



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



2019

INTERIM REPORT



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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 representative of the Company

Mr. Hong Zuobin

Authorized representatives

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

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Interim Results

The board of directors (the “Board”) of Zhejiang Cangnan Instrument Group Company Limited (the “Company”) hereby publishes the unaudited operating results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2019, together with the comparative figures of the corresponding period of 2018. For the six months ended 30 June 2019, the revenue of the Group amounted to RMB199.8 million, representing a decrease of 20.0% as compared with the corresponding period of 2018; profit before tax amounted to RMB74.5 million, representing a decrease of 8.2% as compared with the corresponding period of 2018; profit attributable to the equity holders of the Company amounted to RMB63.4 million, representing a decrease of 10.4% as compared with the corresponding period of 2018; earnings per share is RMB0.91, representing a decrease of 33.1% as compared with the corresponding period of 2018.



Financial Highlights

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

| | For the six months ended 30 June | |
|-------------------------------------|-------------------------------------|------------------|
| | 2019 | 2018 |
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Revenue | 199,797 | 249,877 |
| Gross profit | 139,931 | 171,134 |
| Operating profit | 73,245 | 82,607 |
| Profit for the period | 64,265 | 71,164 |
| | | |
| | 30 June | 31 December |
| | 2019 | 2018 |
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Assets | | |
| Non-current assets | 117,497 | 120,396 |
| Current assets | 1,230,279 | 1,030,318 |
| Total assets | 1,347,776 | 1,150,714 |
| | | |
| Equity and liabilities | | |
| Total equity | 971,234 | 785,858 |
| | | |
| Non-current liabilities | 395 | 485 |
| Current liabilities | 376,147 | 364,371 |
| Total liabilities | 376,542 | 364,856 |
| | | |
| Total equity and liabilities | 1,347,776 | 1,150,714 |



Management Discussion and Analysis

I. Industry Overview

In recent years, with the continuous development of China's economy, the improvement of national energy structure, the orderly advancement of urbanization and the focus on environmental protection issues have driven demand for natural gas. In 2018, the natural gas consumption volume in China was approximately 271 billion m³, representing a year-on-year increase of 13.5%. It is expected that by 2020, 2030 and 2050, the proportion of natural gas in primary energy consumption structure will increase to approximately 10%, 14% and 15%, respectively.

II. Business Overview

The Company is a leading manufacturer of industrial and commercial gas flowmeters 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 flowmeter products, which are generally used by gas operators to measure the flow volume of gas. We engage in a comprehensive business integrating research and development ("R&D"), manufacture, sales and aftersales services. The Company ranked second in the industrial and commercial gas flowmeter industry in China in terms of revenue in the first half of 2019, with our revenue from the sales of industrial and commercial gas flowmeter products amounting to RMB167.3 million.

Through our extensive sales network covering most of the provinces in China, the Company mainly sell our industrial and commercial gas flowmeter products to gas operators in China. Major customers of the Company 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 of the Company during the track record period. As of 30 June 2019, we had maintained business relationships with these customers for 8 to 14 years. For the six months ended 30 June 2019, sales to our top five customers accounted for approximately 36.1% 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 the first half of 2019:

| | Revenue (RMB'000) | Cost (RMB'000) | Gross profit (RMB'000) |
|---|-----------------------------|--------------------------|----------------------------------|
| Residential gas meter products | 23,509 | 15,436 | 8,073 |
| Nuclear-related products | 7,971 | 3,900 | 4,071 |
| Industrial and commercial gas flowmeter products | 167,290 | 40,164 | 127,126 |
| Maintenance services | 1,027 | 366 | 661 |
| Total | 199,797 | 59,866 | 139,931 |

The following table sets out a breakdown of our revenue by region in the first half of 2019 as compared with that in the same period of last year:

| | First half of 2019 (RMB'000) | First half of 2018 (RMB'000) |
|-----------------|--|------------------------------------|
| China | 197,519 | 248,532 |
| North China | 41,245 | 42,335 |
| East China | 81,358 | 116,894 |
| Southwest China | 19,165 | 18,906 |
| South China | 17,177 | 19,398 |
| Central China | 9,883 | 19,005 |
| Headquarters | 17,526 | 18,366 |
| Northeast China | 7,179 | 8,755 |
| Northwest China | 3,986 | 4,873 |
| Overseas | 2,278 | 1,345 |
| Total | 199,797 | 249,877 |



Management Discussion and Analysis

III. Management Discussion and Analysis on Financial Position and Operating Results

1. Overview

For the six months ended 30 June 2019, the Group's revenue amounted to RMB199.8 million, representing a decrease of RMB50.1 million as compared with the same period of 2018 of RMB249.9 million; the Group's profit amounted to RMB64.3 million, representing a decrease of RMB6.9 million as compared with the same period of 2018 of RMB71.2 million; profit attributable to the equity holders of the Company amounted to RMB63.4 million, representing a decrease of RMB7.3 million as compared with the same period of 2018 of RMB70.7 million; cash and cash equivalents of the Group increased by RMB252.5 million from RMB260.0 million as at 31 December 2018 to RMB512.5 million as at 30 June 2019; the Group's total assets amounted to RMB1,347.8 million, representing an increase of RMB197.1 million as compared with RMB1,150.7 million as at 31 December 2018; the Group's total liabilities amounted to RMB376.5 million, representing an increase of RMB11.6 million as compared with RMB364.9 million as at 31 December 2018. Return on total assets of the Group in the first half of 2019 was 4.8%, and 7.6% in the same period of 2018.

2. Operating results

2.1 Revenue

For the six months ended 30 June 2019, the Group's revenue amounted to RMB199.8 million, representing a decrease of 20.0% as compared with the same period of 2018 of RMB249.9 million, primarily because China's coal-to-gas switching projects in 2017 had outstanding achievements, but the supply and demand of natural gas had got tight due to the restrictions of insufficient gas resources, inadequate pipeline construction and interconnection, and insufficient gas storage reservoirs, which had resulted in persistent impact on the industry. As a result, the metering business of the Company recorded a short-term downturn during the Reporting Period. Our sales of nuclear-related products amounted to RMB8.0 million, representing an increase of 42.9% as compared with the same period of 2018 of RMB5.6 million, primarily 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

For the six months ended 30 June 2019, the Group's cost of sales amounted to RMB59.9 million, representing a decrease of 23.9% as compared with the same period of 2018 of RMB78.7 million, primarily due to (i) a decrease in our sales; (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

For the six months ended 30 June 2019, the Group's gross profit amounted to RMB139.9 million, representing a decrease of 18.2% as compared with the same period of 2018 of RMB171.1 million, and the gross profit margin increased from 68.5% for the first half 2018 to 70.0% for the first half 2019, primarily due to a decrease in the revenue from the sales and relevant cost of sales as discussed above.

