



# 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**  
Annual Report

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## Company Profile

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

Our operations can be traced back to 1977. Leveraging over 40 years of industry experience, we are dedicated to the manufacture and sales of a wide range of industrial and commercial gas flowmeters, which are generally used by gas operators to measure the flow volume of gas. We engage in a comprehensive business integrating R&D, manufacture, sales and aftersales services. In addition to industrial and commercial gas flowmeter products, we have developed various series of residential gas meter products and possess the production capacity to produce 300,000 units of residential gas meters per annum. Leveraging our established sales network, we are committed to expanding our residential gas meter business in the PRC. We also produce and sell a small quantity of nuclear-related products, mainly nuclear-level throttling devices, used as accessories for nuclear power generation projects. Our customers of nuclear-level throttling devices include leading companies in the PRC nuclear power industry, which we believe testifies to both our technological capabilities and our product quality control capabilities. We also generate revenue from providing maintenance services mainly in relation to our industrial and commercial gas flowmeter products that are outside of the warranty period.

## Corporate Information

### LEGAL NAME OF THE COMPANY

浙江蒼南儀錶集團股份有限公司

### ENGLISH NAME OF THE COMPANY

Zhejiang Cangnan Instrument Group Company Limited

### DIRECTORS

#### Executive Directors

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

#### Non-executive Directors

Mr. Ye Xiaosen  
Mr. Hou Zukuan

#### Independent Non-executive Directors

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

#### Supervisors

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

### Legal representatives of the Company

Mr. Hong Zuobin

### Authorized representative

Mr. Huang Youliang  
Mr. Chan Chun Wai

### Joint Company Secretaries

Ms. Lin Zichan  
Mr. Chan Chun Wai

### COMMITTEES OF THE BOARD

#### Nomination Committee

Mr. Hong Zuobin (*Chairman*)  
Mr. Li Jing  
Mr. Su Zhongdi  
Mr. Ye Xiaosen  
Mr. Wang Jingfu

#### Audit Committee

Mr. Wong Hak Kun (*Chairman*)  
Mr. Ng Jack Ho Wan  
Mr. Su Zhongdi  
Mr. Wang Jingfu  
Mr. Hou Zukuan

#### Remuneration Committee

Mr. Su Zhongdi (*Chairman*)  
Ms. Lin Zichan  
Mr. Yin Xingjing  
Mr. Wong Hak Kun  
Mr. Ng Jack Ho Wan

## Corporate Information

### Registered Office

Industrial Demonstrative Park  
Lingxi Town  
Cangnan County  
Zhejiang Province  
PRC

### Headquarters and Principal Place of Business in the PRC

Industrial Demonstrative Park  
Lingxi Town  
Cangnan County  
Zhejiang Province  
PRC

### Principal Place of Business in Hong Kong

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

### Auditor

PricewaterhouseCoopers  
*Certified Public Accountants*  
*Registered Public Interest Entity Auditor*  
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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Website: [www.zjcnyb.com](http://www.zjcnyb.com)  
Email: [investor@zjcnyb.com](mailto:investor@zjcnyb.com)

## Chairman's Statement

On behalf of the Board of Directors of the Company, I am pleased to present the annual results of the Group for the year ended 31 December 2019 to all the shareholders.

2019 was a crucial year for our Company to implement the 13<sup>th</sup> Five-Year Plan and the first year since our successful listing on the Hong Kong Stock Exchange. In recent years, with the adjustment of energy structure, the orderly progress in urbanization and the attention to environmental protection, China's economy entered a new era of high-quality development, leading to rapid development in the gas industry. The Group kept focusing on its core business and devoted itself to the R&D of industrial and commercial flowmeter products, thereby winning and accumulating the trust from and good reputation among the vast number of users and seizing the opportunity of this industry rise. Nonetheless, affected by the lack of natural gas sources, prices, pipeline construction and connectivity as well as inadequate government support, the vigorous promotion of "coal-to-gas switching project" did not achieve ideal results. As a consequence, industry demand no longer "exploded", showing a rational and stable trend.

Over the past year, we continued to adhere to the basic policy of "deepening reform, accelerating innovation, expanding opening-up, and implementing scientific management", pursue supply-side structural reform as our main task and promote high-quality development.

In 2019, we continued to facilitate technological reforms, strengthen R&D and accelerate the development of new products under the principle of "obeying and serving the market demand" with a focus on the strong market demand of air pollution control and strategic adjustment of energy structure in the construction of China's ecological civilization. We closely tracked the latest technological development of "Internet + Energy" to develop and improve our own cloud service platforms and increased the technological empowerment of our products by expanding the application of intelligence and IOT. We boldly introduced and adopted new technologies, new processes and new materials to continuously break through the bottlenecks of key technologies.

We worked to promote the reform of the marketing system and mechanism, and to innovate marketing thinking. Focusing on market expansion, we actively explored the market development mechanism that can fully mobilize the enthusiasm of marketing personnel and achieve mutual benefit and win-win results. While maintaining the existing market and users, we put more efforts to tap into new markets and built a harmonious relationship with customers. We used the Internet and big data technology platform to build a new service system with rapid response, strengthened the construction of service technology guidance stations and service network, and always followed the service philosophy of "Cangnan Instrument always stays by its customers and customers are always at the heart of us", with a view to provide better, faster and quality after-sales services.

## Chairman's Statement

Focusing on the Company's needs to reform and develop, we strengthened the construction of our talent team and basic staff team, improved the quality of human capital, and strove to cultivate a talent team that can contribute to the Company's development and make every effort to serve the Company. We enhanced process management and innovation, improved the quality and efficiency in processing products, and comprehensively promoted the plan to replace manpower with machines. We actively pressed ahead with the implementation of a series of management efficiency improvement reforms, such as the quality control of the Company's production process, the supply chain improvement plan, and "revitalizing the Group through quality". The Company was granted such honors as "Wenzhou Mayor Quality Award", "100 Key Enterprises in Electronic Information Industry in Zhejiang", "AAA-Rated Enterprise" and "Meritorious Enterprise in Cangnan County", and its core products won honors such as "Famous Brand Product in Zhejiang" and "Excellent Industrial Product in Zhejiang".

With the establishment of the national oil and gas pipeline network company, major breakthroughs will be made in the reform of oil and gas system, and challenges lie ahead of the industry in its future development. Nevertheless, we also see that, it remains unchanged that clean energy such as natural gas is becoming more and more important in the national energy structure and strategy; the trend and policy of the state to prevent and control air pollution and to continuously seek for environmental improvement will remain unchanged; and the market demand for reliable and intelligent gas flowmeters will remain unchanged. Hence, opportunities and challenges coexist in the future and we still have great potentials.

In 2020, we will remain true to our original aspiration and go all out for it! We will continue to strengthen technological and product innovation with a focus on innovation-driven development, improve the quality of the Company's development and enhance the ability to resist risks, so as to repay investors and all sectors of the society for their trust with outstanding achievements.

## Financial Highlights

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

	For the year ended 31 December				
	2019 RMB' 000	2018 RMB' 000	2017 RMB' 000	2016 RMB' 000	2015 RMB' 000
Revenue	<b>484,260</b>	630,323	669,813	444,160	362,687
Gross profit	<b>337,881</b>	461,304	485,537	288,553	197,417
Operating profit	<b>151,997</b>	258,513	286,220	142,961	50,199
Profit for the year	<b>139,980</b>	221,415	241,683	117,883	36,545

	As at 31 December				
	2019 RMB' 000	2018 RMB' 000	2017 RMB' 000	2016 RMB' 000	2015 RMB' 000
<b>Assets</b>					
Non-current assets	<b>120,201</b>	120,396	133,044	127,939	119,744
Current assets	<b>1,271,023</b>	1,030,318	824,554	601,456	506,437
<b>Total assets</b>	<b>1,391,224</b>	1,150,714	957,598	729,395	626,181
<b>Equity and liabilities</b>					
Total equity	<b>1,046,119</b>	785,858	604,754	400,543	312,024
Non-current liabilities	<b>305</b>	485	18,188	25,500	84,068
Current liabilities	<b>344,800</b>	364,371	334,656	303,352	230,089
<b>Total liabilities</b>	<b>345,105</b>	364,856	352,844	328,852	314,157
<b>Total equity and liabilities</b>	<b>1,391,224</b>	1,150,714	957,598	729,395	626,181



# Management Discussion and Analysis

## I. INDUSTRY OVERVIEW

In recent years, China has witnessed growing demand for natural gas driven by consistent economic growth, structural adjustment to energy resources, steady progress in urbanization and priority given to environmental protection. Notwithstanding, as a result of both considerable downward pressure on China's macroeconomy and less efforts exerted in "Coal-to-Gas Switching Project" in Northern China, the consumption volume of natural gas across the country in 2019 saw a moderate increase amid stable performance. According to a market report issued by China Insights Consultancy, natural gas consumption volume in China over the year of 2019 amounted to 306.7 billion cubic meters, representing an increase of 9.4% from the previous year.

The year of 2020 serves as a critical year for China's three-year Blue Sky Protection Campaign. Under the favourable policies in terms of environmental protection, the demand for natural gas will continue to maintain its growing momentum, positive results will be initially achieved thanks to the establishment of a comprehensive system integrating the processes of production, supply, storage and sales. Accordingly, the capacity for gas supply will be promisingly improved and the market condition on the whole is tending to be favourable for our operation. In 2020, natural gas consumption volume in China is estimated to be approximately 330.0 billion cubic meters, representing a year-on-year increase of 9% and will further reach over 500.0 billion cubic meters in 2024. The CAGR of natural gas consumption volume from 2019 to 2024 will remain at a higher level, reaching up to 10.3%.

## II. BUSINESS OVERVIEW

The Company is a leading industrial and commercial gas flowmeter manufacturer in China. Leveraging over 40 years of industry experience, the Company is dedicated to the manufacture and sales of a wide range of industrial and commercial gas flowmeters, which are generally used by gas operators to measure the flow volume of gas. The Company is engaged in a comprehensive business, integrating research and development, manufacture, sales and aftersales services. The Company ranked second in the industrial and commercial gas flowmeter industry in China in terms of revenue in 2019, with our revenue from the sales of industrial and commercial gas flowmeter products amounting to RMB402.4 million.

Through our extensive sales network covering most of the provinces in China, we mainly sell our industrial and commercial gas flowmeter products to gas operators in China. Our major customers include certain leading enterprise groups of the gas industry in China. We have established long-term stable relationships with our major customers. In particular, four leading gas enterprise groups in China remained among our top five customers throughout the last few years. As of 31 December 2019, we had maintained business relationships with these customers for 9 to 15 years. In 2019, sales to our top five customers accounted for approximately 33.3% 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 2019:

	Revenue (RMB' 000)	Cost (RMB' 000)	Gross profit (RMB' 000)
Industrial and commercial gas flowmeter products	402,440	99,187	303,253
Residential gas meter products	56,687	36,610	20,077
Nuclear-related products	21,617	9,908	11,709
Maintenance services	3,516	674	2,842
<b>Total</b>	<b>484,260</b>	<b>146,379</b>	<b>337,881</b>

The following table sets out a breakdown of our revenue by region in 2019 and 2018:

	2019 (RMB' 000)	2018 (RMB' 000)
<b>China</b>	<b>480,847</b>	627,780
North China	99,504	120,979
East China	204,498	287,297
Southwest China	40,239	66,870
South China	33,409	38,560
Central China	24,040	38,063
Headquarters	43,721	35,976
Northeast China	23,746	26,859
Northwest China	11,690	13,176
<b>Overseas</b>	<b>3,413</b>	2,543
<b>Total</b>	<b>484,260</b>	630,323

## Management Discussion and Analysis

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

#### 1. Overview

Our revenue decreased by 23.2% from RMB630.3 million in 2018 to RMB484.3 million in 2019. Profit of the Group in 2019 was RMB140.0 million, representing a decrease of RMB81.4 million compared to profit of RMB221.4 million in 2018. Profit attributable to equity holders of the Company was RMB136.5 million for the year ended 31 December 2019, decreased by RMB83.7 million from RMB220.2 million for the year 2018. Cash and cash equivalents of the Group increased by RMB333.3 million from RMB260.0 million as at 31 December 2018 to RMB593.3 million as at 31 December 2019. Total assets of the Group increased by RMB240.5 million from RMB1,150.7 million as at 31 December 2018 to RMB1,391.2 million as at 31 December 2019. Our total liabilities decreased by RMB19.8 million from RMB364.9 million as at 31 December 2018 to RMB345.1 million as at 31 December 2019. Return on total assets of the Group in 2019 was 10.1% compared to 19.2% in 2018.

#### 2. Operating Results

##### 2.1. Revenue

Our revenue decreased by 23.2% from RMB630.3 million in 2018 to RMB484.3 million in 2019, primarily because the revenue recorded an explosive growth as a result of the significant growth of the natural gas industry benefited from the coal-to-gas project in previous years, and gradually entered into a stable period after adjustments, and the base during the same period in the previous year was also high, which led to a certain year-on-year decline of the revenue of industrial and commercial gas flowmeter business in the current period. Our sales of nuclear-related products increased by 38.5% from RMB15.6 million in 2018 to RMB21.6 million in 2019, mainly due to the increased demand resulted from the increased number of nuclear power generation projects planned by the state, which resulted in the significantly increase of nuclear-related products' revenue.

##### 2.2. Cost of sales

Our cost of sales decreased by 13.4% from RMB169.0 million in 2018 to RMB146.4 million in 2019, mainly due to the decrease of sales revenue in the current period, which in turn resulted in the decrease of cost of sales.

## Management Discussion and Analysis

### 2.3. Gross profit

Our gross profit decreased by 26.8% from RMB461.3 million in 2018 to RMB337.9 million in 2019 and our gross profit margin decreased from 73.2% in 2018 to 69.8% in 2019, mainly attributable to the decrease of sales revenue and corresponding cost of sales in the current period which resulted in the decrease of gross profit. In addition, fierce market competition also led to the decrease of gross profit and gross profit margin. In order to maintain market share, the sales price has slightly decreased and the purchase prices of major materials such as bearings, aluminum, stainless steel, and integrated circuits have slightly increased, resulting in a slight decline in gross profit margin.

### 2.4. Selling and distribution expenses

Our selling and distribution expenses increased by 10.0% from RMB112.9 million in 2018 to RMB124.2 million in 2019, mainly because in order to further grasp the market and strengthen sales support services to customers, investment in market services continued to increase in the current period, which led to an increase in sales expenses.

### 2.5. Administrative expenses

Our administrative expenses increased by 41.0% from RMB54.2 million in 2018 to RMB76.4 million in 2019, mainly because (i) the Company rewarded core personnel and distributed souvenirs due to the successful listing, resulting in increased related benefits expenses; and (ii) the increase in remuneration level of senior executives.

### 2.6. Net reversal of impairment losses/(impairment losses) on financial assets

We recorded a net reversal of impairment loss on financial assets of RMB1.2 million in 2019, compared to a net impairment loss of RMB8.7 million in 2018. The net reversal of impairment loss in 2019 is mainly due to decrease in the amount of trade receivables.

### 2.7. Research and development expenses

Our research and development expenses decreased slightly by 4.3% from RMB41.5 million in 2018 to RMB39.7 million in 2019.

## Management Discussion and Analysis

### 2.8. Other income

Our other income increased by 170.1% from RMB16.7 million in 2018 to RMB45.1 million in 2019, mainly because the Company received one-time government grants and subsidy for the successful listing in the current period, and also received government grants related to tax refund, resulting in an increase in other income in the current period.

### 2.9. Other gains/(losses) – net

Our other gains/(losses) – net changed by 452.2% from a net loss of RMB2.3 million in 2018 to a net gain of RMB8.1 million in 2019, mainly due to the reversal of guarantee losses in the current period.

### 2.10. Operating profit

Our operating profit decreased by 41.2% from RMB258.5 million in 2018 to RMB152.0 million in 2019, mainly due to the decrease of revenue and the increase of sales expenses and administrative expenses in the current period, resulting in the decrease of operating profit.

### 2.11. Finance income/(expenses) – net

Our finance income/(expenses) – net changed by 491.3% from a net expense of RMB2.3 million in 2018 to a net income of RMB9.0 million in 2019, mainly due to the increase of cash and cash equivalents in the current period as a result of cash inflow from operations and IPO proceeds, resulting the increase of interest income.

### 2.12. Income tax expenses

Our net income tax expenses decreased by 39.7% from RMB34.8 million in 2018 to RMB21.0 million in 2019, mainly due to the decrease of sales in the current period and the decrease of profit before tax as compared to the same period in the previous year, resulting in the decrease of income tax expense as compared to the same period in the previous year.

### 2.13. Profit for the year

As a result of the foregoing, our profit for the year decreased by 36.8% from RMB221.4 million in 2018 to RMB140.0 million in 2019, mainly due to the decrease of revenue and gross profit, and the increase of selling and distribution expenses and administrative expenses in the current period, resulting in the decrease of the profit in the current period.

## Management Discussion and Analysis

### 3. Cash and Cash equivalents

As at 31 December 2019, cash and cash equivalents of the Group increased by RMB333.3 million from RMB260.0 million as at 31 December 2018 to RMB593.3 million.

### 4. Current Assets and Liabilities

As at 31 December 2018, we had net current assets of approximately RMB665.9 million. As at 31 December 2019, we had net current assets of RMB926.2 million, representing an increase of 39.1% as compared with that as at 31 December 2018, primarily due to the earnings generated from normal operating activities in the current period, and the proceeds from the successful listing, resulting in the increase of net current assets.

### 5. Indebtedness

Our borrowings were short-term bank borrowings primarily for our working capital purposes. As at 31 December 2019, our bank loans amounted to RMB66.7 million. We plan to settle our indebtedness primarily using expected cash generated from operations.

### 6. Financial Ratio

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

	<b>As at or for the year ended</b>	
	<b>31 December</b>	
	<b>2019</b>	2018
Gearing ratio <sup>(1)</sup>	<b>0.1</b>	0.1
Current ratio <sup>(2)</sup>	<b>3.7</b>	2.8
Quick ratio <sup>(3)</sup>	<b>3.3</b>	2.6
Return on equity <sup>(4)</sup> (%)	<b>13.4%</b>	28.2%
Return on total assets <sup>(5)</sup> (%)	<b>10.1%</b>	19.2%
Net debt to equity ratio <sup>(6)</sup>	<b>-0.5</b>	-0.3
Interest coverage <sup>(7)</sup>	<b>39.7</b>	62.0

## Management Discussion and Analysis

*Notes:*

- (1) *calculated by dividing total debts, i.e. our borrowings (all of which are short-term bank borrowings) by total equity as at the end of respective year.*
- (2) *calculated by dividing our current assets by our current liabilities as at the end of the respective year.*
- (3) *calculated by dividing our current assets minus inventories by our current liabilities as at the end of the respective year.*
- (4) *equals our net profit for each of the year divided by the closing balance of our total equity as at the end of the respective year, multiplied by 100%.*
- (5) *equals our net profit for the year divided by the closing balance of our total assets as at the end of the respective year, multiplied by 100%.*
- (6) *calculated by dividing our net debt, being our total borrowings (all of which are short-term bank borrowings), net of cash and cash equivalents and restricted cash by total equity as at the respective year end date.*
- (7) *equals our profit before finance expenses and tax for each of the year divided by our finance expenses.*

### **7. Significant Investment**

For the year ended 31 December 2019, the Group had no significant investment.

### **8. Material Acquisition and Disposal**

For the year ended 31 December 2019, the Group had no material acquisition or disposal.

## Management Discussion and Analysis

### 9. Contingent Liabilities

For the year ended 31 December 2019, the Group had no material contingent liabilities.

### 10. Employees and Remuneration Policy

As at 31 December 2019, we had 533 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 2019, we incurred employee benefits expenses (including salaries, wages and bonuses, pension and housing fund, medical insurance and other social insurances) of approximately RMB90.1 million, representing approximately 18.6% of our revenue in 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 dispatch our research and development staff to receive training at academic institutions such as China Jiliang University.

### 11. Pledge of Assets

The Group's borrowings are partially secured by property, plant and land use rights. As at 31 December 2019, the total net carrying value of assets pledged was RMB34.2 million.

### 12. Liquidity and Sources of Capital

As at 31 December 2019, the Group's cash and cash equivalents increased by 128.2% to RMB593.3 million as compared with the balance of RMB260.0 million as at 31 December 2018, primarily due to the earnings generated from normal operating activities, and the proceeds from the successful listing. The main sources of the Group's business capital come from operating activities.

As at 31 December 2019, the Group's borrowings decreased by 4.3% to RMB66.7 million as compared with RMB69.7 million as at 31 December 2018. Such borrowings were all short-term borrowings.



## Management Discussion and Analysis

### 13. Capital Structure

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

## IV. RISK FACTORS AND RISK MANAGEMENT

### 1. Foreign Exchange Risks

For our operation in Mainland China, most of our transactions are denominated and settled in RMB. Therefore, our foreign exchange risk is limited. Our exposure to foreign exchange risk is mainly on our cash and cash equivalents. The Group has not purchased forward contracts to hedge the exposure to foreign exchange risk. The Group's trade and other receivables, cash and cash equivalents and trade and other payables in 2019 included Euro, US\$ or other foreign currencies ("**Other Foreign Currencies**"). In 2019, the Group did not have any significant foreign exchange risk from operation.

### 2. Competitive Risks

We primarily operate in the gas measurement instrument industry in the PRC. Participants in this market include both domestic and international gas measurement instrument manufacturers. The main market that we compete in is led by two major players, with the rest of the market highly fragmented. In the event that we fail to compete effectively or grasp the opportunities arising from the PRC industrial and commercial gas flowmeter market, our market share and profit margin may decline and our business, results of operations and financial condition may be materially and adversely affected.

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

## Management Discussion and Analysis

### 3. Expansion Risks

For the purpose of the Group's future development in satisfying the demands and needs of our customers at home and abroad, we plan to launch the project of Cangnan Instrument Industrial Park, including a sub-project for intelligent gas flowmeter modification and ancillary facilities upgrade, a laboratory for gas flow detection and a platform for gas measurement and transmission through Internet of Things. There is no assurance that our expansion plan will succeed, nor won't any unforeseeable change in the market need give rise to our overcapacity, which in turn may result in material and adverse effect on our business, operating results and financial condition.

### 4. Price Risks

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

### 5. Outbreak Risks

In the beginning of 2020, the sudden outbreak of novel coronavirus named COVID-19 will inevitably put downward pressure on the Chinese economy which is in transition period. In particular, there will be certain impact to the Chinese economy in the short term. The spread of COVID-19 and its subsequent effects will cause relatively great impact on the Chinese economy, finance, trade, and the industrial chain, among which the short-term disruption of the supply chain will have adverse impact on the manufacturing industry, the cornerstone for China's economic development. The specific impact is delayed resumption of work of enterprise, delayed production, stagnant circulation, weak demand and global pandemics and other various risks. For the gas industry, the COVID-19 outbreak will cause labor difficulties, rising costs, reduced orders, blocked logistics, and lead it into a semi-stagnation state in the short term. In the long term, the COVID-19 outbreak will have great negative impact on industries such as tourism, catering, commerce, transportation, and exhibitions, thus affecting demand for natural gas from such industries. During the COVID-19 outbreak, the Company also experienced reduced orders, delayed procurement and supply, and delayed production and logistics. In view of the above factors, it may adversely affect our business, financial condition and results of operation.

## Management Discussion and Analysis

### V. OUTLOOK ON THE GROUP'S FUTURE DEVELOPMENT

#### (I) Current Conditions and Future Development Trends of the Development of the Industry

The sales revenue of industrial and commercial natural gas flowmeter in China increased from RMB919.6 million in 2012 to RMB1,972.6 million in 2019 at a CAGR of 11.5%. The PRC government facilitated further utilization of oil, gas and other clean energy resources on a consistent basis, which significantly stimulated the market demand for industrial and commercial natural gas flowmeter. Certain policies that stresses guarantee and peak shaving of gas supply were consecutively promulgated by the government since the end of 2016. During the period of the 13th Five-Year Plan, the government, in tandem, issued a series of guiding documents such as Opinions on Expediting the Utilization of Natural Gas (《關於加速推進天然氣利用的意見》) and Certain Opinions in relation to Establishment of Long-term Mechanism for Stable and Guaranteed Supply of Natural Gas (《關於建立保障天然氣穩定供應長效機制若干意見》), which provides encouraging policy-level indications for the future development of the natural gas sector. Moreover, the 13th Five-Year Plan also includes instructions on sustainable construction of natural gas network, based on which, the industrial and commercial natural gas flowmeter market will maintain in great demand in the future.

By virtue of the ongoing demand for industrial and commercial natural gas flowmeter, it is expected that the sales revenue of such flowmeter will sustain a higher growth rate and reach RMB3,318.0 million in 2024, at a CAGR of 11.0% from 2019 to 2024, according to a research report.

#### (II) Development Strategy and Planning of the Company

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

## Management Discussion and Analysis

### (III) Business Plan for 2020

1. 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.

While paying close attention to the development trend of intelligent natural gas, the Company will accelerate the technological innovation and to promote the informationization, intelligence and networking of its products, thereby enhancing the competitive edge of its products. In view of the impact arising from current outbreak of COVID-19, the Company will make a comprehensive research and analysis on the shift of service mode of gas enterprises and adjust the direction for its products development, so as to improve the market adaptability of its products. In addition, 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. 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 use the resources to coordinate and collaborate the development of the entire regional market. We will adopt our new four-level interactive service system, with our group headquarter as the core service center, greater regional service sub-centers, provincial service offices and local urban service units.

3. Construct intelligent plants and achieve intelligent manufacturing

We will devote great efforts to promote the construction of intelligent gas flowmeter modification and upgrade project. In the construction of the Cangnan Instrument Industrial Park, we will introduce an informationization management system to conduct scientific management covering all aspects including human, machine, material, method and environment. We will build automated and intelligent processing and assembling lines featuring sophisticated production equipment equipped with robot, mechanic arm and transmission line, in which, we will apply cutting-edge sensors, electronic and information technology. Thanks to the modernized and intelligent warehousing system that brings about more adaptability and flexibility in supply system, we will enhance the corporate production and management level in response to change in market demand.

## Management Discussion and Analysis

### 4. Optimize the mechanism for talent introduction and cultivation, and consummate performance appraisal mechanism

We will facilitate the function of talents as the most valuable resource and constantly consummate the mechanism for talent introduction and cultivation, with a view to building an expertise team that adapt to modernized, innovative and technological enterprise that can continue as a going concern. We will push forward our team building based on scientific thinking, gradually strengthen cultivation of employees across the board, arouse intrinsic potentials through performance appraisal for continuous enhancement of human resources quality so as to satisfy the Company's need for innovative development. Furthermore, we will establish a new and appropriate system favourable for talent introduction, using as well as retention and consolidate our talent base with a view to driving the enterprise forward on a consistent manner.

## Directors, Supervisors and Senior Management

### I. EXECUTIVE DIRECTORS

**Mr. Hong Zuobin (洪作斌先生)**, aged 72, is the Chairman and the executive Director of the Company. Mr. Hong was graduated from Wenzhou Pingyang County No.1 Middle School with a high school degree on June 1966. Mr. Hong was a teacher at Mazhan Secondary School in Cangnan County, Zhejiang Province from September 1970 to September 1975, and served as the Party Branch Secretary and the manager of Cangnan Meter Plant from 1977 to June 1984. Mr. Hong served as the deputy head of the Industry Bureau of Cangnan County, the deputy director, director and the Secretary of the Economic Planning Commission of Cangnan County from April 1984 to December 1990; the director and the Secretary of the Party Leadership Group of the Overseas Chinese Affairs Office of Cangnan County from December 1990 to June 1993; the director and the Secretary of the Party Leadership Group of the Urban and Rural Construction Committee of Cangnan County from June 1993 to January 1997; the Secretary of the Party Leadership Group of the Environmental Protection Bureau of Cangnan County from January 1997 to June 1999; the director and the Secretary of the Party Leadership Group of the Taiwan Affairs Office of Cangnan County from June 1999 to June 2002; a researcher of the Taiwan Affairs Office of Cangnan County from January 2002 to December 2005. Mr. Hong has served as the Chairman of the Company since May 2004.

**Mr. Huang Youliang (黃友良先生)**, aged 54, is an executive Director and the general manager of the Company. Mr. Huang served as a statistical clerk of the production division and an officer, the deputy director and director of the factory office of our Company from August 1984 to November 2000, and was appointed as deputy factory manager from November 2000 to May 2001, and was promoted to the executive vice factory manager from May 2001 to December 2002. Mr. Huang has served as the general manager of our Company since January 2003. Mr. Huang studied at Graduate School of the Asia International Open University (Macau) from 2004 to 2006 and received a Master of Business Administration degree. Mr. Huang currently serves as an executive member of the China City Gas Association and vice president of Zhejiang Investment Promotion Association. In addition, Mr. Huang was awarded the title "National Machinery Industry Model Worker (全國機械工業勞動模範)" in 2014.

## Directors, Supervisors and Senior Management

**Mr. Yin Xingjing (殷興景先生)**, aged 47, is an executive Director and the deputy general manager of the Company. Mr. Yin was an officer of the technical division and the director of the No. 3 design workshop of the technical division of the Company from September 1993 to December 1999; the deputy director of the production engineering department from January 2000 to October 2000; the director of the technical department from November 2000 to May 2003; and was appointed as the chief engineer from January 2004 to January 2011. Mr. Yin has served as a deputy factory manager of the Company since January 2011. Mr. Yin majored in mechanical design and manufacture at University of Shanghai for Science and Technology from September 1993 to January 1997, and subsequently obtained a graduation certificate for the network education programme in mechanical and electrical engineering at University of Science and Technology Beijing in January 2009. In addition, Mr. Yin was awarded with the title of Instrument Technical Engineer in November 2002 and was subsequently promoted as Flow Instrument Professional Senior Engineer in December 2010. Mr. Yin was awarded with the National May 1 Labour Medal in 2013.

**Mr. Zhang Shengyi (章聖意先生)**, aged 52, is an executive Director and the chief engineer of the Company. Mr. Zhang joined the Company in March 1989 and worked as a worker at the instrument workshop up to December 1999; served as the deputy director of the technical development department from March 1999 to December 1999; the director of the technology development department from December 1999 to November 2000; the director of the chief engineer office from November 2000 to May 2001; assistant to the factory manager from May 2001 to August 2001; and was appointed as the deputy factory manager from August 2001 to January 2011. Mr. Zhang has served as the chief engineer since January 2011. Mr. Zhang majored in computer science and technology at Southwest China Normal University from March 2003 to January 2005. Mr. Zhang was awarded with the title of Automated Instrument Engineer in November 2011, the title of Senior Engineer of Measurement and Metrology Technique and Instrument in February 2019, and the title of “Renowned Master” of the tertiary industries of Wenzhou in 2014.

## Directors, Supervisors and Senior Management

**Ms. Lin Zichan (林姿嬋女士)**, aged 42, is an executive Director, the vice general manager, the secretary to the Board of the Company and the deputy chairman of the Group's labour union. Ms. Lin was an officer of the factory department office from November 2000 to May 2003; deputy head of the factory department office from May 2003 to January 2006; head of the factory department office from January 2006 to December 2008; assistant to the factory manager, head of the factory department office, and deputy chairman of the labour union from January 2009 to December 2012. Ms. Lin has served as a deputy general manager of the Company and deputy chairman of the labour union since January 2013. Ms. Lin majored in international economics and trade at Zhejiang Radio and Television University from September 1996 to June 1998 and subsequently studied an EMBA at Shanghai Jiao Tong University from May 2012 to August 2013.

**Mr. Lin Zhongzhu (林中柱先生)**, aged 41, is an executive Director and the deputy general manager of the Company. Mr. Lin was an officer of the Company's technical equipment department from January 2001 to December 2002; a technician of the precision work group from January to December 2003; deputy head of the technical equipment department from January 2004 to December 2005; head of the technical equipment department from January 2006 to March 2008; the deputy chief engineer and the head of the technical equipment department from April 2008 to December 2011; and assistant to the factory manager and the head of the technical equipment department from January 2012 to December 2012. Mr. Lin has served as a deputy factory manager since January 2013. Mr. Lin majored in mechanical manufacturing and automation at Zhejiang University of Technology from September 1996 to July 2000 and obtained a bachelor's degree. In addition, Mr. Lin was awarded with the title of Mechanical Manufacturing Engineer by Wenzhou Municipal People's Government in November 2011.

