13 June 2017
Ms. Lin Zichan	41	Executive Director, Vice General Manager, Joint Company Secretary	13 June 2017
Mr. Lin Zhongzhu	40	Executive Director, Vice General Manager	13 June 2017
Mr. Lin Jingdian	44	Executive Director	13 June 2017
Mr. Ye Xiaosen	67	Non-executive Director	15 August 2017
Mr. Hou Zukuan	67	Non-executive Director	15 August 2017
Mr. Ng Jack Ho Wan	42	Independent Non-executive Director	21 June 2018
Mr. Wong Hak Kun	62	Independent Non-executive Director	21 June 2018
Mr. Wang Jingfu	53	Independent Non-executive Director	21 June 2018
Mr. Li Jing	52	Independent Non-executive Director	21 June 2018
Mr. Su Zhongdi	62	Independent Non-executive Director	21 June 2018
Mr. Huang Xijun	42	Chairman of the Supervisory Committee, Employee Supervisor	13 June 2017
Mr. Ye Sigong	52	Supervisor	13 June 2017
Mr. Zhou Xiaoding	52	Supervisor	13 June 2017
Mr. Fan Zefeng	53	Vice General Manager	13 June 2017
Mr. Jin Wensheng	50	Vice General Manager, and Manager of Dongxing Intelligent	13 June 2017
Mr. Xie Shangpeng	45	Vice General Manager, and Manager of Dongxing Energy	13 June 2017
Mr. Chen Qihui	41	Financial Controller	17 September 2017
Ms. Huang Liyun	67	Head of Finance Department	13 June 2017

The Company has received, from each of the independent non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules of the Hong Kong Stock Exchange and considers that all the independent non-executive Directors are independent of the Company.

Biographical details of Directors, Supervisors and senior management are set out on pages 20 to 27 of this annual report.

Directors' Report

Service contracts of Directors and Supervisors

Each of the Directors has entered into a service contract with our Company. The principal particulars of these service contracts are (a) for a term of three years commencing from the effective date of such service contracts, and (b) are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations. Each of the Supervisors had entered into a contract in respect of, among others, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration with our Company. Save as disclosed above, none of our Directors or Supervisors had any existing or proposed service contracts with us (excluding contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Remuneration of Directors and Supervisors

Details of the remuneration of the Company's Directors and Supervisors are set out in note 38 to the Financial Statements.

Interests of Directors and Supervisors in material transactions, arrangements and contracts

At the end of the year 2018 or at any time during the year, there was no transactions, arrangements or contracts of significance to the Group's business in which the Company or its Subsidiaries was a party, and in which a Director or Supervisor had a material interest, either directly or indirectly, subsisted during the year or at the end of the year.

Interests of Directors in competing business

During the year of 2018, none of the Directors and their associates had any competing interests in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

Liability insurance and indemnity

Information in relation to the liability insurances provided for Directors and Supervisors of the Company and the permitted indemnity provisions can be found on page 49 in the Corporate Governance Report of this annual report.

Equity-linked agreements

For the year ended 31 December 2018, the Company has not entered into any equity-linked agreement.

Directors' Report

Discussion on the matters related to the environment, society and governance

Details of the environmental, social responsibility and governance of the Company will be set out in the Environmental, Social Responsibility and Governance Report that will be published separately by the Company pursuant to Rule 13.91 of and Appendix 27 to the above Rules.

Interests and short positions of the Directors, Supervisors and chief executives in the shares, underlying shares and debentures

As at the date of this Report, the interests and short positions of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Code for Trading in Securities defined in the Corporate Governance Report of this annual report are set out below:

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 Zuobin	Long position	Beneficial owner	9,253,400	13.26%	17.83%
Mr. Huang Youliang	Long position	Beneficial owner	6,697,900	9.60%	12.91%
Mr. Zhang Shengyi	Long position	Beneficial owner	2,005,100	2.87%	3.86%
Mr. Yin Xingjing	Long position	Beneficial owner	1,710,700	2.45%	3.30%
Ms. Lin Zichan	Long position	Beneficial owner	1,710,700	2.45%	3.30%
Mr. Lin Zhongzhu	Long position	Beneficial owner	729,500	1.05%	1.41%
Mr. Lin Jingdian	Long position	Beneficial owner	159,200	0.23%	0.31%
Mr. Huang Xijun	Long position	Beneficial owner	98,200	0.14%	0.19%
Mr. Ye Sigong	Long position	Beneficial owner	368,000	0.53%	0.71%
Mr. Zhou Xiaoding	Long position	Beneficial owner	920,000	1.32%	1.77%

Save as disclosed above, as at the date of this Report, none of the Directors, Supervisors or chief executives had or were deemed to have (i) any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Code for Trading in Securities.

Directors' Report

Substantial shareholders' interests in shares

As at the date of this Report, so far as known to the Directors, the following persons (other than the Directors, chief executives or Supervisors of the Company) held 5% or above interest in the shares or underlying shares of the Company and according to the records in the register required to be kept by the Company pursuant to Section 336 of the SFO had interest or short positions which should be disclosed to the Company:

A list of shareholders who hold more than 5% of the share capital:

Name of Shareholders	Class of Share	Capacity	Number of Shares/ Underlying Shares Held (share)	Percentage in the Relevant Class of Share Capital (%)	Percentage in the Total Share Capital (%)
Mr. Hong Zuobin	Domestic Shares	Legal and Beneficial owner	9,253,400	17.83%	13.26%
Mr. Huang Youliang	Domestic Shares	Legal and Beneficial owner	6,697,900	12.91%	9.60%
ZS Capital Fund SPC (on behalf of ZS Investment Fund SP) ¹	H Shares	Legal and Beneficial Owner	5,788,222	32.33%	8.29%
Mr. Deping Xi ¹	H Shares	Interest held by controlled corporation	5,788,222	32.33%	8.29%
Huashi LP	Domestic Shares	Legal and Beneficial Owner	4,912,000	9.47%	7.04%
Changhua LP	Domestic Shares	Legal and Beneficial Owner	4,830,000	9.31%	6.92%
Dongxing LP	Domestic Shares	Legal and Beneficial Owner	4,741,000	9.14%	6.79%
Cangyi LP	Domestic Shares	Legal and Beneficial Owner	4,699,000	9.06%	6.73%

Note:

1. Mr. Deping Xi is deemed to be interested in the equity interests held by ZS Capital Fund SPC on behalf of ZS Investment Fund SP, due to the fact that Mr. Deping Xi holds all the shares in ZS Capital Fund SPC.

Directors' Report

Directors' and Supervisors' right to acquire shares or debentures

At any time during the Reporting Period the Company or any of its subsidiaries did not make any arrangement that would enable the Directors or Supervisors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, Supervisors or any of their spouses or children under 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

Management contracts

The Company did not enter into any contracts in respect of the management or administration of the entire or any significant part of the business of the Company nor should any such contracts subsist at any time during the year of 2018.

Connected transactions

During the Reporting Period, as the shares of the Company were not listed on the Hong Kong Stock Exchange, the connected transaction rules of the Hong Kong Listing Rules would not be applicable to the Company. After the Listing Date, connected transactions, if any, between the Company and its connected persons in daily businesses will conform to the provisions regarding reporting, annual review, announcement and independent Shareholders' approval pursuant to the relevant requirements under Chapter 14A of the Hong Kong Listing Rules.

Major customers and suppliers

For the year ended 31 December 2018, the purchase from the Group's five largest suppliers in aggregate contributed 20.2% of the Group's total purchase for the year, among which, the total purchase from the largest supplier contributed 4.8% of the Group's total purchase for the year.

For the year ended 31 December 2018, the sales to the Group's five largest customers in aggregate contributed 37.8% of the Group's total sales for the year, among which, the sales to the largest customer contributed 11.3% of the Group's total sales for the year.

Retirement and employees benefit scheme

Details of the Group's retirement and employees benefit scheme are set out in note 9 to the Financial Statements.

Directors' Report

Compliance with the corporate governance code and report

As a company listed on the Hong Kong Stock Exchange, the Company strives to maintain a high standard of corporate governance practices and complies with the code provisions as set out in the Corporate Governance Code and Report in Appendix 14 to the Listing Rules. From the Listing Date to the date of this Report, the Company has complied with all code provisions as set out in Appendix 14 of the Listing Rules.

Please refer to the Corporate Governance Report as set out on pages 38 to 54 of this annual report for details.

Public float

Based on the information publicly available to the Company and so far as the Directors are aware, 25.65% of the issued share capital of the Company was held by the public as at the date of this Report, which was in compliance with the requirements under the Listing Rules.

Material litigation

As at 31 December 2018, the Company was involved in certain ongoing legal proceedings, including:

- (1) Mr. Ye Bin ("**Mr. Ye**"), a former shareholder, filed applications (the "**Retrial Application**") with the relevant courts and procuratorates regarding the board resolutions to retrieve and transfer the relevant shareholding to a number of current employees passed in April and December 2014 (the "**Transfer Resolutions**") and the Board and shareholders resolutions regarding the carrying out of a capital increase passed in June and July 2012 (the "**Capital Increase Resolutions**"). As at the date of this Report, the Retrial Application regarding the Transfer Resolutions was under court review. As for the Retrial Application for the Capital Increase Resolutions, the Company in February 2019 received the civil judgment ((2018) Zhe 03 Min Zai No. 107) (the "**Judgment**") served by Zhejiang Wenzhou Intermediate People's Court, which dismissed Mr. Ye Bin's retrial claim and affirmed the civil judgment ((2014) Zhe Wen Shang Zhong Zi No. 1860) of Zhejiang Wenzhou Intermediate People's Court. The Judgment is the final judgment.

Directors' Report

- (2) 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 31 December 2018, 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 31 December 2018, one case was under enforcement and in the other case we have applied for the resumption of judgment enforcement.
- (3) In July 2018, three former employees of the Company filed lawsuits with the court against the Company (the “**Former Employees Litigations**”), claiming certain assets and the return thereon with an aggregate amount of RMB0.9 million plus interest in an employee shareholding organisation (“職工持股會”). As at 31 December 2018, the Former Employees Litigations was under trial of first instance.

Save as disclosed above, as at 31 December 2018, the Company was not involved in any material litigation or arbitration. So far as the Directors are aware, no such litigation or claim are pending or threatened against the Company.

Significant events after the Reporting Period

The Company was listed on 4 January 2019 on the Main Board of The Stock Exchange of Hong Kong Limited. The Company allotted and issued a total of 17,901,167 ordinary shares at an offering price of HK\$15.80 per share.. Further details are disclosed in note 36 to the Financial Statements.

Use Of Proceeds

The net proceeds from the initial public offering and partial exercise of the over-allotment option for the Company, after deducting the underwriting fees and relevant expenses, amounted to approximately RMB178.0 million, which will be used in the ways stated in the section headed “Future Plans and Use of Proceeds” of the prospectus of the Company dated 19 December 2018. As at the date of this Report, the Company does not anticipate any change to its plan on the use of proceeds as stated in the prospectus of the Company dated 19 December 2018.

Directors' Report

Audit committee

The Audit Committee of the Company has reviewed the annual consolidated financial statements for the year ended 31 December 2018, and is of the view that the Group's consolidated financial statements for the year ended 31 December 2018 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

Auditor

PricewaterhouseCoopers was appointed as the auditor for the financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2018. The enclosed Financial Statements prepared in accordance with the International Financial Reporting Standards have been audited by PricewaterhouseCoopers.

The Company has retained the services of PricewaterhouseCoopers since the date of preparation of its listing. A resolution for the re-appointment of PricewaterhouseCoopers as the Company's auditor for the ensuing year is to be proposed at the forthcoming annual general meeting.

Yours faithfully,

By order of the Board

Zhejiang Cangnan Instrument Group Company Limited

Hong Zuobin

Chairman

Wenzhou, the PRC, 29 March 2019

Corporate Governance Report

I Corporate Governance

The Hong Kong Stock Exchange issued the Corporate Governance Code and Report as currently set out in Appendix 14 to the Listing Rules which sets out the principles and the code provisions which listed issuers are required to apply and comply with. From the Listing Date to the date of this Report, the Company has applied the principles as set out in the Corporate Governance Code and Report that are considered to be relevant to the Company and has complied with the code provisions of the Corporate Governance Code and Report.

The Board hereby presents to the Shareholders the corporate governance report for the Reporting Period and the period from the Listing date to the date of this Report.