2.4 Selling and distribution expenses

For the six months ended 30 June 2019, the Group's selling and distribution expenses amounted to RMB53.6 million, representing an increase of 15.0% as compared with the same period of 2018 of RMB46.6 million, primarily due to further grasping the market, increasing investment in the market and the implementation of the promotion services to maintain customer relationship.

2.5 Administrative expenses

For the six months ended 30 June 2019, the Group's administrative expenses amounted to RMB34.7 million, representing an increase of 18.8% as compared with the same period of 2018 of RMB29.2 million, primarily due to the distribution of souvenirs for our employees due to the successful listing of the Company, which had resulted in an increase of the relevant welfare fees.

2.6 Gains from reversal of impairment on financial assets/impairment losses on financial assets – net

For the six months ended 30 June 2019, the Group's net impairment reversal gains on financial assets amounted to RMB1.8 million. The reversal gain was primarily due to some long ageing receivables had been received.

2.7 Research and development expenses

For the six months ended 30 June 2019, the Group's research and development expenses amounted to RMB13.5 million, representing a decrease of 3.6% as compared with the same period of 2018 of RMB14.0 million, which are basically equal.



Management Discussion and Analysis

2.8 Other income

For the six months ended 30 June 2019, the Group's other income amounted to RMB35.1 million, representing an increase of 401.4% as compared with the same period of 2018 of RMB7.0 million, primarily due to the successful listing, restructuring into a Joint-Stock Company and tax refund, the Company received the one-time rewards and subsidies from the government, which had resulted in a substantial increase of the government grants in the current period.

2.9 Other losses – net

For the six months ended 30 June 2019, the Group's other losses – net amounted to RMB1.8 million, primarily due to additional provision for litigation in the current period.

2.10 Operating profit

For the six months ended 30 June 2019, the Group's operating profit amounted to RMB73.2 million, representing a decrease of 11.4% as compared with the same period of 2018 of RMB82.6 million, primarily due to a decrease of revenue and an increase of the expenses for further investment in the market.

2.11 Finance income/expenses – net

For the six months ended 30 June 2019, the Group's finance income – net amounted to RMB1.3 million, as compared with a net financial expenses in same period of 2018 of RMB1.4 million. The net finance income for the six months ended 30 June 2019 was primarily due to an increase of interest income resulting from an increase of deposits.

2.12 Income tax expenses

For the six months ended 30 June 2019, the Group's net income tax expenses amounted to RMB10.3 million, representing an increase of 3.0% as compared with the same period of 2018 of RMB10.0 million, which are basically equal. This was mainly due to the same corporate income tax rate applied to the Company within the Group in the two periods. The High and New Technology Enterprise's preferential tax rate of a Group's subsidiary expires at the end of 2018, and we expect that this subsidiary will continue to receive recognition of High and New Technology Enterprises in 2019 and be entitled to preferential tax rate.

2.13 Profit for the current period

For the six months ended 30 June 2019, the Group's profit for the current period amounted to RMB64.3 million, representing a decrease of 9.7% as compared with the same period of 2018 of RMB71.2 million, primarily due to a decrease of our revenue and an increase of the expenses of further investment in the market, which had resulted in a decrease of profit in the current period.



Management Discussion and Analysis

3. Cash and cash equivalents

As at 30 June 2019, the Group's cash and cash equivalents amounted to RMB512.5 million, representing an increase of RMB252.5 million as compared with RMB260.0 million as at 31 December 2018.

4. Current assets and liabilities

As at 31 December 2018, we had net current assets of approximately RMB665.9 million. As at 30 June 2019, we had net current assets of RMB854.1 million, representing an increase of 28.3% from that as at 31 December 2018, primarily due to an increase in net current assets contributed from earnings from normal operating activities for the period and funds raised in the successful listing.

5. Indebtedness

Our borrowings were short-term bank borrowings primarily for our working capital purposes. As at 30 June 2019, our bank loans amounted to RMB69.7 million, which were mainly used for supplementing our working capital. 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 period indicated:

| | As at or for the half-year ended 30 June | |
|---|---|-------|
| | 2019 | 2018 |
| Gearing ratio ⁽¹⁾ | 0.07 | 0.09 |
| Current ratio ⁽²⁾ | 3.27 | 2.87 |
| Quick ratio ⁽³⁾ | 2.94 | 2.57 |
| Return on equity ⁽⁴⁾ (%) | 6.6 | 11.2 |
| Return on total assets ⁽⁵⁾ (%) | 4.8 | 7.6 |
| Net debt to equity ratio ⁽⁶⁾ | -0.47 | -0.19 |
| Interest coverage ⁽⁷⁾ | 36.4 | 37.3 |



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 period.*
- (2) *calculated by dividing current assets by current liabilities as at the end of the respective period.*
- (3) *calculated by dividing current assets minus inventories by current liabilities as at the end of the respective period.*
- (4) *equals net profit for each of the period divided by the closing balance of total equity as at the end of the respective period, multiplied by 100%.*
- (5) *equals net profit for the period divided by the closing balance of total assets as at the end of the respective period, multiplied by 100%.*
- (6) *calculated by dividing 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 end of respective period.*
- (7) *equals profit before finance expenses and tax for each of the period divided by finance expenses.*

7. Significant investment

For the half year ended 30 June 2019, the Group had no significant investment.

8. Material acquisition and disposal

For the half year ended 30 June 2019, the Group had no material acquisition or disposal.



Management Discussion and Analysis

9. Contingent liabilities

For the half year ended 30 June 2019, the Group had no material contingent liabilities.

10. Employees and remuneration policy

As at 30 June 2019, we had 517 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 the first half of 2019, 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 RMB43.0 million, representing approximately 21.5% of our revenue in the first half of 2019.

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 send 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 30 June 2019, the total net carrying value of assets pledged was RMB36.0 million.

12. 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 obtained 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 receivables and other financial assets at amortised cost, cash and cash equivalents and trade and other payables in the first half of 2019 included foreign currencies, evaluated by HK\$, Euro, US\$ or other foreign currencies ("Other Foreign Currencies"). In the first half of 2019, 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 today's market for the domestic oil, natural gas, coal and non-fossil energy is upward, 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. The increasing competition in the industry also led to changes of customer composition from time to time. Meanwhile, China's coal-to-gas switching projects in 2017 had outstanding achievements, but the supply and demand of natural gas had got tight due to the restrictions of insufficient gas resources, inadequate pipeline construction and interconnection, and insufficient gas storage reservoirs, which had resulted in persistent impact for the industry, and the Group's business adapted to the industry demand changes.

As for the residential gas meter market, the Company's market share and brand awareness is still insufficient in terms of the residential gas meter products. 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 Company.