**Mr. Lin Jingdian (林景殿先生)**, aged 45, is an executive Director and the deputy chief engineer of the Company. Mr. Lin served as the head of mechanical design and head of standard metrology of the Company from October 2003 to December 2010; the deputy director of the technical R&D centre from February 2011 to December 2011; and the director of the technical R&D centre from January 2012 to December 2013. Mr. Lin has served as the deputy chief engineer and the director of technical R&D department since January 2014. Mr. Lin majored in mechanical design and manufacturing at Zhengzhou University of Technology from September 1995 to December 1998, and subsequently obtained a graduation certification of the network education programme in mechanical and electrical engineering at the University of Science and Technology Beijing in January 2009. Moreover, Mr. Lin was awarded the title of Senior Flowmeter Engineer by Zhejiang Province Human Resources and Social Security Department in December 2011, and was subsequently promoted to Professorate Senior Flowmeter Engineer in December 2016. Meanwhile, Mr. Lin is currently a part-time off-campus postgraduate tutor of instrument science and technology at China Jiliang University.



## Directors, Supervisors and Senior Management

### II. NON-EXECUTIVE DIRECTORS

**Mr. Ye Xiaosen (葉小森先生)**, aged 68, is a non-executive Director of the Company. Mr. Ye had been working with the Company from November 1983 to November 2011. Mr. Ye served as a salesman and assistant to the chief of the sales department from November 1983 to April 1985; deputy chief of the sales department of the Company from April 1985 to February 1988; chief of the sales department of the Company from February 1988 to May 1993; deputy plant director from May 1993 to January 1996; plant director from January 1996 to September 1998; Chairman of the Company from September 1998 to May 2004; and vice chairman of the Company from May 2004 to November 2011.

**Mr. Hou Zukuan (侯祖寬先生)**, aged 68, is a non-executive Director of the Company. Mr. Hou had been working with the Company from September 1977 to July 2017. Mr. Hou served as chief of the financial section from the time when the Company started business operation to November 1984; director of the factory office from November 1984 to July 1986; secretary to the factory department from July 1986 to January 1987; deputy factory manager and executive deputy factory manager from January 1987 to February 2001; factory manager from February 2001 to December 2002; consultant to the factory manager from January 2003 to January 2013; and director of the infrastructure office of the Company from January 2013 to July 2017.

### III. INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ng Jack Ho Wan (吳浩雲先生)**, aged 43, is an independent non-executive Director of the Company. Mr. Ng has over 20 years of experience in accounting, auditing, asset management and fund management. He worked in PricewaterhouseCoopers LLP, Canada from September 1997 to February 2001. Mr. Ng then worked in KPMG in Hong Kong from March 2001 to October 2012 and was an audit partner in KPMG in Hong Kong from July 2008 to October 2012, where he was responsible for overseeing audit and advisory projects in the wealth and fund management sectors both in China and Hong Kong. Mr. Ng has been the managing director of Jack H.W. Ng CPA Limited since June 2013. Mr. Ng has been appointed as an independent non-executive director of HM International Holdings Limited (a company listed on the GEM Board of the Stock Exchange, stock code: 8416) (with effect from 15 December 2016). Mr. Ng graduated from Simon Fraser University, Canada with a degree of Bachelor of Business Administration in May 2000. Mr. Ng has been a senior fellow of the Hong Kong Institute of Certified Public Accountants since May 2010 and also a chartered accountant in British Columbia, Canada since February 2001. Mr. Ng was granted the designation of financial risk manager by the Global Association of Risk Professionals and the certification of information systems auditor by ISACA in November 2004 and January 2007, respectively. In September 2007, Mr. Ng was certified as chartered financial analyst by the Chartered Financial Analyst Institute. Mr. Ng was awarded with a specialist certificate in asset management by Hong Kong Securities Institute in February 2005.

## Directors, Supervisors and Senior Management

**Mr. Wong Hak Kun (王克勤先生)**, aged 63, is an independent non-executive Director of the Company. Mr. Wong once worked in Deloitte China, and has more than 36 years of experience in auditing, assurance and management. He had been a partner of Deloitte China since 1992. He served as a member on the board of directors of Deloitte China from 2000 to 2008. Before retiring in May 2017, Mr. Wong was a partner of Deloitte China in charge of national audit and assurance. Mr. Wong has been respectively appointed as an independent non-executive director of Yue Yuen Industrial (Holdings) Limited (a company listed on the Main Board of the Stock Exchange, stock code: 551) (with effect from 1 June 2018) and an independent non-executive director of Lung Kee (Bermuda) Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 255) (with effect from 1 June 2018). Mr. Wong obtained a bachelor's degree in social sciences from The University of Hong Kong in November 1980. He is a member of Hong Kong Institute of Certified Public Accountants since December 1983, the Association of Chartered Certified Accountants since September 1983, and the Chartered Institute of Management Accountants since June 1990.

**Mr. Wang Jingfu (王靖甫先生)**, aged 54, is an independent non-executive Director of the Company. Mr. Wang is currently the chairman and president of Zhejiang Zhengda Certified Public Accounting. Mr. Wang currently serves as the independent director of Zhemao Science & Technology Company Limited. Mr. Wang graduated from Hangzhou Business School (杭州商學院) (now Hangzhou Business College of Zhejiang Gongshang University) in 1987. He studied a continuing education and majored in accounting at Zhejiang Institute of Finance and Economics from February 2004 to January 2007. Mr. Wang served as a director of Zhejiang Institute of Certified Public Accountants, a visiting professor of Hangzhou Polytechnic, and chairman of accounting professional steering committee of Hangzhou Polytechnic. Mr. Wang currently serves as a director of Zhejiang Engineering Cost Association. Mr. Wang is qualified as senior accountant and CPA.

**Mr. Li Jing (李靜先生)**, aged 53, is an independent non-executive Director of the Company. From August 1988 to July 1998, Mr. Li worked in Faculty of Laws in Hangzhou University (currently Zhejiang University). From November 1998 to the present, he has worked in L&H Law Firm. He is a founding partner of L&H Law Firm. From 23 November 2007 to 29 December 2010, Mr. Li served as the independent director of Sichuan Jinding (Group) Co., Ltd. Mr. Li graduated from the Department of Political Education of East China Normal University with a Bachelor of Law degree in July 1988. He became a CPA in China in 1996. He was admitted as a PRC qualified lawyer by Zhejiang Provincial Department of Justice (浙江省司法廳) in October 1991.

## Directors, Supervisors and Senior Management

**Mr. Su Zhongdi (蘇中地先生)**, aged 63, is an independent non-executive Director of the Company. Mr. Su graduated from Zhejiang University with a bachelor's degree, majoring in fluid mechanics in January 1982, and graduated from Peking University with a Master of Science degree in 1984, majoring in fluid mechanics. Afterward, he worked as a teacher in China Jiliang University. From March 2000 to July 2003, he pursued advanced studies in Department of Mechanical Engineering of The Hong Kong Polytechnic University and obtained the degree of Doctor of Philosophy. Mr. Su had been engaged in the teaching of fluid mechanics and the research of flow metrology from 1984 to 2017. In the meantime, he had been the academic leader in fluid mechanics and the head of Fluid Detection and Simulation Research Institute in China Jiliang University. He participated in the creation of undergraduate programmes for fluid mechanics and engineering mechanics in China Jiliang University as the principal. He has directed dozens of scientific research projects, including projects of Natural Science Foundation of China, projects of the AQSIQ, projects of Natural Science Foundation of Zhejiang Province, key scientific research projects of Zhejiang Province, projects of oversea study fund, and projects entrusted by large enterprises.

### IV. SUPERVISORS

**Mr. Huang Xijun (黃希俊先生)**, aged 43, is a Supervisor and the director of production department of the Company. Mr. Huang worked in Cangnan Metallurgical Machinery Plant from October 1995 to October 1999. Mr. Huang joined the Company in October 1999 and served as a worker of the metalworking workshop until September 2005. Mr. Huang served as the head of the precision machinery division from October 2005 to December 2005; the deputy director of the metalworking workshop from January 2006 to December 2007; and the director of the metalworking workshop from January 2008 to March 2017. Mr. Huang has served as the deputy director of production department from March 2017 to August 2019, and the director of production department since August 2019. Mr. Huang obtained a graduation certificate for the network education programme in Business Administration from Shandong University in July 2014.

**Mr. Ye Sigong (葉思共先生)**, aged 53, is a Supervisor of the Company. Mr. Ye served as a worker of the electrical instrument and assembly workshop of the Company from August 1989 to June 1995; the director of the electrical instrument and assembly workshop from June 1995 to January 2006; the deputy director of production department and director of the electrical instrument and assembly workshop from January 2006 to January 2007; the managing deputy factory manager of the heat metre branch from January 2007 to December 2007; and the deputy director and director of the quality department from January 2008 to December 2009. Mr. Ye has served as the director of the market services centre since January 2010. Mr. Ye obtained a high school diploma from Mazhan High School in July 1984.

## Directors, Supervisors and Senior Management

**Mr. Zhou Xiaoding (周孝定先生)**, aged 53, is a Supervisor of the Company. Mr. Zhou served as a worker, section officer of the technology department and salesman of the Company from July 1984 to March 2000; and the deputy director of planning and marketing from March 2000 to December 2007. Mr. Zhou has served as the regional marketing manager in places including Chongqing, Sichuan, Guizhou and Yunnan since January 2008. From September 1984 to July 1986, Mr. Zhou took a postgraduate advancement course in textile machinery at Zhejiang Silk Institute of Technology (浙江絲綢工學院) (now Zhejiang Sci-Tech University).

### V. SENIOR MANAGEMENT

**Mr. Huang Youliang (黃友良先生)**, aged 54, is an executive Director and the general manager of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. Yin Xingjing (殷興景先生)**, aged 47, is an executive Director and the vice general manager of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. Zhang Shengyi (章聖意先生)**, aged 52, is an executive Director and chief engineer of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. Fan Zefeng (范則鋒先生)**, aged 54, is the deputy general manager of the Company. Mr. Fan served as a worker of the metalworking workshop from June 1984 to March 1999; the director of quality control from March 1999 to December 1999; the deputy director of quality control department from December 1999 to May 2001; director of quality control department from June 2001 to December 2003; and the plant manager assistant and director of production department from January 2004 to December 2004. He has been the deputy general manager of the Company since January 2005.

**Ms. Lin Zichan (林姿嬋女士)**, aged 42, is an executive Director, vice general manager and secretary to the Board of the Company, and vice chairman of the trade union of the Group. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. Lin Zhongzhu (林中柱先生)**, aged 41, is an executive Director and vice general manager of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

## Directors, Supervisors and Senior Management

**Mr. Jin Wensheng (金文勝先生)**, aged 51, is the deputy general manager and CPC Party Secretary of the Group, and is also the chairman of the board of directors and general manager of Zhejiang Cangnan Instrument Group Dongxing Intelligent Instrument Co., Ltd., a subsidiary of the Group. Mr. Jin worked as a staff on the engineering department of the Company from January 1992 to January 1998; vice director of the technical development centre and plant manager assistant from January 1999 to December 2000; diaphragm gauge branch plant manager (vice plant manager level) from January 2004 to December 2009; executive vice factory director of the Company and diaphragm gauge branch plant manager from January 2010 to January 2012; diaphragm gauge branch plant manager from January 2012 to May 2015; manager of Zhejiang Cangnan Instrument Group Dongxing Intelligent Instrument Co., Ltd. from May 2015 to December 2018. Mr. Jin studied in Zhejiang University from September 1989 to July 1991, majoring in light chemistry and machinery, and pursued the EMBA programme (for presidents) in Shanghai Jiaotong University from July 2010 to October 2011. Mr. Jin was granted the title of Mechanical Manufacturing Engineer by the Wenzhou Municipal Government in October 2001.

**Mr. Xie Shangpeng (謝尚鵬先生)**, age 46, is the manager of Zhejiang Cangnan Instrument Group Dongxing Energy Technology Co., Ltd., a subsidiary of the Group. Mr. Xie worked as a staff of the engineering department of the Company from September 1991 to December 1993; deputy chief engineer and director of technical R&D centre from June 2002 to April 2012; vice plant manager and manufacturing branch manager from April 2012 to April 2015; and manager of Zhejiang Cangnan Instrument Group Dongxing Energy Technology Co., Ltd. from May 2015 to present. Mr. Xie obtained a college diploma in Computer Application from China Jiliang Institute (Correspondence) in July 2014, and subsequently studied an EMBA at Shanghai Jiao Tong University from May 2012 to August 2013. Mr. Xie was granted the title of Chemical Machinery Engineer by the Wenzhou Municipal Government in November 2002.

**Mr. Chen Qihui (陳其慧先生)**, aged 42, is the financial controller of the Company. Mr. Chen worked as a staff on the information centre under the technical research and development department of the Company from August 2003 to July 2013; deputy director of the information centre from July 2013 to July 2014; and deputy head of the Company's financial department from July 2014 to present. Mr. Chen majored in computerised accounting in Huazhong University of Science and Technology from September 1998 to July 2000, and then majored in accounting in Zhejiang University from September 2012 to December 2015. In addition, Mr. Chen was granted the professional title of informatization technology engineer by China Enterprise Confederation in October 2004.

**Ms. Huang Liyun (黃麗雲女士)**, aged 68, is the head of the finance department of the Company. Ms. Huang worked in Pingyang Trademark Cotton Mill from March 1977 to August 1984. She joined the Company in September 1984 and was a clerk of the finance division of the Company until December 2000; she served as the deputy director of the finance department of the Company from December 2000 to June 2001; and she has been the head of the finance department of the Company since June 2001. Ms. Huang studied "Industrial Accounting" course in Wenzhou City Accounting Correspondence School in February 1986. Ms. Huang was awarded the title of accountant by Wenzhou Municipal People's Government in December 1999.

## Directors' Report

The Board hereby presents to Shareholders the annual report and the audited financial statements for the year ended 31 December 2019 (the “**Financial Statements**”).

### SHARE CAPITAL

Details of the movements in share capital of the Company for the year ended 31 December 2019 and as at 31 December 2019 are set out in note 22 to the Financial Statements.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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

### PRE-EMPTIVE RIGHTS

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

### PRINCIPAL BUSINESS

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

### RESULTS

The results of the Group for the year ended 31 December 2019 and the financial position of the Group as at 31 December 2019 are set out in the audited Financial Statements on pages 146 to 151.

A discussion and analysis of the Company's performance and business review during the year and the material factors underlying its results, financial position, the financial key performance indicators and the principal risks and uncertainties are set out in the “Management Discussion and Analysis” on pages 8 to 20 and “Financial Highlights” on page 7 of this annual report.

## Directors' Report

### PROFIT DISTRIBUTION

The declaration, payment and the amount of dividends will be subject to our discretion and will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares.

The Board recommended distributing a final dividend of RMB0.6 per share (tax inclusive) in cash for the year ended 31 December 2019 to shareholders. All dividends will be paid upon the approval by the shareholders in the 2019 annual general meeting of the Company.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in properties, plants and equipment of the Company and its subsidiaries during the year are set out in note 14 to the Financial Statements.

### RESERVES

Details of the movements in reserves of the Company during the year are set out in note 36 to the Financial Statements; details of reserves distributable to the shareholders are set out in note 36 to the Financial Statements.

### TAX CONCESSION

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

### BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and its Subsidiaries as at 31 December 2019 are set out in note 26 to the Financial Statements.

## Directors' Report

### INFORMATION AND BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets forth information concerning the Directors, Supervisors and senior management of the Company for the year ended 31 December 2019.

Name	Age	Position Held in the Company	Date of Appointment
Mr. Hong Zuobin	72	Chairman, Executive Director	13 June 2017
Mr. Huang Youliang	54	Executive Director, General Manager	13 June 2017
Mr. Yin Xingjing	47	Executive Director, Vice General Manager	13 June 2017
Mr. Zhang Shengyi	52	Executive Director, Chief Engineer	13 June 2017
Ms. Lin Zichan	42	Executive Director, Vice General Manager, Joint Company Secretary	13 June 2017
Mr. Lin Zhongzhu	41	Executive Director, Vice General Manager	13 June 2017
Mr. Lin Jingdian	45	Executive Director	13 June 2017
Mr. Ye Xiaosen	68	Non-executive Director	15 August 2017
Mr. Hou Zukuan	68	Non-executive Director	15 August 2017
Mr. Ng Jack Ho Wan	43	Independent Non-executive Director	21 June 2018
Mr. Wong Hak Kun	63	Independent Non-executive Director	21 June 2018
Mr. Wang Jingfu	54	Independent Non-executive Director	21 June 2018
Mr. Li Jing	53	Independent Non-executive Director	21 June 2018
Mr. Su Zhongdi	63	Independent Non-executive Director	21 June 2018
Mr. Huang Xijun	43	Chairman of the Supervisory Committee, Employee Supervisor	13 June 2017
Mr. Ye Sigong	53	Supervisor	13 June 2017
Mr. Zhou Xiaoding	53	Supervisor	13 June 2017
Mr. Fan Zefeng	54	Vice General Manager	13 June 2017
Mr. Jin Wensheng	51	Vice General Manager, and Manager of Dongxing Intelligent	13 June 2017
Mr. Xie Shangpeng	46	Vice General Manager, and Manager of Dongxing Energy	13 June 2017
Mr. Chen Qihui	42	Financial Controller	17 September 2017
Ms. Huang Liyun	68	Head of Finance Department	13 June 2017

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

Biographical details of Directors, Supervisors and senior management are set out on pages 21 to 28 of this annual report.



## Directors' Report

### SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors has entered into a service contract with our Company. The principal particulars of these service contracts are (a) for a term of three years commencing from the effective date of such service contracts, and (b) are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable laws, rules or regulations. Each of the Supervisors had entered into a contract in respect of, among others, compliance of relevant laws and regulations, observation of the Articles of Association and provisions on arbitration with our Company.

Save as disclosed above, none of the directors who proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation

### REMUNERATION OF DIRECTORS AND SUPERVISORS

Details of the remuneration of the Company's Directors and Supervisors are set out in note 37 to the Financial Statements.

### INTERESTS OF DIRECTORS AND SUPERVISORS IN MATERIAL TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

At the end of the year 2019 or at any time during the year, there was no transactions, arrangements or contracts of significance to the Group's business in which the Company or its Subsidiaries was a party, and in which a Director or Supervisor had a material interest, either directly or indirectly, subsisted during the year or at the end of the year.

### INTERESTS OF DIRECTORS IN COMPETING BUSINESS

During the year of 2019, none of the Directors and their associates had any competing interests in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

### LIABILITY INSURANCE AND INDEMNITY

Information in relation to the liability insurances provided for Directors and Supervisors of the Company and the permitted indemnity provisions can be found on page 55 in the Corporate Governance Report of this annual report.

### EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2019, the Company has not entered into any equity-linked agreement.

## Directors' Report

### INTERESTS AND SHORT POSITIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVES IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As of 31 December 2019, the interests and short positions of the Directors, Supervisors or chief executives of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Code for Trading in Securities defined in the Corporate Governance Report of this annual report are set out below:

Name of Director/ Supervisor/Chief Executive	Long/Short position	Nature of Interest	Number of Shares	Approximate Percentage of Shareholding in the Company	Approximate Percentage of Shareholding in the Domestic Shares of the Company
Mr. Hong Zuobin	Long position	Beneficial owner	9,253,400	13.26%	17.83%
Mr. Huang Youliang	Long position	Beneficial owner	6,697,900	9.60%	12.91%
Mr. Zhang Shengyi	Long position	Beneficial owner	2,005,100	2.87%	3.86%
Mr. Yin Xingjing	Long position	Beneficial owner	1,710,700	2.45%	3.30%
Ms. Lin Zichan	Long position	Beneficial owner	1,710,700	2.45%	3.30%
Mr. Lin Zhongzhu	Long position	Beneficial owner	729,500	1.05%	1.41%
Mr. Lin Jingdian	Long position	Beneficial owner	159,200	0.23%	0.31%
Mr. Huang Xijun	Long position	Beneficial owner	98,200	0.14%	0.19%
Mr. Ye Sigong	Long position	Beneficial owner	368,000	0.53%	0.71%
Mr. Zhou Xiaoding	Long position	Beneficial owner	920,000	1.32%	1.77%

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

## Directors' Report

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As of 31 December 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:

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

Name of Shareholders	Class of Share	Capacity	Number of Shares/ Underlying Shares Held (share)	Percentage in the Relevant Class of Share Capital (%)	Percentage in the Total Share Capital (%)
Mr. Hong Zuobin	Domestic Shares	Legal and Beneficial owner	9,253,400	17.83%	13.26%
Mr. Huang Youliang	Domestic Shares	Legal and Beneficial owner	6,697,900	12.91%	9.60%
ZS Capital Fund SPC (on behalf of ZS Investment Fund SP) <sup>1</sup>	H Shares	Legal and Beneficial owner	4,923,800	27.51%	7.06%
Mr. Deping Xi <sup>1</sup>	H Shares	Interest held by controlled corporation	4,923,800	27.51%	7.06%
Qiu Yanjie	H Shares	Legal and Beneficial owner	2,658,000	14.85%	3.81%
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.

## Directors' Report

### **DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES**

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

### **MANAGEMENT CONTRACTS**

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

### **CONNECTED TRANSACTIONS**

For the year ended 31 December 2019, the Company did not enter into any connected transaction.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 December 2019, the purchase from the Group's five largest suppliers in aggregate contributed 15.7% of the Group's total purchase for the year, among which, the total purchase from the largest supplier contributed 4.5% of the Group's total purchase for the year.

For the year ended 31 December 2019, the sales to the Group's five largest customers in aggregate contributed 33.3% of the Group's total sales for the year, among which, the sales to the largest customer contributed 10.8% of the Group's total sales for the year. The Directors and Supervisors of the Company and their close associates (as defined in the Listing Rules) had no any interests in the five top customers above in 2019.

### **RETIREMENT AND EMPLOYEES BENEFIT SCHEME**

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

### **COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE AND REPORT**

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

Please refer to the Corporate Governance Report as set out on pages 43 to 63 of this annual report for details.

## Directors' Report

### PUBLIC FLOAT

Based on the information publicly available to the Company and so far as the Directors are aware, the Company has maintained sufficient public float as at the date of this Report, which was in compliance with the requirements under the Listing Rules.

### MATERIAL LITIGATIONS

As at 31 December 2019, the Company was involved in certain ongoing legal proceedings, including:

#### 1. Certain litigations initiated by Mr. Ye Bin (“Mr. Ye”), a former shareholder

- (1) Mr. Ye, a former shareholder, 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**”). At present, the abovementioned lawsuits are on trial or enforcement after being heard and ruled by the People’s Courts and Procuratorate at various levels, including the People’s Court of Cangnan County, Wenzhou Intermediate People’s Court, Zhejiang Higher People’s Court, Zhejiang People’s Procuratorate, and the Supreme People’s Court of the PRC.
- (2) The Company and Shanghai Zhongde Energy (Group) Co., Ltd., in which Mr. Ye acted as a shareholder and a director, were engaged in two lawsuits for outstanding payments for goods. Currently, the two cases are under enforcement.

#### 2. Certain litigations against the Company in relation to external guarantees

- (1) The Company provided guarantees in favour of the banks including Shanghai Pudong Development Bank, Huaxia Bank and Bank of Ningbo for the bank borrowings received by Shengyu Group Company Limited (“Shengyu Company”). As Shengyu Company failed to repay its bank borrowing as agreed due to improper operation, the banks filed lawsuits with the court which judged that Shengyu Company shall repay such borrowings and relevant guarantor (the Company) shall bear joint and several liability therefor. The Company, thus, filed a lawsuit against Shengyu Company with the People’s Court of Cangnan County and Wenzhou Intermediate People’s Court on the compensatory amounts and claimed for enforcement thereof. Please refer to the announcement of the Company dated 16 July 2019 for details. As of 31 December 2019, the aforesaid cases are in the course of enforcement.

## Directors' Report

- (2) The Company provided guarantees in favour of the banks including China Zheshang Bank, China Merchants Bank and Fuding Hengxing Rural Bank for the bank borrowings received by Huazheng Plastics Group Company Limited ("Huazheng Company"). As Huazheng Company failed to repay its bank borrowing as agreed due to improper operation, the banks filed lawsuits with the court which judged that Huazheng Company shall repay such borrowings and relevant guarantor (the Company) shall bear joint and several liability therefor. The Company, thus, filed a lawsuit against Huazheng Company with the People's Court of Cangnan County and Wenzhou Intermediate People's Court on the compensatory amounts and claimed for enforcement thereof. Please refer to the announcement of the Company dated 16 July 2019 for details. As of 31 December 2019, the aforesaid cases are in the course of enforcement.

### 3. Litigations with three former employees of the Company

In July 2018, three former employees of the Company filed lawsuits with the court against the Company (the "Former Employees Litigations"), claiming certain assets and the return thereon with an aggregate amount of RMB0.9 million plus interest in an employee shareholding organisation. The first instance of the similar cases has been heard at the the People's Court of Cangnan County, ruling that the Company shall pay Zheng Guohua, Huang Maozhao and Xu Huaizan the amounts of the quantitative assets of RMB24,978, RMB33,810 and RMB29,394 and relevant interest thereof respectively. Afterwards, both the plaintiff and defendant refused to accept the first-instance judgement and appealed to Wenzhou Intermediate People's Court, which then issued the second-instance judgement stating that such appeals were dismissed and the original judgment was upheld. As of 31 December 2019, the final judgement regarding the Former Employees Litigations has been pronounced.

Save as disclosed above, as of 31 December 2019, the Company was not involved in any material litigation or arbitration. So far as the Directors are aware, no such litigation or claim are pending or threatened against the Company.

### SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Please refer to "Outbreak Risks" in section IV. Risk Factors and Risk Management in the Management Discussion and Analysis of this annual report for the discussion of the potential impact arising from the COVID-19 outbreak. Other than the above, the Group had no other significant subsequent event as of the date of this report.

### CHANGE IN ACCOUNTING POLICIES

Details of change in accounting policies are set out in note 2.2 to the Financial Statements.

## Directors' Report

### USE OF PROCEEDS

The Company's shares have listed on the main board of Stock Exchange since 4 January 2019. The net proceeds from initial public offering and upon the partial exercise of Over-allotment Option after deducting the underwriting fees and relevant fees amounted HK\$178.0 million. At the end of Reporting Period, since the projects related to the proceeds have not begun to implement, the aforesaid proceeds of the Company have not been utilized. As at the date of this report, the Company expected that there were no any changes of use plans set out in the section headed "Future Plans and Use of Proceeds" of the prospectus dated 19 December 2018.

### AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the annual consolidated financial statements for the year ended 31 December 2019, and is of the view that the Group's consolidated financial statements for the year ended 31 December 2019 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

### AUDITOR

As approved at the 2018 annual general meeting of the Company, PricewaterhouseCoopers was appointed as the auditor of the Company for the year of 2019. The enclosed Financial Statements prepared in accordance with the International Financial Reporting Standards have been audited by PricewaterhouseCoopers.

As recommended by the Audit Committee of the Company, the Board of the Company decided to propose subsequent appointment of PricewaterhouseCoopers as the auditor of the Company for the year of 2020 which is subject to approval by the shareholders at the 2019 annual general meeting of the Company.

Yours faithfully,

By order of the Board

**Zhejiang Cangnan Instrument Group Company Limited**

*Chairman*

**Hong Zuobin**

Wenzhou, the PRC, 27 March 2020

## Report of the Supervisory Committee

The Supervisory Committee of the Company fulfilled its duties in compliance with laws and regulations, earnestly performed the duties of the Supervisory Committee and independently exercised the powers of the Supervisory Committee in strict accordance with the provisions and requirements of the Company Law, the Articles of Association and the Rules of Procedures for the Supervisory Committee. The members of the Supervisory Committee have participated in or attended all the general meetings and Board meetings during the Reporting Period, effectively supervised the Company's business activities, financial status, major decisions, procedures for convening the general meetings, and performance of duties by Directors and senior management and well protected the shareholders' rights, the Company's interests and the legitimate rights and interests of employees to promote the standardized operation of the Company. The main works of 2019 are now reported as follows:

### I. WORK OF THE SUPERVISORY COMMITTEE

1. On 29 March 2019, the Company held the fourth meeting of the first session of the Supervisory Committee. Three Supervisors were required to attend the meeting, and three Supervisors attended the meeting. Ms. Lin Zichan, Secretary of the Board of Directors, and Mr. Chen Qihui, the financial controller of the Company also attended the meeting.

The Proposal on Work Report of the Supervisory Committee of the Company for the Year 2018, the Proposal on Annual Report and Results Announcement of the Company for the Year 2018, the Proposal on Final Financial Accounts of the Company for the Year 2018, the Proposal on Independent Auditor Report and Audited Financial Statement of the Company for the Year 2018, the Proposal on Profit Distribution Plan of the Company for the Year 2018 and the Proposal on Financial Budget of the Company for the Year 2019 were considered and approved at the meeting.

2. On August 29, 2019, the Company held the fifth meeting of the first session of the Supervisory Committee. Three Supervisors were required to attend the meeting, and three Supervisors attended the meeting. Ms. Lin Zichan, Secretary of the Board of Directors, and Mr. Chen Qihui, the financial controller of the Company also attended the meeting.

The meeting considered and approved the Proposal on Interim Report and Interim Results Report of the Company for the Year 2019.



## Report of the Supervisory Committee

3. In 2019, the meetings of the Supervisory Committee of the Company were held in accordance with relevant provisions of the Company Law of the PRC and the Articles of Association in a legal and effective manner.
4. In 2019, under the strong support of all shareholders of the Company, the members of the Supervisory Committee attended all the Board meetings and general meetings, participated in the discussion of the Company's major decisions, and supervised the resolutions considered at the Board meetings and general meetings as well as the procedures for convening the meetings according to the law.
5. In 2019, the Supervisory Committee paid close attention to the operation and management of the Company, carefully supervised the Company's financial and capital utilization, and inspected the duty performance of the Board of Directors and the management team of the Company to ensure the standardization of the Company's operation and management practices.

## II. INSPECTION OPINIONS OF THE SUPERVISORY COMMITTEE

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

### 1. The operation of the Company according to law.

In 2019, the Supervisory Committee participated in or attended the Board meetings and general meetings of the Company, and comprehensively supervised and inspected the convening procedures of and the resolutions considered at the Board meetings and general meetings, the implementation of the resolutions of the general meetings by the Board and the performance of duties of Directors and senior management. The Supervisory Committee believed that the convening procedures and decision-making procedures of the Board meetings and general meetings of the Company strictly followed the relevant provisions of the Company Law and the Articles of Association. Members of the Board of Directors and senior management of the Company performed their duties faithfully and diligently in accordance with the relevant national laws and regulations and the relevant provisions of the Articles of Association. During the Reporting Period, no Director or senior management member of the Company was found to have violated laws, regulations and the Articles of Association or committed any act detrimental to the interests of the Company and shareholders when performing their duties and exercising their powers.

## Report of the Supervisory Committee

### 2. Inspection of financial status of the Company.

In 2019, the Supervisory Committee inspected and supervised the financial operations of the Company by listening to the report of the chief financial officer of the Company, considering the annual report of the Company and reviewing the audit report issued by the auditors. The Supervisory Committee believed that the Company had perfect financial system, sound management system and reasonable withdrawals of various kinds. The Company's financial statements was audited by PricewaterhouseCoopers with securities practice qualification, and a standard unqualified audit report was issued, considering that the Company's financial statements have been prepared in accordance with International Financial Reporting Standards and reflect the Company's financial position as at 31 December 2019 and the operating results and cash flow for 2019.

In 2019, facing the declining demand of the whole natural gas market, the Company, under the correct leadership of the Board of Directors and the joint efforts of all the cadres and employees, was able to grasp the market opportunities, overcome difficulties and complete the annual tasks.

### III. WORK PLAN OF THE SUPERVISORY COMMITTEE FOR 2020:

In 2020, the Supervisory Committee of the Company will continue to fulfill its duties and supervise the standardized operation of the Company based on the principle of being responsible to the general meeting of shareholders and the Company's strategic objectives and in strict accordance with the responsibilities of the Supervisory Committee required by the national laws and regulations and the Articles of Association.

1. Continue to control the Company's production and operation, asset management status and production costs. Master the Company's implementation of relevant laws and regulations and compliance with the Articles of Association and the resolutions of shareholders' meeting, and grasp the Company's operating conditions.
2. Inspect the performance of duties of the Company's Directors and senior management on a regular and irregular basis. Urge the Directors and senior management to perform their duties conscientiously, master the business behaviors of the persons in charge of the enterprise, and evaluate the performance of their business management.