II Compliance with the code for securities transactions

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct and rules governing dealings by its Directors and Supervisors in the securities of the Company. Having made specific enquiry to the Directors and Supervisors of the Company, all Directors and Supervisors have confirmed that they have strictly complied with the required standard set out in the Model Code from the Listing Date to the date of this Report. The Company has also set up guidelines in respect of the dealings by its relevant employees (as defined in the Listing Rules) in the Company's securities, in which terms are no less exacting than the Model Code. The Company has not discovered any breach of the guidelines by its relevant employees.

The Board will examine the corporate governance practices and operation of the Company from time to time so as to ensure the compliance with relevant requirements under the Listing Rules and to protect Shareholders' interests.

III The Board

The Board exercises its powers and functions in accordance with the provisions as set out in the Articles of Association. Under the principle of acting in the best interest of the Company and its shareholders, the Board reports its works at the general meetings, implements the resolutions passed thereon and is accountable to the general meetings.

(I) Composition of the Board

During the Reporting Period, the Board consisted of fourteen Directors, including seven executive Directors, two non-executive Directors and five independent non-executive Directors.

The biographical details of the Directors as at the date of this Report are set out on pages 20 to 25 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationship) among members of the Board. The structure of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operation and development of the Group. All Directors are aware of their joint and several responsibilities to the Shareholders.

Corporate Governance Report

Since the listing of the Company, the Board has been in compliance with the requirements of the Listing Rules regarding the appointment of at least three independent non-executive Directors and the qualifications of the five independent non-executive Directors of the Company are in full compliance with the requirements under Rules 3.10(1) and (2) of the Listing Rules. In addition, the Company has received annual confirmations from independent non-executive Directors as to their respective independence in accordance with Rule 3.13 of the Listing Rules. The Company therefore considered all independent non-executive Directors to be in compliance with the independence requirements as set out in the Listing Rules.

The composition of the first session of the Board of the Company during the Reporting Period is set out as follows:

Name	Position	Date of Appointment
Mr. Hong Zuobin (洪作斌)	Chairman, Executive Director	13 June 2017
Mr. Huang Youliang (黃友良)	Executive Director, General Manager	13 June 2017
Mr. Yin Xingjing (殷興景)	Executive Director, Vice General Manager	13 June 2017
Mr. Zhang Shengyi (章聖意)	Executive Director, Chief Engineer	13 June 2017
Ms. Lin Zichan (林姿嬋)	Executive Director, Vice General Manager, Joint Company Secretary	13 June 2017
Mr. Lin Zhongzhu (林中柱)	Executive Director, Vice General Manager	13 June 2017
Mr. Lin Jingdian (林景殿)	Executive Director	13 June 2017
Mr. Ye Xiaosen (葉小森)	Non-executive Director	15 August 2017
Mr. Hou Zukuan (侯祖寬)	Non-executive Director	15 August 2017
Mr. Ng Jack Ho Wan (吳浩雲)	Independent Non-executive Director	21 June 2018
Mr. Wong Hak Kun (王克勤)	Independent Non-executive Director	21 June 2018
Mr. Wang Jingfu (王靖甫)	Independent Non-executive Director	21 June 2018
Mr. Li Jing (李靜)	Independent Non-executive Director	21 June 2018
Mr. Su Zhongdi (蘇中地)	Independent Non-executive Director	21 June 2018

Corporate Governance Report

(II) Board meetings

Pursuant to the Articles of Association, Board meetings comprise regular Board meetings and extraordinary Board meetings. The Board shall hold at least two regular meetings each year, which shall be convened by the Chairman and notified to all the directors and supervisors 10 days prior to the meeting.

Except for the Board's consideration of matters in relation to connected transactions as stipulated by the Articles of Associations, the quorum for a Board meeting is the present of at least half of the total number of the Directors. A Director may attend the Board meeting in person, or appoint another Director in writing as his proxy to attend the Board meeting. The secretary to the Board of the Company is responsible for preparing and keeping the minutes of Board meetings and ensuring that such minutes are available for inspection by any Director.

During the Reporting Period, six meetings were held by the Board. The attendance record of the Directors at the Board meetings is disclosed on page 47 of this Report.

(III) Powers exercised by the Board and the management

The powers and duties of the Board and the management have been clearly defined in the Articles of Association, which aims to provide an adequate check and balance mechanism for good corporate governance and internal control.

The Board is responsible for deciding on the Company's business and investment plans, deciding on the establishment of the Company's internal management structure, formulating the Company's basic administration system, determining other material business and administrative matters of the Company and monitoring the performance of the management.

Led by the General Manager, the management of the Company is responsible to the Board for implementing the resolutions approved by the Board, formulating specific rules and regulations for the Company and administering the Company's day-to-day operation and management.

Corporate Governance Report

(IV) Directors' training

The Company has encouraged all Directors to participate in continuing professional development to develop and refresh their knowledge and skills. During the Reporting Period and up to the date of this Report, all the Directors of the Company attended the special trainings on responsibilities and obligations of directors of companies listed in Hong Kong, responsibilities and obligations of directors of companies listed in Hong Kong in respect of the prospectus and other information disclosure documents delivered by Herbert Smith Freehills, the Hong Kong legal adviser to the Company.

The Company will provide briefings on the latest developments of the Hong Kong Listing Rules and other applicable regulatory requirements to the Directors from time to time, to ensure that the Directors are aware of the latest regulatory development.

(V) Chairman and General Manager

The roles of the Chairman of the Board and General Manager (i.e. executive general manager pursuant to the relevant Listing Rules) of the Company are segregated and held by different persons to ensure their respective independence of responsibilities, accountability and the balance of power and authority between them. During the Reporting Period, Mr. Hong Zuobin acted as the Chairman of the Board (appointed on 13 June 2017); and Mr. Huang Youliang acted as the General Manager (appointed on 13 June 2017). The Chairman and General Manager do not have any relationships (including financial, business, family or other material or connected relationship). Articles of Association clearly defines the division of duties between the Chairman and the General Manager.

Mr. Hong Zuobin, the Chairman of the Board, is responsible for leading the Board in determining the business plans and investment plans, ensuring that the Board is functioning effectively in performing its duties, discussing significant and appropriate matters in a timely manner, ensuring the formulation of good corporate governance practices and procedures by the Company and ensuring that the Board acts in the best interest of the Company and all of its shareholders. Mr. Huang Youliang, the General Manager, is mainly responsible for the Company's operation and administration, organizing the implementation of Board resolutions, implementation of the company's annual business plans and investment proposals, etc.

Corporate Governance Report

(VI) Appointment and Re-election of Directors

Pursuant to the Articles of Association, Directors shall be subject to election at general meetings with a term of office of no more than three years and may be re-elected. The Company has implemented a set of effective procedures for the appointment of new Directors. The nomination committee shall, in accordance with provisions of the relevant laws and regulations and the Articles of Association, take into account the practical situations of the Company, consider the selection criteria, selection procedures and terms of office of the Directors of the Company, and record and submit the resolutions to the Board for approval. All newly nominated directors are subject to election and approval at general meetings.

Each of the executive Directors and non-executive Directors has entered into a service contract with our Company. Currently, all the non-executive Directors (including the independent non-executive Directors) have been appointed for a term of three years and subject to re-election and reappointment.

(VII) Board Diversity Policy

The Company firmly believes that the increasing diversity at the board level is one of the essential elements in supporting the attainment of its strategic objectives and its sustainable development, therefore, the Company has formulated the board diversity policy (“Board Diversity Policy”). While determining the composition of the Board, the Company shall consider the diversity of the Board from various perspectives, including but not limited to gender, age, cultural and educational background, race, professional experiences, skills, knowledge and service tenure, and finally make decisions based on the merits and contributions that the selected candidates can bring to the Board. All nominees proposed by the Board shall comply with the principle of appointment based on merits, and the objective conditions and benefits of diversity of the Board shall be taken into full account while considering candidates.

(VIII) Remuneration of Directors, Supervisors and senior management

The remuneration and assessment committee determines the remuneration plans or packages of Directors and Supervisors according to criteria such as educational background and work experience. Directors’ remuneration is determined by the Board with reference to Directors’ experience, work performance, position and market condition and subject to approval of general meeting.

The remuneration of the senior management is determined by the Board.

Corporate Governance Report

(IX) Corporate governance functions

The Board as a whole is responsible for performing the corporate governance duties. During the Reporting Period and up to the date of this Report, the Board performed the following duties in this regard:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (e) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

IV Board committees

There are three Board committees, namely the nomination committee, Audit Committee and remuneration committee.

(I) Nomination Committee

The Company has established the nomination committee with written terms of reference in compliance with the Listing Rules. The primary responsibilities of the nomination committee are: (I) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (II) to identify individuals suitably qualified to become members of the Board and select or make recommendations to the board on the selection of individuals nominated for directorships; (III) to assess the independence of the independent non-executive Directors; (IV) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman and the general manager. Its terms of reference are available on both of the websites of the Hong Kong Stock Exchange and the Company.

During the Reporting Period, the nomination committee consists of five Directors: Mr. Hong Zuobin (executive Director), Mr. Li Jing (independent non-executive Director), Mr. Su Zhongdi (independent non-executive Director), Mr. Ye Xiaosen (non-executive Director) and Mr. Wang Jingfu (independent non-executive Director). Mr. Hong Zuobin serves as the chairman of the nomination committee.

Corporate Governance Report

The H Shares of the Company have been listed on the Stock Exchange since 4 January 2019. As the Company was not listed at the end of the Reporting Period, the nomination committee held no meetings during the Reporting Period. From the Listing Date to the date of this Report, the nomination committee did not hold any meeting.

The Company adopted the director nomination policy during the Reporting Period. In the assessment of candidates, the Nomination Committee considers the following factors including but not limited to:

- the basic requirements of the Articles of Association of the Company;
- diversity of the Board in various aspects including but not limited to gender, age, culture, education background, and experience of occupation.

The nomination committee shall seek for and obtain fundamental information of candidates, and convene committee meetings to conduct preliminary review the qualifications of the initially proposed candidates. Qualified candidates will be submitted to the Board for consideration and, upon approval by the Board, to the annual general meeting by written proposals.

In order to provide the information of candidates who are nominated by the Board and proposed to the general meeting and to invite the shareholders to nominate candidates, the Company will dispatch a circular to shareholders which sets out the time limit for them to deliver the nomination. The information of candidates will be set forth in the circular to shareholders pursuant to applicable laws, rules and regulations. The nominated person shall not assume that he/she has been recommended by the Board and proposed to the general meeting before the dispatch of the circular to shareholders.

(II) Audit Committee

The Company has established the Audit Committee with written terms of reference in compliance with the Listing Rules. The primary responsibilities of the Audit Committee are: (I) to make recommendations to engage or replace its external auditor, approve the remuneration and terms of employment of the external auditor, address any issues relating to the resignation or dismissal of the external auditor, and monitor whether the external auditor is independent and objective and whether the audit process is effective, prior to the commencement of the audit exercise, discuss with the external auditor the nature and scope of the audit and the relevant reporting responsibilities and formulate and implement policies on the provision of non-audit services by the external auditor; (II) to supervise the Company's internal audit system and its implementation; (III) to coordinate the communication between the internal audit and the external audit functions; (IV) to review the Company's financial information and respective disclosure; (V) to supervise the Company's financial reporting system, risk management and internal control system; and (VI) to perform other duties under the Listing Rules. Its terms of reference are available on both of the websites of the Hong Kong Stock Exchange and the Company.

Corporate Governance Report

During the Reporting Period, the Audit Committee consists of five Directors: Mr. Wong Hak Kun (independent non-executive Director), Mr. Ng Jack Ho Wan (independent non-executive Director), Mr. Su Zhongdi (independent non-executive Director), Mr. Wang Jingfu (independent non-executive Director) and Mr. Hou Zukuan (non-executive Director). Mr. Wong Hak Kun serves as the chairman of the Audit Committee.

The H Shares of the Company have been listed on the Stock Exchange since 4 January 2019. As the Company was not listed at the end of the Reporting Period, the Audit Committee held no meetings during the Reporting Period. From the Listing Date to the date of this Report, the Audit Committee held a total of 2 meetings. All members of the Audit Committee attended the meetings. Details of the meeting are as follows:

On 13 February 2019, the Company held the First Meeting of the Audit Committee of the First Session of the Board of Directors. The meeting heard the auditor's report on the Company's audit plan for the year 2018.