3. Price risks

With the continuous advancement of the reform of natural gas price mechanism, gas companies have further adopted the strategy of reducing costs and increasing efficiency, which results in extremely fierce market competition and increased downward pressure on the Company's flowmeter 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

Under the international background of tackling climate change and promoting green and low-carbon energy transformation, China will vigorously promote the construction of ecological civilization to win the blue sky protection campaign and build a beautiful country by following the new two-step strategy proposed at the "19th National Congress of CPC". Natural gas development will continue to usher in rare historical opportunities.

According to the BP Statistical Review of World Energy 2019, natural gas will become the major increment in primary energy consumption in the future. The statistics shows that China's total energy consumption was 4.64 billion tons of standard coal in 2018, representing an increase of 3.3% over the previous year. The natural gas market will still have a huge growth potential of more than 200%, which is also the most important growth point of China's primary energy in the next 20 years. It is predicted that China's natural gas consumption will exceed 300 billion m³ in 2019, representing a year-on-year increase of 11.3%. It is expected that by 2020, 2030 and 2050, the proportion of natural gas in primary energy consumption structure will increase to approximately 10%, 14% and 15%, respectively.

With the continuous improvement of natural gas pipeline network and the continuous advancement of natural gas price mechanism reform, China's natural gas consumption will continue to increase. Meanwhile, the accelerated market-oriented reform of natural gas price will lead to downward natural gas price, which will drive increased demand for natural gas in power generation, urban gas, industrial fuel and other fields. China's natural gas demand will maintain a high-speed growth trend at this stage.

The establishment of a national oil and gas pipeline network company to promote the independence of oil and gas trunk pipelines and achieve the separation of pipeline transportation and sales will be conducive to breaking the integrated monopoly of the petroleum and petrochemical industry and enhancing the competitiveness of the industry, and will have a great impact on the existing pattern. In the short run, the establishment of the national pipeline network company will objectively enhance the ability of other market players to compete fairly. The market competition will become more intense. Downstream gas supply companies may lose their regional monopoly status and have greater cost pressures, which will have a certain impact on the purchase price of commercial and industrial flowmeters. In the long run, the establishment of the pipeline network company can make the market more competitive, reduce natural gas price through competition, and promote natural gas consumption.



Management Discussion and Analysis

(2) Development strategy and planning of the company

The Company will continuously adhere to the basic policy of “deepening reform, accelerating innovation, expanding opening-up, and implementing scientific management” unwaveringly, work hard to “consolidate, strengthen, enhance, and smooth”, and continue to focus on improvement in the quality and efficiency of the Company’s development. In the context of weak external market demand, we will take serious measures to reform and innovate, and comprehensively promote scientific management. At the same time, we will strengthen our confidence in development, go all out to exert our inner power, endeavour to keep track with the latest technological development of “Internet + Energy”, accelerate the development of new products, improve the core competitiveness, achieve the optimization and upgrade of product mix and closely capture the opportunity of sustainable natural gas development strategy, so as to maximize the contribution to the society.

(3) Business plan for the second half of 2019

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

The Company 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 Company 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, intelligentization and networking of its products. The Company 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 Company 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 Company 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 Company 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 Company will consolidate and share the regional market resources to coordinate the cooperative development of the entire regional market. We will adopt our new four-level interactive service system, with our group headquarters as the core service center, greater regional service subcenters, provincial service offices and local urban service units.



Management Discussion and Analysis

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 Company 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 continue to improve the talent introduction and cultivation mechanism and strengthen the team building. 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. In order to meet the quality requirements of various businesses at the present stage, we will systematically advance the cultivation of talent team and the grass-roots workforce in a planned manner, and improve the quality of human resources at multiple levels and in multiple channels to promote people-oriented scientific development and innovative enterprise construction. Moreover, we will build a scientific and well-managed talent cultivation system, continuously consolidate the talent base of the Company and provide impetus for the sustainable development of the Company.

Other Information

Share Capital

As of 30 June 2019, the total share capital of the Company was RMB69,791,167, divided into 69,791,167 Shares with par value of RMB1.0 each (of which 51,890,000 are domestic shares and 17,901,167 are H shares).

Interim Dividend

The Board has not made any recommendation on the distribution of an interim dividend for the six months ended 30 June 2019.

Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Reporting Period.

Interests and Short Positions of Directors, Supervisions and Chief Executive in 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 ("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% |

Other Information

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.

Substantial Shareholders' Interests in the Shares

As at 30 June 2019, 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:

| Name of Shareholders | Class of Shares | Capacity | Number of Shares/ Underlying Shares Held (share) | Percentage of Relevant Class of Share Capital (%) | Percentage of 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% |

Notes:

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.



Other Information

Change of Directors, Supervisors and Members of the Special Committees of the Board

During the Reporting Period, there are no changes for Directors, Supervisors and members of the special committees of the Board.

Employees and Remuneration Policy

As at 30 June 2019, the Group had a total of 517 employees. The remuneration of employee of the Group comprises basic salary and bonus payment, which is determined with reference to the operating results of the Group and results of performance assessment.

Material Litigation

As at 30 June 2019, the details of the material litigations or arbitrations in which the Company was involved are set as follows:

1. Certain lawsuits with Mr. Ye Bin (“Mr. Ye”), a former shareholder

- (1) Mr. Ye, a former shareholder of the Company, filed lawsuits and applications 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**”). The lawsuits and applications have been tried and ruled by the People’s Court of Cangnan County, Wenzhou Intermediate People’s Court, Zhejiang Provincial Higher People’s Court, the People’s Procuratorate of Zhejiang Province and the Supreme People’s Court of the People’s Republic of China, respectively. The Supreme People’s Court of the People’s Republic of China made the final judgment on 24 May 2019, details of which were set out in the announcement of the Company dated 21 June 2019.
- (2) The Company and Shanghai Zhongde Energy (Group) Co., Ltd., of which Mr. Ye is a shareholder and director, have launched two legal proceedings over the outstanding payments for goods. Both cases are currently under enforcement.



Other Information

2. Certain lawsuits involving the Company due to external guarantees

- (1) The Company provided guarantees for Shengyu Group Company Limited (盛宇集團股份有限公司) (“**Shengyu Company**”) in Shanghai Pudong Development Bank, Hua Xia Bank and Bank of Ningbo. Since Shengyu Company was unable to repay the bank loan as agreed due to bad management, such banks filed a lawsuit with the court and got a judgment that Shengyu Company was ordered to repay the loan and the guarantor (the Company) was held liable for joint and several liabilities. The Company has filed a lawsuit against Shengyu Company with the People’s Court of Cangnan County according to the compensation amount. As of 30 June 2019, such cases were all under enforcement.
- (2) The Company provided guarantees for Huazheng Plastics Group Company Limited (華正塑料集團有限公司) (“**Huazheng Company**”) in China Zheshang Bank, China Merchants Bank and Fuding Hengxing Rural Bank. Since Huazheng Company was unable to repay the bank loan as agreed due to bad management, such banks filed a lawsuit with the court and got a judgment that Shengyu Company was ordered to repay the loan and the guarantor (the Company) was held liable for joint and several liabilities. The Company has filed a lawsuit against Huazheng Company with the People’s Court of Cangnan County according to the compensation amount. As of 30 June 2019, such cases were all under enforcement.