## Report of the Supervisory Committee

3. Strengthen the self-construction of the Supervisory Committee, further improve the professional quality of the members of the Supervisory Committee and strengthen the study of laws, administrative regulations, financial accounting knowledge to continuously improve the quality of supervision and inspection.
4. Although the annual tasks have been well completed in 2019, the “two controls” indicators are still high, and the enterprise must have new measures and effects on inventories and accounts receivable in key markets.

In 2020, with the continuous expansion of the Company's business, members of the Supervisory Committee of the Company should continuously improve their capabilities, enhance their sense of responsibility, further improve the corporate governance structure according to the requirements of relevant laws and regulations and the Articles of Association, enhance self-discipline consciousness and integrity awareness, strengthen supervision and earnestly take responsibility for protecting the rights and interests of shareholders. We will do our utmost to work together with the Board of Directors and all shareholders to promote the standardized operation of the Company and realize the sustainable and healthy development of the Company.

*Chairman of Supervisory Committee*

**Huang Xijun**

# Corporate Governance Report

## I. CORPORATE GOVERNANCE

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

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

## II. COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS

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

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

## III. THE BOARD

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

### (I) Composition of the Board

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

## Corporate Governance Report

The biographical details of the Directors as at the date of this Report are set out on pages 21 to 26 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationship) among members of the Board. The structure of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operation and development of the Group. All Directors are aware of their joint and several responsibilities to the shareholders.

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

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

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

## Corporate Governance Report

### (II) Board meetings

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

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

During the Reporting Period, six meetings were held by the Board. The details are as follows:

- On 25 March 2019, the Company held the Eleventh Meeting of the First Session of the Board of Directors. According to the filing requirements of the Provincial Market Regulatory Administration, the Company confirmed the initial public offering of overseas listed shares (H shares) and listed them on the Main Board of the Hong Kong Stock Exchange. A total of 17,901,167 shares were issued at an issue price of HK\$15.80 per share, raising a total of HK\$282,838,438.60. After confirming the completion of the issuance of overseas listed foreign share, the capital structure of the Company is: 69,791,167 ordinary shares, among which 51,890,000 are held by initiators and 17,901,167 are held by shareholders of overseas listed foreign shares.
- On March 29, 2019, the Company held the Twelfth Meeting of the First Session of the Board of Directors. The meeting considered and approved (1) Report of the Board of Directors for the Year 2018; (2) Annual Report and Results Announcement of the Company for the Year 2018; (3) Final Financial Accounts of the Company for the Year 2018; (4) Independent Auditor Report and Audited Financial Statement of the Company for the Year 2018; (5) Profit Distribution Plan of the Company for the Year 2018; (6) Financial Budget of the Company for the Year 2019; (7) Effectiveness Assessment and Disclosure of Risk Management and Internal Monitoring System; (8) Amendment of the Articles of Association; (9) Remuneration of Directors and Senior Management for the Year 2019; (10) Re-appointment of Auditor of the Company for the Year 2019; (11) General Mandate to Repurchase the Company's H shares; (12) Grant of General Mandate by the General Meeting to the Board of Directors to Issue Shares; and (13) Proposal on Requesting to Convene the Annual General Meeting and Classified Shareholder Meeting for 2018.

## Corporate Governance Report

- On April 15, 2019, the Company held the Thirteenth Meeting of the First Session of the Board of Directors, which incorporated “the amendment and addition of Article 128 of the Articles of Association” into the Proposal on Amendments to the Articles of Association approved at the Twelfth Meeting of the First Session of the Board of Directors.
- On June 10, 2019, the Company held the Fourteenth Meeting of the First Session of the Board of Directors. The meeting considered and approved the Proposal on Environmental, Social and Governance Report for the Year 2018.
- On August 29, 2019, the Company held the Fifteenth Meeting of the First Session of the Board of Directors. The meeting considered and approved (1) the Interim Results Announcement and Interim Report for the Year 2019; (2) the Amendments to the Articles of Association; and (3) the Proposal on requesting to convene the first Extraordinary General Meeting for 2019, the second H Shareholders Class Meeting for 2019, and the Second Domestic Share Class Meeting for 2019.
- On December 6, 2019, the Company held the Sixteenth Meeting of the First Session of the Board of Directors which approved that the Company would participate in the asset purchase plan in phases according to the Minutes of Joint Meeting on Industrial Economic Development of Cangnan County ([2019] No. 3). The Company was approved to participate in the purchase of plots 09-12 of Cangnan County Industrial Park in the asset purchase plan, and the source of funds was self-raised by the enterprise. It was approved to authorize the general manager or other persons authorized by the general manager to specifically handle all matters concerning the asset purchase plan.

## Corporate Governance Report

The attendance record is as follows:

Name	Position	Number of attendance/meetings held
Mr. Hong Zuobin (洪作斌)	Chairman, Executive Director	6/6
Mr. Huang Youliang (黃友良)	Executive Director, General Manager	6/6
Mr. Yin Xingjing (殷興景)	Executive Director, Vice General Manager	6/6
Mr. Zhang Shengyi (章聖意)	Executive Director, Chief Engineer	6/6
Ms. Lin Zichan (林姿嬋)	Executive Director, Vice General Manager, Joint Company Secretary	6/6
Mr. Lin Zhongzhu (林中柱)	Executive Director, Vice General Manager	6/6
Mr. Lin Jingdian (林景殿)	Executive Director	6/6
Mr. Ye Xiaosen (葉小森)	Non-executive Director	6/6
Mr. Hou Zukuan (侯祖寬)	Non-executive Director	6/6
Mr. Ng Jack Ho Wan (吳浩雲)	Independent Non-executive Director	6/6
Mr. Wong Hak Kun (王克勤)	Independent Non-executive Director	6/6
Mr. Wang Jingfu (王靖甫)	Independent Non-executive Director	6/6
Mr. Li Jing (李靜)	Independent Non-executive Director	6/6
Mr. Su Zhongdi (蘇中地)	Independent Non-executive Director	6/6

### (III) Powers exercised by the Board and the management

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

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

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



## Corporate Governance Report

### (IV) Directors' training

The Company encourages all the Directors to participate in continuous professional development to develop and refresh their knowledge and skills. During the Reporting Period, Herbert Smith Freehills, the Hong Kong legal adviser to the Company, provided compliance training (“**Compliance Training**”) for Hong Kong-listed companies to Directors and management of the Company.

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

### (V) Chairman and General Manager

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

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

## Corporate Governance Report

### (VI) Appointment and Re-election of Directors

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

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

### (VII) Board Diversity Policy

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

### (VIII) Remuneration of Directors, Supervisors and senior management

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

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

## Corporate Governance Report

### (IX) Corporate governance functions

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

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

## IV. BOARD COMMITTEES

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

### (I) Nomination Committee

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

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

## Corporate Governance Report

The H Shares of the Company have been listed on the Stock Exchange since 4 January 2019. During the Reporting Period, there was no change in directors or officers of the Company, so the nomination committee held no meetings.

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

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

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

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

### (II) Audit Committee

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

## Corporate Governance Report

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

During the Reporting Period, the Audit Committee held a total of 4 meetings. All members of the Audit Committee attended the meetings. Details of the meeting are as follows:

- On 13 February 2019, the Company held the First Meeting of the Audit Committee of the First Session of the Board of Directors. The meeting heard the auditor's report on the Company's audit plan for the year 2018.
- On 25 March 2019, the Company held the Second Meeting of the Audit Committee of the First Session of the Board of Directors. The meeting considered and approved (1) Annual Report and Results Announcement of the Company for the Year 2018; (2) Audited Financial Statement of the Company for the Year 2018; (3) Final Financial Accounts of the Company for the Year 2018; (4) Financial Budget of the Company for the Year 2019; (5) Profit Distribution Plan of the Company for the Year 2018; (6) Effectiveness Assessment and Disclosure of Risk Management and Internal Monitoring System; and (7) Proposal on Re-appointment of Auditor of the Company for the Year 2019.
- On August 22, 2019, the Company held the Third Meeting of the Audit Committee of the First Session of the Board of Directors. The meeting considered and approved Proposal on the Interim Report and Interim Results Announcement for the Year 2019.
- On December 6, 2019, the Company held the Fourth 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 2019.

The attendance record is as follows:

Name	Number of attendance/meetings held
Mr. Wong Hak Kun (王克勤)	4/4
Mr. Ng Jack Ho Wan (吳浩雲)	4/4
Mr. Su Zhongdi (蘇中地)	4/4
Mr. Wang Jingfu (王靖甫)	4/4
Mr. Hou Zukuan (侯祖寬)	4/4

## Corporate Governance Report

### (III) Remuneration Committee

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

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.

From the Listing Date to the date of this Report, the Remuneration Committee held a total of 1 meeting. All members of the Remuneration Committee attended the meetings. Details of the meeting are as follows:

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

## Corporate Governance Report

The attendance record is as follows:

Name	Number of attendance/meetings held
Mr. Su Zhongdi (蘇中地)	1/1
Ms. Lin Zichan (林姿嬋)	1/1
Mr. Yin Xingjing (殷興景)	1/1
Mr. Wong Hak Kun (王克勤)	1/1
Mr. Ng Jack Ho Wan (吳浩雲)	1/1

### V. SUPERVISORY COMMITTEE

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

### VI. AUDITOR AND REMUNERATION

PricewaterhouseCoopers was appointed as auditor for the Financial Statements prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2019.

During the Reporting Period, the remuneration payable by the Company to the auditor for the above audit services was RMB4.2 million. During the Reporting Period, the remuneration payable by the Company to the auditor for the non-audit services was RMB1.28 million.

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

## Corporate Governance Report

### VII. DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board acknowledges its responsibility for preparing the Financial Statements of the Group for the year ended 31 December 2019. The Company's accounts are prepared in accordance with all relevant statutory requirements and appropriate accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the accounts are prepared on a going concern basis. The Board is responsible for presenting a clear and understandable assessment of annual and interim reports, inside information and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

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

### VIII. JOINT COMPANY SECRETARIES

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

### IX. SHAREHOLDERS' RIGHTS

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

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



## Corporate Governance Report

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

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

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

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

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

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

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

## Corporate Governance Report

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

Contact details are as follows:

Address: Industrial Demonstrative Park, Lingxi Town, Cangnan County, Zhejiang province, PRC

Fax: +86-577-64839306

Email: investor@zjcnyb.com

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

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

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

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

## Corporate Governance Report

### X. GENERAL MEETING

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

- On June 10, 2019, the Company held the 2018 Annual General Meeting. The meeting considered and approved (1) Report of the Board of Directors for the Year 2018; (2) Report of the Supervisory Committee for the Year 2018; (3) Final Financial Accounts of the Company for the Year 2018; (4) Independent Auditor Report and Audited Financial Statement of the Company for the Year 2018; (5) Profit Distribution Plan of the Company for the Year 2018; (6) Financial Budget of the Company for the Year 2019; (7) Remuneration of Directors for the Year 2019; (8) Reappointment of PricewaterhouseCoopers as auditor and authorization of the Board of Directors and authorized persons to determine their remuneration; (9) grant to the Board of Directors a general mandate to exercise the power of the Company to repurchase H shares of the Company that do not exceed 10% of the total face value of the Company's H shares on the date of passing the resolution on the general mandate; (10) grant to the Board of Directors a general mandate to exercise the power of the Company to issue, allocate and dispose of up to 20% of the respective number of domestic shares and H shares issued by the Company on the date of passing the resolution on such general mandate; and (11) the Proposal on Revising the Articles of Association.
- On October 18, 2019, the Company held the 2019 extraordinary general meeting, which considered and approved the Proposal on Revising Articles of Association.

## Corporate Governance Report

The attendance record of the Board Meeting is as follows:

Name	Position	Number of attendance/ meetings held
Mr. Hong Zuobin (洪作斌)	Chairman, Executive Director	2/2
Mr. Huang Youliang (黃友良)	Executive Director, General Manager	2/2
Mr. Yin Xingjing (殷興景)	Executive Director, Vice General Manager	2/2
Mr. Zhang Shengyi (章聖意)	Executive Director, Chief Engineer	2/2
Ms. Lin Zichan (林姿嬋)	Executive Director, Vice General Manager, Joint Company Secretary	2/2
Mr. Lin Zhongzhu (林中柱)	Executive Director, Vice General Manager	2/2
Mr. Lin Jingdian (林景殿)	Executive Director	2/2
Mr. Ye Xiaosen (葉小森)	Non-executive Director	2/2
Mr. Hou Zukuan (侯祖寬)	Non-executive Director	2/2
Mr. Ng Jack Ho Wan (吳浩雲)	Independent Non-executive Director	2/2
Mr. Wong Hak Kun (王克勤)	Independent Non-executive Director	2/2
Mr. Wang Jingfu (王靖甫)	Independent Non-executive Director	2/2
Mr. Li Jing (李靜)	Independent Non-executive Director	2/2
Mr. Su Zhongdi (蘇中地)	Independent Non-executive Director	2/2

## XI. COMMUNICATIONS WITH SHAREHOLDERS

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

The Board welcomes shareholders' views and encourages them to attend the annual general meeting to communicate any concerns they might have with the Board or the management. Chairman of the Board and the chairmen of all committees usually attend the annual general meeting and other general meetings to address shareholders' queries. The Board of Directors will be arranged to answer questions from shareholders at the Company's 2019 Annual General Meeting.

## Corporate Governance Report

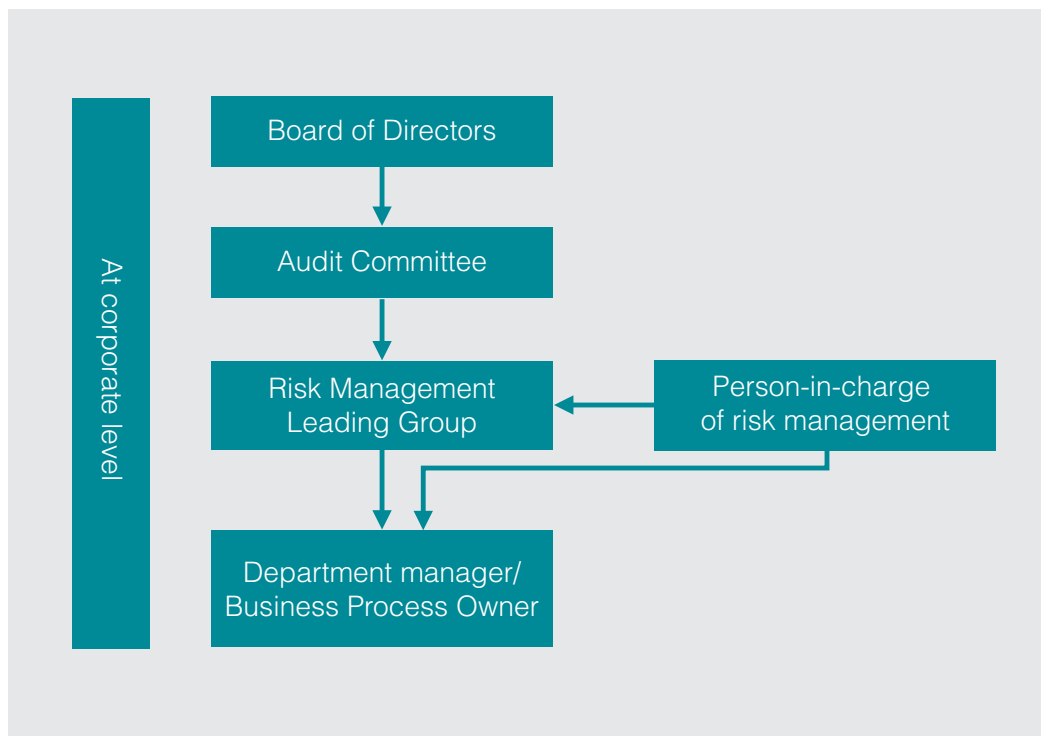
### XII. INTERNAL CONTROL AND RISK MANAGEMENT

#### 1. Risk management and internal control system

##### Risk management

The Board has established an organizational structure to refine the Company's risk management system and improve the Company's risk control level and prevention ability. During the year, the Company continued to implement and improve its risk management system, and the organizational structure of risk management remained unchanged. The organizational structure of risk management consists of the Board of Directors, its Audit Committee, Risk Management Leading Group and risk management Executives. The Company also defines the direct management responsibilities of risk management and the routes for reporting risk information at all levels.

##### Risk management structure



## Corporate Governance Report

### Risk management procedure

The Company actively and systematically identifies, evaluates and responds to the risk matters during operation to strengthen its risk management ability and contingency ability and to further guarantee the realization of its business objectives and a sustainable and stable development. The Company defines the risk management process and evaluation criteria in the Risk Management Manual and conducts risk assessments at corporate level annually. The nature and exposure of risks and whether the existing control measures are sufficient are determined through systematic risk management procedures (including four steps, i.e. risk identification, assessment, response and reporting). The Company prioritizes the risks according to their probability of occurrence and the severity of their impacts on the Company's business. Then we develop risk management strategies and risk response measures according to the causes, impacts and best practices in the industry with respect to each major risk, and report on the annual risk assessment to maintain the risk at an acceptable level.

## 2. Internal control system

The Company has set up an internal control system to reasonably protect its assets, make sure all transactions are authorized by the management, and prevent unauthorized misappropriation or disposal of assets. This system is designed to ensure that the accounting records are accurate enough for the preparation of operating financial information and the financial information for disclosure. For key business processes such as sales and collection, procurement and payment, and inventory and R&D, the Company has designed control measures to deal with risks, and monitored the effectiveness of their implementation to achieve the control objectives of the measures taken in the internal control system.

The Company engages an internationally leading consulting company for the majority of its internal auditing. The Company has formulated and issued the Internal Auditing Charter, which defines the responsibilities of the internal audit personnel. In 2019, the Company's internal audit personnel teamed with the members from the consulting company appointed by the Company to carry out independent internal control review, and report directly to the Audit Committee, on the effectiveness of the key processes. The Audit Committee supervises the effectiveness of the internal control system by reviewing and approving the work plan and report of internal control assessment.

The Audit Committee reviews the effectiveness of the system annually. The discovered absence of internal control will be dealt with by means of ordered rectification after internal management communication, while significant control procedures or system deficiencies found will be directly reported to the Board for communication and discussion.

## Corporate Governance Report

### 3. Inside information

The Company supervises the handling and publication of insider information in accordance with the “Guidelines on Disclosure of Inside Information” issued by the Securities and Futures Commission in June 2012, with a view to ensure the confidentiality of such insider information before it is properly approved for disclosure, and widely and non-exclusively disclose information to the public through the Company’s website and the website of the Stock Exchange to achieve fair and timely disclosure of information. The Company regularly reminds Directors and employees to properly comply with all policies on insider information.

### 4. Review of risk management and internal control system in 2019

The Board is responsible for the risk management and internal control system, as well as for reviewing the effectiveness of such systems. As of 31 December 2019, the Board has reviewed the Company’s risk management and internal control system through the Audit Committee, covering the financial year of 2019 and all major control aspects including operation, finance and compliance control. Taking into account the nature and changes in the severity of major risks and the Company’s ability to respond to changes in its business and the external environment, the Board is of the opinion that such systems are effective and sufficient.

The Board and the Audit Committee have reviewed the adequacy of resources and staff qualifications and experience in respect of the accounting, internal audit and financial reporting functions, as well as training courses and budgets, and consider them sufficient.

## XIII. INVESTOR RELATIONS

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

In 2019, the Company focused more on the needs of investors and analysts, paid close attention to the important policies of the PRC gas measurement instrument industry, made timely disclosure of data and continuously improved the timeliness and completeness of data disclosure so that the public could obtain complete business data in a timely manner.

## Corporate Governance Report

### XIV. ARTICLES OF ASSOCIATION

The Company has amended certain terms of the Articles of Association in compliance with the relevant laws and regulations, administrative measures and the Hong Kong Listing Rules in response to the listing of H shares on the Hong Kong Stock Exchange. The amended Articles of Association shall take effect from the date of listing of the Company.

On 10 June 2019, the Company's 2018 Annual General Meeting adopted a resolution to amend the Articles of Association applicable at that time.

On 18 October 2019, the Company's 2019 extraordinary general meeting adopted a resolution to amend the Articles of Association applicable at that time.

The above version of the Articles of Association has been published on the HKEx website. Except as described above, the Company has not made any material change to the Articles of Association during the Reporting Period.



# Environmental, Social and Governance Report

## I. About the Environmental, Social and Governance Report

The Group is pleased to publish its second environmental, social and governance report (hereinafter referred to as “this Report”) to present the Group’s strategies, policies, commitments and performance in the environmental, social and governance (hereinafter referred to as “ESG”) field, in response to the concerns and expectations of various stakeholders regarding the sustainable development management of the Group and to strengthen the stakeholders’ understanding of and confidence in the Group, thereby promoting the Group’s performance in sustainable development.

### 1. Reporting period

This Report is for the period from 1 January 2019 to 31 December 2019 (hereinafter referred to as the “Reporting Period” or “This Year”), which is consistent with the financial year of the Group, and some of the contents are appropriately extended forward and backward. The Group will publish the ESG report regularly every year for public review from time to time.

### 2. Report scope

Unless otherwise specified, this Report mainly illustrates ESG issues relating to the R&D and manufacturing operations of the Group’s industrial and commercial gas meters, residential gas meters, and nuclear-level throttling devices as well as relating to supporting services.

### 3. Basis of preparation

The Group has prepared this Report in accordance with the Environmental, Social and Governance Reporting Guide (《環境、社會及管治報告指引》) (hereinafter referred to as the “ESG Reporting Guide”) of The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Stock Exchange”). Under the principles of materiality, balance, quantitative and consistency and presenting with data and cases, the Group strives to make a sufficient and objective disclosure of the efforts in and performance of its ESG work in 2019. The content index for the ESG Reporting Guide is detailed in the last part of this report for quick user review.

## Environmental, Social and Governance Report

### 4. Source of information

The information disclosed in this Report is from the Group's public information, official documents, and internal statistics. The Board of the Group takes responsibility for the adequacy and appropriateness of the contents of this Report. Unless otherwise specified, this Report takes RMB as the settlement currency for the data contained therein.

### 5. Description of references

"Dongxing Software" refers to Zhejiang Dongxing Software Development Co., Ltd., a subsidiary of the Group; "Dongxing Energy Technology" refers to Dongxing Energy Technology Co., Ltd., a subsidiary of the Group; "Dongxing Intelligent Instrument" refers to Dongxing Intelligent Instrument Co., Ltd., a subsidiary of the Group.

### 6. Access to the Report

This Report is published in electronic format in both Chinese and English. If there is any discrepancy between the Chinese and English versions of this Report, the Chinese version shall prevail. The electronic manuscript of this report is available at the official website of the Group ([www.zjcnby.com](http://www.zjcnby.com)) or the website of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)).

## Environmental, Social and Governance Report

### II. Management of Social Responsibility

#### 1. Concept of Sustainable Development

Under the management aim of “maximizing economic benefits and optimizing social benefits” and with the concept of sustainable development constantly integrated into the development of corporate culture, the Group actively assumes its corporate social responsibility in daily operation, makes continuous improvement and innovation, and provides users with satisfactory products and services, striving to become an international, sustainable and high-tech enterprise and optimize both economic and social benefits.

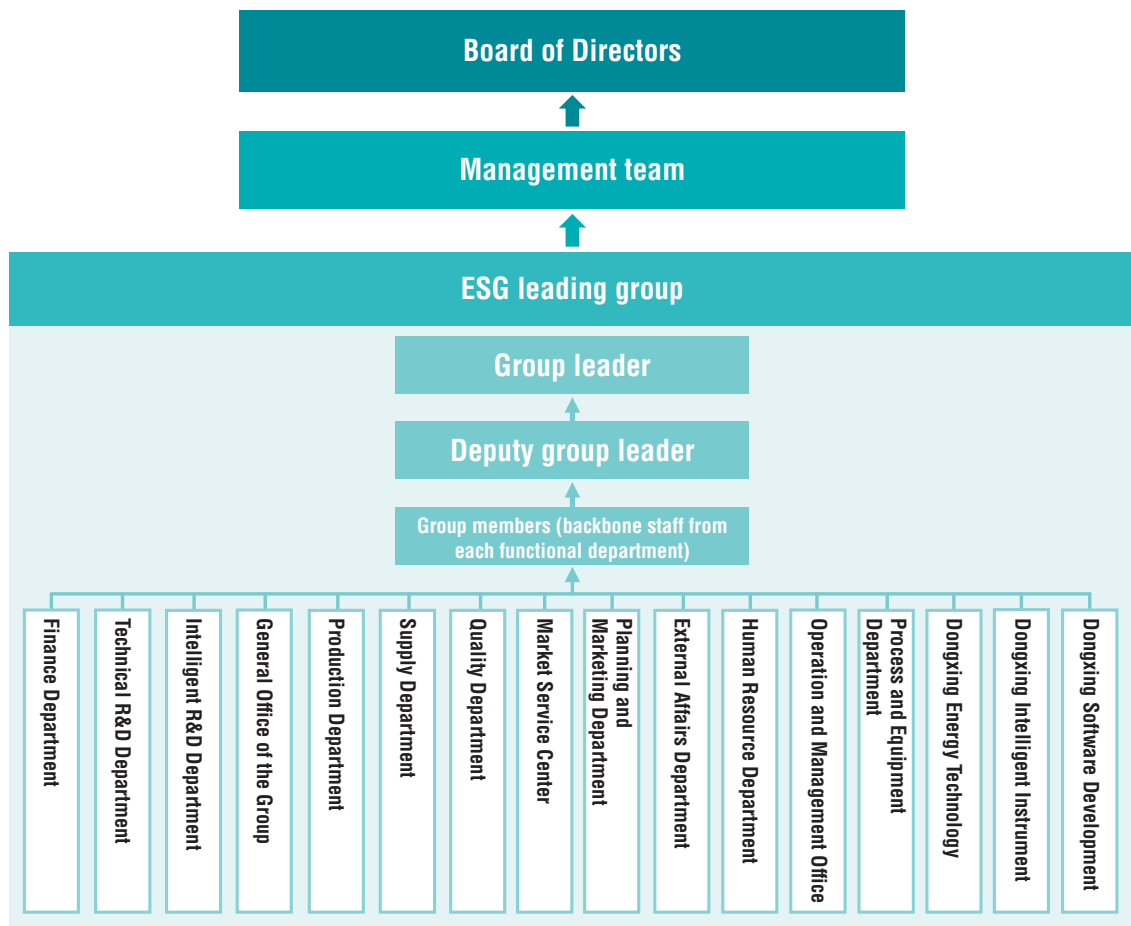
<p><b>Corporate mission</b> People-oriented, scientific development, and creating national industry</p> <p><b>Corporate vision</b> Becoming an international, sustainable, and high-tech enterprise</p>	<p><b>Enterprise spirit</b> Integrity, innovation, unity, and advancing bravely</p> <p><b>Business philosophy</b> Being dedicated and credible, and striving for excellence</p>
<p><b>Team concept</b> Gathering crowd wisdom and creating brilliant achievements</p> <p><b>Management strategy</b> Creating a Cangnan Instrument brand and achieving sustainable development</p>	<p><b>Management aim</b> Maximizing economic benefits and optimizing social benefits</p> <p><b>Quality policy</b> Providing satisfactory products and services to users is the eternal target of the Group</p>
<p><b>Service aim</b> Cangnan Instrument always stays by its customers and customers are always at the heart of us</p> <p><b>Employment policy</b> Employees bring into full play of their talents and abilities</p>	<p><b>Core value</b> Maximizing social contributions</p> <p><b>Culture policy</b> Strengthen quality internally while building up image externally</p>

## Environmental, Social and Governance Report

### 2. ESG Governance

The Board of the Group is fully responsible for the Group's ESG strategies and reporting, and for reviewing and officially signing the annual ESG report. Through shareholder's meetings, Board meetings and other channels, the Board knows and discusses ESG related work, and gives instructions on relevant issues depending on the specific circumstances. The Group's management team is responsible for promoting the implementation of environmental, social and governance strategies, reviewing the performance of the Group's ESG management and reporting to the Board. At the same time, the Group established an ESG leading group in 2019 to promote the implementation of management concepts and control measures in each of the ESG field. Specifically, the ESG leading group is responsible for closely combining ESG work with business development, identifying and managing ESG related risks in advance, doing the ESG work of which it is in charge and constantly innovating and optimizing daily operation with the ESG work as an opportunity. The Group, in virtue of the preparation and disclosure of this Report, strengthens communication with stakeholders to continuously improve its ESG governance capabilities.

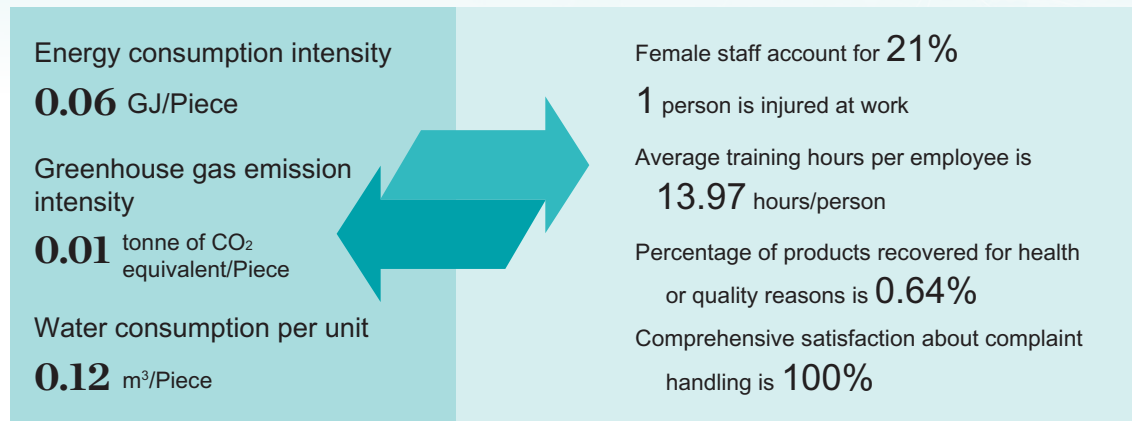
The Group's ESG governance structure is as follows:



## Environmental, Social and Governance Report

### 3. Annual Performance

The Group's major environmental and social performance for 2019 is as follows:



## Environmental, Social and Governance Report

Major awards and honors the Group received this Year are as follows:

SN	Name of Award	Issued By	Award Time
1	Certificate of Director Member of the 8th Council of China Instrument Manufacturers Association (2019-2023)	China Instrument Manufacturers Association	October 2019
2	Certificate of Director Member of the 8th Council of China Instrument Manufacturers Association (2019-2023)	China Instrument Manufacturers Association	December 2019
3	Certificate of Zhejiang Outstanding Industrial Products (intelligent gas Roots flowmeter)	Zhejiang Selection Committee of Outstanding Industrial Products	September 2019
4	Certificate of Zhejiang Outstanding Industrial Products (intelligent gas turbine flowmeter)	Zhejiang Selection Committee of Outstanding Industrial Products	September 2019
5	Executive Director Member of Zhejiang Instrument Manufacturers Association	Zhejiang Instrument Manufacturers Association	March 2019
6	AAA Credit Rating Certificate 2019	Zhejiang Huayu Credit Rating Co., Ltd.	August 2019
7	Wenzhou Standardized and Demonstrative Trade Union	Wenzhou Federation of Trade Unions	March 2019
8	Member of 5G Industry Alliance	Wenzhou 5G Industry Alliance	September 2019
9	Membership of Huizhou Gas Association	Huizhou Gas Association	August 2019
10	Meritorious Enterprise 2018	The Cangnan County People's Government	February 2019
11	Top 100 Enterprises 2019	The Cangnan County People's Government	February 2019
12	Cangnan County Enterprise Technology R&D Center (Dongxing Energy)	Science and Technology Bureau of Cangnan County	February 2019
13	Cangnan County Enterprise Technology R&D Center (Dongxing Intelligent)	Science and Technology Bureau of Cangnan County	February 2019
14	Enterprise with Outstanding Contributions 2018	The CPC Lingxi Town Committee and the Lingxi Town People's Government	February 2019
15	Advanced Unit for Publicity Work in 2017-2018	Cangnan County Association for the Protection of National Tax Payers' Rights and Interests	May 2019
16	Membership of Smart Gas Grid Committee	Smart Gas Grid Committee	September 2019

## Environmental, Social and Governance Report

As of 31 December 2019, details of the Group's qualification certification are as follows:

<b>SN</b>	<b>Name of Certificate</b>	<b>Validity Period of Certificate</b>	<b>Certified By</b>
1	Quality management system certificate (ISO 9001:2015)	June 2018 – June 2021	CEPREI Certification Body
2	Environmental management system certificate (ISO 14001:2015)	June 2018 – June 2021	CEPREI Certification Body
3	Occupation health and safety management system certificate (OHSAS 18001:2007)	June 2018 – March 2021	CEPREI Certification Body
4	Secondary enterprise with standard safety production (Machinery)	December 2018 – December 2021	Department of Emergency Management of Zhejiang Province
5	"Made in Zhejiang" certificate (gas Roots flowmeter and gas turbine flowmeter)	August 2018 – August 2021	Hangzhou Hande Quality Certification Service Co., Ltd. (杭州漢德品質認證服務有限公司)
6	PED certificate (quality system approval and material approval)	December 2017 – December 2020	HPI Verification Services Ltd.
7	Measurement management system certificate	April 2018 – April 2023	China Certification Center for Metrology and Measurement

## Environmental, Social and Governance Report

### III. Communication with Stakeholders

#### 1. Stakeholder Engagement

Stakeholder engagement is an important means for enterprises to examine their own development and actively develop a relationship of harmony and mutual assistance. The Group actively listens to and responds to the appeals and expectations of stakeholders through various channels such as a general meeting, with a view to maintain a cooperative relationship of mutual benefits with investors, suppliers, universities, research institutions, and other stakeholders in pursuit of sustainable development.