On 25 March 2019, the Company held the Second Meeting of the Audit Committee of the First Session of the Board of Directors. The meeting approved the Resolution Regarding the Annual Report and Results Announcement of the Company for the Year 2018, the Resolution Regarding the Audited Financial Statement of the Company for the Year 2018, the Resolution Regarding the Final Financial Accounts of the Company for the Year 2018, the Resolution Regarding the Financial Budget of the Company for the Year 2019, the Resolution Regarding the Profit Distribution Plan of the Company for the Year 2018, the Resolution Regarding the Effectiveness Assessment and Disclosure of Risk Management and Internal Monitoring System and the Resolution Regarding the Re-appointment of Auditor of the Company for the Year 2019.

(III) Remuneration Committee

The Company has established the remuneration committee with written terms of reference in compliance with the Listing Rules. The primary responsibilities of the remuneration committee are: (I) to make recommendations to the Board on the Company's policy and structure for all directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (II) to review and approve the management's remuneration proposals with reference to the board's corporate goals and objectives; (III) to determine, with delegated responsibility by the Board, or to make recommendations to the Board on the remuneration packages of individual executive directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment); (IV) to make recommendations to the Board on the remuneration of non-executive directors; (V) to consider salaries paid by comparable companies, time commitment and responsibilities and employment terms for other positions of the Group; (VI) to review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; (VII) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and (VIII) to ensure that no director or any of his associates is involved in deciding his own remuneration. Its terms of reference are available on both of the websites of the Hong Kong Stock Exchange and the Company.

Corporate Governance Report

During the Reporting Period, the Remuneration Committee consists of five Directors: Mr. Su Zhongdi (independent non-executive Director), Ms. Lin Zichan (executive Director), Mr. Yin Xingjing (executive Director), Mr. Wong Hak Kun (independent non-executive Director) and Mr. Ng Jack Ho Wan (independent non-executive Director). Mr. Su Zhongdi serves as the chairman of the Remuneration Committee.

The H Shares of the Company have been listed on the Stock Exchange since 4 January 2019. As the Company was not listed at the end of the Reporting Period, the remuneration committee held no meetings during the Reporting Period. From the Listing Date to the date of this Report, the remuneration committee held a total of 1 meeting. All members of the remuneration committee attended the meetings. Details of the meeting are as follows:

On 25 March 2019, the Company held the First Meeting of the Remuneration Committee of the First Session of the Board of Directors. The meeting approved the Resolution Regarding the Remuneration of Directors and Senior Management of the Company for the Year 2019.

V Supervisory Committee

The Supervisory Committee is the supervisory body of the Company. The number and composition of the Supervisory Committee is in compliance with the provisions and requirements of the relevant laws, regulations and the Articles of Association. During the Reporting Period, the Supervisory Committee is made up of three members, including one employee representative Supervisor and two independent Supervisors. The Supervisors of the Company shall seriously discharge their duties, and being responsible to the shareholders, shall protect the interests of the shareholders and the Company through reviewing the Company's financial status and monitoring any acts of non-compliance of the Directors, managers and other senior management of the Company with the laws, administrative regulations or the Articles of Association when performing their duties.

Corporate Governance Report

VI Attendance record of Directors

During the Reporting Period, the attendance of Directors to the meetings of the Board and each committee meeting as well as general meetings is as follows:

Name of Directors	Board	Nomination	Audit	Remuneration	General
	Meetings	Committee	Committee	Committee	
	Attended/	Attended/	Attended/	Attended/	Attended/
	Held	Held ⁶	Held ⁶	Held ⁶	Held
Executive Directors					
Mr. Hong Zuobin	6/6	-	-	-	3/3
Mr. Huang Youliang	6/6	-	-	-	3/3
Mr. Yin Xingjing	6/6	-	-	-	3/3
Mr. Zhang Shengyi	6/6	-	-	-	3/3
Ms. Lin Zichan	6/6	-	-	-	3/3
Mr. Lin Zhongzhu	6/6	-	-	-	3/3
Mr. Lin Jingdian	6/6	-	-	-	3/3
Non-executive Directors					
Mr. Ye Xiaosen	6/6	-	-	-	1/3
Mr. Hou Zukuan	5/6	-	-	-	1/3
Independent Non-executive Directors					
Mr. Ng Jack Ho Wan ¹	2/3	-	-	-	0/3
Mr. Wong Hak Kun ²	2/3	-	-	-	0/3
Mr. Wang Jingfu ³	2/3	-	-	-	0/3
Mr. Li Jing ⁴	2/3	-	-	-	0/3
Mr. Su Zhongdi ⁵	2/3	-	-	-	0/3

Corporate Governance Report

Note:

1. *Mr. Ng Jack Ho Wan was appointed as an independent non-executive Director, as well as a member of the Audit Committee and the Remuneration Committee on 21 June 2018;*
2. *Mr. Wong Hak Kun was appointed as an independent non-executive Director, as well as the chairman of the Audit Committee and a member of the Remuneration Committee on 21 June 2018;*
3. *Mr. Wang Jingfu was appointed as an independent non-executive Director, as well as a member of the Nomination Committee and the Audit Committee on 21 June 2018;*
4. *Mr. Li Jing was appointed as an independent non-executive Director and a member of the Nomination Committee on 21 June 2018; and*
5. *Mr. Su Zhongdi was appointed as an independent non-executive Director, as well as a member of the Nomination Committee and the Audit Committee and the chairman of the Remuneration Committee on 21 June 2018;*
6. *The Company has been listed on the Stock Exchange since 4 January 2019. The Nomination Committee and the Audit Committee and the Remuneration Committee held no meetings during the Reporting Period.*

VII. Auditor and remuneration

PricewaterhouseCoopers was appointed as auditor for the Financial Statements prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2018.

During the Reporting Period, the remuneration payable by the Company to the auditor for the above audit services was RMB3.5 million. During the Reporting Period, the remuneration payable by the Company to the auditor for the non-audit services was RMB0.55 million.

The responsibility of PricewaterhouseCoopers, as the Company's external auditor to the Financial Statements, is set out on pages 61 to 63 of this annual report. The Board concur with the Audit Committee in respect of the matters relating to the selection, appointment, resignation and removal of the external auditor.

Corporate Governance Report

VIII. Directors' responsibility for the Financial Statements

The Board acknowledges its responsibility for preparing the Financial Statements of the Group for the year ended 31 December 2018. The Company's accounts are prepared in accordance with all relevant statutory requirements and appropriate accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the accounts are prepared on a going concern basis. The Board is responsible for presenting a clear and understandable assessment of annual and interim reports, inside information and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. During the Reporting Period, the permitted indemnity provisions of the Company are set out in the Articles of Association and the liability insurances provided by the Company for Directors, Supervisors and senior executives. These insurances will indemnify the insured for any fee arising from its liability or the possible legal proceeding.

IX. Joint company secretaries

Ms. Lin Zichan was appointed as a joint company secretary of the Company on 15 August 2017. Mr. Chan Chun Wai was appointed as another joint company secretary of the Company on 17 September, 2017. Ms. Lin Zichan is the internal main contact person of the Company.

X. Shareholders' rights

(I) Procedures for shareholders to convene an extraordinary general meeting

According to Article 69 of the Articles of Association, the shareholders who individually or jointly hold more than 10% of the shares of the Company shall have the right to propose to the Board of Directors to convene an extraordinary general meeting of shareholders, and shall make such request to the Board of Directors in writing. The Board of Directors shall, in accordance with the provisions of laws, administrative regulations and Articles of Association, submit a written feedback on approval or disapproval of the convening of an extraordinary general meeting of shareholders within 10 days after receiving the request.

Corporate Governance Report

If the Board of Directors agrees to convene an extraordinary general meeting, a notice of the meeting shall be issued within five days after the resolution of the Board of Directors is passed. Changes made to the original request in the notice shall be approved by relevant shareholders.

In case the Board of Directors refuses to convene an extraordinary general meeting, or does not give any response within ten days upon receipt of the request, the shareholders who individually or jointly hold more than 10% of the shares of the Company at such proposed meeting shall have the right to propose to the Supervisory Committee for convening of such meeting, and shall make such request to the Supervisory Committee in writing.

If the Supervisory Committee agrees to convene an extraordinary general meeting, a notice of the meeting shall be issued within five days upon receipt of the request. Changes made to the original request in the notice shall be approved by relevant shareholders.

If the Supervisory Committee fails to give the notice of such a meeting within the specified time limit, it shall be deemed to have failed to convene or preside over the meeting, in which case, the shareholders who either individually or jointly hold more than 10% of the Company's shares for more than ninety consecutive days may convene and preside over the meeting by themselves.

Pursuant to Article 71 of the Articles of Association, when the Supervisory Committee or the shareholders decide to convene a general meeting of shareholders by themselves, they must notify the Board of Directors in writing and at the same time file the notice with the relevant securities regulatory agency and the corresponding stock exchange where the Company is domiciled in accordance with applicable regulations. The Board of Directors and the Secretary to the Board of Directors shall provide cooperation. The Board of Directors shall provide the register of shareholders as at the date of record. All reasonable expenses incurred by convening and holding the aforesaid meeting shall be borne by the Company. Such expenses shall be deducted from the amounts due by the Company to the director(s) who have defaulted their duties.

(II) Procedures for directing shareholders' enquiries to the Board

Shareholders of the Company have the right to oversee the Company's business operations, and to put forward proposals and raise enquiries and to obtain relevant information in accordance with the provisions of the Articles of Association. In addition, except for those matters in relation to business secrets of the Company which cannot be made public at the shareholders' general meeting, the Board of Directors and the Supervisory Committee shall respond to or address the enquiries and suggestions of the shareholders.

Corporate Governance Report

Shareholders requesting inspection of the relevant information or provision of the materials shall provide to the Company written documents evidencing the class and number of shares of the Company they hold. Upon verification of the shareholder's identity, the Company shall provide such information at the shareholder's request.

Contact details are as follows:

Address: Industrial Demonstrative Park, Lingxi Town, Cangnan County, Zhejiang province, PRC
Fax: +86-577-64839306
Email: investor@zjcnyb.com

(III) Procedures for putting forward proposals at a general meeting

In overseeing and monitoring the business operation of the Company, the shareholders of the Company have the right to put forward proposals and raise enquiries. Shareholders holding 3% or more of the Company's voting shares have the right to put up ad hoc proposals in writing to the Company, and the Company shall include such ad hoc proposals into the agenda for such general meeting if they are within the terms of reference of general meeting.

The ad hoc proposals raised by shareholders shall satisfy the following criteria:

1. Free of non-compliance with the provisions of laws and regulations, and fall within the business scope of the Company and the terms of reference of the general meeting;
2. With definite topics to discuss and specific matters to resolve; and
3. Submitted or served to the convener in writing ten days prior to the date of the shareholders' general meeting.

XI. Communications with shareholders

The Company highly appreciated shareholders' opinions and advice, actively organised various investor relations activities to maintain connections with shareholders and made timely response to the reasonable requests of shareholders. The Company publishes its announcements, financial information and other relevant information on the website at www.zjcnyb.com, as a channel to promote communication. Shareholders are welcomed to make enquiries directly to the Company at its principal place of business in Hong Kong or the head office in the PRC. The Company will address all enquiries in a timely and appropriate manner.

Corporate Governance Report

The Board welcomes shareholders' views and encourages them to attend the annual general meeting to communicate any concerns they might have with the Board or the management. Chairman of the Board and the chairmen of all committees usually attend the annual general meeting and other general meetings to address shareholders' queries.

During the Reporting Period, the Company convened three general meetings, the details of which are as follows:

On 2 February 2018, the Company held the First 2018 Extraordinary General Meeting of Zhejiang Cangnan Instrument Group Company Limited. The meeting reviewed and approved the Resolution Regarding the Amendment to Articles of Association of Zhejiang Cangnan Instrument Group Company Limited and the Resolution Regarding the Confirmation of Appointment of Ye Xiaosen and Hou Zukuan as Non-executive Directors of the Company and Exercise of the Powers of Directors.

On 18 May 2018, the Company held the 2017 Annual General Meeting of Zhejiang Cangnan Instrument Group Company Limited. The meeting reviewed and approved the Resolution Regarding the 2017 Board Report and the 2018 Board's Key Works of Zhejiang Cangnan Instrument Group Company Limited, the Resolution Regarding the 2017 Final Financial Account of Zhejiang Cangnan Instrument Group Company Limited, the Resolution Regarding the 2017 Distribution of Profit of Zhejiang Cangnan Instrument Group Company Limited and the Resolution Regarding the 2017 Supervisory Committee Report of Zhejiang Cangnan Instrument Group Company Limited.