Save as disclosed above, as of 30 June 2019, the Company was not involved in any material litigation or arbitration.



Corporate Governance

Compliance with the Corporate Governance Code

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. During the Reporting Period, 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.

Compliance with Model Code for Securities Transactions by Directors, Supervisors and Relevant Employees

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 during the Reporting Period. 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.

Directors' Responsibility for the Financial Statements

The Directors acknowledge their responsibilities of the preparation of the financial statements of the Company and ensure that the preparation of the financial statements is in accordance with relevant regulations and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Company.



Corporate Governance

Independent Non-executive Directors

The Company has appointed a sufficient number of independent non-executive Directors with appropriate professional qualifications, or appropriate accounting or relevant financial management expertise in accordance with the requirements of the Listing Rules. The Company appointed a total of five independent non-executive Directors, including Mr. Ng Jack Ho Wan, Mr. Wong Hak Kun, Mr. Wang Jingfu, Mr. Li Jing and Mr. Su Zhongdi.

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.

The H Shares of the Company have been listed on the Stock Exchange since 4 January 2019, during the Reporting Period, the nomination committee did not hold any meeting.



Corporate Governance

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.

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, during the Reporting Period, the Company held a total of one meeting of the remuneration committee. All members of the remuneration committee attended the meeting. 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 considered and approved the Resolution Regarding the Remuneration of Directors and Senior Management of the Company for the Year 2019.



Corporate Governance

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.

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, during the Reporting Period, the Company held a total of two meetings of the Audit Committee. All members of the audit committee attended the meetings. Details of the meetings 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.



Corporate Governance

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 considered and approved the Resolution Regarding the Annual Report and Results Announcement of the Company for the Year 2018, the Resolution Regarding the Audited Financial Statements of the Company for the Year 2018, the Resolution Regarding the Final Financial Report 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.

The Audit Committee of the Company has reviewed the interim results of the Group for the six months ended 30 June 2019, and is of the view that the interim results of the Group for the six months ended 30 June 2019 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.



Report on Review of Interim Financial Information



羅兵咸永道

TO THE BOARD OF DIRECTORS OF ZHEJIANG CANGNAN INSTRUMENT GROUP COMPANY LIMITED

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

Introduction

We have reviewed the interim financial information set out on pages 28 to 59, which comprises the interim condensed consolidated balance sheet of Zhejiang Cangnan Instrument Group Company Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2019 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting". The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information of the Group is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 29 August 2019

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T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com*



Interim Condensed Consolidated Statement of Profit or Loss

| | Note | Six months ended 30 June | |
|---|------|---------------------------------|-------------------------------|
| | | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Revenue | 7 | 199,797 | 249,877 |
| Cost of sales | 10 | (59,866) | (78,743) |
| Gross profit | | 139,931 | 171,134 |
| Selling and distribution expenses | 10 | (53,624) | (46,597) |
| Administrative expenses | 10 | (34,720) | (29,223) |
| Gains from reversal of impairment on financial assets/ (impairment losses on financial assets) – net | 16 | 1,816 | (2,988) |
| Research and development expenses | 10 | (13,470) | (14,029) |
| Other income | 8 | 35,108 | 7,026 |
| Other losses – net | 9 | (1,796) | (2,716) |
| Operating profit | | 73,245 | 82,607 |
| Finance income | 11 | 3,394 | 805 |
| Finance expenses | 11 | (2,105) | (2,235) |
| Finance income/(expenses) – net | | 1,289 | (1,430) |
| Profit before income tax | | 74,534 | 81,177 |
| Income tax expenses | 12 | (10,269) | (10,013) |
| Profit for the period | | 64,265 | 71,164 |
| Attributable to: | | | |
| Equity holders of the Company | | 63,369 | 70,689 |
| Non-controlling interests | | 896 | 475 |
| | | 64,265 | 71,164 |
| Earnings per share for profit attributable to equity holders of the Company | | | |
| Basic and diluted earnings per share (expressed in RMB per share) | 13 | 0.91 | 1.36 |

The notes on pages 34 to 59 are an integral part of this interim condensed consolidated financial information.



Interim Condensed Consolidated Statement of Comprehensive Income

| | Six months ended 30 June | |
|--|---------------------------------|-------------------------------|
| | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Profit for the period | 64,265 | 71,164 |
| Other comprehensive income: Items that have been reclassified or may be subsequently reclassified to profit or loss: | | |
| Currency translation difference | – | 1,201 |
| Total comprehensive income for the period | 64,265 | 72,365 |
| Attributable to: | | |
| Equity holders of the Company | 63,369 | 71,890 |
| Non-controlling interests | 896 | 475 |
| | 64,265 | 72,365 |

The notes on pages 34 to 59 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Balance Sheet

| | Note | As at | |
|---|------|--|--|
| | | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| Assets | | | |
| Non-current assets | | | |
| Land use rights | 15 | 5,997 | 6,094 |
| Property, plant and equipment | 15 | 61,241 | 63,978 |
| Intangible assets | 15 | 22 | 155 |
| Right-of-use assets | 15 | 780 | – |
| Deferred income tax assets | | 24,999 | 26,022 |
| Financial assets at fair value through other comprehensive income | | 100 | 100 |
| Restricted cash | 18 | 24,358 | 24,047 |
| | | 117,497 | 120,396 |
| Current assets | | | |
| Trade receivables and other financial assets at amortised cost and prepayments | 16 | 574,467 | 643,741 |
| Inventories | 17 | 125,512 | 98,937 |
| Restricted cash | 18 | 17,829 | 27,614 |
| Cash and cash equivalents | 19 | 512,471 | 260,026 |
| | | 1,230,279 | 1,030,318 |
| Total assets | | 1,347,776 | 1,150,714 |
| Equity and liabilities | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | 20 | 69,791 | 51,890 |
| Other reserves | 21 | 499,822 | 339,676 |
| Retained earnings | | 388,172 | 380,636 |
| | | 957,785 | 772,202 |
| Non-controlling interests | | 13,449 | 13,656 |
| Total equity | | 971,234 | 785,858 |



Interim Condensed Consolidated Balance Sheet (Continued)

| | Note | As at | |
|--|------|--|--|
| | | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| Liabilities | | | |
| Non-current liabilities | | | |
| Deferred income | | 395 | 485 |
| Current liabilities | | | |
| Trade and other payables | 22 | 178,092 | 152,020 |
| Current income tax liabilities | | 34,662 | 47,850 |
| Borrowings | 23 | 69,650 | 69,650 |
| Lease liabilities | | 789 | – |
| Deferred income | | 180 | 180 |
| Warranties provision | 24 | 8,747 | 9,452 |
| Provisions for other liabilities and charges | 24 | 84,027 | 85,219 |
| | | 376,147 | 364,371 |
| Total liabilities | | 376,542 | 364,856 |
| Total equity and liabilities | | 1,347,776 | 1,150,714 |

The notes on pages 34 to 59 are an integral part of this interim condensed consolidated financial information.