Stakeholder	Main Communication Channel	Priority Area of Attention	Response to Appeal/Expectation
Investor	AGM	Continuous profitability	Performance improvement
	Introduction meeting	Information disclosure	Performance disclosure and daily information disclosure
	Investor contact phone/ email	Risk control	Optimization of risk management and internal control systems
	Group official website		
Customer	Group official website	Product quality assurance	Establishing a whole-process quality control mechanism and a traceable product quality system
	Customer satisfaction survey	Product health and safety guarantee	
	Training session on customer product knowledge	Product supporting service guarantee	Strengthening product R&D and innovation
	Customer visit/On-site repair	Right to know products	Providing intimate and convenient services
	Telephone technical guidance	Customer information and privacy protection	Compliance marketing
	Customer service hotline		Applying network security protection technologies and setting data access permissions
Employee	Congress of workers and staff	Reasonable compensation and benefits	Improving the compensation and benefits system
	Employee satisfaction survey	Occupational health and safety guarantee	Occupation health and safety management system certification
	Company OA system	Training and career development	Detection of occupational health and safety factors
	Performance interview	opportunities	Improving the occupational promotion mechanism
	Employee forum	Fair and equal treatment	Improving the occupational promotion mechanism Employee corporate culture and skills training Equal communication and complaint mechanism



## Environmental, Social and Governance Report

Stakeholder	Main Communication Channel	Priority Area of Attention	Response to Appeal/Expectation
<b>Government</b>	Tax information submission, Seminar/review meeting on preparing industry standards	Supervising legal compliance operations Corporate tax liability Co-establishing industry order Anti-corruption and anti-money laundering	Compliance management by law Tax payment in full and on time Participating in the preparation of national standards Publicizing and implementing education of clean politics
<b>Supplier/Agent/ Other partners</b>	On-site visit Business meeting Technical guidance and consulting activities for suppliers	Fair purchasing by invitation to bid Evading supply chain corruption Environmental and social risk management	Improving supplier access mechanism Creating a responsible supply chain Performing contracts according to law Periodic supplier assessment mechanism
<b>University/ Research institution</b>	Regular seminars on/daily communication of cooperative projects Internship activity	Cooperative R&D Providing internship opportunities	Co-building practice bases Implementing cooperative projects
<b>Commonweal organization</b>	Volunteer activity Group official website/mailbox/telephone/fax	Cooperating in public benefit and charity projects	Donation to public benefit and charity projects
<b>Community</b>	News report Information disclosure	Guaranteeing the living environment Absorbing employment Caring for vulnerable groups	Standardizing waste management Providing employment opportunities Cooperating in poverty alleviation

## Environmental, Social and Governance Report

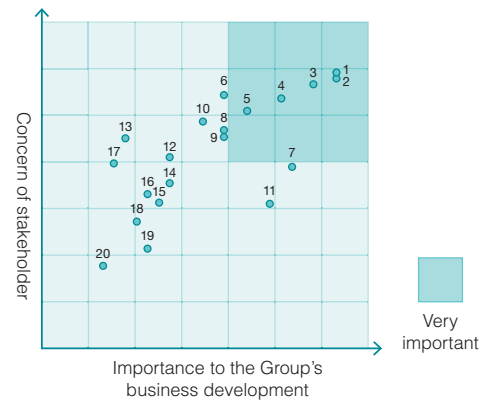
### 2. Materiality Assessment

In 2019, the Group learned about the concerns and expectations of stakeholders on the sustainable development management of the Group through daily communication with stakeholders, face-to-face interviews and other forms, and updated the assessment results of the materiality of ESG issues for the previous year taking into full consideration the business characteristics and ESG management characteristics in the industry. After assessment, the results of the materiality of ESG issues this Year were basically the same as those in the previous year, and stakeholders remained most concerned about such issues as technological innovation and intellectual property protection, product quality control, as well as pre-sale service and after-sales service quality.

The specific assessment results of the materiality of ESG issues this Year are as follows:

#### Materiality Priorities and Matrix of ESG Issues

SN	Issue of Importance	Category
1	Technological innovation and intellectual property protection	Operation
2	Product quality control	Operation
3	Pre-sale service and after-sales service quality	Operation
4	Occupational health and safety	Employment and labor practices
5	Customer information and privacy protection	Operation
6	Supply chain management	Operation
7	Objecting to child labor and forced labor	Employment and labor practices
8	Employee hiring and team building	Employment and labor practices
9	Anti-corruption management	Operation
10	Employee training and development	Employment and labor practices
11	Emission and waste disposal	Environment
12	Environmental risk management and environmental education	Environment
13	Diversified and equal job opportunities	Employment and labor practices
14	Public charity	Community Investment
15	Use of eco-friendly materials/packing materials	Environment
16	Participation in social governance	Community Investment
17	Boosting industry development	Community Investment
18	Use of energy	Environment
19	Use of water resources	Environment
20	Carbon emission management	Environment



The Group will elaborate on the materiality of ESG issues concerned by stakeholders in the subsequent chapters of this Report and base the ESG management planning for the following year largely on the annual assessment results of the materiality of ESG issues, in an aim to continuously improve the internal ESG management system and performance and share the value created in economic, social and environmental aspects with each stakeholder.

## Environmental, Social and Governance Report

### IV. Aim for the best and make high-quality products

High-quality products and services are the basis of an enterprise. The Group complies with applicable laws and regulations on product health and safety, protection of consumers' rights and interests, protection of intellectual property rights and information security of the country and the place where it operates, including but not limited to the Product Quality Law of the People's Republic of China (《中華人民共和國產品質量法》), the Law on the Protection of Consumers' Rights and Interests of the People's Republic of China (《中華人民共和國消費者權益保護法》), the Regulations on Certification and Accreditation of the People's Republic of China (《中華人民共和國認證認可條例》). Under the service principle of "Cangnan Instrument always stays by its customers and customers are always at the heart of us", the Group focuses on quality improvement and innovation-driven development, constantly improves the internal management system, striving to provide users with high-quality and first-class products and services.

#### 1. Product Quality Management

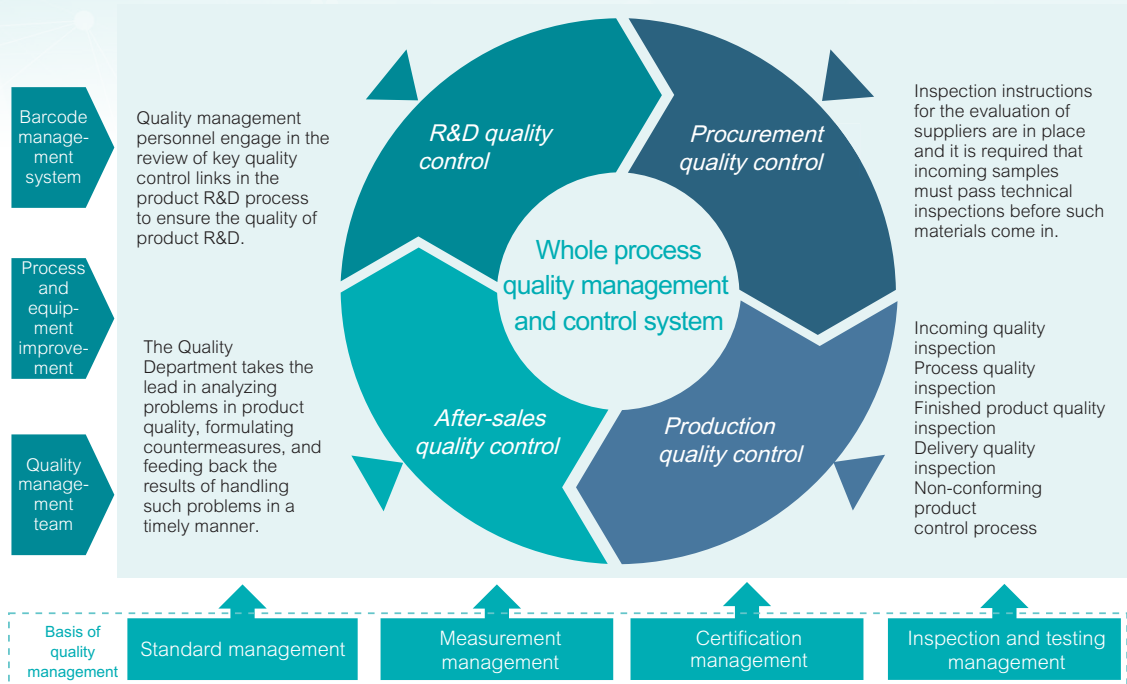
Gas meters are one of the important measuring instruments that are vital to national economy and the people's livelihood. The measurement accuracy, reliability, durability and air tightness of gas meters will affect the economic interests, health and safety of customers. In light of this, the Group implements such systems as the Quality Management Rule (《質量管理制度》) and the Quality Reward and Punishment Rule (《質量獎懲制度》), formulates quality management objectives and standards that are moderately higher than the industry standards, takes such measures as whole-process quality control system and non-conforming product control and barcode management, and continuously improves the business capability of quality management personnel, striving to provide users with products with excellent quality.

For quality management, the Group aims to:

- Establish and implement a quality management system according to the **ISO 9001** standard and ensure its continuous and effective operation;
- Ensure that the passing rate of products at the first inspection is over **95%**;
- Deliver **100%** qualified products to customers;
- Ensure that customer satisfaction rate reaches more than **96%**.

## Environmental, Social and Governance Report

The Group's measures and systems for quality management:

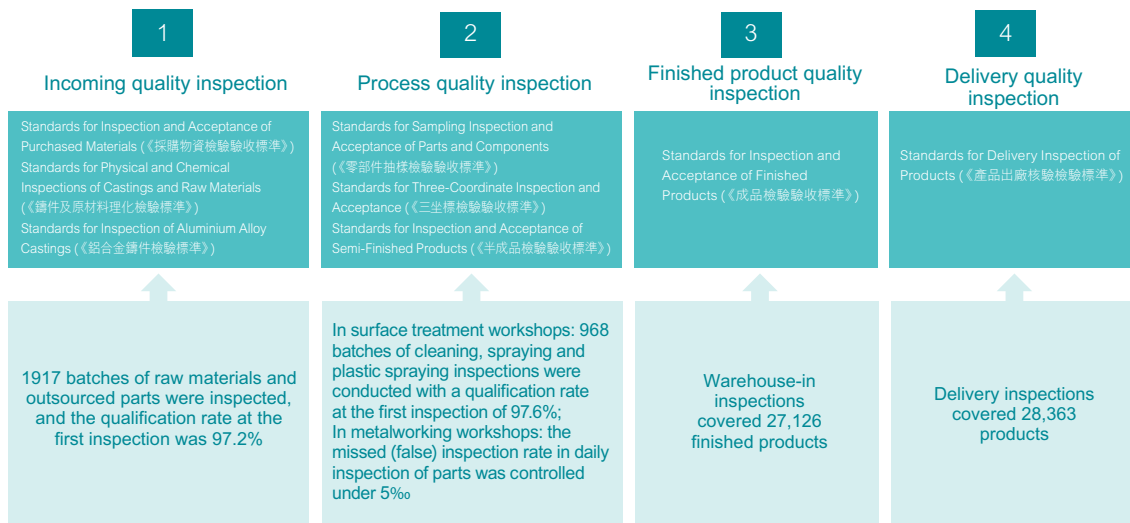


## Environmental, Social and Governance Report

### Production Quality Control

For production quality control of products, the Group formulates and implements inspection and acceptance standards at four key links, namely the incoming quality control, process quality control, finished product quality control and delivery quality control, so as to standardize product inspection and ensure the production quality of products. Meanwhile, the Group added or revised four systems in 2019, i.e. Procedures for Ultrasonic Flaw Detection (《超聲波探傷檢測規程》), Regulations on Inspection, Testing and Management of Furnace's Lot Number and Sample (《爐批號試樣檢驗試驗及管理規定》), Standards for Inspection and Acceptance of Welded Pressure Pipeline (《壓力管道焊縫檢驗驗收標準》), and Standards for Inspection of Gas Filters (《燃氣過濾器檢驗標準》), in an attempt to further standardize internal production quality control.

The main inspection standards for the production quality control of the Group's products and the annual inspection are as follows:

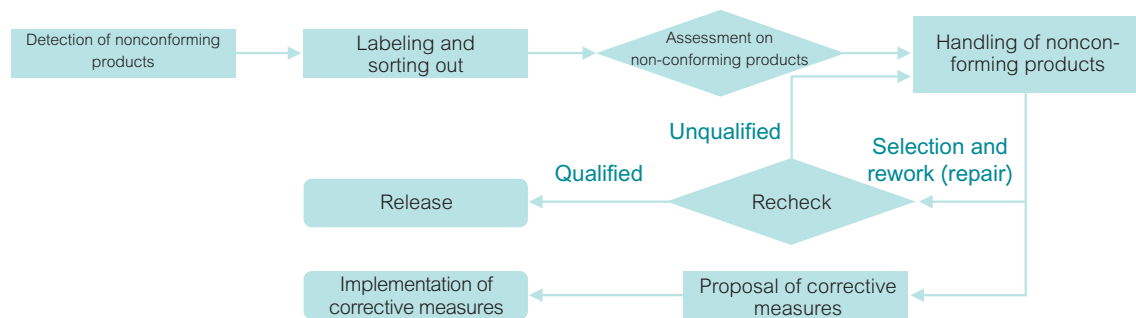


*Note: The above inspected quantitative data do not include those of our two subsidiaries, namely Dongxing Intelligent Instrument and Dongxing Energy Technology.*

Furthermore, in terms of production quality control of nuclear-level throttling devices, in addition to the incoming inspection, process inspection, non-destructive testing, water pressure and air tightness inspection, performance commissioning and delivery inspection during production, special equipment inspection and research institute and nuclear power engineering management company will also select certification points from quality control points in the manufacturing process of each project and carry out on-site supervision and inspection.

## Environmental, Social and Governance Report

The Group implements the Control Procedures of Corrective Measures for Non-Conforming Products 《不合格品纠正措施控制程序》 and establishes the control process for non-conforming products, requiring that the detected non-conforming products be returned, scrapped or repaired according to the system, not flow into the next link or be delivered to customers. The Group also urges relevant departments to make analyses and improvements to effectively enhance the quality of products. The Group's control process for non-conforming products is as follows:



Product recalls of the Group as of 31 December 2019 are set out in the table below. Product recalls of the Group during the Reporting Period are primarily attributable to return to warehouse for replacement, damages caused in transportation, faults within the warranty period, etc., which are all dealt with by returning to factories for replacement.

Product Recall Data	Data Unit	Piece/Percentage
Number of products that have been sold or shipped but recalled due to quality or health causes	Piece	2,100
Percentage in total number of products sold	%	0.64 (326,049 products delivered in total)

*Note: Products related to nuclear-level throttling devices will not be returned or exchanged as they are produced and delivered according to the requirements of customers. Hence, the above data of recalled products do not cover those concerning the return and exchange of products produced by Dongxing Energy Technology (mainly producing products related to nuclear throttling devices).*

## Environmental, Social and Governance Report

### Basis of quality management

The Group constantly strengthens the software and hardware infrastructure of product quality management from four aspects, i.e. standard management, measurement management, certification management as well as inspection and testing management by strengthening professional equipment, improving staff skills, and refining standards, mechanisms and systems.

<p>Standard management</p> 	<p>National and international standards are actively adopted in design and production. The performance of our TM turbine flowmeter and RM Roots flowmeter has met the requirements of European standards.</p>
<p>Measurement management</p> 	<p>The Group has three kinds of gas flow standard devices, i.e. 0.25 standard meter method, 0.25 large flow sonic nozzle method and 0.1 high precision bell jar type, which are calibrated and verified on a regular basis.</p>
<p>Certification management</p> 	<p>The Group has completed the annual review of ISO 9001 quality management system, "Made in Zhejiang" certification and PED certification as well as the application for Wenzhou Quality Award.</p>
<p>Inspection and testing management</p> 	<p>The Group equips the testing center with more than 500 sets of testing equipment, constantly strengthens the training of testing personnel and actively prepares for CNAS laboratory certification.</p>



Gas flow standard device by standard meter method



Interior view of testing center



Integrated commissioning device for flowmeter

## Environmental, Social and Governance Report

### Barcode management system

The Group has formulated and implemented the Procedures for Product Identification and Traceability Control (《產品標識與可追溯控制程序》) and established an information-based barcode management system to improve the efficiency in managing product quality information and the timeliness and effectiveness in tracing and analyzing product quality problems. In 2019, after assessing the limitations in information traceability of the original barcode management system, the Group redeveloped a set of barcode management system on the original internal ERP system, effectively linked the information islands in the original system, and incorporated information related to market services, verification certificate and certificate of conformity into the barcode management system to further improve the traceability information chain. Particularly, the new barcode management system has been officially put into operation in December 2019.

### Process and equipment improvement

The maintenance and improvement of equipment and the optimization of process are critical to maintaining stable product quality. The Group formulates and implements the Equipment Management System (《設備管理制度》), carries out the equipment maintenance plan, and requires the person in charge of certain equipment to check on specified parts on the equipment on a daily basis and the equipment administrator to carry out weekly patrol inspection on the equipment, so as to keep abreast of the operation of the equipment in a timely manner. In 2019, 271 times of maintenance of various lathes, air compressors and other equipment were conducted by the Group. In terms of special equipment management, 46 pressure gauges and 13 safety valves were sent for inspection and installation, and annual self inspection was conducted for 13 pressure vessels.



## Environmental, Social and Governance Report

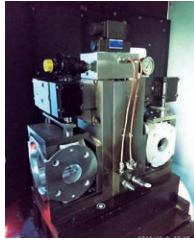
At the same time, the Group continued the improvement of process equipment and the promotion of "Machine replacement" to improve and maintain stable production quality of products and raise production efficiency. The Group's process and equipment improvement and "Machine replacement" in 2019 are as follows:



### Fixture transformation

Old fixtures like vises are replaced by pneumatic and hydraulic pressure keeping fixtures to realize accurate positioning and consistent clamping force, which can guarantee stable product quality and improve production efficiency.

In 2019, the Group completed the transformation of 17 pairs of pneumatic and hydraulic fixtures and 30 pieces (sets) of other machining and assembly auxiliary tools, and basically completed the tooling transformation in all processing centers.



A picture of pneumatic and hydraulic fixture



### Smelting process improvement

By using refining machines and Qinhuangdao degassing ladles and by shifting to the use of argon in dehydrogenation, the casting and smelting quality has been significantly improved.



### Promotion of "Machine replacement"

Welding robots are introduced to improve the welding quality and efficiency of shells; full-automatic SMT welding machine assembly lines and secondary instrument debugging assembly lines are introduced to realize the independent production of intelligent instruments, with a qualification rate at the first calibration over 99%; automatic conveying operation production line and unmanned automatic glue coating equipment are introduced and automatic manipulators are added to existing equipment to improve production efficiency and quality.



A picture of machining operating floor

## Environmental, Social and Governance Report

### Quality management team

The Group attaches great importance to the construction of quality management team and actively carries out the education and training of quality management personnel to continuously improve their knowledge reserve and operational skills. The Group carries out research and analysis on various quality improvement topics through the quality management team to continuously promote the high-quality and efficient progress of quality management work.



“Made in Zhejiang” standard training



Quality knowledge training

## Environmental, Social and Governance Report

### Case: Quality control team (“QC Team”) activities

The Group’s Quality Department takes the lead in setting up quality control teams to carry out themed activities related to product quality improvement. Up to now, QC teams the Group has registered include “Cangnan Instrument Jinying QC Team”, “Cangnan Instrument Zhongzhi QC Team” and “Cangnan Instrument Zhongxing QC Team”. Among them, “Cangnan Instrument Zhongzhi QC Team” and “Cangnan Instrument Zhongxing QC Team” were newly registered in 2019. The themed activities carried out by the three teams in 2019 and the achievements are as follows:

#### Cangnan Instrument Jinying QC Team

The team carried out the research on “improving the qualification rate at the first calibration of RM-DN50 Roots flowmeter”, with the qualification rate at the first calibration of RM-DN50 products of all specifications up from 89.3% before improvement to 96.9% between September and November 2019.

#### Cangnan Instrument Zhongzhi QC Team

Aiming to solve the electronic problems, the team is carrying out a research on “reducing the failure rate of inconsistency between the indication and the pulse accumulation of mechanical counters”, which is in progress as planned.

#### Cangnan Instrument Zhongxing QC Team

Aiming to solve the problems related to key parts, the team is carrying out a research on “improving the processing stability of RM50G65 Roots wheel coaxiality”, which is in progress as planned.



Data analysis meeting of Cangnan Instrument Jinying QC Team



Current situation analysis meeting of Cangnan Instrument Zhongzhi QC Team

## Environmental, Social and Governance Report

### 2. Innovation-Driven Development

Independent innovation and R&D are the core impetus for the sustainable development of an enterprise. With emphasis put on the R&D and innovation of products, the Group encourages the technical innovation from internal employees. It actively cooperates with universities and research institutions, strengthens communication and exchange with experts inside and outside the industry, and pays heed to the protection of technological R&D achievements, so that its products can meet market demands and the competitiveness and added value of products can be constantly improved.

#### R&D Investments and Achievements

The Group implements the Incentive Rule for Technology Innovation (《技術創新激勵制度》) to fully support internal R&D projects and gives full play to the enthusiasm and initiative of R&D personnel with economic incentives to continuously improve the quality and efficiency of innovation. According to the nature, type, difficulty, market prospect and expected economic benefits of each project, the Group grants different amount of technological innovation awards to technical R&D personnel to effectively promote product R&D and innovation.

## Environmental, Social and Governance Report

The Group also actively cooperates with universities and research institutions and has established “Zhejiang University-Cangnan Instrument Technology R&D Center”, “National Demonstration Base for Joint Training of Graduates for Professional Engineering Degree”, “Demonstration Base for Educational Innovation for Postgraduates Majoring in Instrument Science in China Jiliang University”, and “Key Laboratory in Flow Measurement Technology Research in Zhejiang Province”, etc., in an aim to promote product R&D and innovation with the support from university R&D.

This year, the Group's technology R&D center continued to deepen theoretical research and published relevant results. Dongxing Intelligent Instrument and Dongxing Energy Technology, subsidiaries of the Group, actively completed the annual R&D work, applied for and was recognized as a “Cangnan County Technology R&D Center” by Science and Technology Bureau of Cangnan County, Wenzhou City, Zhejiang Province. Details of the theses published and research projects carried out by the Group in 2019 are as follows:

SN	Title of Thesis	Published In	Date of Publication
1	On the Design and Application of Turbine Flowmeter in Oil Pipelines (談渦輪流量計在輸油管道中的設計應用)	Engineering Technology	March 2019
2	Installation, Maintenance and Application of Ultrasonic Flowmeters in Industrial Production (超聲波流量計在工業生產中的安裝維護及應用)	Chemical Enterprise Management	August 2019
3	Simulation and Design of Large-Range Gas Flow Sensors (大量程氣體流量傳感器的仿真與設計)	Chinese Journal of Sensors and Actuators	July 2019

### R&D related to diaphragm gas meters of Dongxing Intelligent Instrument



#### Completing 8 R&D projects

Project of series C products with aluminium shell (鋁殼C系列產品項目)  
 Project of improving IC card controllers with aluminium shell (改進鋁殼IC卡控制器項目)  
 Project of J4 axis power transmission to magnetic power transmission (J4軸傳動改磁傳動項目)  
 Project of mobile NB-IoT wireless remote transmission diaphragm gas meters (移動NB-IoT無線遠傳膜式燃氣錶項目)  
 Project of industrial and commercial NB-IoT wireless remote transmission diaphragm gas meters (工商業NB-IoT無線遠傳膜式燃氣錶項目)  
 Project of NB-IoT wireless remote transmission diaphragm gas meters of Kunlun Group (崑崙集團NB-IoT無線遠傳膜式燃氣錶項目)  
 Project of NB-IoT wireless remote transmission diaphragm gas meters of Shenzhen Gas Group (深圳燃氣集團NB-IoT無線遠傳膜式燃氣錶專案)  
 Project of the R&D on G-type 50KPa diaphragm gas meters (G型50KPa級膜式燃氣錶研發項目)

### R&D of nuclear-level throttling devices of Dongxing Energy Technology



#### Participating in the revision or formulation of 5 national standards

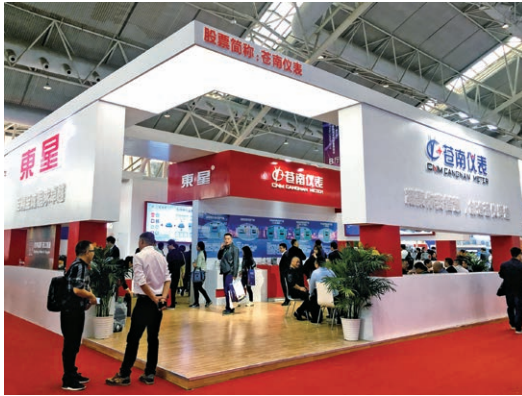
Key R&D direction: R&D of throttling devices and high and medium pressure gas regulators for relevant nuclear power plants based on Hualong One nuclear power technology

Participating in the revision or formulation of 5 national standards:  
 City Gas Pressure Regulating Installation (《城鎮燃氣調壓箱》)  
 City Gas Pressure Regulators (《城鎮燃氣調壓器》)  
 Gas Filter (《燃氣過濾器》)  
 Safety Shut-off Valves for City Gas Transmission and Distribution System (《城鎮燃氣輸配系統用安全切斷閥》)  
 LNG Gasification Installations (《液化天然氣(LNG)氣化裝置》)

## Environmental, Social and Governance Report

### Case: Innovation achievements of Cangnan Instrument on display in Nanjing International Exhibition Center

2019 (22<sup>nd</sup> Session) China International Gas, Heating Technology and Equipment Exhibition was held in Nanjing International Exhibition Center from 30 October to 1 November. As a leading manufacturer in the flow instrument industry, the Group attended the event, at which the Company highlighted its technological achievements and product technology empowerment in recent years to broaden cooperative channels and international vision, promote communication and exchange in the industry and create more opportunities for subsequent innovation and development.



A picture of exhibition activities



Group employees introducing products

## Environmental, Social and Governance Report

### Intellectual property protection

Effective management and protection of intellectual property rights is the basic guarantee for the independent R&D and innovation of an enterprise. The Group strictly abides by the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》), Patent Law (《專利法》), Copyright Law (《著作權法》), Trademark Law (《商標法》), Anti-Unfair Competition Law (《反不正當競爭法》) and other laws and regulations. Internally, the Group formulates and implements 13 management systems for the management and protection of intellectual property including the Management Regulations for Enterprise Intellectual Property, General Rules for Intellectual Property Management and Patent Management System, so as to standardize the acquisition, application and confidentiality of intellectual property.

In order to effectively protect its own intellectual property rights from infringement, the Group has carried out a series of training activities related to intellectual property to continuously improve employees' awareness of intellectual property protection and intellectual property management. In the meantime, the Group requires that employees with access to confidential information sign a written technical confidentiality contract to define the punishment measures for employees' technical leakage and other behaviors, so as to effectively cope with the risk of technical secrets and intellectual property leakage.

During this year, the Group obtained 9 authorized invention patents, 39 utility model patents and 11 software copyrights, with 4 invention patents and 12 utility model patents pending approval.

## Environmental, Social and Governance Report

### 3. Serving Customers Attentively

Under the service principle of “Cangnan Instrument always stays by its customers and customers are always at the heart of us”, the Group constantly improves the market service network, channels for customer communication and mechanisms for handling customer complaints, promotes the application of cloud service management platform, and enhances customer stickiness with the continuous improvement of timeliness, convenience and efficiency in serving customers.

#### Improving Customer Satisfaction

The Group has built a fast and flexible sales service network across the country, established a four-level service linkage mechanism of “headquarter, region, province, prefecture-level city”, and provided comprehensive technical support and 24-hour fast service for the installation, commissioning and use of products, so as to continuously improve customer satisfaction.

Taking advantage of modern communication network, the Group helps customers solve the difficulties they encounter when using products by means of remote operation on computers, and guides customers to use and maintain gas meters correctly. At the same time, the Group receives gas companies to study in our Company every year, arranges technical service backbone staff to teach them knowledge of the application and maintenance of gas flowmeter equipment and provides real products for users to practice dismantling and assembling, which is highly spoken of by customers. The Group also sends professional trainers to visit gas companies for technical exchanges, in an effort to enhance the friendly and harmonious cooperation between each other.

In order to ensure the professionalism of market service personnel, the Group arranges relevant personnel from technical departments to train market service personnel in respect of product knowledge, maintenance technology, service awareness and other aspects on an annual basis, so as to improve the professional skills of market service personnel. Market service personnel are required to provide on-site service in strict accordance with the Management Rules for Market Services (《市場服務工作管理細則》), fill in the maintenance service record in a standardized manner and collect customers’ opinions which are fed back to the headquarter for summary, analysis or development of improvement plan.

In order to discover customers’ needs in a timely manner, the Group obtains customers’ suggestions and expectations for the Group’s products and services through various channels such as return visits to customers and satisfaction surveys annually, and feeds back relevant opinions to relevant departments in a timely manner for follow-up, so as to better improve product quality and service satisfaction.



## Environmental, Social and Governance Report

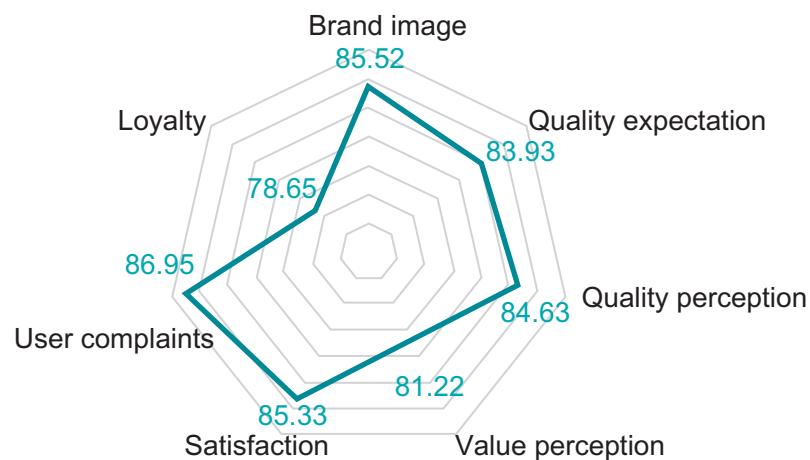
### Case: Return visits to customers

From 19 to 29 March 2019, the technology department and service center of the Group formed three return visit teams to conduct market return visits to 20 gas companies in three regions (North China, East China and South China) in an attempt to learn about the use of flowmeters, demands for wireless remote meter reading, market demands for ultrasonic flowmeter and customer opinions.