On 17 June 2018, the Company held the Second 2018 Extraordinary General Meeting of Zhejiang Cangnan Instrument Group Company Limited. The meeting reviewed and approved the Resolution Regarding the Election of Directors of Zhejiang Cangnan Instrument Group Company Limited and the Resolution Regarding the Election of the Members of Special Committee of the Board of Zhejiang Cangnan Instrument Group Company Limited.

Please refer to page 47 of this report for the attendance of each of the Directors at the general meeting. Arrangement will be made for the Board to address shareholders' queries at the 2018 annual general meeting of the Company.

Corporate Governance Report

XII. Internal control and risk management

The Company has established complete and stable risk management and internal control systems, and has formulated a series of rules to ensure that the Company's risk management and internal control work are institutionalized and systematic. The Company has several functional departments responsible for works including financial operation and monitoring, risk management and internal audit.

The Company and its subsidiaries carry out risk assessment at the beginning of each year, set risk prevention and control objectives, revise risk assessment standards, collect risk management information, identify key risk sources, assess risk levels, develop risk prevention strategies and improve measures for significant risks, and carry out by the functional departments. The Company focuses on the prior control of major risks, and actively carried out comprehensive risk management. To strengthen internal control, the Company establishes and improves the normalization mechanism of risk assessment, and establishes special risk assessment system for important matters such as significant domestic and foreign investment, major capital operation and management matters and large amount of capital use. The Company has formulated relevant system to stipulate the duties and obligations of various departments in the process of internal information processing, the procedures for the disclosure of periodic reports and interim reports, and the confidential measures and corresponding responsibilities.

The Board is responsible for maintaining an adequate risk management and internal control systems to safeguard Shareholders' investments and Company's assets and with the support of the Audit Committee, reviewing the effectiveness of such systems on an annual basis. The risk management and internal control systems are designed to identify, assess and report on potential risks and implement control measures, to mitigate rather than to completely eliminate the risks associated with achieving our business objectives. These systems provide a reasonable but not absolute assurance against material misstatement or loss.

During the Reporting Period, the Board, through the Audit Committee, reviewed the effectiveness of the risk management and internal control systems of the Group, including financial control, operation control, compliance control, and risk management systems, and was not aware of any material problems or any material mistakes. The Board believes that the current monitoring systems of the Company are effective and that the qualifications and experience of the staff, performing accounting and financial reporting functions and the training programmes of the Company as well as the experiences and resources for setting the budget of the Company are adequate.

Corporate Governance Report

XIII. Investor relations

As a channel to promote effective communication, the Company set up a website www.zjcnyb.com to publish the Company's announcements, financial information and other relevant information. Shareholders are welcomed to make enquiries directly to the Company at its principal place of business in Hong Kong. The Company will address to all enquiries in a timely and appropriate manner. The main contact person of the Company is Ms. Lin Zichan (email: investor@zjcnyb.com or telephone: +86-577-64837701/+86-577-64839376)

In 2018, the Company focused more on the needs of investors and analysts, paid close attention to the important policies of the PRC gas measurement instrument industry, made timely disclosure of information and continuously improved the timeliness and completeness of information disclosure so that the public could obtain complete business information in a timely manner.

XIV. Articles of Association

The Company has amended certain terms of the Articles of Association in compliance with the relevant laws and regulations, administrative measures and the Hong Kong Listing Rules in response to the listing of H shares on the Hong Kong Stock Exchange. The amended Articles of Association shall take effect from the date of listing of the Company. Investors can view the amended Articles of Association on the Company's website (www.zjcnyb.com) and the designated website of the Hong Kong Stock Exchange (www.hkexnews.hk).

Report of the Supervisory Committee

In 2018, the Supervisory Committee of Zhejiang Cangnan Instrument Group Company Limited (hereinafter referred to as the “Company”) fulfilled its duties in compliance with laws and regulations, earnestly performed the duties of the Supervisory Committee and independently exercised the powers of the Supervisory Committee in strict accordance with the provisions and requirements of the Company Law, the Articles of Association and the Rules of Procedures for the Supervisory Committee. The members of the Supervisory Committee have participated in or attended all the general meetings and Board meetings during the Reporting Period, effectively supervised the Company’s business activities, financial status, major decisions, procedures for convening the general meetings, and performance of duties by Directors and senior management and well protected the shareholders’ rights, the Company’s interests and the legitimate rights and interests of employees to promote the standardized operation of the Company. The main works of 2018 are now reported as follows:

I. Work of the Supervisory Committee

1. On 23 April 2018, the Company held the third meeting of the first session of the Supervisory Committee. Three Supervisors were required to attend the meeting, and three Supervisors attended the meeting.

The Proposal on the 2017 Work Report of the Supervisory Committee of Zhejiang Cangnan Instrument Group Company Limited was considered and approved at the meeting. Supervisors who attended the meeting were Ms. Lin Zichan, Secretary of the Board of Directors, Mr. Yin Xingjing, Director, and Mr. Lin Jingdian, Director.

2. In 2018, the meetings of the Supervisory Committee of the Company were held in accordance with relevant provisions of the Company Law of the PRC and the Articles of Association in a legal and effective manner.
3. In 2018, under the strong support of all shareholders of the Company, the members of the Supervisory Committee attended all the Board meetings and general meetings, participated in the discussion of the Company’s major decisions, and supervised the resolutions considered at the Board meetings and general meetings as well as the procedures for convening the meetings according to the law.
4. In 2018, the Supervisory Committee paid close attention to the operation and management of the Company, carefully supervised the Company’s financial position and capital utilization, and inspected the duty performance of the Board of Directors and the management team of the Company to ensure the standardization of the Company’s operation and management practices.

Report of the Supervisory Committee

II. Inspection opinions of the Supervisory Committee

During the Reporting Period, the Supervisory Committee of the Company earnestly performed the supervisory function of the Supervisory Committee, and comprehensively supervised the standardized operation, financial status and fund utilization, internal control, etc. of the Company in accordance with the relevant provisions of the Company Law, the Listing Rules of Hong Kong Stock Exchange and the Articles of Association, in the best interests of the Company and the interests of the Shareholders. After careful consideration, the Supervisory Committee agreed on the following matters:

1. The operation of the Company according to law.

In 2018, the Supervisory Committee participated in or attended the Board meetings and general meetings of the Company, and comprehensively supervised and inspected the convening procedures of and the resolutions considered at the Board meetings and general meetings, the implementation of the resolutions of the general meetings by the Board and the performance of duties of Directors and senior management. The Supervisory Committee believed that the convening procedures and decision-making procedures of the Board meetings and general meetings of the Company strictly followed the relevant provisions of the Company Law and the Articles of Association. Members of the Board of Directors and senior management of the Company performed their duties faithfully and diligently in accordance with the relevant national laws and regulations and the relevant provisions of the Articles of Association. During the Reporting Period, no Director or senior management member of the Company was found to have violated laws, regulations and the Articles of Association or committed any act detrimental to the interests of the Company and shareholders when performing their duties and exercising their powers.

2. Inspection of financial status of the Company.

In 2018, the Supervisory Committee inspected and supervised the financial operations of the Company by listening to the report of the chief financial officer of the Company, considering the annual report of the Company and reviewing the audit report issued by the auditors. The Supervisory Committee believed that the Company had perfect financial system, sound management system and reasonable withdrawals of various kinds. The Company's financial statements was audited by PricewaterhouseCoopers, and a standard unqualified audit report was issued, considering that the Company's financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and reflect the Company's financial position as at 31 December 2018 and the operating results and cash flow for 2018.

Report of the Supervisory Committee

In 2018, facing the declining demand of the whole natural gas market, the Company, under the correct leadership of the Board of Directors and the joint efforts of all the cadres and employees, was able to grasp the market opportunities, overcome difficulties and complete the annual tasks. The sales revenue reached RMB630 million, representing a year-on-year decrease of 5.9%; the profits reached RMB221 million, representing a year-on-year decrease of 8.4%.

III. Work plan of the Supervisory Committee for 2019:

In 2019, the Supervisory Committee of the Company will continue to fulfill its duties and supervise the standardized operation of the Company based on the principle of being responsible to the general meeting of shareholders and the Company's strategic objectives and in strict accordance with the responsibilities of the Supervisory Committee required by the national laws and regulations and the Articles of Association.

1. Continue to control the Company's production and operation, asset management status and production costs. Master the Company's implementation of relevant laws and regulations and compliance with the Articles of Association and the resolutions of shareholders' meeting, and grasp the Company's operating conditions.
2. Inspect the performance of duties of the Company's Directors and senior management on a regular and irregular basis. Urge the Directors and senior management to perform their duties conscientiously, master the business behaviors of the persons in charge of the enterprise, and evaluate the performance of their business management.
3. Strengthen the self-construction of the Supervisory Committee, further improve the professional quality of the members of the Supervisory Committee and strengthen the study of laws, administrative regulations, financial accounting knowledge to continuously improve the quality of supervision and inspection.
4. Although the annual tasks have been well completed in 2018, the "two controls" indicators are still high, and the enterprise must have new measures and effects on inventories and accounts receivable in key markets.

In 2019, with the continuous expansion of the Company's business, members of the Supervisory Committee of the Company should continuously improve their capabilities, enhance their sense of responsibility, further improve the corporate governance structure according to the requirements of relevant laws and regulations and the Articles of Association, enhance self-discipline consciousness and integrity awareness, strengthen supervision and earnestly take responsibility for protecting the rights and interests of shareholders. We will do our utmost to work together with the Board of Directors and all shareholders to promote the standardized operation of the Company and realize the sustainable and healthy development of the Company.

Huang Xijun

Chairman of the Supervisory Committee

Independent Auditor's Report

TO THE SHAREHOLDERS OF ZHEJIANG CANGNAN INSTRUMENT GROUP COMPANY LIMITED

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

Opinion

What we have audited

The consolidated financial statements of Zhejiang Cangnan Instrument Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 64 to 138, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent Auditor's Report

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to loss allowance of trade receivables.

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Loss allowance of trade receivables</p> <p>Refer to Note 2.10.3, Note 2.13, Note 4(b) and Note 18 to the consolidated financial statements.</p> <p>As at 31 December 2018, the net carrying amount of trade receivables of the Group was RMB555.6 million against which accumulated loss allowance of RMB51.3 million was recorded. For the year ended 31 December 2018, net impairment losses on financial assets related to impairment loss of trade receivables was RMB8.7 million.</p> <p>The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.</p> <p>The loss allowance of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and uses historical data to calculate the historical loss rates, based on the Group's historical credit loss experience, with an adjustment to reflect existing market conditions as well as forward looking information. To measure the expected credit losses, trade receivables have been grouped by considering shared credit risk characteristics and the days past due.</p>	<p>We understood, evaluated and tested management's key controls over the Group's assessment in relation to the recoverability of trade receivables balance and the loss allowance of trade receivables on a sample basis, including periodic review of aging, periodic review of historical loss rates and approval of provisions made.</p> <p>We compared the historical data, including sales and bad debts, on a sample basis, used in the calculation of historical loss rates of different groups of trade receivables to actual sales and bad debts losses in a defined period.</p> <p>We assessed management's assessment of current market conditions and forward-looking information by comparing the data used by management against publicly available information and industry information.</p> <p>We checked management's aging analysis of trade receivable balances as at 31 December 2018, on a sample basis, to supporting documents including sales invoices and other supporting evidence.</p> <p>We checked the mathematical accuracy of management's calculation for loss allowance of trade receivables.</p>

Independent Auditor's Report

Key Audit Matters (Continued)

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
<p>Loss allowance of trade receivables (Continued)</p> <p>We focused on this area due to its significance to the consolidated financial statements and significant management's estimates and judgements involved in the assessment of loss allowance of trade receivables.</p>	<p>Based on the above, we found that management's estimates and judgements involved in the assessment of loss allowance on trade receivables were supported by available evidence.</p>

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditor's Report

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements (Continued)