The interim condensed consolidated financial information on pages 28 to 59 were approved by the Board of Directors on 29 August 2019 and were signed on its behalf:

Hong Zuobin

Director

Huang Youliang

Director

Interim Condensed 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 | |
| (Audited) | | | | | | |
| Balance at 1 January 2018 | 51,890 | 338,475 | 201,956 | 592,321 | 12,433 | 604,754 |
| Comprehensive income | | | | | | |
| Profit for the period | – | – | 70,689 | 70,689 | 475 | 71,164 |
| Other comprehensive income | | | | | | |
| Currency translation differences | | | | | | |
| Release on disposal of a subsidiary | – | 1,201 | – | 1,201 | – | 1,201 |
| Total comprehensive income | – | 1,201 | 70,689 | 71,890 | 475 | 72,365 |
| Transactions with owners | | | | | | |
| Dividends declared (Note 14) | – | – | (41,512) | (41,512) | – | (41,512) |
| Total transactions with owners, recognized directly in equity | – | – | (41,512) | (41,512) | – | (41,512) |
| Balance at 30 June 2018 | 51,890 | 339,676 | 231,133 | 622,699 | 12,908 | 635,607 |
| (Unaudited) | | | | | | |
| Balance at 1 January 2019 | 51,890 | 339,676 | 380,636 | 772,202 | 13,656 | 785,858 |
| Comprehensive income | | | | | | |
| Profit for the period | – | – | 63,369 | 63,369 | 896 | 64,265 |
| Total comprehensive income | – | – | 63,369 | 63,369 | 896 | 64,265 |
| Transactions with owners | | | | | | |
| Issuance of ordinary shares | 17,901 | 160,146 | – | 178,047 | – | 178,047 |
| Dividends declared (Note 14) | – | – | (55,833) | (55,833) | – | (55,833) |
| Dividends to non-controlling interests | – | – | – | – | (1,103) | (1,103) |
| Total transactions with owners, recognized directly in equity | 17,901 | 160,146 | (55,833) | 122,214 | (1,103) | 121,111 |
| Balance at 30 June 2019 | 69,791 | 499,822 | 388,172 | 957,785 | 13,449 | 971,234 |

The notes on pages 34 to 59 are an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

| | Note | Six months ended 30 June | |
|--|------|---------------------------------|-------------------------------|
| | | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Cash flows from operating activities | | | |
| Cash generated from operations | | 91,239 | 80,940 |
| Interest received | | 2,879 | 291 |
| Income tax paid | | (22,434) | (24,381) |
| Net cash generated from operating activities | | 71,684 | 56,850 |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | 15 | (2,691) | (5,922) |
| Proceeds from disposals of property, plant and equipment | | 6 | 41 |
| Proceeds from disposal of a subsidiary, net of cash disposed | | – | 589 |
| Payments for other financial assets at amortised cost | | (19,037) | – |
| Interest received on other financial assets at amortised cost | | 573 | – |
| Net cash used in investing activities | | (21,149) | (5,292) |
| Cash flows from financing activities | | | |
| Proceeds from short-term borrowings | | 27,750 | 22,800 |
| Repayment of short-term borrowings | | (27,750) | (22,800) |
| Interest paid | | (1,610) | (1,698) |
| Payments in relation to financial guarantees | 24 | (5,000) | (2,000) |
| Dividends paid to the Company's equity holders | | – | (41,512) |
| Dividends paid to non-controlling interests | | (368) | – |
| Listing expenses paid | | (17,046) | (9,940) |
| Proceeds from issuance of ordinary shares | | 225,892 | – |
| Net cash generated from/(used in) financing activities | | 201,868 | (55,150) |
| Net increase/(decrease) in cash and cash equivalents | | | |
| Cash and cash equivalents at beginning of period | | 260,026 | 157,390 |
| Exchange differences on translation of cash and cash equivalents | | 42 | (43) |
| Cash and cash equivalents at end of period | | 512,471 | 153,755 |

The notes on pages 34 to 59 are an integral part of this interim condensed consolidated financial information.



Notes to the Interim Condensed Consolidated Financial Information

1 General Information

The Company was incorporated on September 15, 1982 in the People's Republic of China (the "PRC") with limited liability under the Company Law of the PRC. The address of its registered office is Industrial Zone, Cangnan County, Wenzhou City, Zhejiang Province, the PRC. The Company was originally incorporated under the name of Zhejiang Cangnan Instrument Group Limited (浙江蒼南儀錶集團有限公司) 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 in Cangnan, Zhejiang Province, the PRC.

This interim condensed consolidated financial information has not been audited.

2 Basis of Preparation

This interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting". The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, the interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Institute of Certified Public Accountants.



Notes to the Interim Condensed Consolidated Financial Information

3 Accounting Policies

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2018, as described in those annual consolidated financial statements, except for the adoption of new and amended standards as set out below.

(a) New and amended standards and interpretations adopted by the Group

Except for the impact of adoption of IFRS 16 set out in Note 4 below, the adoption of other applicable new and amended standards and interpretations did not have any material impact on the interim condensed consolidated financial information of the Group.

- (b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2019 and have not been early adopted:

| | | Effective for annual periods beginning on or after |
|---------------------------------|---|---|
| Amendment to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associate or joint venture | To be determined |
| IFRS 3 (Amendment) | Definition of a Business | 1 January 2020 |
| IAS 1 and IAS 8 (Amendments) | Definition of Material | 1 January 2020 |
| IFRS 17 | Insurance contracts | 1 January 2021 |

The Company's directors have performed an assessment on these new standards and amendments to standards, and have concluded on a preliminary basis that the adoption of these new standards and amendments to standards is not expected to have a significant impact on the Group's results of operations and financial position.



Notes to the Interim Condensed Consolidated Financial Information

4 Changes in Accounting Policies

This note explains the impact of the adoption of IFRS 16, 'Leases', on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 4(b) below.

The Group has adopted IFRS 16 from its mandatory adoption date of 1 January 2019. The Group has applied the simplified transition approach and has not restated comparative amounts for the 2018 reporting period. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.75%.

| | 2019 |
|---|-------------|
| | RMB' 000 |
| Operating lease commitments disclosed as at 31 December 2018 | 1,424 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | 1,205 |
| Lease liabilities recognised as at 1 January 2019 | 1,205 |
| Of which are: | |
| Current lease liabilities | 842 |
| Non-current lease liabilities | 363 |



Notes to the Interim Condensed Consolidated Financial Information

4 Changes in Accounting Policies (Continued)

(a) Adjustments recognised on adoption of IFRS 16 (Continued)

Under the simplified transition approach, the associated right-of-use assets are measured at the amount equal to the lease liabilities on adoption, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to properties.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB1,205,000
- lease liabilities – increase by RMB1,205,000

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.