Through the survey, the Group has familiarized itself with the customers' concerns about the instability and high power consumption of wireless remote meters, learned that customers hope to add anti-theft gas, anti-interference and wireless remote transmission functions to some products, and, timely studied and formulated plans for product quality and performance improvement through sorting and analysis.

### Case: Annual survey on customer satisfaction of “Dongxing” gas flowmeters

In 2019, the Group engaged Zhejiang Quality Association to conduct an annual customer satisfaction survey on “Dongxing” gas flowmeter product with a total of 159 valid questionnaires collected. According to the results of the questionnaire survey, surveyed users' quality expectation, quality perception and value perception towards the Group's products are all above middle level, reflecting the effectiveness of the Group's efforts in customer service this year. Among them, user complaint indicator represents the degree of satisfaction towards the method and result of handling complaints.

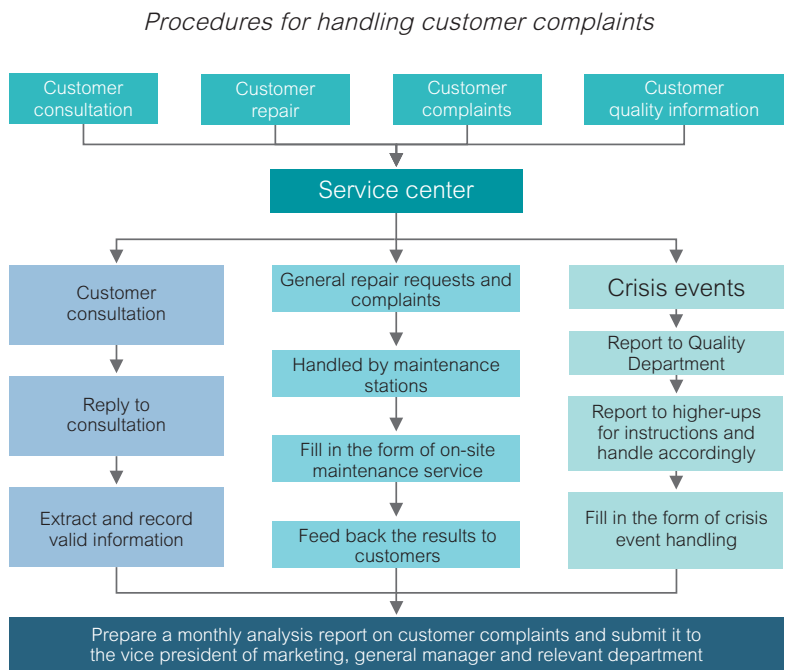


## Environmental, Social and Governance Report

### Handling Customer Complaint

In order to ensure the effective handling of customer complaints and service demands, the Group has formulated and implemented the Procedures for Management and Control of Customer Satisfaction (《顧客滿意管理控制程序》), established procedures for handling customer complaints, and set up such channels as telephone, email and fax to receive customer complaints, so as to timely learn about and handle the problems fed back by customers and protect their rights and interests. In response to customer complaints concerning problems about product quality, the Group requires the Quality Department to investigate and analyze the problems and propose solutions, and to work with the Production Department to develop a long-term mechanism for product optimization and service improvement, so as to win the trust from customers.

Details of the Group’s procedures for handling customer complaints and the handling of customer complaints this year are as follows:



*Handling of customer complaints this year*

Total number of services  
**3,562 times**

Complaint handling rate  
**100%**

Comprehensive satisfaction of complaint handling  
**100%**

*Note: The above data of customer complaints do not include those of Dongxing Intelligent Instrument and Dongxing Energy Technology.*

## Environmental, Social and Governance Report

In addition, in order to ensure the timeliness and efficiency of after-sales services, the Group started to establish an after-sales service management system at the end of 2019, by which customers were able to submit repair requests through WeChat, and after-sales service personnel were able to systematically inquire products' production parameters, sort out and analyze the situations of on-site maintenance, thereby continuously improving the quality and efficiency of after-sales services. The after-sales service management system is expected to be fully developed and put into pilot operation in the first half of 2020.

### Cloud Service Management Platform

To assist customers in managing the metering data of flowmeters, the Group provides one-stop services including remote meter reading, Internet of Things (IoT) recharge, wireless control valve, online price adjustment, online payment, remote service, safety inspection, routing inspection, and equipment control for gas companies through the cloud service management platform. The Group also provides end users of gas with 24-hour unattended IC card self-service recharge terminal, WeChat official account or mobile APP self-service recharge, and real-time query of gas usage, making it more convenient for users to supply (purchase) gas and inquire relevant information. Meanwhile, the Group continues to improve the intelligence and convenience of services by upgrading and improving the IoT communication, backstage billing, mobile App server, remote charging, remote price adjustment, remote control valve, virtual billing and other related functions of the cloud service management platform in 2019.

## Environmental, Social and Governance Report

### Protecting Customers' Basic Rights and Interests

#### Marketing with integrity and compliance

The Group has complied with the Advertising Law of the People's Republic of China (《中華人民共和國廣告法》) and other laws and regulations related to marketing with integrity and compliance, and revised the Marketing Management System (《市場營銷管理制度》) in 2019, which clearly stipulates that marketing personnel must comply with national laws and regulations, enterprise rules and regulations and professional ethics, and maintain the reputation of enterprises. Participation in regional or national product exhibitions and publicity and promotion meetings as well as publishing of publicity advertisements shall be reported by the responsible market to group headquarters for approval. The Group usually does not launch advertising campaigns. The publicity materials mainly include products' formal instructions and product selection samples and are reviewed by the chief engineer of the technical department with reference to the enterprise standards and national (international) industry standards, to ensure the contents are consistent with the actual conditions of the products and customer selection.

#### Protecting customers' information security and privacy

In order to safeguard the customer information on the cloud service management platform, the Group adopts Alibaba Cloud anti-attack system, situational awareness and other means to prevent information leakage caused by external attacks on the server. Platform softwares are installed with registration codes under the principle of "one machine, one code" to prevent unauthorized installation and usage. Accounts are required to be logged in using account number, password and electronic key to prevent login by unauthorized personnel. Data communication commands are transmitted in ciphertext to effectively ensure the safety of information transmission.

Besides, the Group sets content viewing permissions for users of cloud service management platform in daily information security management, and sets the user interface information corresponding to the intended purpose and opens the corresponding function permissions according to the type of customers and the areas they locate, so as to avoid unauthorized access to information and reduce the possibility of information leakage.

## Environmental, Social and Governance Report

### 4. Boosting Industry Development

A healthy and stable industry ecology is the environmental basis for the sustainable development of an enterprise. Relying on its own experience and technical advantages, the Group actively participates in the formulation of national industry standards and strengthens communication with peers in the industry, in an effort to promote industry standards to keep pace with the times and help facilitate the standardized development of the industry. In the meantime, the Group attaches great importance to communication with peers in the industry and timely familiarize itself with industry information and trends to improve its technologies and management level. By the end of 2019, the Group has joined 47 industry associations, including China Instrument Manufacturers Association, Wenzhou Instrument Manufacturers Association and China Nuclear Energy Association, and established good relations with its peers to jointly promote the construction of a sustainable development ecology in the industry.

#### Case: Recognition conference for the 30th anniversary of Jiangsu Gas & Heat Association

On 27 June 2019, the Group attended the recognition conference for the 30th anniversary of Jiangsu Gas & Heat Association at which it was awarded the title of “Unit with Outstanding Contribution of Jiangsu Gas & Heat Association”. Through this activity, the Group has strengthened exchanges with regional markets and promoted the establishment of a good cooperative relationship with mutual trust with users.



A picture of the award ceremony



Honorary credential of  
“Unit with Outstanding Contribution”

## Environmental, Social and Governance Report

### V. Confront ordeals with passion and create brilliance hand in hand

As the saying goes, talents are the key to rule a country. For us, talents are the primary resource. The Group holds that talents are the primary resource, the primary element and the primary advantage of an enterprise, and, therefore, actively implements strategies for talent development. The Group strictly observes relevant national laws and regulations on labor and employment in its operation, including but not limited to the Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) and other relevant laws and regulations, in an effort to protect the legitimate rights and interests of its employees. Meanwhile, adhering to the employment policy of “employees bring into full play of their talents and abilities”, the Group safeguards the health and safety of employees and provides employees with opportunities for occupational development to steadily promote the construction of its talent team.

#### 1. Recruitment of employees and their rights

Human resource is a precious asset and the core driver for the sustainable development of an enterprise. In strict compliance with the Labor Law of the PRC (《中華人民共和國勞動法》), the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》) and other provisions on workers' rights of equal employment, remuneration, rest and vacation, the Group strengthens the management of labor contracts and the establishment of internal human resource management system to provide employees with plenty of room for career development and diverse training opportunities, and endeavors to create a discrimination-free, fair, harmonious and healthy working atmosphere, thereby constantly improving employees' satisfaction and sense of belonging and realizing the common development of employees and enterprises.

##### Fair recruitment

In order to ensure fair and just recruitments, the Group formulated and implemented the Recruitment Management Rule (《招聘管理制度》) this Year to ensure equal employment opportunities for candidates under the recruitment principle of “open recruitment, fair competition and person-post matching”. The recruitment process of the Group includes four parts, i.e. formulation of recruitment plan, collection and screening of resumes, interview evaluation and employment approval. During interview evaluation in particular, the Group mainly evaluates the candidates in terms of their comprehensive caliber, professional skills, post fitness and other aspects, without treating them differently due to the gender, nationality, religious belief and physical condition of the candidates.

## Environmental, Social and Governance Report

Meanwhile, to prevent recruitment of child labor, the Group requires that all applicants' ID documents and academic qualifications be reviewed during recruitment, and employee information be entered and managed in the internal system for subsequent inspection and statistics. The Labor Unions of the Group are responsible for supervising and inspecting the employment of employees. If an employee is found to use false documents to hide his real age, the relevant department will be immediately ordered to terminate the employment relationship with him. In 2019, the Group did not find any situation related to the use of child labor.

This year, the Group recruited a total of 26 new employees in 12 special campus job fairs held in Xidian University, China Jiliang University and other universities as well as online recruitment. As of 31 December 2019, the Group has a total of 533 employees, all of whom are from Mainland China. Details of the age structure, gender structure and type of employees are as follows:

### Employee statistics by gender



Proportion of male employees in total number of employees

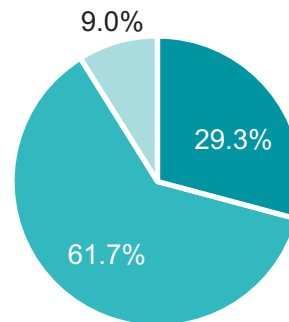
**79%**



Proportion of female employees in total number of employees

**21%**

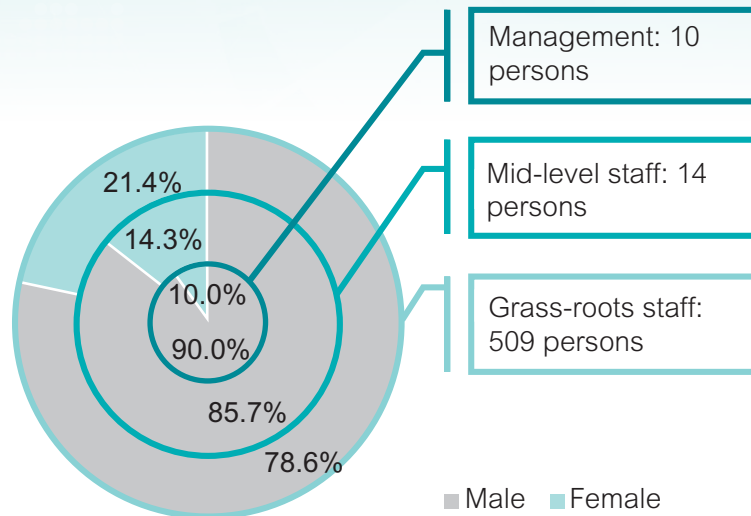
### Employee statistics by age



- Under 30 years old
- 30-50 years old
- Over 50 years old

## Environmental, Social and Governance Report

### Employee statistics by gender and rank



### Compensation and benefits

In compliance with the Labor Law of the PRC (《中華人民共和國勞動法》), the Regulations on Minimum Wage of the Ministry of Labor and Social Security of the PRC (《中華人民共和國勞動和社會保障部最低工資規定》) and other laws and regulations, the Group set up a well-established salary management system, and regularly carries out general salary adjustment based on consumer price, industry salary level, corporate operating efficiency and other factors, so as to provide employees with reasonable, fair and competitive compensation packages and stimulate the enthusiasm of employees for its steady development.

At the same time, according to relevant national regulations, the Group pays various social insurance and housing fund for employees on time to protect their basic legitimate rights and interests. The Group formulates and implements the Regulations on the Standards for Issuing Corporate Welfare Fund (《關於企業福利基金發放標準的規定》) to provide statutory welfare fund for employees and offer fees for holiday meals, subsidies for high temperature, subsidies for anniversary of the founding of factory, outpatient fees, lunch fees, festival fees, Mid-Autumn Festival moon cakes, goods for use during the Spring Festival and other benefits to all the regular employees.

Besides, in addition to statutory holidays, the Group provides employees with paid annual leave of different durations according to their length of service and ensures that employees have marriage and funeral leave, maternity leave, work-related injury leave to guarantee employees' legitimate rights of rest and vacation and mobilize the working enthusiasm of employees.



## Environmental, Social and Governance Report

### Resignation and Dismissal Management

The Group strictly abides by the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), and signs formal labor contracts with all employees to regulate and manage the labor employment relationships. For an employee with outstanding performance, the department head and HR personnel will arrange a talk to retain him/her when the Group discover his/her intention to resign. For an employee with poor performance during the contract term, the Group will give him/her a verbal or written warning in advance, and help the employee to improve his/her performance through job rotation and replacement of the career tutor; if the employee is unable to meet the job requirements at all times, the Group will persuade him/her to resign as appropriate, terminate the labor relation and pay corresponding economic compensation in strict accordance with laws. In 2019, the Group did not have any employee resignation.

### Anti-discrimination and pluralism

The Group pays heed to protecting the legitimate rights and interests of employees, strictly implements the relevant requirements of the Labor Law of the PRC (《中華人民共和國勞動法》) and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), and forbids any form of forced labor and discrimination.

In daily production, the Group guarantees that production tasks are completed on time and reduces overtime work by rationally arranging production orders and assigning priorities to tasks. In case of overtime, the Group will consult employees in advance and pay statutory overtime wages to the employees who are willing to work overtime. In 2019, the Group did not find any situation related to the use of forced labor.

The Group prohibits treating employees differently due to differences in gender, ethnicity, beliefs, nationality, etc., and sets up communication channels such as suggestion box, telephone, WeChat, corporate email, and mailing address to encourage employees to report and feed back opinions to the management or human resource department. Relevant personnel or departments are required to effectively respond to the opinions of employees to create a fair working environment and effectively protect the legitimate rights and interests of employees.

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In addition, with great importance attached to the protection of the rights and interests of female employees, the Group formulates and implements the Special Protection Rules for Female Employees of Zhejiang Cangnan Instrument Group (《浙江蒼南儀表集團女職工特別保護規定》) and prohibits lowering female employees' wages or dismissing them because of their pregnancy, childbirth and breastfeeding. We also guarantee that all female employees will not engage in any health-affecting work during pregnancy, and provide paid prenatal check-up leave, maternity leave and other holidays as well as birth allowances for female employees according to the regulations of the place of operation. The Women's Federation of the Group keeps an eye on the work intensity and working environment of front-line female employees, and regularly organizes caring activities for female employees on holidays such as Women's Day, thus creating a warm and humane working environment for female employees.

### 2. Employee training and development

Opportunities for growth and room for development are important factors for retaining outstanding talents, and also the key to the construction of the talent team for an enterprise. The Group actively assists employees in career development planning, provides abundant training opportunities and broad room for development, and helps employees to grow rapidly, so as to achieve a win-win situation for the Company's interests and employees' professional value.

#### Employee training

The Group formulates and implements the Training Rule (《培訓制度》) which clarifies the responsibilities of the person responsible for trainings, formulation of training plans, measures for rewards and punishments in trainings, and the use of internal and external trainers. All kinds of training activities are organized by the internal human resources department to ensure trainings of employees are carried out in a standardized and effective way. We are committed to cultivating a talent team who are familiar with technologies, able to manage, good at operating and capable of innovating with courage.

## Environmental, Social and Governance Report

This Year, the Group actively sought internal employees with strong work-related skills, qualifications in corresponding fields and a certain ability to impart knowledge to continuously expand the size of the internal trainer team and promote the impartation and accumulation of excellent experience and technology. The Group formulates and implements the Workshop Rotation Training Rule (《車間輪訓制度》), improves the overall caliber of the workforce through methods such as “apprentices guided by teachers”, and actively carries out knowledge contests such as technical training and technical competition to cultivate artisans with “expertise and sincerity in pursuit of excellence”.

In addition, the Group takes advantage of high-quality external training resources to provide a variety of professional trainings in respect of R&D personnel’s software reconstruction, planning and project management, warehouse management practices, quality inspector qualifications and labor relations coordination, so as to help employees quickly improve their position-related knowledge and professional skills to achieve the common growth of employees and enterprises.

The Group’s trainings in 2019 are summarized as follows:

		<b>Accumulated participants (person)</b>	<b>Average training hour per employee (hour/person)</b>
By gender	Male employees	591	13.36
	Female employees	175	16.29
By type of employee	Management	10	12.80
	Mid-level staff	51	52.57
	Grass-roots staff	705	12.94

## Environmental, Social and Governance Report

### Case: Front-line worker training plan

From 21 September to 9 November 2019, the Group invited lecturers from external institutions to held themed trainings for employees such as “how to become an excellent employee”, “6S on-site management”, “safety production”, “quality management”, and “equipment management”. The total number of participants in this training reached more than 1,000. The activity was aimed at improving the professionalism and professional skills of employees in various professional lines through new ideas and new thinking, as well as helping employees to grow rapidly with high quality.



A picture of the training



A picture of the training

### Case: Employee skill competition and skill level test on Labor Day

On the eve of Labor Day in 2019, in order to create a cultural atmosphere of “respect for labor, knowledge, talent and creativity” and to celebrate the Labor Day on 1 May, the Group held employee skill competition and skill level test, winners of which were awarded material rewards and skill level upgrade. Contestants in this competition consisted of the Company’s first-line elites, who were faced with multiple assessment items such as CNC lathes, machining centers, parts assembly, product calibration, line welding, performance debugging, leak detection, digital milling, etc., which were aimed to improve the skill level of employees and stimulate the enthusiasm of employees to learn skills.



A picture of the test



A picture of the test

## Environmental, Social and Governance Report

### Employee assessment and development

The Group sets up scientific and reasonable channels for career promotion for employees, and establishes a fair and equitable performance evaluation system to ensure that employees have equal opportunities and broad room for development, promote employees to grow into technical experts or middle and senior management talents in the industry, and continuously enhance the Company's talent reserve.

**Reasonable job setting:** The Group scientifically analyses and matches the positions and employees, combines the fixed position and staff system with appropriate human resources development strategies, and effectively exerts the potential and initiative of employees, to achieve the goal of adapting people to positions.

**Career promotion channels:** The Technical Workers Grade Assessment Rule (《技術工人等級考核鑑定制度》) and other systems are formulated. According to the differences in employee abilities, hobbies and various job characteristics, three promotion channels of administrative management, technical management and skilled workers are set up, and lateral mobility is maintained for providing employees with clear career development paths.

**Standardized performance management:** The Group formulates and implements the Assessment System (《考核體系》), and sets assessment criteria and indicators for employees of different positions and ranks to ensure quantifiability of job performance and ensure scientific, reasonable, fair and just human resources decisions in relation to promotion, salary increase, downgrade and job adjustment for employees.

**Internal competition and rotation of positions:** The Group provides employees with opportunities for internal promotion and determines the candidates through employees' self-declaration and competition for such positions. Meanwhile, the Group selects key personnel in various departments and professional lines to carry out training such as job rotation, and conducts job rotation or implements a scheme where one employee holds multiple positions for ordinary employees, so as to improve the overall quality of employees and guarantee the priority for internal talent to fill a job vacancy.

### 3. Health and safety of employees

The Group understands that occupational health and safety management is related to the life and happiness of employees, and strictly abides by the laws and regulations including the Safety Production Law of the People's Republic of China (《中華人民共和國安全生產法》) and the Fire Protection Law of the People's Republic of China (《中華人民共和國消防法》). It actively improves the safety management system, strictly implements the safety production operation specifications and inspection requirements, and constantly improves the safety production awareness of employees, so as to establish a solid defense line for the health and safety of employees.

## Environmental, Social and Governance Report

### Safety management system

In order to ensure the scientific and effective management of occupational health and safety, the Group actively introduces relevant management methods and standards from international and domestic management systems, and strengthens the construction of internal safety management system. So far, the Group has obtained the "OHASA18001 Occupational Health and Safety System" certification and the "Safety Production Standardization Class II Standard (Mechanical) Enterprise" certification issued by the Department of Emergency Management of Zhejiang Province.



Occupational Health and Safety Management System Certification Certificate



Safety Production Standardization Class II Standard (Mechanical) Enterprise Certificate

The Group has formulated and implemented relevant systems such as the Work Safety Rule (《安全生產法》), the Comprehensive Emergency Rescue Plan for Safety Production Accidents (《安全生產事故綜合應急救援預案》), and the Safety Inspection and Hidden Danger Rectification and Management Rule (《安全檢查和隱患整改管理制度》), and revised the Safety Manual for Employees (《員工安全手冊》) and the Uniform Management Rule (《工作服管理制度》) in 2019. The Group continuously improves the internal safety management system and sets up the emergency plan system for accidents to continuously improve the standardization of occupational health and safety management and to actively create a safe and harmonious working environment.

The Group sets up a safe and civilized production team which cooperates with the group inspection team on a quarterly basis to conduct regular or irregular patrol inspection on the safety production in workshops, and to make sure the problems discovered are rectified. The Group signs a letter of responsibility for safety production with each employee, requiring staff at relevant posts to wear corresponding safety protection articles, so as to ensure the safety of its employees and property.

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The Group implements the health examination system, organizes a general health examination for all employees once a year, and arranges occupational health examinations for employees in special positions upon entry, during employment and upon resignation, so as to urge employees to keep an eye on their own health status in time. In 2019, 489 employees of the Group took the annual general health examination, 29 of whom also took the occupational health examination.

In addition, the Group also carries out 6S management, detection of occupational health risk factors, safety education and training, daily safety inspection and other specific measures to ensure the personal and property safety of employees. For the implementation of specific measures, please refer to “Safety production environment” and “Safety education and training” in this section.

During the Reporting Period, the Group had one work-related accident due to the slippery road on rainy days. After the accident, the Group enhanced the safety awareness of its employees through publicity and education to prevent the recurrence of such employees’ injuries.

### Safe production environment

The Group attaches great importance to the safety management of the production environment, and conducts safety inspection on fire-fighting equipment, wires, sockets, gas pipes, safety channels, etc. on a monthly basis. Any potential hazards found in the inspection are subject to immediate rectification, and a responsible person is specially assigned to track the rectification to ensure potential hazards no longer exist. At the same time, the Group implements the Equipment Safety Management Rule (《設備安全管理制度》), and regularly checks the performance and safety of production equipment to prevent and reduce all sorts of accidents.

The Group actively promotes 6S (Seiri, Section, Seiketsu, Standard, Shitsuke, Safety) management in production workshops, and develops and implements the 6S Management Manual (《6S管理手冊》) to standardize on-site management, deploy daily work, mark out material placement, tidy up plant areas under management, raise personnel caliber and normalize safety management, thereby ensuring orderly and safe production.

The Group improves employees’ attention and understanding of 6S management on the production site through 6S on-site management competition and 6S management training, and links the inspection and assessment results of 6S management with employees’ incentive salary and related remuneration, so as to motivate employees to implement the requirements of 6S management rule of the Group and continuously improve the safety of production environment.

## Environmental, Social and Governance Report

### Mechanism of 6S management inspection

The corporate leading group conducts 6S management inspection across the Company once a month

Each department checks its 6S management at least once a week

The production department conducts supervision and organizes at least one irregular inspection weekly

Each workshop checks its 6S management at least once a day

### Checklist of 6S on-site management in workshops

车间6S现场管理检查表											
检查人:			检查日期:								
序号	项目	内容	项目得分	金工车间	滚轮表装配车间	罗表表装配车间	控制部装配车间	表留处退车间	标准车间	电表车间	检验组
1	地面/通道	地面洁净、无污渍、无杂物	5								
2		通道畅通、无障碍	10								
3	设备/装配线	设备标识清楚、目点标识正确	5								
4		设备、装配线清理干净、无污渍、无杂物	5								
5	物品	物品摆放无定位装置	15								
6		物料标识清楚、定位装置无锈蚀	8								
7	物料	合格品与不合格品分开放置	5								
8		工具	工具采用目视管理、定位摆放、整齐有序	8							
9	消防器材	灭火器摆放无阻碍物、并点检	3								
10		电气	配电箱、配电箱前方无阻碍物	3							
11	作业文件	表格、工艺文件、流程卡、检验记录、物卡网络	8								
12		看板	车间看板每周公布有关车间信息	4							
13	员工素养	按照规范穿戴劳动防护用品	8								
14		手机按规定存放于柜中	5								
15	其他	拖车、叉车、工位车等定点放置、停放整齐	3								
16		暂台、水桥柜上无杂物	3								
17	卫生间、更衣室、洗手台等无杂物、保持干净	2									
总分											

检查说明: 1. 生产现场6S检查表共计100分, 现场检查时不符合标准的每违反一次扣1分(金工车间扣0.5分), 每个检查项目实际得分最低为0分。  
2. 严重不符合项目(任何不满足三定三原则的事项, 不包括由现在工作场所的事项, 过期之物, 无用之物, 混杂之物, 堆积过多之物, 损坏的设备, 卫生死角, 安全隐患等)一次可直接扣完项目得分。  
3. 检查时, 所涉及被检查车间的车间主任不参与与本车间的评分。

At the same time, the Group regularly entrusts a third-party testing company to sample and test the occupational hazards in the headquarters factory and the Batou factory every year. In April 2019, the Group carried out the annual sampling and testing of occupational hazards covering a total of 23 types with 85 designated testing points in place. During this inspection of occupational hazards, it was found that the noise generated in the balance room, welding workshop and casting workshop would exceed the standards during grinding operation. In this regard, the Group has provided production workers with effective personal protective equipment and tools, and guided employees to use noise-proof earplugs correctly to reduce the impact of excessive noise on employees' health during production.

### Safety education and training

The Group values the safety education and training of employees, conducts regular learning activities regarding the workshop and team's safety management knowledge for front-line employees twice a month, and provides employees with training and education in four aspects, i.e. safety ideological education, safety production knowledge education, safety skills education and training, and safety production experience education. Moreover, the Group improves employees' safety awareness and reduces the possibility of safety accidents through irregular activities such as accident video viewing, safety lesson plan distribution, safety production theme month, fire drill, safety knowledge competition, etc. As for new employees or post-shifting employees, the Group requires that they receive the education and training of safety production knowledge and operational skills first, and only after passing the training and assessment can they start to work at the new post, thus avoiding equipment damage and accidents.



## Environmental, Social and Governance Report

During the Reporting Period, each employee of the Group received an average of 16 hours of health and safety training.

### Case: Fire drill

On 11 April 2019, the Group held a fire drill which involved 30 backbone staff from the headquarters and subsidiaries and volunteer firefighters. The purpose of the activity was for employees to learn how to use the fire equipment and do practice, so as to improve their fire safety awareness and fire emergency ability.



A picture of the fire drill



A picture of the fire drill

## Environmental, Social and Governance Report

### Case: Safety production knowledge competition

In order to further popularize the knowledge of safe and civilized production and “6S” management, the Group and Cangnan County Federation of Trade Unions held the “three aspects of support for corporate safety management from Cangnan County Federation of Trade Unions and safety production knowledge competition of Zhejiang Cangnan Instrument Group” in July 2019. There were group competition and team competition. Four teams composed of 25 employees sent by the parent company and each subsidiary took part in the group competition which was in the form of closed book examination and aimed to help employees remember the basic knowledge of safety. The team competition consisted of representatives selected by group headquarters and each subsidiary with excellent performance in the group competition. In such games as fast answer race, risk answer race and on-site audience interaction where people could learn while playing, safety knowledge was popularized to the general staff.



A picture of the safety production knowledge competition



A picture of the safety production knowledge competition

## Environmental, Social and Governance Report

### 4 Employee care and communication

The Group pays attention to employee care and communication, constantly improves the communication mechanism between employees at upper and lower level and employees at the same level in daily management, and organizes various care activities to create a working atmosphere of unity, dedication, simplicity and equality, and to enhance employees' sense of belonging.

The Group actively listens to and adopts, if appropriate, the suggestions and opinions of employees through employee forum, satisfaction survey, general manager's suggestion box, bulletin board, OA, U9 special meeting, weekly meeting and other forms to fully mobilize the enthusiasm of employees and improve their sense of participation and responsibility.

#### **Case: Employee satisfaction survey**

On 21 December 2019, the Group carried out the annual employee satisfaction survey to timely understand the what its employees are thinking about and their suggestions for the development of the Group. 318 employees participated in the survey, and the score of employee satisfaction was 86.33. Based on the outcomes of the survey, the Group has formulated and implemented targeted improvement measures in terms of cultural activities and safety training, so as to continuously improve employee satisfaction and sense of belonging.

## Environmental, Social and Governance Report

### Case: Soldier-supporting symposium for the Group's veterans on the "1 August" Military Day

On the eve of the "1 August" Military Day in 2019, the Group arranged a soldier-supporting symposium for internal veterans to interact with each other on corporate development and construction, veterans' life status and military life during service. At the meeting, attendees talked about the original intention of joining the army and the feelings of serving the country, as well as about their work and dreams today. They expressed the intention to continuously show the true character of soldiers, shoulder new responsibilities and make a difference, and make contributions at their existing posts.

Hong Zuobin, chairman of the Group, attended the symposium, affirming the veterans' passion for and dedication to their work and encouraging them to maintain the unique quality of soldiers, study hard, strengthen the technical skills required for their posts, love their jobs and work hard, so as to drive all staff to innovate and make new contributions to the development of the Company.



A picture of the soldier-supporting symposium

## Environmental, Social and Governance Report

Furthermore, the Group organizes all kinds of cultural and sports activities and actively encourages employees to build up a good physique, improve their self-cultivation, work efficiently and live happily, which not only enrich their spare-time life, but also enhance team cohesion and employees' sense of belonging.

### Case: Staff sports meeting

The Group held the staff sports meeting on the eve of 1 May 2019. Four competitions were held at the sports meeting, including basketball competition, tug of war competition, group rope skipping competition and "working together on the same boat". A total of more than 150 athletes participated in the games, helping to increase the cohesion and centripetal force of the whole staff, and stimulating the enthusiasm of the staff and officers for entrepreneurship.



A picture of the staff sports meeting



A picture of the staff sports meeting

### Case: Solving riddles on lanterns on Mid-Autumn Festival

On 12 September 2019, the Group held the activity of "commemorating the founding of factory, celebrating the Mid-Autumn Festival and solving riddles on lanterns" to enrich the after-work cultural life of employees and create a strong festival atmosphere. The site was full of colorful lanterns with riddles, and more than 400 riddles were displayed in front of people. The riddles covered a wide range of interesting knowledge, which aroused a heated discussion among the staff, and created a warm atmosphere.



A picture of the activity



A picture of the activity

## Environmental, Social and Governance Report

### VI. Care for the environment and protect green water and mountains

The Group adheres to the philosophy of green development, actively assumes its environmental responsibility as an enterprise and strictly abides by the relevant environmental laws and regulations in the place where it operates, including but not limited to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), the Law on the Prevention and Control of Solid Waste Pollution of the PRC (《中華人民共和國固體廢物污染環境防治法》) and the Noise Pollution Prevention Law of the PRC (《中華人民共和國環境噪音防治法》).

The Group has formulated and implemented the Administrative Measures on Environmental Protection (《環境保護管理辦法》) and other systems. Through the optimization of processes and materials, reasonable production planning, and strict sewage treatment, the Group has reduced the impact of operations on the environment and is committed to achieving a win-win situation of economy and environmental protection.