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yeung Sheung Yuen, Shirley.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Note	Year ended 31 December	
		2018 RMB'000	2017 RMB'000
Revenue	5	630,323	669,813
Cost of sales	8	(169,019)	(184,276)
Gross profit		461,304	485,537
Selling and distribution expenses	8	(112,856)	(108,345)
Administrative expenses	8	(54,248)	(53,086)
Net impairment losses on financial assets	8	(8,651)	(8,533)
Research and development expenses	8	(41,472)	(34,900)
Other income	6	16,746	20,601
Other losses – net	7	(2,310)	(15,054)
Operating profit		258,513	286,220
Finance income	10	1,893	1,541
Finance expenses	10	(4,203)	(5,831)
Finance expenses – net		(2,310)	(4,290)
Profit before income tax		256,203	281,930
Income tax expenses	11	(34,788)	(40,247)
Profit for the year		221,415	241,683
Attributable to:			
Equity holders of the Company		220,192	239,352
Non-controlling interests		1,223	2,331
		221,415	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	4.24	4.61

The notes on page 70 to 138 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2018

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Profit for the year	221,415	241,683
Other comprehensive income:		
Item that have been reclassified or may be subsequently reclassified to profit or loss:		
Currency translation difference	1,201	(587)
Total comprehensive income for the year	222,616	241,096
Attributable to:		
Equity holders of the Company	221,393	238,765
Non-controlling interests	1,223	2,331
	222,616	241,096

The notes on page 70 to 138 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2018

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
Assets			
Non-current assets			
Land use rights	14	6,094	6,290
Property, plant and equipment	15	63,978	66,697
Intangible assets	16	155	420
Deferred income tax assets	28	26,022	25,762
Financial assets at fair value through other comprehensive income		100	100
Restricted cash	20	24,047	33,775
		120,396	133,044
Current assets			
Trade and other receivables and prepayments	18	643,741	569,818
Inventories	19	98,937	78,243
Restricted cash	20	27,614	9,417
Cash and cash equivalents	21	260,026	157,056
		1,030,318	814,534
Assets classified as held for sale	32	–	10,020
		1,030,318	824,554
Total assets		1,150,714	957,598
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital	22	51,890	51,890
Other reserves	23	339,676	338,475
Retained earnings	24	380,636	201,956
		772,202	592,321
Non-controlling interests		13,656	12,433
Total equity		785,858	604,754

Consolidated Balance Sheet (Continued)

As at 31 December 2018

	Note	As at 31 December	
		2018 RMB'000	2017 RMB'000
Liabilities			
Non-current liabilities			
Deferred income	27	485	665
Provisions for other liabilities and charges	29	—	17,523
		485	18,188
Current liabilities			
Trade and other payables	25	152,020	151,411
Current income tax liabilities		47,850	46,071
Borrowings	26	69,650	59,900
Deferred income	27	180	180
Warranties provision	29	9,452	8,398
Provisions for other liabilities and charges	29	85,219	68,587
		364,371	334,547
Liabilities directly associated with assets classified as held for sale	32	—	109
		364,371	334,656
Total liabilities		364,856	352,844
Total equity and liabilities		1,150,714	957,598

The notes on page 70 to 138 are an integral part of these consolidated financial statements.

The financial statements on pages 64 to 69 were approved by the Board of Directors on 29 March 2019 and were signed on its behalf:

Hong Zuobin

Director

Huang Youliang

Director

Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the Company					Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	
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 (Note 30)	-	-	(36,323)	(36,323)	-	(36,323)
Dividends to non-controlling interests	-	-	-	-	(562)	(562)
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
Balance at 1 January 2018	51,890	338,475	201,956	592,321	12,433	604,754
Comprehensive income						
Profit for the year	-	-	220,192	220,192	1,223	221,415
Other comprehensive income						
Currency translation differences	-	1,201	-	1,201	-	1,201
Total comprehensive income	-	1,201	220,192	221,393	1,223	222,616
Transactions with owners						
Dividends declared (Note 30)	-	-	(41,512)	(41,512)	-	(41,512)
Total transactions with owners, recognized directly in equity	-	-	(41,512)	(41,512)	-	(41,512)
Balance at 31 December 2018	51,890	339,676	380,636	772,202	13,656	785,858

The notes on page 70 to 138 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	Year ended 31 December	
		2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	31(a)	200,919	135,551
Interest received		856	503
Income tax paid		(33,269)	(18,844)
Net cash generated from operating activities		168,506	117,210
Cash flows from investing activities			
Purchases of property, plant and equipment		(8,979)	(13,160)
Proceeds from disposals of property, plant and equipment	31(b)	679	59
Proceeds from disposal of a subsidiary, net of cash disposed	32	589	–
Net cash used in investing activities		(7,711)	(13,101)
Cash flows from financing activities			
Proceeds from short-term borrowings		84,450	59,900
Repayment of short-term borrowings		(74,700)	(78,100)
Interest paid		(3,079)	(3,560)
Payments in relation to financial guarantees	29	(2,000)	(16,200)
Dividends paid to the Company's equity holders		(41,512)	(36,323)
Dividends paid to non-controlling interests		–	(562)
Listing expenses paid		(21,487)	(9,312)
Net cash used in financing activities		(58,328)	(84,157)
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		157,390	138,059
Exchange differences on translation of cash and cash equivalents		169	(621)
Cash and cash equivalents at end of year	31(d)	260,026	157,390

The notes on page 70 to 138 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

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 (浙江蒼南儀錶集團有限公司) 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 (浙江蒼南儀錶集團股份有限公司).

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 4 January 2019. As of the date of this report, the Company has issued 17,901,167 H Shares at an offer price of HK\$15.80 per share. As of the date of this report, the registered share capital of the Company is RMB69,791,167.

The Company does not have any controlling shareholders.

The Company and its subsidiaries (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.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied throughout all the years presented, unless otherwise stated.

2.1 Basis of preparation

(i) Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and disclosure requirement of the Hong Kong Companies Ordinance Cap. 622. Specifically, the Group has consistently adopted IFRS 9 and IFRS 15 for the year ended 31 December 2018 and 2017.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(ii) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following:

- financial assets at fair value through other comprehensive income – measured at fair value;
- assets held for sale – measured at lower of carrying amount and fair value less cost to sell.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 31 December 2018 and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

		Effective for annual periods beginning on or after
IFRS 16 (a)	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 23	Uncertainty over Income Tax Treatments	1 January 2019
IFRS 9 (Amendment)	Financial instruments on prepayment features with negative compensation	1 January 2019
IFRS 17	Insurance contracts	1 January 2021
IAS 19 (Amendment)	Employee benefits on plan amendment, curtailment or settlement	1 January 2019
IAS 28 (Amendment)	Long term interests in associates and joint ventures	1 January 2019
Annual improvements	2015 – 2017 cycle	1 January 2019
IFRS 3 (Amendment)	Definition of a Business	1 January 2020
IAS 1 and IAS 8 (Amendments)	Definition of Material	1 January 2020
Conceptual Framework for financial report 2018		1 January 2020

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 consolidated financial statements.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

(a) IFRS 16 Leases

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 2.27, is to record the rental expenses in the Group's consolidated statement of profit or loss. As at 31 December 2018, the Group has aggregate minimum lease payments, which are not reflected in the consolidated balance sheet, under non-cancellable operating lease of RMB1,424,000 as set out in Note 33.

IFRS 16 provides new provisions for the accounting treatment of leases which no longer allows lessees to recognize leases outside of the balance sheet. Instead, all non-current leases must be recognized 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 statement of profit or loss, as a result, the annual rental and amortization 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. Based on management's preliminary assessment, the adoption of IFRS 16 will not have a 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 unrealized 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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.2 Subsidiaries (Continued)

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'). These consolidated financial statements are 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 recognized in the consolidated statement of profit or loss.

Foreign exchange gains and losses are presented in the consolidated statement of profit or loss within 'Other losses – net'.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.4 Foreign currency translation (Continued)

(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 recognized 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 amortized 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 recognized 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 derecognized. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.6 Property, plant and equipment (Continued)

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 recognized within 'Other losses – net' in the consolidated statement 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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

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 amortized over their estimated useful lives (5 years).

2.9 Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

2.10.2 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

(a) Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in "Other losses – net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

(b) Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.10 Financial assets (Continued)

2.10.3 Impairment

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

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 recognized amounts and there is an intention to settle on a net basis or realize 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 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.

2.13 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. In connection with the adoption of IFRS 15, the Group adopts the practical expedient to consider whether the Group's trade receivables have significant financing components.

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowances. See Note 2.10.2 for further information about the Group's accounting for trade receivables and Note 2.10.3 for a description of the Group's impairment policies.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.14 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.

2.15 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.

2.16 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 recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.17 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized 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 amortized 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 recognized 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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.18 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 recognized in the consolidated statement of profit or loss in the period in which they are incurred.

Borrowing costs include interest expense and finance charges.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the consolidated statement of profit or loss, except to the extent that it relates to items recognized in OCI or directly in equity. In this case, the tax is also recognized 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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.19 Current and deferred income tax (Continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, 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 recognized 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 realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(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.

2.20 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 recognized as employee benefits expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.20 Employee benefits (Continued)

(b) Employee leave entitlements

Employee entitlements to annual leave are recognized 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 recognized until the time of leave.

2.21 Provisions

Provisions are recognized 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 recognized 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 recognized 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 recognized as interest expense.

2.22 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 recognized.

Grants from the government are recognized 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 recognized as other income in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.22 Government grants (Continued)

Government grants relating to assets are included in non-current liabilities as deferred income and are credited to the consolidated statement of profit or loss on a straight-line basis over the expected useful lives of the related asset.

2.23 Revenue recognition

(a) Sales of products

The Group sells industrial, commercial and residential gas flowmeters products and nuclear-related products to its customers. In addition to the delivery of the Group's products to customers' premises, the Group is also responsible for the installation of the products at customers' premises. As the Group's products cannot function without installation and the installation cannot be completed by the customers or other entities, the Group's promise to install the products is highly interrelated with the Group's promise to deliver the products. Therefore, the Group recognized the promise to deliver and install the products as one single performance obligation.

The Group also provides standard warranty on its products. The warranties cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, warranties are not considered to be separate performance obligations and the Group accounts for warranties in accordance with IAS 37. Customers of the Group may request the Group to provide maintenance services when the products are out of the warranty period. The Group negotiates the standalone selling price and charges customers each time when a maintenance service is provided out of the warranty period. The maintenance service is accounted for as a separate contract and the revenue recognition of which is discussed in (b) below.

Revenue from the sales and distribution of products is recognized when control of the products has transferred, being at the point the products are delivered to the customer's premise, installation has been completed and the customer has accepted the products.

Revenue from these sales is recognized based on the price specified in the contract, net of discounts, returns and value added taxes.

The Group sells a small portion of its products through sales agents to customers. For the revenue related to the sales through agents, the Group recognizes revenue at the estimated ultimate sales prices to the end customers.

A receivable is recognized when the products are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.23 Revenue recognition (Continued)

(b) Sales of services

The Group also provides maintenance services to customers. Revenue is recognized in the accounting period in which the services are rendered.

2.24 Interest income

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

2.25 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognized 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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.25 Research and development (Continued)

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortized from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years.

2.26 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 on behalf of third-party companies to secure loans.

Financial guarantees are initially recognized 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 recognized. Subsequent to initial recognition, the Group's liability under such financial guarantee contracts is measured at the higher of

- the amount determined in accordance with the expected credit loss model under IFRS 9 and
- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of IFRS 15.

The loss allowance for financial guarantee contracts is recognized as a provision.

2.27 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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

2 Summary of significant accounting policies (Continued)

2.28 Dividend distribution

Dividend distribution to the Company's shareholder is recognized 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.

2.29 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 recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized 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 recognized. A gain or loss not previously recognized by the date of the sale of the non-current asset (or disposal group) is recognized at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortized 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 recognized.

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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(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. The Group's trade and other receivables and cash and cash equivalents as at 31 December 2018 included foreign currencies denominated in either Euro ("EUR"), United States Dollars ("US\$") or Hong Kong Dollars("HK\$"), which are disclosed in Note 18 and 21.

As at 31 December 2018, 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 20 and 21), 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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(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. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. See Note 18 for further information about the Group's credit risk analysis for trade receivables.

As of 31 December 2018, other receivables of RMB95,000 are in stage 3 under IFRS 9 as there is objective evidence of impairment for these receivables and therefore loss allowance is recognized based on lifetime expected credit loss (Note 18). Except for these stage 3 other receivables, other receivables have low risk of default and the counterparty has strong capacity to meet its contractual cash flow obligations in the near term, the Group considered them to have low credit risk, and the loss allowance is limited to 12 months expected losses.