Notes to the Interim Condensed Consolidated Financial Information

4 Changes in Accounting Policies (Continued)

(b) The Group's leasing activities and how these are accounted for

The Group leases only offices for long-term contracts. Rental contracts are typically made for fixed periods of 1 to 2 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of properties were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and corresponding liabilities at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.



Notes to the Interim Condensed Consolidated Financial Information

4 Changes in Accounting Policies (Continued)

(b) The Group's leasing activities and how these are accounted for (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

5 Estimates

The preparation of the interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing the interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.



Notes to the Interim Condensed Consolidated Financial Information

6 Financial Risk Management

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk and liquidity risk. In terms of credit risk, credit risk arises from cash at banks, restricted cash, trade receivables and other financial assets at amortised cost. For other financial assets at amortised cost, the Group makes periodic assessment on the recoverability based on historical settlement records and historical experience.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of 31 December 2018.

There have been no changes in the risk management policies since year end.

6.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash flows for financial liabilities. The Group aims to maintain sufficient cash and cash equivalents. Due to the dynamic nature of the underlying business, the policy of the Group is to regularly monitor the Group's liquidity risk and to maintain adequate cash and cash equivalents to meet the Group's liquidity requirements.

6.3 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 30 June 2019, 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 receivables and other financial assets at amortised cost, 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.

Notes to the Interim Condensed Consolidated Financial Information

7 Revenue and Segment Information

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.

Revenue by product categories are analysed as below:

| | Six months ended 30 June | |
|--|---------------------------------|-----------|
| | 2019 | 2018 |
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Industrial and commercial gas flowmeter products | 167,290 | 217,769 |
| Residential gas meter products | 23,509 | 25,405 |
| Nuclear-related products | 7,971 | 5,576 |
| Maintenance services | 1,027 | 1,127 |
| | 199,797 | 249,877 |

Revenue by geographical areas are analysed as below:

| | Six months ended 30 June | |
|-----------------|---------------------------------|-----------|
| | 2019 | 2018 |
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| The PRC | 197,519 | 248,532 |
| Other countries | 2,278 | 1,345 |
| | 199,797 | 249,877 |

Notes to the Interim Condensed Consolidated Financial Information

7 Revenue and Segment Information (Continued)

Customers contributing more than 10% of the Group's total revenue for the six months ended 30 June 2019 are as follows:

| | Six months ended 30 June | |
|------------|---------------------------------|-------------------------------|
| | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Customer 1 | 11% | 12% |
| Customer 2 | 11% | * |

* less than 10%

8 Other Income

| | Six months ended 30 June | |
|--|---------------------------------|-------------------------------|
| | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Government grants (a) | 35,018 | 6,936 |
| Amortization of deferred income related to government grants | 90 | 90 |
| | 35,108 | 7,026 |

(a) Government grants for the six months ended 30 June 2019 mainly included government grants for the Company's successful listing on the Main Board of The Stock Exchange of Hong Kong Limited, bonus related to the Company's conversion into a joint stock company as well as tax refund.

9 Other Losses – Net

| | Six months ended 30 June | |
|--|---------------------------------|-------------------------------|
| | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Litigation losses (Note 24) | 3,336 | – |
| Donation | 33 | 235 |
| Losses/(gains) on disposals of property, plant and equipment | 40 | (23) |
| Foreign exchange (gains)/losses – net | (848) | 226 |
| Loss on disposal of a subsidiary | – | 1,122 |
| Others | (765) | 1,156 |
| | 1,796 | 2,716 |

Notes to the Interim Condensed Consolidated Financial Information

10 Expenses by Nature

| | Six months ended 30 June | |
|---|---------------------------------|-------------------------------|
| | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Changes in inventories of finished goods and work in progress | (19,798) | 107 |
| Raw materials and consumables used | 62,752 | 61,012 |
| Employee benefits expense | 43,009 | 41,544 |
| Sales service fee | 27,191 | 15,693 |
| Travel and office expenses | 8,485 | 8,575 |
| Depreciation and amortization (Note 15) | 6,037 | 5,672 |
| Commission | 3,207 | 3,877 |
| Warranties provision (Note 24) | 2,826 | 3,395 |
| Professional service fee | 2,476 | 2,463 |
| Transportation expenses | 2,319 | 2,400 |
| Utilities | 1,565 | 1,731 |
| Costs for the moulds used in research and development and the design of new products | 1,467 | 2,826 |
| Promotion costs | 1,041 | 3,286 |
| Real estate tax, stamp duty and other taxes | 404 | 788 |
| Other expenses (*) | 18,699 | 15,223 |
| | 161,680 | 168,592 |

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

Notes to the Interim Condensed Consolidated Financial Information

11 Finance Income/(Expenses) – Net

| | Six months ended 30 June | |
|--|---------------------------------|-------------------------------|
| | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Finance income: | | |
| – Interest income | 3,394 | 805 |
| Finance expenses: | | |
| – Interest expense | (1,771) | (1,892) |
| – Provisions: unwinding of discounts (Note 24) | (334) | (343) |
| Finance income/(expenses) – net | 1,289 | (1,430) |

12 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(“Dongxing Software”): from 2016 to 2018, Dongxing Energy Technology Limited and Dongxing Intelligence Instrument Limited: from 2018 to 2020).

In 2019, the Directors are of the view that Dongxing Software is entitled to 15% preferential tax rate for the reason that there is no impediment to that Dongxing Software’s renewal of the HNTE status upon its expiration.

| | Six months ended 30 June | |
|---------------------------|---------------------------------|-------------------------------|
| | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Current income tax | 9,246 | 8,049 |
| Deferred income tax | 1,023 | 1,964 |
| Total income tax expenses | 10,269 | 10,013 |

Notes to the Interim Condensed Consolidated Financial Information

13 Earnings per Share

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 six months ended 30 June 2019. 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 six months ended 30 June 2019 (six months ended 30 June 2018: same) is the same as the basic earnings per share as there is no dilutive potential share during the six months ended 30 June 2019 (six months ended 30 June 2018: same).

| | Six months ended 30 June | |
|---|--------------------------|-------------------|
| | 2019 (Unaudited) | 2018 (Audited) |
| Profit attributable to the equity holders of the Company (RMB'000) | 63,369 | 70,689 |
| Weighted average number of shares in issue or deemed to be in issue (in thousands) | 69,408 | 51,890 |
| Basic and diluted earnings per share (RMB) | 0.91 | 1.36 |

14 Dividends

The 2018 final dividend of RMB0.8 per ordinary share, totaling RMB55,833,000, was approved by the shareholders at the annual general meeting held on 10 June 2019 and was paid on July 2019.