## Environmental, Social and Governance Report

### 1. Material management

#### Saving production materials

The Group has established a leading group for cost control to carry out activities to increase revenue and reduce expenditure, regularly take stock of material consumption and analyze the input and output of materials in workshops on a monthly basis, and urges each workshop to strengthen the management of remaining and waste materials and improve the use efficiency of raw materials. The Group continuously improves the processing technology and equipment, and regularly repairs and maintains the production equipment to reduce the product rejection rate and the raw materials consumed. While ensuring the quality of products, the Group introduces profiles (i.e., materials casted according to the shape of the parts to be produced) to replace the original materials such as aluminium ingots. Given such advantage of profiles as can be used after simple cutting, scrap generation during the processing, casting and grinding of the parts can be reduced and, in turn, the use efficiency of raw materials can be further improved. For products returned from the market for repair, the Group will reuse certain materials removed from such products that have passed inspections to reduce the scrap of materials. In addition, the Group has actively replaced men with machines in recent years to reduce the reworking rate of products and improve production efficiency and material use efficiency.

#### **Case: Automatic welding production lines equipped with filter robots**

In view of the insufficient production capacity of key links such as welding, the Group has introduced automatic welding production lines equipped with filter robots to realize the functions of automatic moving and turning, welding, as well as automatic splicing, spot welding and full welding of flange connection between various workbays in terms of shell welding of DN40-DN150 filters. Such robots are able to conduct visual inspection and calibration and make judgment of and handle abnormal conditions like "lack of wire", "lack of gas" and arcing failure, and can make automatic correction in flange connection splicing and automatically return materials in the event of splicing failure. After the implementation of the project, products':

Reworking rate dropped  
from 50% to 5%

Production efficiency  
increased by 300%

## Environmental, Social and Governance Report

### Environmentally friendly packaging materials

The Group actively introduces and utilizes environmentally friendly packaging materials to reduce the impact of product packaging on the natural environment. Taking into account the shortcomings of unpleasant smell produced from foaming materials in the foaming process on site, non-degradable foaming boxes after disposal and high disposal cost, the Group mainly uses cartons, corrugated paper and air column bags as packaging materials, of which air column bags are a new type of packaging material filled with air. This material itself does not contain any heavy metals, and features non-toxic combustion, airtightness, moisture resistance, environmental protection, less consumption and recoverability, which can effectively save resources, reduce the environmental impact of packaging disposal and lower costs. By using new packaging materials such as cartons, corrugated paper and air column bags instead of foaming materials and foam boxes, the Group manages to save costs.

Nearly **1/3** of the costs for each RM-40/50(Z) product was saved

Nearly **1/2** of the costs for each LLQ-40Z/50Z product was saved

Nearly **1/3** of the costs for each LWQ-80Z product was saved

In addition, according to the requirements of export standards, solid wood pallets must be fumigated. Considering the possible negative impacts of fumigants on the environment, the Group adopts internationally accepted recyclable plastic pallets for the export products as a packaging replacement and does not print on the packaging cartons used to reduce printing pollution and improve the recoverability of product packaging.

Use of packaging materials by the Group in 2019 is as follows:

Name of Indicator	Unit	Consumption in 2019
Packaging materials consumption	Tonne	368.82
Packaging materials consumption per unit of product	Tonne/Piece	0.0011

*Note: The data of environmental key performance indicators in the section headed "Care for the environment and protect green water and mountains" is collected from the production and office areas in the Group's headquarters, Dongxing Software, Dongxing Intelligent Instrument and Dongxing Energy Technology, the same below.*



## Environmental, Social and Governance Report

### 2. Energy and carbon emission management

Climate change has brought unprecedented challenges to global economic development, and will directly or indirectly affect the ability of enterprises to obtain resources and maintain operations. In light of this, the Group actively responds to the country's call for energy conservation and consumption reduction and actively strengthens the management of energy use to reduce greenhouse gas emissions from energy use and promote the sustainable development of the economy and the society by increasing revenues and reducing expenditures.

Measures taken by the Group to save energy and reduce consumption and greenhouse gas emissions in daily production mainly include:

- Making reasonable construction schedules to process products in batches and adopting three-shift uninterrupted equipment operation mode to reduce the power consumption of equipment preheating or waste caused by idling of equipment;
- Regularly inspecting production equipment and introducing fully automatic equipment to replace old equipment with low capacity and high power consumption, so as to improve production efficiency and reduce equipment energy consumption;
- In view of the large power consumption of air conditioners in verification workshops, setting an accurate time for running the constant temperature and humidity machine to practice the principle of "not wasting one kilowatt-hour of electricity";
- The Group strictly manages the use of employee shuttle buses, trucks and official vehicles to reduce unnecessary use of vehicles, regularly maintains and repairs vehicles and timely eliminates vehicles with higher fuel consumption to reduce the fuel consumption and greenhouse gas generation of the vehicles.

## Environmental, Social and Governance Report

The Group's energy consumption and greenhouse gas emissions in 2019 are as follows:

Name of Indicator	Unit	Consumption/ Emission in 2019
<b>Total energy consumption</b>	<b>GJ</b>	<b>18,154.74</b>
#Direct energy consumption	GJ	4,808.14
Gasoline consumption	Liter	67,980.18
Diesel consumption	Liter	44,415.09
Liquefied petroleum gas consumption	Kg	21,993.00
#Indirect energy consumption	GJ	13,346.60
Outsourced power	kWh	3,707,390.00
Energy consumption density	GJ/Piece	0.06
<b>Total greenhouse gas emissions</b>	<b>tonne of CO2 equivalent</b>	<b>3,342.28</b>
#Greenhouse gas emissions (Scope I)	tonne of CO2 equivalent	359.31
#Greenhouse gas emissions (Scope II)	tonne of CO2 equivalent	2,982.97
Greenhouse gas emission intensity	tonne of CO2 equivalent/Piece	0.01

Note: 1) The unit conversion coefficient for energy consumption refers to GB2589-2008T General Principles of Comprehensive Energy Consumption Calculation (《GB2589-2008T綜合能耗計算通則》); 2) greenhouse gas emissions (Scope I) mainly come from the liquefied petroleum gas consumption of stationary sources equipment and gasoline and diesel consumption of official vehicles, while greenhouse gas emissions (Scope II) mainly come from outsourced power. The greenhouse gas emission factors of outsourced power are based on China Regional Power Grid Baseline Emission Factor for Emission Reduction Project for 2017 (《2017年度減排項目中國區域電網基準線排放因子》) published by the Ministry of Ecology and Environment; the greenhouse gas emission factors of gasoline used by stationary machine refer to the National Greenhouse Gas Inventory (《國家溫室氣體清單指南》) by IPCC; other greenhouse gas emission factors refer to the ESG Reporting Guide of the Stock Exchange (《ESG報告指引》); 3) the denominator used to calculate energy consumption intensity and greenhouse gas emission intensity is the number of products produced in 2019.

## Environmental, Social and Governance Report

### 3. Waste and noise management

The Group strictly abides by the emission standards for production wastewater, exhaust gas, noise and domestic sewage in the country and the place where it operates. It entrusts external professional monitoring agencies such as the Environmental Protection Agency to monitor the emission of wastewater, exhaust gas and noise to ensure that the emission indicators meet national and local standards.

Meanwhile, the Group has formulated and implemented the Waste Management Measures (《廢棄物管理辦法》), the Sewage Management Measures (《污水管理辦法》) and other policies, requiring that wastes be disposed of and production wastes be recycled according to standardized waste disposal procedures in daily production. Specific measures include but are not limited to:

- Clearly stipulating that each department shall be responsible for its own emission compliance, requiring quality management personnel to inspect the emission of sewage, exhaust gas and noise on a quarterly basis, and promptly supervising the discovery and rectification of problems to ensure emission compliance;
- Installing monitoring equipment to monitor the emission indicators of sewage, exhaust gas and noise in the production process in real time, and regularly inspecting relevant discharge and treatment equipment to ensure compliance with emission standards;
- With regard to production sewage, installing a sewage treatment system to precipitate and neutralize the harmful sewage generated in the production and discharge the sewage through the sewage pipeline after the production sewage emission standards are met;
- With regard to hazardous wastes such as sludge, waste oil, waste batteries and waste cutting fluids, submitting the hazardous waste management plan to the relevant competent department on a regular basis, collecting and storing all sorts of hazardous wastes accordingly, and having them regularly transported and rendered harmless by a company with relevant waste disposal qualifications;
- With regard to production wastes such as copper scraps generated in the production process, requiring that such wastes be collected and sold according to regulations and recycled by waste recyclers.
- Requiring that a fence be set up in the welding process to reduce the unorganized emission of smoke and dust.

## Environmental, Social and Governance Report

Generation or emission of relevant wastes and exhaust gas of the Group in 2019 are as follows:

Name of Indicator	Unit	Generation/ Emission in 2019
<b>Hazardous waste</b>		
#Sludge	Tonne	9.89
#Waste oil	Tonne	1.33
#Waste batteries	Set	9,490.00
#Waste cutting fluids	Tonne	8.77
#Waste packaging barrels	Tonne	0.23
<b>Non-hazardous waste</b>		
#Production waste	Tonne	139.08
#Office waste	Tonne	1.79
#Plant household waste	Tonne	2.86
<b>Exhaust emissions</b>		
#SOx emissions	Kg	0.95
#NOx emissions	Kg	190.99
#Particulate matter emissions	Kg	16.16

Note: 1) The exhaust emission mainly comes from the liquefied petroleum gas consumed by stationary sources equipment and the use of official vehicles; 2) Exhaust emission factors refer to the ESG Reporting Guide of the Stock Exchange (《ESG報告指引》).

## Environmental, Social and Governance Report

### 4. Water resource consumption

The Group mainly draws water resources from the municipal pipe network and actively promotes the conservation and utilization of water resources in production and life. The Group takes various water conservation measures such as cycling use of water and multiple use of water in the production process to reduce water consumption and increase the reuse rate of water resources. In the procurement process of machinery and equipment, the Group will also consider the water use efficiency of the equipment and select the facilities or products with high water-saving efficiency. At the same time, the Group posts water-saving signs in prominent places such as water-using places and appliances to encourage employees to save water in their daily lives.

The Group's water resource consumption in 2019 is as follows:

Name of Indicator	Unit	Consumption in 2019
Total water consumption	m <sup>3</sup>	39,367.00
Water consumption per unit of product	m <sup>3</sup> /Piece	0.12

## Environmental, Social and Governance Report

### VII. Work clean-handedly and create a clean environment

The Group strictly abides by laws and regulations such as the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) and the Anti-Monopoly Law of the PRC (《中華人民共和國反壟斷法》), and strives to create a healthy, fair and transparent corporate culture by establishing an internal control system to supervise the exercise of management power and prevent corruption, bribery, money laundering and other improper business practices.

The Group formulates and implements the Code of Ethics (《廉政行為準則》) which requires leaders and officials to abide by national laws and corporate rules and regulations, and comply with the principle of honesty and integrity without abusing their powers to seek personal gains and damaging the interests of the enterprise and industry order. Incorruptible behavior has been included in cadre assessment. The Group prohibits the management or the Board from instructing, directing or forcing the accounting personnel to engage in activities that violate the financial system. The employees are not allowed to use public funds for entertainment consumption or use bribery, fraud and other improper means in procurement and other business activities.

In order to ensure the implementation of the relevant requirements of a clean and honest work style, the Group strives to prevent and correct relevant behaviors and put an end to corruption, bribery, money laundering and other improper behaviors through internal supervision, control systems and internal audit. The Group has established such channels as email and hotline to receive whistle-blowing information from internal and external personnel. After receiving a tip-off, the Group will appoint a special person to investigate and handle it in a timely manner. The reporter will be protected and the source of the tip-off will be kept confidential. If the relevant tip-off is found to be a major disciplinary violation, the Group will require the relevant responsible departments and personnel to carry out rectification within a time limit and impose administrative or economic penalties on the relevant personnel. Those in violation of laws or the relevant cases will be transferred to the judicial authority for filing.

## Environmental, Social and Governance Report

In 2019, while strengthening supervision over business operations, the Group also carried out irregular anti-corruption education and training activities, and took active in the anti-corruption initiatives organized by government departments, so as to continuously improve employees' awareness of integrity and create an open and transparent industry atmosphere. During the Reporting Period, there were no concluded legal cases regarding corrupt practices brought against the Group or its employees.

### Case: “Incorruptible private enterprise” initiative

On 20 November 2019, the Group actively participated in the “incorruptible private enterprise” initiative in Wenzhou. This activity aims to promote government departments and enterprises to work together to build a new type of government-business relationship featuring “close” and “clean”, create a business development environment with sincerity, fair competition, mutual benefit and win-win results, and make due contributions to the establishment of a “two healthy” (healthy development of non-public economy and healthy growth of non-public economic persons) pioneer area in the new era.

To this end, the Group signed the Proposal for Incorruptible Private Enterprises and proposed to:

- I. Resolutely prevent and control corruption and create a good market environment together under the value of “honesty-centered”;
- II. Uphold the traditional essence of “pursuing both justice and benefit”, operate in good faith according to laws and maintain a good corporate image;
- III. Carry forward the culture of “upholding incorruptibility”, strengthen internal management and establish a sound mechanism for self-discipline.

## Environmental, Social and Governance Report

### VIII. Gather strength to go forward and share developmental achievements

Performance of suppliers can have a material impact on product quality, safety, after-sales service, etc., and, therefore, is an important link in the long-term development of an enterprise. In strict compliance with such laws and regulations as the Tendering and Bidding Law of the People's Republic of China and the Government Procurement Law of the People's Republic of China, the Group improves its internal management system, establishes a unified archive of suppliers, and conducts supplier evaluation and assessment on a regular basis to ensure the stability and compliance of the supply chain and urge suppliers to actively fulfill their social responsibilities, with a hope to partner with suppliers for common development as a virtuous circle.

As of 31 December 2019, the Group had a total of 150 suppliers. Data of suppliers by category are as follows:

<b>Category of suppliers</b>	<b>Number of suppliers</b>	<b>Percentage of total quantity</b>
Raw materials suppliers (including aluminium ingots, steel, external processing, electronic components, etc.)	124	82.67%
Production testing equipment suppliers	1	0.67%
Packaging materials suppliers	8	5.33%
Logistics suppliers	3	2.00%
Other suppliers	14	9.33%
Total	150	100.00%



## Environmental, Social and Governance Report

Regional distribution of non-logistics suppliers is as follows:



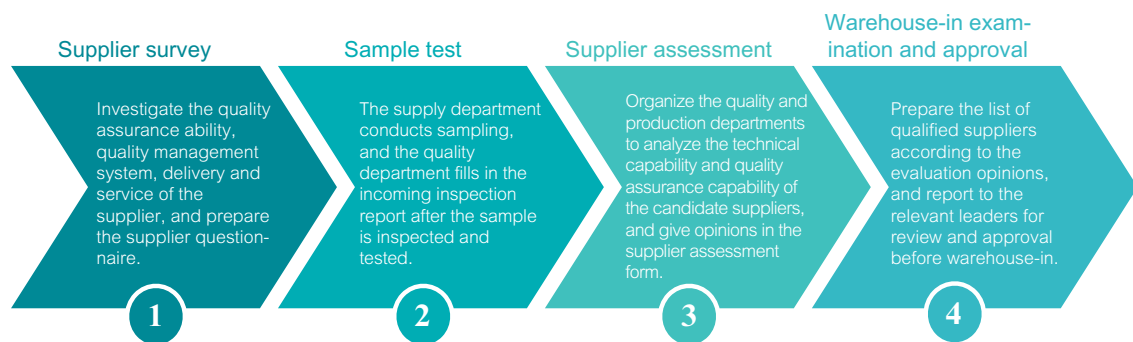
*Note: The distribution is based on the principal operating location of suppliers.*

## Environmental, Social and Governance Report

### 1. Establishing a fair trading order

To operate transparently and openly and compete fairly and righteously, the Group strictly follows the provisions concerning access and dynamic evaluation of suppliers in its internal rules such as Supplier Management Rule and Procurement Management Rule and continuously improves the supplier management mechanism to ensure a fair trading order.

In terms of supplier access, the Group has set up a rigorous and clear assessment process, clarified the responsibilities of each department and required that assessments be properly recorded, so as to avoid frauds or unfair competitions in the process of supplier recruitment and access, and to prevent the interests of suppliers and the Group from damages. Process of the Group's access assessment is as follows:



In terms of dynamic evaluation of suppliers, the Group conducts a comprehensive evaluation of suppliers from the aspects of timely supply rate, product qualification rate, after-sales service, production management, etc. and divides them into excellent, good, general and poor grades according to their scores. A system where the one who ranks the last will be eliminated is adopted. A supplier rated poor or last will be submitted by the supply department to the meeting of factory department office to discuss the replacement of such supplier. Furthermore, the Group organizes a review of qualified suppliers once a year to review the qualification rate, timeliness, price rationality and service status of suppliers' purchase, so as to promote the continuous improvement of the quality of suppliers' products and services and ensure fair and just partnerships.

At the same time, the Group arranges inspectors to carry out inspections on purchased materials at arrival, and dispose of and track the unqualified products in accordance with the relevant requirements of Control Procedures for Corrective Measures for Non-Conforming Products, which are included in the annual review of suppliers, so as to ensure the reliability of suppliers and promote the virtuous cycle of cooperation.

## Environmental, Social and Governance Report

### 2. Social responsibility of suppliers

In order to promote social responsibility management in the supply chain, the Group requires that suppliers have a good business reputation without a record of violation in the past three years of business activities or disqualifications in the supervision by the state, industry, group companies, and local governments, so as to ensure their compliance operations.

For supplier access, the Group requires suppliers to fill in the supplier questionnaire to specify their quality, environment and other management system certifications and other industry qualifications such as safety production license and special equipment manufacturing license, so as to urge suppliers to pay attention to and strengthen the management of issues related to sustainable development like product quality and production environment management.

Moreover, the Group prepares the form for reviewing occupational health and safety of suppliers to supervise suppliers' occupational health and safety management by means of on-site review, on-site review on an appointed third party or fill-out by suppliers themselves for different types of suppliers.

**Review of occupational health and safety management of suppliers**

1. Implementation of work-related safety and health, fire rating and the system of the "three simultaneous actions" (simultaneous design, construction and use of facilities for pollution prevention and the main project)
2. Establishment and implementation of standardized occupational health and safety management system
3. Other occupational health and safety performance on site

- Noise emission
- Emission of hazardous substances into the air in workshops
- Fire fighting facilities
- Safety protection devices of key process equipment
- Protective measures for workers
- Hazardous chemicals management
- Others

As of 31 December 2019, the numbers of suppliers in the Group's supplier base who have obtained relevant management system certifications are as follows:

**67** suppliers certified by ISO 9001 quality management system  
**35** suppliers certified by ISO 14001 environmental management system

## Environmental, Social and Governance Report

### 3. Communication and exchanges with suppliers

The Group pays attention to the communication with suppliers, tries to find out the cooperative intention and demand of suppliers in a timely manner through various forms such as on-site inspection, communication, visit and phone call with respect to supplier access, and actively helps suppliers improve their business capabilities, so as to build a mutually beneficial cooperative relationship.



Pictures of assisting suppliers and technical exchanges

*Note: Pursuant to the provisions of Work Safety Law of the PRC (《中華人民共和國安全生產法》), the production and operation entities must adhere to the principle of “three simultaneous actions” in terms of safety facilities in the construction, reconstruction and expansion of projects, which means, the safety facilities of construction projects must be designed, constructed and put into production and use at the same time as the main projects.*

## Environmental, Social and Governance Report

### IX. Never forget original goals and bear in mind responsibilities and missions

Upholding the core value of “maximizing social contributions” and regarding the well-being of local people as its own responsibility, the Group continues to participate in poverty alleviation in the places where it operates, striving to make contributions to the harmonious and healthy development of the society. In May 2011, the Group signed an agreement with Cangnan Charity Federation to establish a “naming sponsorship charity fund of RMB12 million” (hereinafter referred to as the “Naming Sponsorship Charity Fund”) pursuant to which the Group agreed to pay RMB600,000 from its fund interests every year to support public welfare and charity undertakings such as helping poor students, vulnerable social groups and employees of enterprises in need in Cangnan County, demonstrating its active pursuit of corporate social responsibility.

#### Case: Activities to care for elderly and needy households

Every year, RMB100,000 from the Group’s Naming Sponsorship Charity Fund is used to care for the elderly and needy households as an expenditure of Cangnan County filial piety fund. In December 2019, the Group, together with cadres of Cangnan Charity Federation, Cangnan County Civil Affairs Bureau and Fanshan Town, visited 5 elderly people in need in the area, and sent them necessities and grants to help them solve problems and keep faith in life.



A picture of the activity

## Environmental, Social and Governance Report

### Case: Spring Festival activities

In January 2019, the Group sent gifts and financial aids special for the Spring Festival to the needy employees, retired cadres, elderly employees, elderly people in the nursing home in Mazhan Town and needy households with greetings and blessings, demonstrating that the Group has conveyed warmth and fulfilled its original intention and mission with actions. More than 100 people benefited from this activity.

During the visit, the staff of the Group patiently and meticulously inquired about the living conditions and physical conditions of and the difficulties faced by the people being visited and invited their suggestions on such activities, thus ensuring that the care and help from the Group actually went where they belonged.



A picture of Spring Festival activities



A picture of Spring Festival activities

## Environmental, Social and Governance Report

Additionally, facing the steep situation in prevention and control of novel coronavirus pneumonia, the Group was concerned about the society and donated RMB600,000 in cash to Cangnan Charity Federation on 20 February 2020 to help control the epidemic as early as possible. Huang Youliang, the general manager of the Group, personally donated RMB100,000 in cash to Cangnan Charity Association, hoping to contribute to winning this white war as early as possible.



A picture of the Group donating anti-epidemic funds to Cangnan Charity Federation

## Environmental, Social and Governance Report

### Appendix I Content Index of ESG Reporting Guide

	ESG Index	Disclosure Status	Corresponding Chapter
<b>A1 General Disclosure</b>	Information on the policies, compliance with relevant laws and regulations that have a significant impact on the issuer relating to waste air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Disclosed	Care for the environment and protect green water and mountains
<b>A1.1</b>	The types of emissions and respective emissions data.	Disclosed	Care for the environment and protect green water and mountains
<b>A1.2</b>	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	Care for the environment and protect green water and mountains
<b>A1.3</b>	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	Care for the environment and protect green water and mountains
<b>A1.4</b>	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	Disclosed	Care for the environment and protect green water and mountains
<b>A1.5</b>	Description of measures to mitigate emissions and results achieved.	Disclosed	Care for the environment and protect green water and mountains
<b>A1.6</b>	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Disclosed	Care for the environment and protect green water and mountains
<b>A2 General Disclosure</b>	Policies on the efficient use of resources, including energy, water and other raw materials	Disclosed	Care for the environment and protect green water and mountains
<b>A2.1</b>	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total and intensity (e.g. per unit of production volume, per facility).	Disclosed	Care for the environment and protect green water and mountains
<b>A2.2</b>	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	Disclosed	Care for the environment and protect green water and mountains
<b>A2.3</b>	Description of energy use efficiency initiatives and results achieved.	Disclosed	Care for the environment and protect green water and mountains
<b>A2.4</b>	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Disclosed	Care for the environment and protect green water and mountains
<b>A2.5</b>	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	Disclosed	Care for the environment and protect green water and mountains



## Environmental, Social and Governance Report

	ESG Index	Disclosure Status	Corresponding Chapter
<b>A3 General Disclosure</b>	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Disclosed	Care for the environment and protect green water and mountains
<b>A3.1</b>	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed	Care for the environment and protect green water and mountains
<b>B1 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B1.1</b>	Total workforce by gender, employment type, age group and geographical region.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B1.2</b>	Employee turnover rate by gender, age group and geographical region.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B2 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B2.1</b>	Number and rate of work-related fatalities.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B2.2</b>	Lost days due to work injury.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B2.3</b>	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Disclosed	Confront ordeals with passion and create brilliance hand in hand

## Environmental, Social and Governance Report

	ESG Index	Disclosure Status	Corresponding Chapter
<b>B3 General Disclosure</b>	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B3.1</b>	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	–	–
<b>B3.2</b>	The average training hours completed per employee by gender and employee category.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B4 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B4.1</b>	Description of measures to review employment practices to avoid child and forced labor.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B4.2</b>	Description of steps taken to eliminate such practices when discovered.	Disclosed	Confront ordeals with passion and create brilliance hand in hand
<b>B5 General Disclosure</b>	Policies on managing environmental and social risks of the supply chain.	Disclosed	Gather strength to go forward and share developmental achievements
<b>B5.1</b>	Number of suppliers by geographical region.	Disclosed	Gather strength to go forward and share developmental achievements
<b>B5.2</b>	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Disclosed	Gather strength to go forward and share developmental achievements

## Environmental, Social and Governance Report

	ESG Index	Disclosure Status	Corresponding Chapter
<b>B6 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Disclosed	Aim for the best and make high-quality products
<b>B6.1</b>	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Disclosed	Aim for the best and make high-quality products
<b>B6.2</b>	Number of products and service related complaints received and how they are dealt with.	Disclosed	Aim for the best and make high-quality products
<b>B6.3</b>	Description of practices relating to observing and protecting intellectual property rights.	Disclosed	Aim for the best and make high-quality products
<b>B6.4</b>	Description of quality assurance process and recall procedures.	Disclosed	Aim for the best and make high-quality products
<b>B6.5</b>	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Disclosed	Aim for the best and make high-quality products
<b>B7 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Disclosed	Work clean-handedly and create a clean environment
<b>B7.1</b>	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Disclosed	Work clean-handedly and create a clean environment
<b>B7.2</b>	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Disclosed	Work clean-handedly and create a clean environment

## Environmental, Social and Governance Report

	ESG Index	Disclosure Status	Corresponding Chapter
<b>B8 General Disclosure</b>	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Disclosed	Never forget original goals and bear in mind responsibilities and missions
<b>B8.1</b>	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Disclosed	Never forget original goals and bear in mind responsibilities and missions
<b>B8.2</b>	Resources contributed (e.g. money or time) to the focus area.	Disclosed	Never forget original goals and bear in mind responsibilities and missions

## Environmental, Social and Governance Report

### Appendix II List of Laws and Regulations Observed

ESG Index	Major laws and regulations observed	Major relevant policies of the Group
<b>A1 Emissions &amp; A2 Use of Resources &amp; A3 Environment and Natural Resources</b>	<p>Environmental Protection Law of the PRC (《中華人民共和國環境保護法》)</p> <p>Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》)</p> <p>Law on the Prevention and Control of Solid Waste Pollution of the PRC (《中華人民共和國固體廢物污染環境防治法》)</p> <p>Noise Pollution Prevention Law of the PRC (《中華人民共和國環境噪聲污染防治法》)</p> <p>Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》)</p>	<p>Administrative Measures on Environmental Protection (《環境保護管理辦法》)</p> <p>Waste Management Measures (《廢棄物管理辦法》)</p> <p>Sewage Management Measures (《污水管理辦法》)</p>

## Environmental, Social and Governance Report

ESG Index	Major laws and regulations observed	Major relevant policies of the Group
<b>B1 Employment &amp; B2 Health and Safety &amp; B3 Development and Training &amp; B4 Labor Standards</b>	Labor Law of the PRC (《中華人民共和國勞動法》)	Recruitment Management Rule (《招聘管理制度》)
	Labor Contract Law of the PRC (《中華人民共和國勞動合同法》)	Regulations on the Standards for Issuing Corporate Welfare Fund (《關於企業福利基金發放標準的規定》)
	Law on Employment Promotion of the PRC (《中華人民共和國促進就業法》)	Special Protection Regulations for Women Workers of Zhejiang Cangnan Instrument Group (《浙江蒼南儀錶集團女職工特別保護規定》)
	Social Insurance Law of the PRC (《中華人民共和國社會保險法》)	Safety Inspection and Hidden Danger Rectification and Management Rule (《安全檢查和隱患整改管理制度》)
	Regulations on Minimum Wage (《最低工資規定》)	Comprehensive Emergency Rescue Plan for Safety Production Accidents (《安全生產事故綜合應急救援預案》)
	Prevention and Control of Occupational Diseases Law of the PRC (《中華人民共和國職業病防治法》)	Uniform Management Rule (《工作服管理制度》)
	Work Safety Law of the PRC (《中華人民共和國安全生產法》)	Training Rule (《培訓制度》)
	Fire Prevention Law of the PRC (《中華人民共和國消防法》)	Assessment System (《考核體系》)
	Law on Emergency Response of the PRC (《中華人民共和國突發事件應對法》)	Safety Manual for Employees (《員工安全手冊》)
	Provisions on Prohibition of Child Labor (《禁止使用童工規定》)	
Law on the Protection of Minors of the PRC (《中華人民共和國未成年人保護法》)		
<b>B5 Supply Chain Management</b>	Tendering and Bidding Law of the PRC (《中華人民共和國招投標法》)	Supplier Management Rule (《供應商管理制度》)
		Purchasing Management Rule (《採購管理制度》)
		External Supplier Management and Control Procedures (《外部供方管理控制程序》)

## Environmental, Social and Governance Report

ESG Index	Major laws and regulations observed	Major relevant policies of the Group
<b>B6 Product Responsibility</b>	<p>Anti-Monopoly Law of the PRC (《中華人民共和國反壟斷法》)</p> <p>Tort Liability Law of the PRC (《中華人民共和國侵權責任法》)</p> <p>Advertising Law of the PRC (《中華人民共和國廣告法》)</p> <p>Product Quality Law of the PRC (《中華人民共和國產品質量法》)</p> <p>Law on Protection of the Rights and Interests of Consumers of the PRC (《中華人民共和國消費者權益保護法》)</p> <p>Certification and Accreditation Regulation of the PRC (《中華人民共和國認證認可條例》)</p> <p>Law on the Protection of Intellectual Property Rights of the PRC (《中華人民共和國知識產權法》)</p> <p>Patent Law of the PRC (《中華人民共和國專利法》)</p> <p>Copyright Law of the PRC (《中華人民共和國著作權法》)</p> <p>Trademark Law of the PRC (《中華人民共和國商標法》)</p>	<p>Quality Management Rule (《質量管理制度》)</p> <p>Quality Reward and Punishment Rule (《質量獎懲制度》)</p> <p>Procedure Documents for QEO Management System (《QEO管理體系程序文件》)</p> <p>QEO Management Manual (《QEO管理手冊》)</p> <p>Regulations for Archiving Quality Records of the Quality Department (《品質部質量記錄存檔規定》)</p> <p>Regulations for Filling in the Quantity in the Quality Record of the Quality Department (《品質部質量記錄填寫數量規定》)</p> <p>Regulations for Three-Coordinate System Management (《三坐標系統管理規定》)</p> <p>Management Rule for Physical and Chemical Laboratories (《理化實驗室管理制度》)</p> <p>Management Rule for Testing Centers (《檢測中心管理制度》)</p> <p>Standards for Inspection and Acceptance of Purchased Materials (《採購物資檢驗接收標準》)</p> <p>Standards for Physical and Chemical Inspections of Castings and Raw Materials (《鑄件及原材料理化檢驗標準》)</p> <p>Standards for Inspection of Aluminium Alloy Castings (《鋁合金鑄件檢驗標準》)</p> <p>Standards for Sampling Inspection and Acceptance of Parts and Components (《零部件抽樣檢驗接收標準》)</p>

## Environmental, Social and Governance Report

### ESG Index

### Major laws and regulations observed

### Major relevant policies of the Group

Standards for Three-Coordinate Inspection and Acceptance (《三坐標檢驗驗收標準》)

Standards for Inspection and Acceptance of Semi-Finished Products (《半成品檢驗驗收標準》)

Standards for Inspection and Acceptance of Finished Products (《成品檢驗驗收標準》)

Standards for Delivery Inspection of Products (《產品出廠核檢檢驗標準》)

Standards for Inspection and Acceptance of Welded Pressure Pipeline (《壓力管道焊縫檢驗驗收標準》)

Standards for Inspection of Gas Filters (《燃氣過濾器檢驗標準》)

Procedures for Ultrasonic Flaw Detection (《超聲波探傷檢測規程》)

Regulations on Inspection, Testing and Management of Furnace's Lot Number and Sample (《爐批號試樣檢驗試驗及管理規定》)

Procedures for Management and Control of Customer Satisfaction (《顧客滿意度管理控制程序》)

Control Procedures for Corrective Measures for Non-Conforming Products (《不合格品糾正措施控制程序》)

Measurement Management System Manual (《測量管理體系手冊》)

Procedure Documents for Measurement Management System (《測量管理體系程序文件》)

Procedures for Product Identification and Traceability Control (《產品標識與可追溯控制程序》)



## Environmental, Social and Governance Report

ESG Index	Major laws and regulations observed	Major relevant policies of the Group
		Incentive Rule for Technology Innovation (《技術創新激勵制度》)
		Management Regulations for Enterprise Intellectual Property (《企業知識產權管理規範》)
		General Rules for Intellectual Property Management (《知識產權管理總則》)
		Patent Management Rule (《專利管理制度》)
		Trademark Management Rule (《商標管理制度》)
		Enterprise Copyright Management Rule (《企業著作權管理制度》)
		Trade Secret Management Rule (《商業秘密管理制度》)
		Rule of Rewards and Penalties for Intellectual Property (《知識產權獎懲制度》)
		Emergency Plan for Intellectual Property (《知識產權應急方案》)
		Control Procedures for Application of Intellectual Property (《知識產權申請控制程序》)
		Control Procedures for Search of Intellectual Property (《知識產權檢索控制程序》)
		Control Procedures for Change and Abandonment of Intellectual Property (《知識產權變更、放棄控制程序》)
		Control Procedures for Information Distribution of Intellectual Property (《知識產權信息發佈控制程序》)
		Confidentiality Contract (《保密合同》)
		Non-Competition Agreement (《競業禁止協議書》)
		Marketing Management Rule (《市場營銷管理制度》)

## Environmental, Social and Governance Report

ESG Index	Major laws and regulations observed	Major relevant policies of the Group
<b>B7 Anti-Corruption</b>	<p>Company Law of the PRC (《中華人民共和國公司法》)</p> <p>Anti-Money Laundering Law of the PRC (《中華人民共和國反洗錢法》)</p> <p>Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》)</p> <p>Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》)</p>	Code of Ethics (《廉政行為準則》)
<b>B8 Community Investment</b>	NA	NA

## Independent Auditor's Report



羅兵咸永道

### TO THE SHAREHOLDERS OF ZHEJIANG CANGNAN INSTRUMENT GROUP COMPANY LIMITED

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

### Opinion

#### What we have audited

The consolidated financial statements of Zhejiang Cangnan Instrument Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 146 to 222, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## Independent Auditor's Report



羅兵咸永道

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Opinion

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

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

### Independence

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

## Independent Auditor's Report



羅兵咸永道

### Key Audit Matters

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

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

<b>Key Audit Matter</b>	<b>How our audit addressed the Key Audit Matter</b>
<p><b>Loss allowance of trade receivables</b></p> <p>Refer to Note 2.11.3, Note 2.14, Note 4(b) and Note 18 to the consolidated financial statements.</p> <p>As at 31 December 2019, the net carrying amount of trade receivables of the Group was RMB454.8 million against which accumulated loss allowance of RMB50.1 million was recorded. For the year ended 31 December 2019, net reversal of impairment losses on financial assets related to impairment loss of trade receivables was RMB1.2 million.</p> <p>The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.</p>	<p>We understood, evaluated and tested management's key controls over the Group's assessment in relation to the recoverability of trade receivables balance and the loss allowance of trade receivables on a sample basis, including periodic review of aging, periodic review of historical loss rates and approval of provisions made.</p> <p>We compared the historical data, including sales and bad debts, on a sample basis, used in the calculation of historical loss rates of different groups of trade receivables to actual sales and bad debts losses in a defined period.</p> <p>We assessed management's assessment of current market conditions and forward-looking information by comparing the data used by management against publicly available information and industry information.</p>

## Independent Auditor's Report



羅兵咸永道

### Key Audit Matters (Continued)

#### Key Audit Matter (Continued)

##### Loss allowance of trade receivables (Continued)

The loss allowance of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and uses historical data to calculate the historical loss rates, based on the Group's historical credit loss experience, with an adjustment to reflect existing market conditions as well as forward looking information. To measure the expected credit losses, trade receivables have been grouped by considering shared credit risk characteristics and the days past due.