The Company provided financial guarantees to third parties during the year ended 31 December 2018. As disclosed in Note 29, expected credit loss has been recognized for certain financial guarantees provided by 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 in future.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

3 Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(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 RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Total RMB'000
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 financial guarantee contracts	56,298	18,537	–	74,835
	213,149	18,537	–	231,686
At 31 December 2018				
Borrowings	72,003	–	–	72,003
Interest payables for borrowings	90	–	–	90
Trade and other payables	105,834	–	–	105,834
Provisions for financial guarantee contracts	72,835	–	–	72,835
	250,762	–	–	250,762

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(All amounts in Renminbi thousands unless otherwise stated)

3 Financial risk management (Continued)

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 2018 were as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Total borrowings (Note 26)	69,650	59,900
Less: cash and cash equivalents (Note 21)	(260,026)	(157,056)
Net cash	(190,376)	(97,156)
Total equity attributable to equity holders of the Company	772,202	592,321
Total capital	581,826	495,165
Gearing ratio	N/A	N/A

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

3 Financial risk management (Continued)

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 2018, except for financial assets at fair value through other comprehensive income, 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) 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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

4 Critical accounting estimates and judgments (Continued)

(a) Current and deferred income taxes (Continued)

Deferred income tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. 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.

The Company and certain of its subsidiaries are entitled to qualification that allow them to enjoy preferential income tax rates. The qualification has a valid period and requires renewal before it is expired. Management estimates whether the qualification can be successfully renewed when recognizing income taxes. Where the actual outcome is different from the original estimate, such differences will impact the recognition of current and deferred income taxes in the periods in which such estimate is changed.

(b) Impairment of trade and other receivables

The loss allowance for financial assets disclosed in Note 18 is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are set out in Note 18.

The carrying amounts of the Group's trade and other receivables are disclosed in Note 18.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

5 Revenue

Revenue by product categories are analysed as below:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Industrial and commercial gas flowmeter products	561,982	597,910
Residential gas meter products	49,532	59,466
Nuclear-related products	15,642	10,276
Maintenance services	3,167	2,161
	630,323	669,813

Revenue by geographical areas are analysed as below:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
The PRC	627,780	664,062
Other countries	2,543	5,751
	630,323	669,813

Customers contributing more than 10% of the Group's total revenue for the year ended 31 December 2018 are as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Customer 1	11%	11%

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

6 Other income

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Government grants	16,566	20,421
Amortization of deferred income related to government grants (a)	180	180
	16,746	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 statement 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	
	2018 RMB'000	2017 RMB'000
Losses from financial guarantees provided to third parties (Note 29)	–	2,587
Litigation losses (Note 29)	–	12,503
Donation	890	761
(Gains)/losses on disposals of property, plant and equipment (Note 31)	(18)	152
Foreign exchange losses/(gains) – net	43	(37)
Loss on disposal of a subsidiary (Note 32)	1,122	–
Others	273	(912)
	2,310	15,054

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

8 Expenses by nature

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Changes in inventories of finished goods and work in progress	(12,982)	10,505
Raw materials and consumables used	149,249	141,355
Employee benefits expense (Note 9)	86,814	91,157
Sales service fee	41,132	32,740
Travel and office expenses	20,091	18,933
Depreciation and amortization (Note 14, 15 and 16)	11,498	10,134
Net impairment losses on financial assets	8,651	8,533
Utilities	3,849	3,806
Commission	7,926	9,073
Warranties provision (Note 29)	8,586	9,377
Transportation expenses	6,283	7,060
Costs for the moulds used in research and development and the design of new products	7,353	4,790
Promotion costs	6,256	5,163
Professional service fee	2,910	2,005
Real estate tax, stamp duty and other taxes	845	1,128
Auditor's remuneration		
–Audit service	154	69
Other expenses(*)	37,631	33,312
	386,246	389,140

* Other expenses mainly consist of repair and maintenance expenses, packaging expenses, outsourced production costs, insurance fees and other miscellaneous expenses.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

9 Employee benefits expense

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Salaries, wages and bonuses	70,651	75,823
Pension	4,212	2,414
Housing fund, medical insurance and other social insurance	11,951	12,920
Total employee benefits expense	86,814	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 five directors during the year ended 31 December 2018 (year ended 31 December 2017: four) whose emoluments are reflected in the analysis shown in Note 38. The emoluments paid to the remaining individual during the year ended 31 December 2018 were as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Wages, salaries and bonuses	–	857
Pension, housing fund, medical insurance and other social insurance	–	13
	–	870

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

9 Employee benefits expense (Continued)

(b) Five highest paid individuals (Continued)

The number of highest paid non-director individuals, whose remuneration for the year ended 31 December 2018 fell within the following bands:

	Year ended 31 December	
	2018	2017
Emolument bands (in HK\$)		
HK\$1,000,000 to HK\$2,000,000	–	1

During the year ended 31 December 2018, 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 (2017: Nil).

10 Finance expenses – net

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Finance expenses:		
– Interest expense	3,506	3,563
– Provisions: unwinding of discounts (Note 29)	697	2,268
Finance income:		
– Interest income	(1,893)	(1,541)
Finance expenses – net	2,310	4,290

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

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 and its subsidiaries can enjoy as a result of their qualification as a High and New Technology Enterprise (“HNTE”) until their expiration (the Company: until 2020, Zhejiang Dongxing Software Development Limited: from 2016 to 2018, Dongxing Energy Technology Limited and Dongxing Intelligence Instrument Limited: from 2018 to 2020).

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 to 2017.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax	35,048	43,347
Deferred income tax (Note 28)	(260)	(3,100)
Total income tax expenses	34,788	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 year ended 31 December 2018 (2017: 25%) 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 year ended 31 December 2018 (2017: 20%).

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

11 Income tax expenses (Continued)

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	
	2018 RMB'000	2017 RMB'000
Profit before income tax	256,203	281,930
Applicable tax rates	25%	25%
Tax calculated at applicable tax rate	64,051	70,482
Tax effects of:		
Income not subject to tax	(133)	(374)
Expenses not deductible for tax purposes	2,288	2,148
Tax losses and unrealized profits for which no deferred income tax assets were recognized	—	566
Additional deduction of research and development expenses (a)	(8,785)	(3,615)
Tax effect from HNTE qualification	(22,633)	(17,361)
Tax effect from SE qualification	—	(11,740)
Effect of different taxation rates	—	141
Income tax expenses	34,788	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% in 2017 or 175% in 2018 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 are entitled to claim the Super Deduction in ascertaining the taxable profits for the year ended 31 December 2018 (2017: same).

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(All amounts in Renminbi thousands unless otherwise stated)

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 2017.

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 year ended 31 December 2018. 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 year ended 31 December 2018 (2017: same) is the same as the basic earnings per share as there is no dilutive potential share during the year ended 31 December 2018.

	Year ended 31 December	
	2018	2017
Profit attributable to the equity holders of the Company (RMB'000)	220,192	239,352
Weighted average number of shares in issue or deemed to be in issue (in thousands)	51,890	51,890
Basic and diluted earnings per share (RMB)	4.24	4.61

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

13 Net foreign exchange gains

The exchange differences credited to the consolidated statement of profit or loss are included as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Other (losses)/gains – net	(43)	37

14 Land use rights

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
At beginning of year	6,290	6,486
Amortization (Note 8)	(196)	(196)
At end of year	6,094	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 2018, certain land use rights of the Group were pledged to secure short-term bank borrowings as disclosed in Note 26.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

15 Property, plant and equipment

	Plant RMB'000	Machinery RMB'000	Vehicles RMB'000	Furniture, fittings and equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2017						
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
Year ended 31 December 2018						
Opening net book amount	36,248	27,306	2,599	544	-	66,697
Additions	-	7,696	-	167	1,116	8,979
Transfer	1,116	-	-	-	(1,116)	-
Disposals	-	(661)	-	-	-	(661)
Depreciation charge (Note 8)	(3,686)	(6,393)	(806)	(152)	-	(11,037)
Closing net book amount	33,678	27,948	1,793	559	-	63,978
At 31 December 2018						
Cost	66,425	74,666	11,884	2,750	-	155,725
Accumulated depreciation	(32,747)	(46,718)	(10,091)	(2,191)	-	(91,747)
Net book amount	33,678	27,948	1,793	559	-	63,978

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

15 Property, plant and equipment (Continued)

During the year ended 31 December 2018, the amounts of depreciation expense charged to cost of sales, administrative expenses and research and development expenses are as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Cost of sales	6,083	5,300
Administrative expenses	3,532	3,391
Research and development expenses	1,422	982
	11,037	9,673

As at 31 December 2018, certain plants of the Group classified as property, plant and equipment were pledged to secure short-term bank borrowings as disclosed in Note 26.

As at 31 December 2018, the Group has not obtained the title certificate of auxiliary buildings with a total net book value of RMB1,491,000 and RMB1,675,000, respectively.

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(All amounts in Renminbi thousands unless otherwise stated)

16 Intangible assets

	Computer software RMB'000
At 1 January 2017	
Cost	1,318
Accumulated amortization and impairment	(633)
Net book amount	685
Year ended 31 December 2017	
Opening net book amount	685
Amortization charge (Note 8)	(265)
Closing net book amount	420
At 31 December 2017	
Cost	1,318
Accumulated amortization and impairment	(898)
Net book amount	420
Year ended 31 December 2018	
Opening net book amount	420
Amortization charge (Note 8)	(265)
Closing net book amount	155
At 31 December 2018	
Cost	1,318
Accumulated amortization and impairment	(1,163)
Net book amount	155

During the year ended 31 December 2018, the amounts of amortization expense are charged to "Administrative expenses".

Notes to the Consolidated Financial Statements

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17 Subsidiaries

The Company's direct interests in its subsidiaries as at 31 December 2018 and 2017 are set out as below:

Company name	Date of incorporation	Country of incorporation, legal status	Registered capital	Issued and fully paid capital	Equity interest held		Principal activities
					31 December 2018	31 December 2017	
Zhejiang Dongxing Software Development Limited (浙江東星軟件開發有限公司)*	14 November 2012	The PRC, limited liability company	RMB 11,902,500	RMB 11,902,500	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 (浙江蒼南儀錶集團東星能源科技有限公司)*	4 May 2015	The PRC, limited liability company	RMB 20,000,000	RMB 20,000,000	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 Intelligence Instrument Limited (浙江蒼南儀錶集團東星智能儀錶有限公司)*	4 May 2015	The PRC, limited liability company	RMB 31,800,000	RMB 15,000,000	78.66%	78.66%	Research, manufacturing and sales of gas meters and ancillary products.
GFO Europe B.V.	9 April 2013	The Netherlands, limited liability company	Euro 280,000	Euro 280,000	N/A	100%	Research and development, assembly and sales of instruments and meters.

* The English name of these subsidiaries represents the best effort by management of the Group in translating their Chinese names as they do not have an official English name.

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(All amounts in Renminbi thousands unless otherwise stated)

18 Trade and other receivables and prepayments

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade receivables – third parties	555,624	533,131
Less: Loss allowance	(51,272)	(42,630)
Trade receivables – net	504,352	490,501
Notes receivable (*)	80,692	50,001
Prepayments	38,587	20,612
Interest receivable	3,118	2,081
Other receivables	17,087	6,709
Less: Loss allowance	(95)	(86)
Other receivables – net	16,992	6,623
	643,741	569,818

* As at 31 December 2018, certain notes receivable of the Group were pledged to secure notes payable as disclosed in Note 25. As at 31 December 2017, no notes payable were pledged by notes receivable.

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(All amounts in Renminbi thousands unless otherwise stated)

18 Trade and other receivables and prepayments (Continued)

The carrying amounts of trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
RMB	598,306	549,117
EUR	6,836	–
US\$	12	89
	605,154	549,206

As at 31 December 2018 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.