The dividend declared by the Company for the six months ended 30 June 2018 was RMB41,512,000.

Notes to the Interim Condensed Consolidated Financial Information

15 Land Use Rights, Property, Plant and Equipment, Intangible Assets and Right-of-use Assets

| | Land use rights RMB' 000 | Property, plant and equipment RMB' 000 | Intangible assets RMB' 000 | Right-of-use assets RMB' 000 |
|--|--------------------------------|---|----------------------------------|------------------------------------|
| (Audited) | | | | |
| At 31 December 2018 | | | | |
| Cost | 7,830 | 155,725 | 1,318 | – |
| Accumulated depreciation/ amortisation | (1,736) | (91,747) | (1,163) | – |
| Net book amount | 6,094 | 63,978 | 155 | – |
| (Unaudited) | | | | |
| Six months ended 30 June 2019 | | | | |
| Opening net book amount | 6,094 | 63,978 | 155 | – |
| Adoption of IFRS 16 | – | – | – | 1,205 |
| Additions | – | 2,691 | – | – |
| Disposals | – | (46) | – | – |
| Depreciation/amortisation charges (Note 10) | (97) | (5,382) | (133) | (425) |
| Closing net book amount | 5,997 | 61,241 | 22 | 780 |
| (Unaudited) | | | | |
| At 30 June 2019 | | | | |
| Cost | 7,830 | 158,328 | 1,318 | 1,205 |
| Accumulated depreciation/ amortisation | (1,833) | (97,087) | (1,296) | (425) |
| Net book amount | 5,997 | 61,241 | 22 | 780 |

Notes to the Interim Condensed Consolidated Financial Information

16 Trade Receivables and Other Financial Assets at Amortised Cost and Prepayments

| | As at | |
|--|--|--|
| | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| Trade receivables – third parties | 505,418 | 555,624 |
| Less: Loss allowance | (49,451) | (51,272) |
| Trade receivables – net | 455,967 | 504,352 |
| Notes receivable | 67,096 | 80,692 |
| Prepayments | 6,563 | 38,587 |
| Interest receivable | 3,633 | 3,118 |
| Other financial assets at amortised cost | 41,308 | 17,087 |
| Less: Loss allowance | (100) | (95) |
| Other financial assets at amortised cost – net | 41,208 | 16,992 |
| | 574,467 | 643,741 |

The carrying amounts of trade receivables and other financial assets at amortised cost are denominated in RMB.

As at 30 June 2019 and 31 December 2018, the carrying amounts of trade receivables and other financial assets at amortised cost approximated their fair values due to short maturity.

Customers who are given credit are generally granted with credit terms within 3 months.

Notes to the Interim Condensed Consolidated Financial Information

16 Trade Receivables and Other Financial Assets at Amortised Cost and Prepayments (Continued)

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

| | As at | |
|--------------------|--|--|
| | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| Within 1 year | 400,964 | 454,333 |
| 1 year to 2 years | 54,582 | 46,701 |
| 2 years to 3 years | 12,650 | 15,142 |
| Over 3 years | 37,222 | 39,448 |
| | 505,418 | 555,624 |

The closing loss allowance for trade receivables and other financial assets at amortised cost as at 30 June 2019 reconcile to the opening loss allowance of the Group was as follows:

| | Six months ended 30 June | |
|--|---------------------------------|-------------------------------|
| | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| At beginning of period | 51,367 | 42,716 |
| Increase in loss allowance recognized in profit or loss during the period | 7,324 | 8,159 |
| Unused amounts reversed | (9,140) | (5,171) |
| At end of period | 49,551 | 45,704 |



Notes to the Interim Condensed Consolidated Financial Information

17 Inventories

| | As at | |
|-------------------------------------|-------------|-------------|
| | 30 June | 31 December |
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Raw materials | 51,871 | 45,282 |
| Work-in-progress | 36,183 | 27,287 |
| Finished goods | 36,922 | 26,020 |
| Packaging materials and consumables | 536 | 348 |
| | 125,512 | 98,937 |

Notes to the Interim Condensed Consolidated Financial Information

18 Restricted Cash

| | As at | |
|--|--|--|
| | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| Restricted cash pledged for notes payable | 5,471 | 13,137 |
| Restricted cash pledged for financial guarantees provided to third parties (i) | 31,780 | 31,780 |
| Others | 4,936 | 6,744 |
| | 42,187 | 51,661 |
| Less: non-current portion of restricted cash | (24,358) | (24,047) |
| | 17,829 | 27,614 |
| Non-current portion of restricted cash: | | |
| Restricted cash pledged for financial guarantees provided to third parties (i) | 21,780 | 21,780 |
| Others | 2,578 | 2,267 |
| | 24,358 | 24,047 |

Restricted cash is all denominated in RMB.

- (i) Due to providing financial guarantees to third parties (Note 24), 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 Interim Condensed Consolidated Financial Information

19 Cash and Cash Equivalents

| | As at | |
|---------------------------|--|--|
| | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| Cash on hand | 45 | 19 |
| Cash at bank | 512,426 | 260,007 |
| Cash and cash equivalents | 512,471 | 260,026 |

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

| | As at | |
|------|--|--|
| | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| RMB | 482,475 | 253,622 |
| HK\$ | 16,179 | 8 |
| EUR | 9,139 | 2,192 |
| US\$ | 4,678 | 4,204 |
| | 512,471 | 260,026 |



Notes to the Interim Condensed Consolidated Financial Information

20 Share Capital

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 at 30 June 2019, the share capital of the Company is RMB69,791,167 with 51,890,000 domestic shares and 17,901,167 H Shares in issue.

21 Other Reserves

| | Capital reserves | Translation reserves | Total |
|-------------------------------------|-----------------------------|---------------------------------|----------------|
| | RMB' 000 | RMB' 000 | RMB' 000 |
| (Audited) | | | |
| Balance at 1 January 2018 | 339,676 | (1,201) | 338,475 |
| Release on disposal of a subsidiary | – | 1,201 | 1,201 |
| Balance at 30 June 2018 | 339,676 | – | 339,676 |
| (Unaudited) | | | |
| Balance at 1 January 2019 | 339,676 | – | 339,676 |
| Issuance of ordinary shares | 160,146 | – | 160,146 |
| Balance at 30 June 2019 | 499,822 | – | 499,822 |