We focused on this area due to its significance to the consolidated financial statements and significant management's estimates and judgements involved in the assessment of loss allowance of trade receivables.

#### Other Information

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

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

#### How our audit addressed the Key Audit Matter (Continued)

We checked management's aging analysis of trade receivable balances as at 31 December 2019, on a sample basis, to supporting documents including sales invoices and other supporting evidence.

We checked the mathematical accuracy of management's calculation for loss allowance of trade receivables.

Based on the above, we found that management's estimates and judgements involved in the assessment of loss allowance on trade receivables were supported by available evidence.

## Independent Auditor's Report



羅兵咸永道

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

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

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

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

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

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

## Independent Auditor's Report



羅兵咸永道

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

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

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

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



## Independent Auditor's Report



羅兵咸永道

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

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

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

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

## Independent Auditor's Report



羅兵咸永道

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

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

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

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 27 March 2020

## Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB' 000	2018 RMB' 000
Revenue	5	484,260	630,323
Cost of sales	8	(146,379)	(169,019)
<b>Gross profit</b>		<b>337,881</b>	461,304
Selling and distribution expenses	8	(124,223)	(112,856)
Administrative expenses	8	(76,395)	(54,248)
Net reversal of impairment losses/(impairment losses) on financial assets	18	1,160	(8,651)
Research and development expenses	8	(39,691)	(41,472)
Other income	6	45,127	16,746
Other gains/(losses) – net	7	8,138	(2,310)
<b>Operating profit</b>		<b>151,997</b>	258,513
Finance income	10	13,126	1,893
Finance expenses	10	(4,164)	(4,203)
Finance income/(expenses) – net		8,962	(2,310)
<b>Profit before income tax</b>		<b>160,959</b>	256,203
Income tax expenses	11	(20,979)	(34,788)
<b>Profit for the year</b>		<b>139,980</b>	221,415
<b>Attributable to:</b>			
Equity holders of the Company		136,532	220,192
Non-controlling interests		3,448	1,223
		<b>139,980</b>	221,415
<b>Earnings per share for profit attributable to equity holders of the Company</b>			
Basic and diluted earnings per share (expressed in RMB per share)	12	1.96	4.24

The notes on page 152 to 222 are an integral part of these consolidated financial statements.

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
<b>Profit for the year</b>	<b>139,980</b>	221,415
<b>Other comprehensive income:</b>		
Item that have been reclassified or may be subsequently reclassified to profit or loss:		
Currency translation difference	–	1,201
<b>Total comprehensive income for the year</b>	<b>139,980</b>	222,616
<b>Attributable to:</b>		
Equity holders of the Company	<b>136,532</b>	221,393
Non-controlling interests	<b>3,448</b>	1,223
	<b>139,980</b>	222,616

The notes on page 152 to 222 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

As at 31 December 2019

	Note	As at 31 December	
		2019 RMB' 000	2018 RMB' 000
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights	13	5,898	6,094
Property, plant and equipment	14	71,567	63,978
Intangible assets	16	–	155
Right-of-use assets	15	354	–
Deferred income tax assets	28	23,014	26,022
Financial assets at fair value through other comprehensive income		100	100
Restricted cash	20	19,268	24,047
		<b>120,201</b>	120,396
<b>Current assets</b>			
Trade receivables and other financial assets at amortised cost and prepayments	18	524,124	643,741
Inventories	19	127,741	98,937
Restricted cash	20	25,879	27,614
Cash and cash equivalents	21	593,279	260,026
		<b>1,271,023</b>	1,030,318
<b>Total assets</b>		<b>1,391,224</b>	1,150,714
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	22	69,791	51,890
Other reserves	23	499,822	339,676
Retained earnings	24	461,335	380,636
		<b>1,030,948</b>	772,202
<b>Non-controlling interests</b>		<b>15,171</b>	13,656
<b>Total equity</b>		<b>1,046,119</b>	785,858

**Consolidated Balance Sheet**

As at 31 December 2019

		<b>As at 31 December</b>	
	Note	<b>2019</b>	2018
		<b>RMB'000</b>	RMB'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income	27	<b>305</b>	485
<b>Current liabilities</b>			
Trade and other payables	25	<b>153,280</b>	152,020
Current income tax liabilities		<b>39,748</b>	47,850
Borrowings	26	<b>66,650</b>	69,650
Lease liabilities	15	<b>363</b>	–
Deferred income	27	<b>180</b>	180
Warranties provision	29	<b>6,042</b>	9,452
Provisions for other liabilities and charges	29	<b>78,537</b>	85,219
		<b>344,800</b>	364,371
<b>Total liabilities</b>		<b>345,105</b>	364,856
<b>Total equity and liabilities</b>		<b>1,391,224</b>	1,150,714

The notes on page 152 to 222 are an integral part of these consolidated financial statements.

The financial statements on pages 146 to 151 were approved by the Board of Directors on 27 March 2020 and were signed on its behalf:

Hong Zuobin

Director

Huang Youliang

Director

## Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the Company					Total equity RMB' 000
	Share capital RMB' 000 (Note 22)	Other Reserves RMB' 000 (Note 23)	Retained earnings RMB' 000	Total RMB' 000	Non-controlling interests RMB' 000	
<b>Balance at 1 January 2018</b>	51,890	338,475	201,956	592,321	12,433	604,754
<b>Comprehensive income</b>						
Profit for the year	-	-	220,192	220,192	1,223	221,415
<b>Other comprehensive income</b>						
Currency translation differences	-	1,201	-	1,201	-	1,201
<b>Total comprehensive income</b>	-	1,201	220,192	221,393	1,223	222,616
<b>Transactions with owners</b>						
Dividends (Note 30)	-	-	(41,512)	(41,512)	-	(41,512)
<b>Total transactions with owners, recognized directly in equity</b>	-	-	(41,512)	(41,512)	-	(41,512)
<b>Balance at 31 December 2018</b>	51,890	339,676	380,636	772,202	13,656	785,858
<b>Balance at 1 January 2019</b>	<b>51,890</b>	<b>339,676</b>	<b>380,636</b>	<b>772,202</b>	<b>13,656</b>	<b>785,858</b>
<b>Comprehensive income</b>						
Profit for the year	-	-	136,532	136,532	3,448	139,980
<b>Total comprehensive income</b>	-	-	136,532	136,532	3,448	139,980
<b>Transactions with owners</b>						
Issuance of ordinary shares	17,901	160,146	-	178,047	-	178,047
Dividends (Note 30)	-	-	(55,833)	(55,833)	-	(55,833)
Dividends to non-controlling interests	-	-	-	-	(1,933)	(1,933)
<b>Total transactions with owners, recognized directly in equity</b>	<b>17,901</b>	<b>160,146</b>	<b>(55,833)</b>	<b>122,214</b>	<b>(1,933)</b>	<b>120,281</b>
<b>Balance at 31 December 2019</b>	<b>69,791</b>	<b>499,822</b>	<b>461,335</b>	<b>1,030,948</b>	<b>15,171</b>	<b>1,046,119</b>

The notes on page 152 to 222 are an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB' 000	2018 RMB' 000
<b>Cash flows from operating activities</b>			
Cash generated from operations	31(a)	253,025	200,919
Interest received		9,736	856
Income tax paid		(26,073)	(33,269)
Net cash generated from operating activities		236,688	168,506
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment		(19,167)	(8,979)
Proceeds from disposals of property, plant and equipment	31(b)	25	679
Proceeds from disposal of a subsidiary, net of cash disposed		–	589
Payments for other financial assets at amortised cost		(31,166)	–
Repayment from other financial assets at amortised cost		12,000	–
Interest received on other financial assets at amortised cost		1,124	–
Payments for land use rights		(5,540)	–
Net cash used in investing activities		(42,724)	(7,711)
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		66,650	84,450
Repayment of short-term borrowings		(69,650)	(74,700)
Interest paid		(3,156)	(3,079)
Principal elements of lease payments		(881)	–
Payments in relation to financial guarantees	29	(5,000)	(2,000)
Dividends paid to the Company's equity holders		(55,833)	(41,512)
Dividends paid to non-controlling interests		(1,933)	–
Listing expenses paid		(17,046)	(21,487)
Proceeds from issuance of ordinary shares		225,892	–
Net cash generated from/(used in) financing activities		139,043	(58,328)
<b>Net increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		260,026	157,390
Exchange differences on translation of cash and cash equivalents		246	169
<b>Cash and cash equivalents at end of year</b>		<b>593,279</b>	<b>260,026</b>

The notes on page 152 to 222 are an integral part of these consolidated financial statements.



# Notes to the Consolidated Financial Statements

## 1 General Information

The Company and its subsidiaries (together the “Group”) are principally engaged in the manufacturing and sales of gas metering instruments and other related products.

The 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. During the year ended 31 December 2019, the Company 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.

## 2 Summary of significant accounting policies

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

### 2.1 Basis of preparation

#### (i) Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.1 Basis of preparation (Continued)

##### (ii) Historical cost convention

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

- financial assets at fair value through other comprehensive income – measured at fair value.

##### (iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 2.2. Most of the other amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.1 Basis of preparation (Continued)

##### (iv) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group.

		<b>Effective for annual periods beginning on or after</b>
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
Revised Conceptual Framework for Financial Reporting		1 January 2020
IFRS 17	Insurance contracts	1 January 2021

The Company's directors have performed an assessment on these new standards, amendments and interpretations, and have concluded on a preliminary basis that these new standards, amendments and interpretations are not expected to have a significant impact to the Group in the current or future reporting periods and on foreseeable future transactions.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements.

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 were 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.

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%.

##### (i) Practical expedients applied

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 Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.2 Changes in accounting policies (Continued)

##### (ii) Measurement of lease liabilities

	<b>RMB' 000</b>
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

##### (iii) Measurement of right-of-use assets

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.

##### (iv) Adjustment recognised in the balance sheet on 1 January 2019

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

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.3 Subsidiaries

##### 2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intra-group transactions, balances and unrealized gains/losses on transactions between group companies are eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

##### 2.3.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

#### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker (the "CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions. The Group's internal reporting does not distinguish financial results between segments and reports financial results of the Group as a whole. Hence, the Group has only one reporting segment. As a majority of the Group's long-lived assets and revenues are located in and derived from the PRC, no geographical segments are presented.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.5 Foreign currency translation

##### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). These consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

##### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of profit or loss.

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

##### (c) Group companies

The results and financial positions of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting currency translation differences are recognized in other comprehensive income.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.6 Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. The Group's interests in land use rights represent prepaid operating lease payments, which are amortized over the useful terms of 40 years using the straight-line method.

#### 2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Plant	10-20 years
– Machinery	10 years
– Vehicles	3-5 years
– Furniture, fittings and equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other gains/(losses) – net' in the consolidated statement of profit or loss.



## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.7 Property, plant and equipment (Continued)

Construction-in-progress (“CIP”) represents buildings, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on CIP until such time as the relevant assets are completed and ready for the intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

#### 2.8 Investment property

Investment properties comprise land use rights and plant, held for long-term rental yields or for capital appreciation or both and not occupied by the Company, and is measured initially at its cost, including related transaction costs. After initial recognition, the Company chooses the cost model to measure all of its investment properties, which are stated at historical costs less accumulated depreciation and accumulated impairment losses, if any. Depreciation of land use rights and plant is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives from 10 to 40 years.

#### 2.9 Intangible assets

##### 2.9.1 Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (5 years).

#### 2.10 Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.11 Financial assets

##### 2.11.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

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

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

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

##### 2.11.2 Measurement

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

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

##### (a) Debt instruments

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

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.11 Financial assets (Continued)

##### 2.11.2 Measurement (Continued)

###### (b) *Equity instruments*

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

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

##### 2.11.3 Impairment

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

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

#### 2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

#### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.14 Trade receivables and other financial assets at amortised cost

Trade receivables are amounts due from customers for merchandise sold and services performed in the ordinary course of business. If collection of trade receivables and other financial assets at amortised cost is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. In connection with the adoption of IFRS 15, the Group adopts the practical expedient to consider whether the Group's trade receivables have significant financing components.

Trade receivables and other financial assets at amortised cost are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less loss allowances. See Note 2.11.2 for further information about the Group's accounting for trade receivables and Note 2.11.3 for a description of the Group's impairment policies.

#### 2.15 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, and deposits held at call with banks.

#### 2.16 Share capital

Shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### 2.17 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.18 Borrowings

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

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Where the terms of a financial liability are renegotiated and the entity issues equity instruments to a creditor to extinguish all or part of the liability (debt for equity swap), a gain or loss is recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

#### 2.19 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in the consolidated statement of profit or loss in the period in which they are incurred.

Borrowing costs include interest expense and finance charges.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.20 Current and deferred income tax

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

##### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

##### (b) Deferred income tax

###### *Inside basis differences*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

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

##### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.21 Employee benefits

##### (a) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefits expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### (b) Employee leave entitlements

Employee entitlements to annual leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

#### 2.22 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.23 Government grants

Government assistance is the action by government designed to provide an economic benefit specific to an entity. The government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity are not recognized.

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants relating to costs are deferred and recognized as other income in the consolidated statement of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

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

#### 2.24 Revenue recognition

##### (a) Sales of products

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

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



## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.24 Revenue recognition (Continued)

##### (a) Sales of products (Continued)

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

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

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

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

##### (b) Sales of services

The Group also provides maintenance services to customers. Maintenance services are normally completed within a short period of time. Revenue is recognized in the accounting period in which the services are rendered.

#### 2.25 Interest income

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

#### 2.26 Research and development

Research expenditure is recognized as an expense as incurred. Costs incurred on development projects (related to the design and testing of new or improved products) are recognized as intangible assets when the following criteria are fulfilled:

- (a) it is technically feasible to complete the intangible asset so that it will be available for use;
- (b) management intends to complete the intangible asset and use it;

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.26 Research and development (Continued)

- (c) there is an ability to use the intangible asset;
- (d) it can be demonstrated how the intangible asset will generate probable future economic benefits;
- (e) adequate technical, financial and other resources to complete the development and to use the intangible asset are available; and
- (f) the expenditure attributable to the intangible asset during its development can be reliably measured.

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

#### 2.27 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks on behalf of third-party companies to secure loans.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognized. Subsequent to initial recognition, the Group's liability under such financial guarantee contracts is measured at the higher of

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

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

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.28 Leases

As explained in note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change in note 2.2.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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, initially measured using the index or rate as at the commencement date
- 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.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.28 Leases (Continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal 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.

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.

## Notes to the Consolidated Financial Statements

### 2 Summary of significant accounting policies (Continued)

#### 2.28 Leases (Continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of properties 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.

#### 2.29 Dividend distribution

Dividend distribution to the Company's shareholder is recognized as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

### 3 Financial risk management

#### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow interest rate risk, fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

##### (a) Market risk

###### (i) Foreign exchange risk

The Group's operations are predominantly conducted in Mainland China, and most of its transactions were denominated and settled in RMB, and therefore its foreign exchange risk is limited. Its exposure to foreign exchange risk is mainly arising from balances of cash and cash equivalents denominated in foreign currencies. The Group has not purchased any forward contracts to hedge its exposure to foreign exchange risk. The Group's trade receivables and other financial assets at amortised cost and cash and cash equivalents as at 31 December 2019 included foreign currencies denominated in either Euro ("EUR"), United States Dollars ("US\$") or Hong Kong Dollars ("HK\$"), which are disclosed in Note 18 and 21.

As at 31 December 2019, the Group did not have any significant foreign exchange risk from operation.

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (a) Market risk (Continued)

###### (ii) *Cash flow and fair value interest rate risk*

Except for cash and cash equivalents and restricted cash (Note 20 and 21), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulting from the changes in interest rates as the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk arises from borrowings. The Group only has borrowings obtained at fixed rates and hence is exposed to fair value interest rate risk. The Group does not hedge its fair value interest rate risk arising from fixed rates borrowings.

##### (b) Credit risk

Credit risk arises from cash at banks, restricted cash, trade receivables and other financial assets at amortised cost. The carrying amounts or the undiscounted nominal amounts, where applicable, of each class of these financial assets represent the Group's maximum exposure to credit risk in relation to the corresponding class of financial assets.

To manage the risk with respect to cash at banks and restricted cash, bank deposits are placed with highly reputable financial institutions.

For trade receivables, the Group performs ongoing credit evaluations of its debtors' financial condition and does not require collateral from the debtors on the outstanding balances. The Group applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. See Note 18 for further information about the Group's credit risk analysis for trade receivables.

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

As of 31 December 2019, other financial assets at amortised cost of RMB106,000 are in stage 3 under IFRS 9 as there is objective evidence of impairment for these receivables and therefore loss allowance is recognized based on lifetime expected credit loss (Note 18). Except for these stage 3 other financial assets at amortised cost, other financial assets at amortised cost have low risk of default and the counterparty has strong capacity to meet its contractual cash flow obligations in the near term, the Group considered them to have low credit risk, and the loss allowance is limited to 12 months expected losses.

The Company provided financial guarantees to third parties during the year ended 31 December 2019. As disclosed in Note 29, expected credit loss has been recognized for certain financial guarantees provided by the Company as the guarantor due to the defaults in payment from the third parties. In view of this, the Board of the Company has resolved that the Company will not provide any guarantees in favour of any parties, other than its subsidiaries in future.

##### (c) Liquidity risk

Cash flow forecasting is performed by individual operating entities which is then aggregated by the Group finance team. Group finance team monitors the cash flow rolling forecasts based on the Group's liquidity requirements to ensure it has sufficient cash to meet the operational needs. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal target ratios and, if applicable, the external regulatory or legal requirements – for example, requirement on currency restrictions.

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (c) Liquidity risk (Continued)

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	<b>Less than 1 year</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>	<b>Total</b>
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>At 31 December 2018</b>				
Borrowings	72,003	–	–	72,003
Interest payables for borrowings	90	–	–	90
Trade and other payables	105,834	–	–	105,834
Provisions for financial guarantee contracts	72,835	–	–	72,835
	<b>250,762</b>	<b>–</b>	<b>–</b>	<b>250,762</b>
<b>At 31 December 2019</b>				
Borrowings	<b>68,643</b>	–	–	<b>68,643</b>
Interest payables for borrowings	<b>79</b>	–	–	<b>79</b>
Trade and other payables	<b>114,269</b>	–	–	<b>114,269</b>
Provisions for financial guarantee contracts	<b>61,838</b>	–	–	<b>61,838</b>
	<b>244,829</b>	<b>–</b>	<b>–</b>	<b>244,829</b>



## Notes to the Consolidated Financial Statements

### 3 Financial risk management (Continued)

#### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity attributable to equity holders of the Company' as shown in the consolidated balance sheet plus net debt.

The gearing ratios as at 31 December 2019 were as follows:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Total borrowings (Note 26)	<b>66,650</b>	69,650
Less: cash and cash equivalents (Note 21)	<b>(593,279)</b>	(260,026)
Net cash	<b>(526,629)</b>	(190,376)
Total equity attributable to equity holders of the Company	<b>1,030,948</b>	772,202
Total capital	<b>504,319</b>	581,826
Gearing ratio	<b>N/A</b>	N/A

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (Continued)

#### 3.3 Fair value estimation

The Group adopts the amendment to IFRS 13 for financial instruments that are measured in the consolidated balance sheets at fair value, which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- (b) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- (c) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 31 December 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.

### 4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

## Notes to the Consolidated Financial Statements

### 4 Critical accounting estimates and judgments (Continued)

#### (a) Current and deferred income taxes

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the periods in which such determination are made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognized as management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilized. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred income tax assets and taxation in the periods in which such estimate is changed.

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

#### (b) Impairment of trade receivables

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

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

### 5 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.

## Notes to the Consolidated Financial Statements

### 5 Revenue and segment information (Continued)

Revenue by product categories are analysed as below:

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Industrial and commercial gas flowmeter products	402,440	561,982
Residential gas meter products	56,687	49,532
Nuclear-related products	21,617	15,642
Maintenance services	3,516	3,167
	<b>484,260</b>	630,323

Revenue by geographical areas are analysed as below:

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
The PRC	480,847	627,780
Other countries	3,413	2,543
	<b>484,260</b>	630,323

Customers contributing more than 10% of the Group's total revenue for the year ended 31 December 2019 are as follows:

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Customer 1	11%	11%
Customer 2	10%	*

\* less than 10%

## Notes to the Consolidated Financial Statements

### 6 Other income

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Government grants (a)	<b>44,947</b>	16,566
Amortization of deferred income related to government grants (b)	<b>180</b>	180
	<b>45,127</b>	16,746

(a) In 2019, the Group received several government grants from various government authorities amounting to RMB44,947,000, which mainly included RMB25,420,000 related to the Company's successful conversion into a joint stock company and listing on the Main Board of the Stock Exchange of Hong Kong Limited, and RMB9,084,000 of tax rebate.

(b) In 2011, the Group was entitled to government grants amounted to RMB1,800,000 for their technological development of nuclear throttling device and gas pressure regulating device which was recorded as deferred government grants and credited to the consolidated statement of profit or loss on a straight-line basis over the expected useful lives of the corresponding property, plant and equipment.

### 7 Other gains/(losses) – net

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Reversal of guarantee losses (Note 29)	<b>5,998</b>	–
Recoverable from guaranteed contract (Note 29)	<b>3,710</b>	–
Litigation losses (Note 29)	<b>(3,336)</b>	–
Donation	<b>(633)</b>	(890)
(Losses)/gains on disposals of property, plant and equipment (Note 31)	<b>(77)</b>	18
Foreign exchange gains/(losses) – net	<b>1,309</b>	(43)
Loss on disposal of a subsidiary	–	(1,122)
Others	<b>1,167</b>	(273)
	<b>8,138</b>	(2,310)

## Notes to the Consolidated Financial Statements

## 8 Expenses by nature

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Changes in inventories of finished goods and work in progress	<b>(40,047)</b>	(12,982)
Raw materials and consumables used	<b>150,125</b>	149,249
Employee benefits expense (Note 9)	<b>90,059</b>	86,814
Sales service fee	<b>67,407</b>	41,132
Travel and office expenses	<b>18,911</b>	20,091
Depreciation and amortization (Note 13, 14, 15 and 16)	<b>12,678</b>	11,498
Utilities	<b>3,500</b>	3,849
Commission	<b>5,782</b>	7,926
Warranties provision (Note 29)	<b>5,509</b>	8,586
Transportation expenses	<b>5,964</b>	6,283
Costs for the moulds used in research and development and the design of new products	<b>7,150</b>	7,353
Promotion costs	<b>6,665</b>	6,256
Professional service fee	<b>10,804</b>	2,910
Real estate tax, stamp duty and other taxes	<b>730</b>	845
Auditor's remuneration		
– Audit service	<b>4,767</b>	154
Other expenses (*)	<b>36,684</b>	37,631
	<b>386,688</b>	377,595

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

## Notes to the Consolidated Financial Statements

### 9 Employee benefits expense

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Salaries, wages and bonuses	<b>73,686</b>	70,651
Pension	<b>3,068</b>	4,212
Housing fund, medical insurance and other social insurance	<b>13,305</b>	11,951
Total employee benefits expense	<b>90,059</b>	86,814

#### (a) Pension costs – defined contribution plans

The employees of the Company and its subsidiaries participate in defined contribution retirement benefit plans organised by the relevant provincial governments under which the Group is required to make monthly contributions to these plans at the percentages of the employees' monthly salaries and wages, subject to certain ceilings.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included five directors during the year ended 31 December 2019 (year ended 31 December 2018: five) whose emoluments are reflected in the analysis shown in Note 37.

### 10 Finance income/(expenses) – net

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Finance expenses:		
– Interest expense on loans and provisions for legal claims	<b>(3,593)</b>	(3,506)
– Interest expense on leases	<b>(39)</b>	–
– Provisions: unwinding of discounts (Note 29)	<b>(532)</b>	(697)
Finance income:		
– Interest income	<b>13,126</b>	1,893
Finance income/(expenses) – net	<b>8,962</b>	(2,310)

## Notes to the Consolidated Financial Statements

### 11 Income tax expenses

The applicable enterprise income tax rate for Mainland China enterprises is 25%, with the exception of any preferential treatments received, such as the 15% preferential tax rate that the Company and its subsidiaries can enjoy as a result of their qualification as a High and New Technology Enterprise (“HNTE”) until their expiration (the Company: until 2020, Zhejiang Dongxing Software Development Limited: from 2019 to 2021, Dongxing Energy Technology Limited and Dongxing Intelligence Instrument Limited: from 2018 to 2020).

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Current income tax	17,971	35,048
Deferred income tax (Note 28)	3,008	(260)
Total income tax expenses	20,979	34,788

#### (a) PRC enterprise income tax (“EIT”)

EIT is provided on the assessable income of entities within the Group incorporated in the PRC. The applicable EIT tax rate is 25% for the year ended 31 December 2019 (2018 : 25%) except for the entities eligible for HNTE as discussed above.



## Notes to the Consolidated Financial Statements

### 11 Income tax expenses (Continued)

#### (a) PRC enterprise income tax (“EIT”) (Continued)

The tax on the Group’s profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated entities as follows:

	Year ended 31 December	
	2019 RMB’ 000	2018 RMB’ 000
Profit before income tax	160,959	256,203
Applicable tax rates	25%	25%
Tax calculated at applicable tax rate	40,240	64,051
Tax effects of:		
Income not subject to tax	–	(133)
Expenses not deductible for tax purposes	2,227	2,288
Additional deduction of research and development expenses (a)	(7,501)	(8,785)
Tax effect from HNTE qualification	(13,987)	(22,633)
Income tax expenses	20,979	34,788

(a) According to a policy promulgated by the State Tax Bureau of the PRC, enterprises engaged in research and development activities are entitled to claim 175% of the research and development expenses so incurred in a year as tax deductible expenses in determining its taxable profits for that year (“Super Deduction”). The Company and its subsidiaries are entitled to claim the Super Deduction in ascertaining the taxable profit for the year ended 31 December 2019 (2018: same).

## Notes to the Consolidated Financial Statements

### 12 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 year ended 31 December 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 year ended 31 December 2019 (2018: same) is the same as the basic earnings per share as there is no dilutive potential share during the year ended 31 December 2019.

	Year ended 31 December	
	2019	2018
Profit attributable to the equity holders of the Company (RMB'000)	<b>136,532</b>	220,192
Weighted average number of shares in issue or deemed to be in issue (in thousands)	<b>69,601</b>	51,890
Basic and diluted earnings per share (RMB)	<b>1.96</b>	4.24

### 13 Land use rights

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

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
At beginning of year	<b>6,094</b>	6,290
Amortization (Note 8)	<b>(196)</b>	(196)
At end of year	<b>5,898</b>	6,094

The land use rights are held under medium-term leases with lease term of 40 years and the land is located at Wenzhou, Zhejiang Province, the PRC.

As at 31 December 2019, certain land use rights of the Group were pledged to secure short-term bank borrowings as disclosed in Note 26.

## Notes to the Consolidated Financial Statements

## 14 Property, plant and equipment

	Plant	Machinery	Vehicles	Furniture, fittings and equipment	Construction in progress	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>At 1 January 2018</b>						
Cost	65,309	70,407	11,922	2,581	–	150,219
Accumulated depreciation	(29,061)	(41,564)	(9,314)	(2,037)	–	(81,976)
Classified as held for sale	–	(1,537)	(9)	–	–	(1,546)
<b>Net book amount</b>	<b>36,248</b>	<b>27,306</b>	<b>2,599</b>	<b>544</b>	<b>–</b>	<b>66,697</b>
<b>Year ended 31 December 2018</b>						
Opening net book amount	36,248	27,306	2,599	544	–	66,697
Additions	–	7,696	–	167	1,116	8,979
Transfer	1,116	–	–	–	(1,116)	–
Disposals	–	(661)	–	–	–	(661)
Depreciation charge (Note 8)	(3,686)	(6,393)	(806)	(152)	–	(11,037)
<b>Closing net book amount</b>	<b>33,678</b>	<b>27,948</b>	<b>1,793</b>	<b>559</b>	<b>–</b>	<b>63,978</b>
<b>At 31 December 2018</b>						
Cost	66,425	74,666	11,884	2,750	–	155,725
Accumulated depreciation	(32,747)	(46,718)	(10,091)	(2,191)	–	(91,747)
<b>Net book amount</b>	<b>33,678</b>	<b>27,948</b>	<b>1,793</b>	<b>559</b>	<b>–</b>	<b>63,978</b>
<b>Year ended 31 December 2019</b>						
Opening net book amount	<b>33,678</b>	<b>27,948</b>	<b>1,793</b>	<b>559</b>	–	<b>63,978</b>
Additions	<b>77</b>	<b>3,694</b>	<b>3,306</b>	<b>161</b>	<b>11,929</b>	<b>19,167</b>
Disposals	–	(59)	(43)	–	–	(102)
Depreciation charge (Note 8)	<b>(3,738)</b>	<b>(6,477)</b>	<b>(980)</b>	<b>(281)</b>	–	<b>(11,476)</b>
<b>Closing net book amount</b>	<b>30,017</b>	<b>25,106</b>	<b>4,076</b>	<b>439</b>	<b>11,929</b>	<b>71,567</b>
<b>At 31 December 2019</b>						
Cost	<b>66,502</b>	<b>78,230</b>	<b>14,325</b>	<b>2,911</b>	<b>11,929</b>	<b>173,897</b>
Accumulated depreciation	<b>(36,485)</b>	<b>(53,124)</b>	<b>(10,249)</b>	<b>(2,472)</b>	–	<b>(102,330)</b>
<b>Net book amount</b>	<b>30,017</b>	<b>25,106</b>	<b>4,076</b>	<b>439</b>	<b>11,929</b>	<b>71,567</b>

## Notes to the Consolidated Financial Statements

### 14 Property, plant and equipment (Continued)

During the year ended 31 December 2019, the amounts of depreciation expense charged to cost of sales, administrative expenses and research and development expenses are as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Cost of sales	6,983	6,083
Administrative expenses	2,989	3,532
Research and development expenses	1,504	1,422
	<b>11,476</b>	11,037

As at 31 December 2019, certain plants of the Group classified as property, plant and equipment were pledged to secure short-term bank borrowings as disclosed in Note 26.