The aging analysis of trade receivables based on invoice date was as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Within 1 year	454,333	452,542
1 year to 2 years	46,701	32,355
2 years to 3 years	15,142	17,680
Over 3 years	39,448	30,554
	555,624	533,131

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(All amounts in Renminbi thousands unless otherwise stated)

18 Trade and other receivables and prepayments (Continued)

Impairment of trade receivables

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before balance sheet date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macro-economic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the countries in which it sells its goods and services to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

The Group's loss allowance for trade receivables as at 31 December 2018 was as follows:

	Within 1 year RMB'000	1 year to 2 years RMB'000	2 years to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
At 31 December 2018					
Expected loss rate	1.0%	14.9%	43.0%	84.6%	
Gross carrying amount	454,333	46,701	15,142	39,448	555,624
Loss allowance	4,401	6,976	6,518	33,377	51,272
At 31 December 2017					
Expected loss rate	0.8%	16.9%	46.0%	83.4%	
Gross carrying amount	452,542	32,355	17,680	30,554	533,131
Loss allowance	3,571	5,457	8,126	25,476	42,630

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

18 Trade and other receivables and prepayments (Continued)

Impairment of trade receivables (Continued)

Receivables for which an impairment provision was recognized are written off against the gross carrying amount when there is no reasonable expectation of recovering additional cash. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 36 months. Impairment losses are recognized in profit or loss within net impairment losses on financial assets. Subsequent recoveries of amounts previously written off are credited against net impairment losses on financial assets.

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowance of the Group was as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
At beginning of year	42,630	34,140
Increase in loss allowance recognized in profit or loss during the year	17,639	16,177
Unused amounts reversed	(8,997)	(7,687)
At end of year	51,272	42,630

Impairment of other receivables

Other financial assets at amortized cost include notes receivables, interest receivables and other receivables. As of 31 December 2018 and 2017, other receivables of RMB95,000 and RMB86,000 of the Group were in stage 3 under IFRS 9 respectively as there was objective evidence of impairment of these receivables and loss allowance was recognized based on lifetime expected credit loss. Except for these stage 3 other receivables, the Group's debt instruments at amortized cost were considered to have low credit risk, and the loss allowance was therefore limited to 12 months expected losses. The Group has assessed that the expected credit losses for these financial assets were not material under the 12 months expected losses method. Thus, no loss allowance was recognized during the years ended 31 December 2018 and 2017. Other instruments were considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

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(All amounts in Renminbi thousands unless otherwise stated)

18 Trade and other receivables and prepayments (Continued)

Impairment of other receivables (Continued)

The closing loss allowances for the stage 3 other receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
At beginning of year	86	43
Increase in loss allowance recognized in profit or loss during the year	9	44
Unused amounts reversed	—	(1)
At end of year	95	86

19 Inventories

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Raw materials	45,282	37,681
Work-in-progress	27,287	20,892
Finished goods	26,020	19,433
Packaging materials and consumables	348	237
	98,937	78,243

During the years ended 31 December 2018 and 2017, the cost of the Group's inventories recognized as an expense and included in "Cost of sales" was RMB126,521,000 and RMB143,512,000 respectively (Note 8).

During the years ended 31 December 2018 and 2017, the cost of the Group's inventories recognized as an expense and included in "Research and development expenses" was RMB9,746,000 and RMB8,348,000 respectively (Note 8).

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(All amounts in Renminbi thousands unless otherwise stated)

20 Restricted cash

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Restricted cash pledged for notes payable (Note 25)	13,137	2,178
Restricted cash pledged for financial guarantees provided to third parties (i)	31,780	31,780
Others	6,744	9,234
	51,661	43,192
Less: non-current portion of restricted cash	(24,047)	(33,775)
	27,614	9,417
Non-current portion of restricted cash:		
Restricted cash pledged for financial guarantees provided to third parties (i)	21,780	31,780
Others	2,267	1,995
	24,047	33,775

Restricted cash is all denominated in RMB.

- (i) Due to providing financial guarantees to third parties (Note 29), bank deposits amounting to RMB21,780,000 with maturity of 5 years were pledged in 2015, and another additional bank deposit amounting to RMB10,000,000 with maturity of 3 years was pledged in 2016.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

21 Cash and cash equivalents

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Cash on hand	19	48
Cash at bank	260,007	157,008
Cash and cash equivalents	260,026	157,056

Cash at bank and on hand are denominated in the following currencies:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
RMB	253,622	152,031
US\$	4,204	3,308
EUR	2,192	1,717
HK\$	8	—
	260,026	157,056

22 Share capital

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 at a par value of RMB1 per share.

The share capital of the Company as at 31 December 2018 and 2017 was RMB51,890,000 with 51,890,000 shares in issue.

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 4 January 2019. As of the date of this report, the Company has issued 17,901,167 H Shares at an offer price of HK\$15.80 per share. As of the date of this report, the share capital of the Company is RMB69,791,167 with 51,890,000 domestic shares and 17,901,167 H Shares in issue.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

23 Other reserves

	Capital reserves RMB'000	Statutory reserves RMB'000	Discretionary surplus reserves RMB'000	Translation reserves RMB'000	Total RMB'000
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
Balance at 1 January 2018	339,676	–	–	(1,201)	338,475
Release on disposal of a subsidiary	–	–	–	1,201	1,201
Balance at 31 December 2018	339,676	–	–	–	339,676

(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.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

23 Other reserves (Continued)

(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 recognized as capital reserve of the Company.

24 Retained earnings

	RMB'000
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
Balance at 1 January 2018	201,956
Profit for the year	220,192
Dividends	(41,512)
Balance at 31 December 2018	380,636

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

25 Trade and other payables

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade payables – third parties (a)	54,017	59,525
Taxes payable	39,507	46,824
Notes payable (b)	19,446	1,500
Advances from customers (c)	5,895	9,004
Salaries and bonuses payable	694	960
Interests payable	90	75
Advances from employees for sundry expenses	7,199	7,568
Sales commission payable	3,182	5,146
Others	21,990	20,809
	152,020	151,411

The carrying amounts of the Group's trade and other payables excluding taxes payable, advances from customers and salaries and bonuses payable are denominated in RMB.

The carrying amounts of trade and other payables approximate their fair values.

(a) Trade payables

As at 31 December 2018, the aging analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Within 1 year	51,145	56,051
1 year to 2 years	1,010	978
2 years to 3 years	501	1,010
Over 3 years	1,361	1,486
	54,017	59,525

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

25 Trade and other payables (Continued)

(b) Notes payable

The Group's notes payable as at 31 December 2018 was as follows:

Notes payable Amount (RMB'000)	Type	Collateral net book value (RMB'000)	
		Restricted Cash	Notes receivable
19,446	Pledged	13,137	11,663

The Group's notes payable as at 31 December 2017 was as follows:

Notes payable Amount (RMB'000)	Type	Collateral net book value (RMB'000)	
		Restricted Cash	Notes receivable
1,500	Pledged	2,178	–

(c) Advances from customers

A contract liability is recorded as advances from customers for the cash received from customers before the delivery of goods. Revenue recognized in relation to advances from customers during the year ended 31 December 2018 was as below:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Revenue recognized that was included in the advances from customers at the beginning of the period	9,004	6,706

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(All amounts in Renminbi thousands unless otherwise stated)

26 Borrowings

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Short-term bank borrowings		
– Secured and guaranteed	44,900	44,900
– Secured	14,750	–
– Guaranteed	10,000	15,000
Total borrowings	69,650	59,900

(a) Borrowings from banks

The Group's bank borrowings as at 31 December 2018 was as follows:

Borrowing Amount (RMB'000)	Type of borrowings	Collateral net book value (RMB'000)		Guarantor
		Plant	Land use rights	
44,900	Secured and guaranteed	9,584	1,186	Zhejiang Dongxing Software Development Limited, Dongxing Intelligence Instrument Limited
10,000	Guaranteed	–	–	Zhejiang Dongxing Software Development Limited
14,750	Secured	22,090	4,908	–
69,650		31,674	6,094	

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(All amounts in Renminbi thousands unless otherwise stated)

26 Borrowings (Continued)

(a) Borrowings from banks (Continued)

The Group's bank borrowings as at 31 December 2017 was as follows:

Borrowing Amount (RMB'000)	Type of borrowings	Collateral net book value (RMB'000)		Guarantor
		Plant	Land use rights	
44,900	Secured and guaranteed	11,044	1,233	Zhejiang Dongxing Software Development Limited, Dongxing Intelligence Instrument Limited
15,000	Guaranteed	–	–	Zhejiang Dongxing Software Development Limited
59,900		11,044	1,233	

As at 31 December 2018 and 2017, the weighted average effective interest rates on borrowings from banks were 4.74% and 4.57%, respectively.

The carrying amounts of the Group's borrowings from banks were denominated in RMB, repayable within 1 year, and approximated their fair values as at the respective balance sheet dates.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

27 Deferred income

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Government grants relating to property, plant and equipment	665	845
Less: Current portion	(180)	(180)
Non-current portion	485	665

The government grants were subsidies received from local governments for purchases of property, plant and equipment. The amounts are amortized 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 year ended 31 December 2018 were as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
At beginning of year	845	1,025
Amortized as income (Note 6)	(180)	(180)
At end of year	665	845

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(All amounts in Renminbi thousands unless otherwise stated)

28 Deferred income tax assets

The analysis of deferred tax assets was as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	7,705	22,164
– Deferred tax assets to be recovered within 12 months	18,317	3,598
Deferred tax assets (net)	26,022	25,762

The movement of the deferred income tax assets (net) was as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
At beginning of year	25,762	22,662
Income statement credit (Note 11)	260	3,100
At end of year	26,022	25,762

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

28 Deferred income tax assets (Continued)

The movement in deferred income tax assets during the year, without taking consideration the offsetting of balances within the same tax jurisdiction, was as follows:

	Impairment of assets RMB'000	Provisions for other liabilities and charges RMB'000	Warranties provision RMB'000	Tax loss RMB'000	Unrealized profits – sales of inventories RMB'000	Total RMB'000
At 1 January 2017	5,163	14,903	708	–	1,888	22,662
Credited/(charged) to the consolidated statement 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
Credited/(charged) to the consolidated statement of profit or loss	1,173	(3,299)	(23)	790	1,619	260
At 31 December 2018	7,705	14,208	1,418	790	1,901	26,022

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The Group did not recognize deferred income tax assets of RMB3,022,400 as at 31 December 2017 in respect of losses amounting to RMB15,112,000 that can be carried forward against future taxable income. The expiry years of these losses are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
2022	–	2,169
2023	–	4,629
2024	–	4,452
2025	–	941
2026	–	2,921
	–	15,112

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(All amounts in Renminbi thousands unless otherwise stated)

29 Warranties provision and provisions for other liabilities and charges

(a) Warranties provision

	Warranties provision RMB'000
Balance at 1 January 2017	4,184
Charged to profit or loss:	
Additional provisions	9,377
Utilized during year	(5,163)
Balance at 31 December 2017	8,398
Balance at 1 January 2018	8,398
Charged to profit or loss:	
Additional provisions	8,586
Utilized during year	(7,532)
Balance at 31 December 2018	9,452

Analysis of total warranties provisions:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current	9,452	8,398

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.

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29 Warranties provision and provisions for other liabilities and charges (Continued)

(b) Provisions for other liabilities and charges

(i) Provisions for financial guarantee contracts

	Legal claims
	RMB'000
Balance at 1 January 2017	84,952
Charged to profit or loss:	
Additional provisions	
– Financial guarantees provided to third parties	2,587
Unwinding of discount	2,268
Paid during year	(16,200)
Balance at 31 December 2017	73,607
Balance at 1 January 2018	73,607
Charged to profit or loss:	
Unwinding of discount	697
Paid during year	(2,000)
Balance at 31 December 2018	72,304

Analysis of total provisions for financial guarantee contracts:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current	–	17,523
Current	72,304	56,084
	72,304	73,607

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(All amounts in Renminbi thousands unless otherwise stated)

29 Warranties provision and provisions for other liabilities and charges (Continued)

(b) Provisions for other liabilities and charges (Continued)

(i) Provisions for financial guarantee contracts (Continued)

During the years 2012 to 2014, the Company provided financial guarantees in favour of the bank borrowings granted to 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 recognized provisions for these financial guarantee contracts in 2014 and 2015. During the year 2017, a court decision was reached for the remaining one legal claim, and the Company recognized additional provisions 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 charge is recognized in profit or loss within 'Other losses – net'.

(ii) Provisions for litigation loss

	Legal claims
	RMB'000
Balance at 1 January 2017	–
Charged to profit or loss:	
Additional provisions	
– Litigation	12,503
Balance at 31 December 2017	12,503
Balance at 1 January 2018	12,503
Charged to profit or loss:	
Additional provisions	
– Interest accrual on litigation claims	412
Balance at 31 December 2018	12,915

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29 Warranties provision and provisions for other liabilities and charges (Continued)

(b) Provisions for other liabilities and charges (Continued)

(ii) Provisions for litigation loss (Continued)

Analysis of total provisions for litigation loss:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current	12,915	12,503

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. The amounts provided under "provisions for litigation loss" 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 2018.