Notes to the Interim Condensed Consolidated Financial Information

22 Trade and Other Payables

| | As at | |
|---|--|--|
| | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| Trade payables – third parties (a) | 46,945 | 54,017 |
| Taxes payable | 27,239 | 39,507 |
| Notes payable | 3,741 | 19,446 |
| Advances from customers | 6,908 | 5,895 |
| Salaries and bonuses payable | 7,903 | 694 |
| Interests payable | 89 | 90 |
| Dividends payable | 56,568 | – |
| Advances from employees for sundry expenses | 5,988 | 7,199 |
| Sales commission payable | 2,034 | 3,182 |
| Others | 20,677 | 21,990 |
| | 178,092 | 152,020 |

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 30 June 2019, the aging analysis of the trade payables based on invoice date was as follows:

| | As at | |
|--------------------|--|--|
| | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| Within 1 year | 44,197 | 51,145 |
| 1 year to 2 years | 699 | 1,010 |
| 2 years to 3 years | 605 | 501 |
| Over 3 years | 1,444 | 1,361 |
| | 46,945 | 54,017 |



Notes to the Interim Condensed Consolidated Financial Information

23 Borrowings

| | As at | |
|----------------------------|--|--|
| | 30 June 2019 RMB' 000 (Unaudited) | 31 December 2018 RMB' 000 (Audited) |
| Short-term bank borrowings | | |
| – Secured and guaranteed | 44,900 | 44,900 |
| – Secured | 14,750 | 14,750 |
| – Guaranteed | 10,000 | 10,000 |
| Total borrowings | 69,650 | 69,650 |

As at 30 June 2019 and 31 December 2018, the weighted average effective interest rates on borrowings from banks were 4.64% and 4.74%, 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 Interim Condensed Consolidated Financial Information

24 Warranties Provision and Provisions for Other Liabilities and Charges

(a) Warranties provision

| | Warranties provision RMB'000 |
|----------------------------------|--|
| <hr/> | |
| (Audited) | |
| Balance at 1 January 2018 | 8,398 |
| Charged to profit or loss: | |
| Additional provisions | 3,395 |
| Utilized during period | (3,136) |
| <hr/> | |
| Balance at 30 June 2018 | 8,657 |
| <hr/> | |
| (Unaudited) | |
| Balance at 1 January 2019 | 9,452 |
| Charged to profit or loss: | |
| Additional provisions | 2,826 |
| Utilized during period | (3,531) |
| <hr/> | |
| Balance at 30 June 2019 | 8,747 |

Analysis of total warranties provisions:

| | As at | |
|---------|-------------------------|---------------------|
| | 30 June 2019 | 31 December 2018 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| <hr/> | | |
| Current | 8,747 | 9,452 |

Notes to the Interim Condensed Consolidated Financial Information

24 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 |
| <hr/> | |
| (Audited) | |
| Balance at 1 January 2018 | 73,607 |
| Charged to profit or loss: | |
| Unwinding of discount | 343 |
| Paid during period | (2,000) |
| <hr/> | |
| Balance at 30 June 2018 | 71,950 |
| <hr/> | |
| (Unaudited) | |
| Balance at 1 January 2019 | 72,304 |
| Charged to profit or loss: | |
| Unwinding of discount | 334 |
| Paid during period | (5,000) |
| <hr/> | |
| Balance at 30 June 2019 | 67,638 |
| <hr/> | |

Analysis of total provisions for financial guarantee contracts:

| | As at | |
|---------|--------------------|-------------|
| | 30 June | 31 December |
| | 2019 | 2018 |
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| <hr/> | | |
| Current | 67,638 | 72,304 |
| <hr/> | | |



Notes to the Interim Condensed Consolidated Financial Information

24 Warranties Provision and Provisions for Other Liabilities and Charges (Continued)

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

(ii) Provisions for litigation loss

| | Legal claims RMB' 000 |
|---|---------------------------------|
| <hr/> | |
| (Audited) | |
| Balance at 1 January 2018 | 12,503 |
| Charged to profit or loss: | |
| Additional provisions | |
| – Interest accrual on litigation claims | 205 |
| <hr/> | |
| Balance at 30 June 2018 | 12,708 |
| <hr/> | |
| (Unaudited) | |
| Balance at 1 January 2019 | 12,915 |
| Charged to profit or loss: | |
| Additional provisions | |
| – Litigation claims(*) | 3,336 |
| – Interest accrual on litigation claims | 138 |
| <hr/> | |
| Balance at 30 June 2019 | 16,389 |

Analysis of total provisions for litigation loss:

| | As at | |
|---------|--------------------|-------------|
| | 30 June | 31 December |
| | 2019 | 2018 |
| | RMB' 000 | RMB' 000 |
| | (Unaudited) | (Audited) |
| Current | 16,389 | 12,915 |

Notes to the Interim Condensed Consolidated Financial Information

24 Warranties Provision and Provisions for Other Liabilities and Charges (Continued)

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

(ii) Provisions for litigation loss (Continued)

* In April and December 2014, the board of directors of the Company passed resolutions to retrieve and transfer the shareholding held by an ex-shareholder to a number of current employees of the Company as he carried out competing business activities in breach of the Company's then articles of association. The aggregate consideration for the transfer of RMB4.3 million was received in full from the current employees and recorded under "trade and other payables – others". Payment has not been made to the ex-shareholder pending the outcome of the legal claims brought against the Company by the ex-shareholder. The amounts provided under "provisions for 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 May 2019, a final court judgement was made by the Supreme Court of the PRC and the Company recognized an additional provision of RMB3,336,000 accordingly. 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 30 June 2019.

25 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.

(a) Significant related party transactions

(i) Key management compensation

| | Six months ended 30 June | |
|---|---------------------------------|-------------------------------|
| | 2019 RMB' 000 (Unaudited) | 2018 RMB' 000 (Audited) |
| Short-term employee benefits | | |
| – Wages, salaries and bonuses | 1,890 | 1,634 |
| – Pension, housing fund, medical insurance and other social insurance | 54 | 54 |
| | 1,944 | 1,688 |



Notes to the Interim Condensed Consolidated Financial Information

26 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 24 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 is in progress. 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.



Definition and Glossary of Technical Terms

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| “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 |
| “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 |
| “Director(s)” | the director(s) of the Company |
| “Domestic Shares” | ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi |
| “Dongxing 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 |
| “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 |



Definition and Glossary of Technical Terms

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| “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 |
| “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 |
| “Listing Date” | the date, on which our H Shares were listed on the Main Board of Hong Kong Stock Exchange (being 4 January 2019) |
| “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 |



Definition and Glossary of Technical Terms

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| “Northeast China” | mainly includes Liaoning and Heilongjiang |
| “Northwest China” | mainly includes Xinjiang, Gansu and Ningxia |
| “Reporting Period” | the period from the 1 January 2019 to 30 June 2019 |
| “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 under the Hong Kong Listing Rules |
| “substantial shareholder” | has the meaning ascribed thereto under the Hong Kong Listing Rules |
| “Supervisor(s)” | the member(s) of the Supervisory Committee |
| “Supervisory Committee” | the supervisory committee of the Company |
| “%” | per cent |