The provision charge is recognized in profit or loss within 'Other losses – net'.

30 Dividends

- (i) The dividends declared by the Company in the years ended 31 December 2018 and 2017 were RMB41,512,000 and RMB36,323,000 respectively.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Dividends declared and paid	41,512	36,323

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(All amounts in Renminbi thousands unless otherwise stated)

30 Dividends (Continued)

(ii) Dividends not recognised at the end of the reporting period

At the meeting of the directors of the Company held on 29 March 2019, the directors proposed a final dividend of RMB0.8 per ordinary share for the year ended 31 December 2018 (2017: RMB0.8), which is subject to the approval by the shareholders in general meeting. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 31 December 2018, but not recognised as a liability at year end, is around RMB55,833,000 (2017: RMB41,512,000).

31 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	
	2018 RMB'000	2017 RMB'000
Profit before income tax	256,203	281,930
Adjustments for:		
– Depreciation of property, plant and equipment	11,037	9,673
– Amortization of intangible assets	265	265
– Amortization of land use rights	196	196
– (Gains)/losses on disposals of property, plant and equipment	(18)	152
– Loss on disposal of a subsidiary	1,122	–
– Finance expenses – net	2,310	4,290
– Loss allowance of trade and other receivables	8,651	8,533
– Losses from financial guarantees provided to third parties	–	2,587
– Litigation losses	–	12,503
– Amortization of deferred income related to government grants	(180)	(180)
Changes in working capital		
– Inventories	(20,694)	(5,166)
– Trade and other receivables and prepayments	(50,984)	(197,627)
– Restricted cash	(8,469)	9,865
– Trade and other payables	426	12,347
– Warranties provision	1,054	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	200,919	135,551

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31 Cash generated from operations and reconciliation of liabilities arising from financing activities (Continued)

(b) Proceeds from disposal of property, plant and equipment

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Net book value (Note 15)	661	211
Gains/(losses) on disposal of property, plant and equipment (Note 7)	18	(152)
Proceeds from disposals of property, plant and equipment	679	59

(c) Reconciliation of liabilities arising from financing activities

	1 January 2017 RMB'000	Additional provision RMB'000	Unwinding of discount RMB'000	Cash flows RMB'000	31 December 2017 RMB'000
Borrowings	78,100	–	–	(18,200)	59,900
Provisions for other liabilities and charges – financial guarantee contracts liabilities	84,952	2,587	2,268	(16,200)	73,607
Liabilities from financing activities	163,052	2,587	2,268	(34,400)	133,507

	1 January 2018 RMB'000	Additional provision RMB'000	Unwinding of discount RMB'000	Cash flows RMB'000	31 December 2018 RMB'000
Borrowings	59,900	–	–	9,750	69,650
Provisions for other liabilities and charges – financial guarantee contracts liabilities	73,607	–	697	(2,000)	72,304
Liabilities from financing activities	133,507	–	697	7,750	141,954

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31 Cash generated from operations and reconciliation of liabilities arising from financing activities (Continued)

(d) Reconciliation to consolidated statement of cash flows

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Balances of cash and cash equivalents per consolidated balance sheet	260,026	157,056
Cash and cash equivalents of disposal group classified as held for sale	—	334
Balances of cash and cash equivalents per consolidated statement of cash flows	260,026	157,390

32 Disposal of a subsidiary

(a) Description

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. On 25 January 2018, the Company entered into a sales and purchase agreement to sell its entire equity interest in GFO Europe B.V. to a third party at a consideration of US\$145,000 (equivalent to RMB923,000). The net cash received by the Company was RMB589,000 considering the cash and cash equivalents of RMB334,000 held by GFO Europe B.V. upon the disposal. The transaction was completed in January 2018 and total loss from the disposal in the Group’s consolidated financial statements was RMB1,122,000 (Note 7).

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(All amounts in Renminbi thousands unless otherwise stated)

32 Disposal of a subsidiary (Continued)

(b) Details of the disposal of the subsidiary

Consideration received or receivable:	RMB'000
Cash	923
Total disposal consideration	923
Assets classified as held for sale	(10,020)
Liabilities directly associated with assets classified as held for sale	109
Payables due to the Group upon the disposal	9,067
Carrying amount of net assets sold	(844)
Gain on disposal before income tax and reclassification of foreign currency translation reserve	79
Reclassification of foreign currency translation reserve	(1,201)
Loss on disposal after income tax	(1,122)

33 Commitments

(a) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases of the Group are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Not later than 1 year	1,005	615
Later than 1 year and not later than 2 years	419	615
Later than 2 years and not later than 5 years	–	1,001
	1,424	2,231

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34 Significant related party transactions

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. Yin Xingjing	Director

(a) Significant related party transactions

The following significant transactions were carried out between the Group and its related parties during the year ended 31 December 2018. 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	
	2018 RMB'000	2017 RMB'000
Shandong Dongxing	-	1,149

(ii) Interest paid

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Mr. Yin Xingjing	-	3

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34 Significant related party transactions (Continued)

The Group (Continued)

(a) Significant related party transactions (Continued)

(iii) Key management compensation

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Short-term employee benefits		
– Wages, salaries and bonuses	5,624	5,628
– Pension, housing fund, medical insurance and other social insurance	106	104
	5,730	5,732

35 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 company. Please refer to Note 29 for details.

(b) Other contingencies 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 recognized 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.

36 Events after the balance sheet date

The Company completed the IPO on 4 January 2019 on the Main Board of The Stock Exchange of Hong Kong Limited. The Company allotted and issued a total of 17,901,167 ordinary shares at an offering price of HK\$15.80 per share.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

37 Balance sheet and reserve movement of the Company

(a) Balance Sheet of the Company

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Assets		
Non-current assets		
Land use rights	6,094	6,290
Property, plant and equipment	40,543	41,764
Investment properties	15,496	16,960
Intangible assets	155	420
Investments in subsidiaries	36,703	36,703
Deferred income tax assets	22,528	24,715
Financial assets at fair value through other comprehensive income	100	100
Restricted cash	24,047	33,775
	145,666	160,727
Current assets		
Trade and other receivables and prepayments	593,385	522,619
Inventories	71,400	53,413
Restricted cash	27,614	9,417
Cash and cash equivalents	220,643	115,544
	913,042	700,993
Assets classified as held for sale	-	923
	913,042	701,916
Total assets	1,058,708	862,643
Equity and liabilities		
Equity attributable to equity holders of the Company		
Share capital	51,890	51,890
Other reserves (b)	338,529	338,529
Retained earnings (b)	349,400	171,854
Total equity	739,819	562,273

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

37 Balance sheet and reserve movement of the Company (Continued)

(a) Balance Sheet of the Company (Continued)

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Liabilities		
Non-current liabilities		
Deferred income	485	665
Provisions for other liabilities and charges	—	17,523
	485	18,188
Current liabilities		
Trade and other payables	125,601	116,035
Current income tax liabilities	30,329	30,898
Borrowings	69,650	59,900
Deferred income	180	180
Warranties provision	7,425	6,582
Provisions for other liabilities and charges	85,219	68,587
	318,404	282,182
Total liabilities	318,889	300,370
Total equity and liabilities	1,058,708	862,643

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

37 Balance sheet and reserve movement of the Company (Continued)

(b) Reserve Movement of the Company

	Other reserves RMB'000	Retained earnings RMB'000
Balance at 1 January 2017	44,703	293,826
Comprehensive income		
Profit for the year	–	208,177
Other comprehensive income		
Currency translation differences	–	–
Total comprehensive income	–	208,177
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 (Note 30)	–	(36,323)
Total transactions with owners, recognized directly in equity	293,826	(330,149)
Balance at 31 December 2017	338,529	171,854
Balance at 1 January 2018	338,529	171,854
Comprehensive income		
Profit for the year	–	219,058
Other comprehensive income		
Currency translation differences	–	–
Total comprehensive income	–	219,058
Transactions with owners		
Dividends declared (Note 30)	–	(41,512)
Total transactions with owners, recognized directly in equity	–	(41,512)
Balance at 31 December 2018	338,529	349,400

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

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 2018 is set out as follows:

	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	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 RMB'000	Total RMB'000
Chairman							
Mr. Hong Zuobin	-	168	757	-	-	-	925
Executive Directors							
Mr. Huang Youliang	-	144	719	-	13	-	876
Mr. Zhang Shengyi	-	108	542	-	13	-	663
Ms. Lin Zichan	-	90	478	-	13	-	581
Mr. Lin Zhongzhu	-	108	542	-	13	-	663
Mr. Yin Xingjing	-	108	542	-	13	-	663
Mr. Lin Jingdian	-	84	341	-	13	-	438
Non-executive Directors							
Mr. Ye Xiaosen (iv)	-	144	-	-	-	-	144
Mr. Hou Zukuan (v)	-	144	-	-	-	-	144
Independent Non-executive Directors							
Mr. Wong Hak Kun (vi)	-	79	-	-	-	-	79
Mr. Ng Jack Ho Wan (vi)	-	79	-	-	-	-	79
Mr. Wang Jingfu (vi)	-	72	-	-	-	-	72
Mr. Li Jing (vi)	-	72	-	-	-	-	72
Mr. Su Zhongdi (vi)	-	72	-	-	-	-	72
Supervisors							
Mr. Huang Xijun (i)	-	26	209	-	13	-	248
Mr. Ye Sigong	-	84	259	-	13	-	356
Mr. Zhou Xiaoding	-	235	100	-	13	-	348
	-	1,817	4,489	-	117	-	6,423

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

38 Benefits and interests of directors (Continued)

(a) Directors' and the chief executive's emoluments (Continued)

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 RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Allowances and benefits in kind RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	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 RMB'000	Total 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

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

38 Benefits and interests of directors (Continued)

(a) Directors' and the chief executive's emoluments (Continued)

- (i) *Mr. Huang Xijun resigned from the board of directors and was appointed as supervisor on 13 June 2017. The emoluments disclosed in the table comprised of remuneration generated from the position as both a director and a supervisor. The emoluments of Mr. Huang Xijun in the capacity as a director for the year ended 31 December 2017 was RMB58,000.*
- (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.*
- (vi) *The five independent non-executive directors were appointed on 21 June 2018.*

There were no remuneration paid to the directors of the Company by the shareholders for the year ended 31 December 2018.

For the year ended 31 December 2018, 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 year ended 31 December 2018, 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 the year ended 31 December 2018 or at any time during the year, except as disclosed in Note 34.

(c) Retirement benefits of directors

During the year ended 31 December 2018, there were no additional retirement benefit received by the directors except for the contribution to a retirement benefit scheme as disclosed in the "Employer's contribution to a retirement benefit scheme" in the table in Note (a) above.

Notes to the Consolidated Financial Statements

(All amounts in Renminbi thousands unless otherwise stated)

38 Benefits and interests of directors (Continued)

(d) Termination benefits of directors

During the year ended 31 December 2018, 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 year ended 31 December 2018, 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 34.

Definition and Glossary of Technical Terms

“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
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors of the Company
“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
“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
“Company”, “we” or “us”	Zhejiang Cangnan Instrument Group Company Limited
“Companies Ordinance”	the Companies Ordinance (Chapter 622 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
“Director(s)”	the director(s) of the Company

Definition and Glossary of Technical Terms

“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
“flowmeter”	An instrument for measuring, storing and displaying the amount of gas passing through the flow sensor
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., the industry consultant of the Company
“gas meter”	normally diaphragm gas meter in case of gas meters relating to the Company
“GDP”	gross domestic product
“GFO Europe”	GFO Europe B.V., a limited liability company incorporated in the Netherlands on 9 April 2013

Definition and Glossary of Technical Terms

“Group”	the Company and its subsidiaries
“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
“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 Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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
“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
“Listing Date”	the date, on which our H Shares were listed on the Main Board of Hong Kong Stock Exchange (being 4 January 2019)
“LNG”	liquefied natural gas
“Macau”	the Macau Special Administrative Region of the PRC

Definition and Glossary of Technical Terms

“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
“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
“Reporting Period”	the period from the 1 January 2018 to 31 December 2018
“RMB” or “Renminbi”	the lawful currency of the PRC
“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
“South China”	mainly includes Hainan and Guangdong
“Southwest China”	mainly includes Sichuan and Chongqing
“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
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“%”	per cent