As at 31 December 2019, the Group has not obtained the title certificate of auxiliary buildings with a total net book value of RMB1,307,000 (2018: RMB1,491,000).

### 15 Leases

#### (i) Amounts recognized in the balance sheet

	31 December 2019 RMB'000	1 January 2019 RMB'000
Right-of-use assets		
Properties	354	1,205
Lease liabilities		
Current	363	842
Non-current	—	363
	<b>363</b>	1,205

There were no additions to the right-of-use assets during 2019.

## Notes to the Consolidated Financial Statements

### 15 Leases (Continued)

#### (ii) Amounts recognized in the statement of profit or loss

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Depreciation charge (Note 8)	851	—

The total cash outflow for leases in 2019 was RMB881,000.

#### (iii) 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.

#### (iv) Variable lease payments

Some property leases contain variable payment terms that are linked to management fee and charges subject to revision. Such variable lease payments are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

#### (v) Land use rights

The Group also obtained land use rights through lease contracts with local government authorities with lease period of 40 years. The Group presents the land use rights separately from the right-of-use assets. For details of the land use rights, please refer to Note 13.

## Notes to the Consolidated Financial Statements

## 16 Intangible assets

	<b>Computer software</b> RMB'000
<b>At 1 January 2018</b>	
Cost	1,318
Accumulated amortization and impairment	(898)
<b>Net book amount</b>	<b>420</b>
<b>Year ended 31 December 2018</b>	
Opening net book amount	420
Amortization charge (Note 8)	(265)
<b>Closing net book amount</b>	<b>155</b>
<b>At 31 December 2018</b>	
Cost	1,318
Accumulated amortization and impairment	(1,163)
<b>Net book amount</b>	<b>155</b>
<b>Year ended 31 December 2019</b>	
Opening net book amount	<b>155</b>
Amortization charge (Note 8)	<b>(155)</b>
<b>Closing net book amount</b>	<b>—</b>
<b>At 31 December 2019</b>	
Cost	<b>1,318</b>
Accumulated amortization and impairment	<b>(1,318)</b>
<b>Net book amount</b>	<b>—</b>

During the year ended 31 December 2019, the amounts of amortization expense are charged to "Administrative expenses".

## Notes to the Consolidated Financial Statements

### 17 Subsidiaries

The Company's direct interests in its subsidiaries as at 31 December 2019 and 2018 are set out as below:

Company name	Date of incorporation	Country of incorporation, legal status	Registered capital	Issued and fully paid capital	Equity interest held		Principal activities
					31 December 2019	31 December 2018	
Zhejiang Dongxing Software Development Limited (浙江東星軟件開發有限公司)*	14 November 2012	The PRC, limited liability company	RMB 11,902,500	RMB 11,902,500	100%	100%	Development of software and hardware technologies; manufacturing and sales of intelligent instruments and meters (excluding measuring instruments and meters).
Dongxing Energy Technology Limited (浙江蒼南儀錶集團東星能源科技有限公司)*	4 May 2015	The PRC, limited liability company	RMB 20,000,000	RMB 20,000,000	65%	65%	Research, manufacturing and sales of instruments and meters of new energy, petrochemical and nuclear power related equipment, gas equipment and pressure vessel.
Dongxing Intelligence Instrument Limited (浙江蒼南儀錶集團東星智能儀錶有限公司)*	4 May 2015	The PRC, limited liability company	RMB 31,800,000	RMB 15,000,000	78.66%	78.66%	Research, manufacturing and sales of gas meters and ancillary products.

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

## Notes to the Consolidated Financial Statements

## 18 Trade receivables and other financial assets at amortised cost and prepayments

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Trade receivables – third parties	<b>454,793</b>	555,624
Less: Loss allowance	<b>(50,101)</b>	(51,272)
Trade receivables – net	<b>404,692</b>	504,352
Notes receivable (*)	<b>60,441</b>	80,692
Prepayments	<b>18,091</b>	38,587
Interest receivable	<b>5,384</b>	3,118
Other financial assets at amortised cost	<b>35,622</b>	17,087
Less: Loss allowance	<b>(106)</b>	(95)
Other financial assets at amortised cost – net	<b>35,516</b>	16,992
	<b>524,124</b>	643,741

\* As at 31 December 2019, no notes receivable of the Group were pledged to secure notes payable. As at 31 December 2018, certain notes receivable of the Group were pledged to secure notes payable as disclosed in Note 25.



## Notes to the Consolidated Financial Statements

### 18 Trade receivables and other financial assets at amortised cost and prepayments (Continued)

The carrying amounts of trade receivables and other financial assets at amortised cost are denominated in the following currencies:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
RMB	498,853	598,306
HK\$	7,166	–
EUR	–	6,836
US\$	14	12
	<b>506,033</b>	605,154

As at 31 December 2019 and 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.

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

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Within 1 year	360,518	454,333
1 year to 2 years	40,471	46,701
2 years to 3 years	12,174	15,142
Over 3 years	41,630	39,448
	<b>454,793</b>	555,624

## Notes to the Consolidated Financial Statements

### 18 Trade receivables and other financial assets at amortised cost and prepayments (Continued)

#### Impairment of trade receivables

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

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

The Group's loss allowance for trade receivables as at 31 December 2019 was as follows:

	<b>Within 1 year RMB' 000</b>	<b>1 year to 2 years RMB' 000</b>	<b>2 years to 3 years RMB' 000</b>	<b>Over 3 years RMB' 000</b>	<b>Total RMB' 000</b>
<b>At 31 December 2019</b>					
Expected loss rate	<b>1.2%</b>	<b>15.2%</b>	<b>44.4%</b>	<b>82.2%</b>	
Gross carrying amount	<b>360,518</b>	<b>40,471</b>	<b>12,174</b>	<b>41,630</b>	<b>454,793</b>
Loss allowance	<b>4,282</b>	<b>6,172</b>	<b>5,409</b>	<b>34,238</b>	<b>50,101</b>
	Within 1 year RMB' 000	1 year to 2 years RMB' 000	2 years to 3 years RMB' 000	Over 3 years RMB' 000	Total RMB' 000
<b>At 31 December 2018</b>					
Expected loss rate	1.0%	14.9%	43.0%	84.6%	
Gross carrying amount	454,333	46,701	15,142	39,448	555,624
Loss allowance	4,401	6,976	6,518	33,377	51,272

## Notes to the Consolidated Financial Statements

### 18 Trade receivables and other financial assets at amortised cost and prepayments (Continued)

#### Impairment of trade receivables (Continued)

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

The closing loss allowances for trade receivables as at 31 December 2019 reconcile to the opening loss allowances of the Group was as follows:

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
At beginning of year	51,272	42,630
Increase in loss allowance recognized in profit or loss during the year	16,609	17,639
Unused amounts reversed	(17,780)	(8,997)
At end of year	50,101	51,272

#### Impairment of other financial assets at amortised cost

Other financial assets at amortized cost include notes receivables, interest receivables, debt instruments at amortised cost and other receivables. As of 31 December 2019 and 2018, other receivables of RMB106,000 and RMB95,000 of the Group were in stage 3 under IFRS 9 respectively as there was objective evidence of impairment of these receivables and loss allowance was recognized based on lifetime expected credit loss. Except for these stage 3 other receivables, the Group's debt instruments at amortized cost were considered to have low credit risk, and the loss allowance was therefore limited to 12 months expected losses. The Group has assessed that the expected credit losses for these financial assets were not material under the 12 months expected losses method. Thus, no loss allowance was recognized during the years ended 31 December 2019 and 2018. Other instruments were considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

## Notes to the Consolidated Financial Statements

### 18 Trade receivables and other financial assets at amortised cost and prepayments (Continued)

#### Impairment of other financial assets at amortised cost (Continued)

The closing loss allowances for the stage 3 other receivables as at 31 December 2019 reconcile to the opening loss allowances as follows:

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
At beginning of year	95	86
Increase in loss allowance recognized in profit or loss during the year	12	9
Unused amounts reversed	(1)	–
At end of year	106	95

### 19 Inventories

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Raw materials	34,103	45,282
Work-in-progress	34,677	27,287
Finished goods	58,677	26,020
Packaging materials and consumables	284	348
	127,741	98,937

During the years ended 31 December 2019 and 2018, the cost of the Group's inventories recognized as an expense and included in "Cost of sales" was RMB100,478,000 and RMB126,521,000 respectively (Note 8).

During the years ended 31 December 2019 and 2018, the cost of the Group's inventories recognized as an expense and included in "Research and development expenses" RMB9,600,000 and RMB9,746,000 respectively (Note 8).

## Notes to the Consolidated Financial Statements

### 20 Restricted cash

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Restricted cash pledged for notes payable (Note 25)	1,765	13,137
Restricted cash pledged for financial guarantees provided to third parties (i)	32,770	31,780
Others	10,612	6,744
	45,147	51,661
Less: non-current portion of restricted cash	(19,268)	(24,047)
	25,879	27,614
Non-current portion of restricted cash:		
Restricted cash pledged for financial guarantees provided to third parties (i)	10,990	21,780
Others	8,278	2,267
	19,268	24,047

Restricted cash is all denominated in RMB.

- (i) Due to providing financial guarantees to third parties (Note 29), bank deposits amounting to RMB21,780,000 with maturity of 5 years were pledged in 2015, and another additional bank deposit amounting to RMB10,990,000 with maturity of 3 years was pledged in 2019. At the same time, Bank deposit amounting to RMB10,000,000 with maturity of 3 years pledged in 2016 was released during 2019.

## Notes to the Consolidated Financial Statements

## 21 Cash and cash equivalents

	As at 31 December	
	2019	2018
	RMB' 000	RMB' 000
Cash on hand	47	19
Cash at bank	593,232	260,007
Cash and cash equivalents	593,279	260,026

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

	As at 31 December	
	2019	2018
	RMB' 000	RMB' 000
RMB	563,508	253,622
US\$	5,082	4,204
EUR	9,134	2,192
HK\$	15,555	8
	593,279	260,026

## Notes to the Consolidated Financial Statements

### 22 Share capital

	H shares		Domestic shares		Total
	Number of ordinary shares '000	Nominal value of ordinary shares RMB'000	Number of ordinary shares '000	Nominal value of ordinary shares RMB'000	Nominal value of ordinary shares RMB'000
<b>Balance at 1 January and 31 December 2018</b>	–	–	51,890	51,890	51,890
Issuance of ordinary shares (a)	17,901	17,901	–	–	17,901
<b>Balance at 31 December 2019</b>	<b>17,901</b>	<b>17,901</b>	<b>51,890</b>	<b>51,890</b>	<b>69,791</b>

(a) During the year ended 31 December 2019, the Company issued 17,901,167 H Shares at an offer price of HK\$15.80 per share. As of the date of this report, the share capital of the Company is RMB69,791,167 with 51,890,000 domestic shares and 17,901,167 H Shares in issue.

### 23 Other reserves

	Capital reserves RMB'000	Translation reserves RMB'000	Total RMB'000
<b>Balance at 1 January 2018</b>	339,676	(1,201)	338,475
Release on disposal of a subsidiary	–	1,201	1,201
<b>Balance at 31 December 2018</b>	339,676	–	339,676
<b>Balance at 1 January 2019</b>	<b>339,676</b>	–	<b>339,676</b>
Issuance of ordinary shares (Note 22)	160,146	–	160,146
<b>Balance at 31 December 2019</b>	<b>499,822</b>	–	<b>499,822</b>

## Notes to the Consolidated Financial Statements

## 24 Retained earnings

	RMB' 000
<b>Balance at 1 January 2018</b>	201,956
Profit for the year	220,192
Dividends (Note 30)	(41,512)
<b>Balance at 31 December 2018</b>	380,636
<b>Balance at 1 January 2019</b>	<b>380,636</b>
Profit for the year	<b>136,532</b>
Dividends (Note 30)	<b>(55,833)</b>
<b>Balance at 31 December 2019</b>	<b>461,335</b>

## 25 Trade and other payables

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Trade payables – third parties (a)	<b>58,987</b>	54,017
Taxes payable	<b>33,664</b>	39,507
Notes payable (b)	<b>764</b>	19,446
Advances from customers (c)	<b>4,543</b>	5,895
Salaries and bonuses payable	<b>725</b>	694
Interests payable	<b>79</b>	90
Advances from employees for sundry expenses	<b>5,963</b>	7,199
Sales service fee payable	<b>32,694</b>	12,986
Sales commission payable	<b>4,319</b>	3,182
Others	<b>11,542</b>	9,004
	<b>153,280</b>	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 approximated their fair values.



## Notes to the Consolidated Financial Statements

### 25 Trade and other payables (Continued)

#### (a) Trade payables

As at 31 December 2019, the aging analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Within 1 year	54,075	51,145
1 year to 2 years	2,487	1,010
2 years to 3 years	721	501
Over 3 years	1,704	1,361
	<b>58,987</b>	54,017

#### (b) Notes payable

The Group's notes payable as at 31 December 2019 was as follows:

Notes payable Amount (RMB' 000)	Type	Collateral net book value (RMB' 000)	
		Restricted Cash	Notes receivable
764	Pledged	1,765	—

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

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

## Notes to the Consolidated Financial Statements

**25 Trade and other payables (Continued)****(c) Advances from customers**

A contract liability is recorded as advances from customers for the cash received from customers before the delivery of goods. Revenue recognized in relation to advances from customers during the year ended 31 December 2019 was as below:

	Year ended 31 December	
	2019	2018
	RMB' 000	RMB' 000
Revenue recognized that was included in the advances from customers at the beginning of the period	<b>5,895</b>	9,004

**26 Borrowings**

	As at 31 December	
	2019	2018
	RMB' 000	RMB' 000
Short-term bank borrowings		
– Secured and guaranteed	<b>46,900</b>	44,900
– Secured	<b>14,750</b>	14,750
– Guaranteed	<b>5,000</b>	10,000
Total borrowings	<b>66,650</b>	69,650

## Notes to the Consolidated Financial Statements

### 26 Borrowings (Continued)

#### (a) Borrowings from banks

The Group's bank borrowings as at 31 December 2019 was as follows:

Borrowing Amount (RMB' 000)	Type of Borrowings	Collateral net book value (RMB' 000)		Guarantor
		Plant	Land use rights	
44,900	Secured and guaranteed	8,124	1,138	Zhejiang Dongxing Software Development Limited, Dongxing Intelligence Instrument Limited, Dongxing Energy Technology Limited
1,000	Secured and guaranteed (*)	–	–	Dongxing Energy Technology Limited
1,000	Secured and guaranteed (*)	–	–	Dongxing Intelligence Instrument Limited
5,000	Guaranteed	–	–	Zhejiang Dongxing Software Development Limited
14,750	Secured	20,166	4,760	–
<b>66,650</b>		<b>28,290</b>	<b>5,898</b>	

\*: These borrowings are secured by a self-developed patent of the Group.

## Notes to the Consolidated Financial Statements

### 26 Borrowings (Continued)

#### (a) Borrowings from banks (Continued)

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

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

As at 31 December 2019 and 2018, the weighted average effective interest rates on borrowings from banks were 4.45% 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 Consolidated Financial Statements

### 27 Deferred income

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Government grants relating to property, plant and equipment	<b>485</b>	665
Less: Current portion	<b>(180)</b>	(180)
Non-current portion	<b>305</b>	485

The government grants were subsidies received from local governments for purchases of property, plant and equipment. The amounts are amortized to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above government grants during the year ended 31 December 2019 were as follows:

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
At beginning of year	<b>665</b>	845
Amortized as income (Note 6)	<b>(180)</b>	(180)
At end of year	<b>485</b>	665

## Notes to the Consolidated Financial Statements

### 28 Deferred income tax assets

The analysis of deferred tax assets (net) was as follows:

	As at 31 December	
	2019 RMB'000	2018 RMB'000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	7,531	7,705
– Deferred tax assets to be recovered within 12 months	15,483	18,317
Total deferred tax assets (net)	23,014	26,022

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

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
At beginning of year	26,022	25,762
Income statement (charge)/credit (Note 11)	(3,008)	260
At end of year	23,014	26,022

## Notes to the Consolidated Financial Statements

### 28 Deferred income tax assets (Continued)

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

	Impairment of assets RMB'000	Provisions for other liabilities and charges RMB'000	Warranties provision RMB'000	Tax loss RMB'000	Unrealized profits – sales of inventories RMB'000	Total RMB'000
<b>At 1 January 2018</b>	6,532	17,507	1,441	–	282	25,762
Credited/(charged) to the consolidated statement of profit or loss	1,173	(3,299)	(23)	790	1,619	260
<b>At 31 December 2018</b>	7,705	14,208	1,418	790	1,901	26,022
(Charged) to the consolidated statement of profit or loss	(174)	(1,347)	(512)	(790)	(185)	(3,008)
<b>At 31 December 2019</b>	<b>7,531</b>	<b>12,861</b>	<b>906</b>	<b>–</b>	<b>1,716</b>	<b>23,014</b>

## Notes to the Consolidated Financial Statements

**29 Warranties provision and provisions for other liabilities and charges****(a) Warranties provision**

	<b>Warranties provision</b> RMB'000
<b>Balance at 1 January 2018</b>	8,398
Charged to profit or loss:	
Additional provisions	8,586
Utilized during year	(7,532)
<b>Balance at 31 December 2018</b>	<b>9,452</b>
<b>Balance at 1 January 2019</b>	<b>9,452</b>
Charged to profit or loss:	
Additional provisions	<b>5,509</b>
Utilized during year	<b>(8,919)</b>
<b>Balance at 31 December 2019</b>	<b>6,042</b>

Analysis of total warranties provisions:

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>RMB'000</b>	RMB'000
Current	<b>6,042</b>	9,452

The Group provides warranties for its products sold. Within the warranty period, customers are entitled to free repairs and maintenance services for the products sold. The Group makes provision for warranty claims based on historical experience and actual costs incurred in the past.



## Notes to the Consolidated Financial Statements

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

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

##### (i) Provisions for financial guarantee contracts

	<b>Legal claims</b>
	RMB' 000
<b>Balance at 1 January 2018</b>	73,607
Charged to profit or loss:	
Unwinding of discount	697
Paid during year	(2,000)
<b>Balance at 31 December 2018</b>	<b>72,304</b>
<b>Balance at 1 January 2019</b>	<b>72,304</b>
Charged to profit or loss:	
Unwinding of discount	<b>532</b>
Paid during year	<b>(5,000)</b>
Reversal of guarantee losses (Note 7)	<b>(5,998)</b>
<b>Balance at 31 December 2019</b>	<b>61,838</b>

Analysis of total provisions for financial guarantee contracts:

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>RMB' 000</b>	RMB' 000
Current	<b>61,838</b>	72,304

## Notes to the Consolidated Financial Statements

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

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

##### (i) Provisions for financial guarantee contracts (Continued)

During the years 2012 to 2014, the Company provided financial guarantees in favour of the bank borrowings granted to two companies. The repayments of the principals and/or interests of these bank borrowings were in default in 2014 and 2015, and therefore, the Company was held liable for the performance of loan contracts as the guarantor. Based on certain court decisions and the terms of the guarantee contracts, the Company recognized provisions for these financial guarantee contracts in 2014 and 2015. The carrying amount represents the discounted balance after considering the anticipated payment dates and the discount rate ranging from 2.30% to 3.26% during the period.

During the year 2019, loan principal amounting to RMB5,998,000 was repaid by one of the guaranteed companies to the bank. As a result, the Company no longer bears the relevant obligations as guarantor related to this repaid principal. The Company therefore reversed guarantee losses provision of RMB5,998,000 in 2019.

In addition, the Company brought legal proceedings against one of the guaranteed companies to seek for amount recoverable following the repayment of loans on behalf of guaranteed company. On 20 November 2019, the guaranteed company paid RMB3,710,000 to the court and the court will reimburse the amount to the Company upon relevant legal proceedings are closed. The Company recognised a receivable amounting to RMB3,710,000 for the reimbursement to be received from the court.

The reversal of provision and recognition of the reimbursement receivable is recognized in profit or loss within 'Other gains/(losses) – net'.

## Notes to the Consolidated Financial Statements

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

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

##### (ii) Provisions for litigation loss

	<b>Legal claims</b>
	RMB' 000
<b>Balance at 1 January 2018</b>	12,503
Charged to profit or loss:	
Additional provisions	
– Interest accrual on litigation claims	412
<b>Balance at 31 December 2018</b>	<b>12,915</b>
<b>Balance at 1 January 2019</b>	<b>12,915</b>
Charged to profit or loss:	
Additional provisions (Note 7)	
– Litigation claims	<b>3,336</b>
– Interest accrual on litigation claims	<b>448</b>
<b>Balance at 31 December 2019</b>	<b>16,699</b>

Analysis of total provisions for litigation loss:

	<b>As at 31 December</b>	
	<b>2019</b>	2018
	<b>RMB' 000</b>	RMB' 000
Current	<b>16,699</b>	12,915

## Notes to the Consolidated Financial Statements

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

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

##### (ii) Provisions for litigation loss (Continued)

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 of RMB12.5 million 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 on the legal claim of unpaid dividend was made by the Supreme Court of the PRC and the Company recognized an additional provision of RMB3.3 million 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 31 December 2019.

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

### 30 Dividends

- (i) The dividends declared by the Company in the years ended 31 December 2019 and 2018 were RMB55,833,000 and RMB41,512,000 respectively.

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Dividends declared and paid	55,833	41,512

## Notes to the Consolidated Financial Statements

### 30 Dividends (Continued)

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

At the meeting of the directors of the Company held on 27 March 2020, the directors proposed a final dividend of RMB0.6 per ordinary share for the year ended 31 December 2019 (2018: RMB0.8), which is subject to the approval by the shareholders in general meeting. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 31 December 2019, but not recognised as a liability at year end, is around RMB41,875,000 (2018: RMB55,833,000).

### 31 Cash generated from operations and reconciliation of liabilities arising from financing activities

#### (a) Reconciliation of profit before income tax to cash generated from operations

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Profit before income tax	160,959	256,203
Adjustments for:		
– Depreciation of property, plant and equipment and right-of-use assets	12,327	11,037
– Amortization of intangible assets	155	265
– Amortization of land use rights	196	196
– Losses/(gains) on disposals of property, plant and equipment	77	(18)
– Loss on disposal of a subsidiary	–	1,122
– Finance (income)/expenses – net	(8,962)	2,310
– (Reversal of impairment losses)/loss allowance of trade receivables and other financial assets at amortised cost	(1,160)	8,651
– Litigation losses	3,336	–
– Reversal of provisions for other liabilities and charges	(5,998)	–
– Amortization of deferred income related to government grants	(180)	(180)
Changes in working capital		
– Inventories	(28,804)	(20,694)
– Trade receivables and other financial assets at amortised cost and prepayments	116,951	(50,984)
– Restricted cash	6,514	(8,469)
– Trade and other payables	1,024	426
– Warranties provision	(3,410)	1,054
<b>Cash generated from operations</b>	<b>253,025</b>	<b>200,919</b>

## Notes to the Consolidated Financial Statements

**31 Cash generated from operations and reconciliation of liabilities arising from financing activities (Continued)****(b) Proceeds from disposal of property, plant and equipment**

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Net book value (Note 14)	<b>102</b>	661
(Losses)/gains on disposal of property, plant and equipment (Note 7)	<b>(77)</b>	18
Proceeds from disposals of property, plant and equipment	<b>25</b>	679

**(c) Reconciliation of liabilities arising from financing activities**

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

	1 January 2019 RMB' 000	Reversal of provision RMB' 000	Unwinding of discount RMB' 000	Cash flows RMB' 000	31 December 2019 RMB' 000
Borrowings	<b>69,650</b>	–	–	<b>(3,000)</b>	<b>66,650</b>
Provisions for other liabilities and charges – financial guarantee contracts liabilities	<b>72,304</b>	<b>(5,998)</b>	<b>532</b>	<b>(5,000)</b>	<b>61,838</b>
Liabilities from financing activities	<b>141,954</b>	<b>(5,998)</b>	<b>532</b>	<b>(8,000)</b>	<b>128,488</b>

## Notes to the Consolidated Financial Statements

### 32 Commitments

#### (a) Operating lease commitments

The Group leases various offices under non-cancellable operating leases expiring within six months to two years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

From 1 January 2019, the Group has recognised right-of-use assets for these leases, except for short-term and low-value leases, see Note 15 for further information.

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

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Not later than 1 year	–	1,005
Later than 1 year and not later than 2 years	–	419
	–	1,424

#### (b) Capital commitments

Capital expenditure contracted but not yet incurred is as follows:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Land use right	5,540	–

## Notes to the Consolidated Financial Statements

### 33 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

The following significant transactions were carried out between the Group and its related parties during the year ended 31 December 2019 and 2018. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

#### (i) Key management compensation

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
Short-term employee benefits		
– Wages, salaries and bonuses	9,589	5,624
– Pension, housing fund, medical insurance and other social insurance	115	106
	9,704	5,730



## Notes to the Consolidated Financial Statements

### 34 Contingencies

#### (a) Contingent liabilities of the Group

Provision for legal claims has been made for the guarantees provided to third parties and legal disputes with an individual and a company. Please refer to Note 29 for details.

#### (b) Other contingencies of the Group

The Company had another legal proceeding with Zhongde related to payment of goods. According to the judgement by the relevant court, Zhongde was ordered to pay the Company RMB13,644,000 plus relevant interest and the Company was ordered to pay Zhongde RMB2,628,000 plus relevant interest. The enforcement of the judgement of this legal proceeding was suspended in June 2016 as Zhongde filed an application for retrial which has been subsequently rejected by the relevant court. The Company has filed an application for the resumption of enforcement. 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.

### 35 Events after the balance sheet date

After the outbreak of Coronavirus Disease 2019 (“COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group is still assessing the effects of the COVID-19 outbreak on the Group’s operation and financial statements.

## Notes to the Consolidated Financial Statements

## 36 Balance sheet and reserve movement of the Company

## (a) Balance Sheet of the Company

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Assets</b>		
<b>Non-current assets</b>		
Land use rights	5,898	6,094
Property, plant and equipment	42,860	40,543
Investment properties	21,235	15,496
Intangible assets	–	155
Right-of-use assets	354	–
Investments in subsidiaries	36,703	36,703
Deferred income tax assets	20,158	22,528
Financial assets at fair value through other comprehensive income	100	100
Restricted cash	19,268	24,047
	<b>146,576</b>	145,666
<b>Current assets</b>		
Trade receivables and other financial assets at amortised cost and prepayments	476,335	593,385
Inventories	95,286	71,400
Restricted cash	25,879	27,614
Cash and cash equivalents	550,771	220,643
	<b>1,148,271</b>	913,042
<b>Total assets</b>	<b>1,294,847</b>	1,058,708
<b>Equity and liabilities</b>		
<b>Equity attributable to equity holders of the Company</b>		
Share capital	69,791	51,890
Other reserves (b)	498,675	338,529
Retained earnings (b)	425,822	349,400
<b>Total equity</b>	<b>994,288</b>	739,819

## Notes to the Consolidated Financial Statements

### 36 Balance sheet and reserve movement of the Company (Continued)

#### (a) Balance Sheet of the Company (Continued)

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Deferred income	305	485
<b>Current liabilities</b>		
Trade and other payables	126,412	125,601
Current income tax liabilities	25,266	30,329
Borrowings	64,650	69,650
Lease liabilities	363	–
Deferred income	180	180
Warranties provision	4,846	7,425
Provisions for other liabilities and charges	78,537	85,219
	300,254	318,404
<b>Total liabilities</b>	<b>300,559</b>	318,889
<b>Total equity and liabilities</b>	<b>1,294,847</b>	1,058,708

The balance sheet of the Company was approved by the Board of Directors on 27 March 2020 and was signed on its behalf:

Hong Zuobin

*Director*

Huang Youliang

*Director*

## Notes to the Consolidated Financial Statements

## 36 Balance sheet and reserve movement of the Company (Continued)

## (b) Reserve Movement of the Company

	Other reserves RMB' 000	Retained earnings RMB' 000
<b>Balance at 1 January 2018</b>	338,529	171,854
<b>Comprehensive income</b>		
Profit for the year	–	219,058
<b>Other comprehensive income</b>		
Currency translation differences	–	–
<b>Total comprehensive income</b>	–	219,058
<b>Transactions with owners</b>		
Dividends (Note 30)	–	(41,512)
<b>Total transactions with owners, recognized directly in equity</b>	–	(41,512)
<b>Balance at 31 December 2018</b>	338,529	349,400
<b>Balance at 1 January 2019</b>	<b>338,529</b>	<b>349,400</b>
<b>Comprehensive income</b>		
Profit for the year	–	<b>132,255</b>
<b>Other comprehensive income</b>		
Currency translation differences	–	–
<b>Total comprehensive income</b>	–	<b>132,255</b>
<b>Transactions with owners</b>		
Issuance of ordinary shares	<b>160,146</b>	–
Dividends (Note 30)	–	<b>(55,833)</b>
<b>Total transactions with owners, recognized directly in equity</b>	<b>160,146</b>	<b>(55,833)</b>
<b>Balance at 31 December 2019</b>	<b>498,675</b>	<b>425,822</b>

## Notes to the Consolidated Financial Statements

### 37 Benefits and interests of directors

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

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2019 is set out as follows:

	Fees RMB' 000	Salary RMB' 000	Discretionary bonuses RMB' 000	Allowances and benefits in kind RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking RMB' 000	Total RMB' 000
<b>Chairman</b>							
Mr. Hong Zuobin	-	579	1,143	-	-	-	1,722
<b>Executive Directors</b>							
Mr. Huang Youliang	-	604	1,042	-	14	-	1,660
Mr. Zhang Shengyi	-	331	768	-	14	-	1,113
Ms. Lin Zichan	-	342	757	-	14	-	1,113
Mr. Lin Zhongzhu	-	328	770	-	14	-	1,112
Mr. Yin Xingjing	-	331	768	-	14	-	1,113
Mr. Lin Jingdian	-	220	377	-	14	-	611
<b>Non-executive Directors</b>							
Mr. Ye Xiaosen	-	144	-	-	-	-	144
Mr. Hou Zukuan	-	144	-	-	-	-	144
<b>Independent Non-executive Directors</b>							
Mr. Wong Hak Kun (i)	-	159	-	-	-	-	159
Mr. Ng Jack Ho Wan (i)	-	159	-	-	-	-	159
Mr. Wang Jingfu (i)	-	144	-	-	-	-	144
Mr. Li Jing (i)	-	144	-	-	-	-	144
Mr. Su Zhongdi (i)	-	144	-	-	-	-	144
<b>Supervisors</b>							
Mr. Huang Xijun	-	32	276	-	14	-	322
Mr. Ye Sigong	-	90	255	-	14	-	359
Mr. Zhou Xiaoding	-	312	100	-	14	-	426
	-	4,207	6,256	-	126	-	10,589

## Notes to the Consolidated Financial Statements

## 37 Benefits and interests of directors (Continued)

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

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2018 is set out as follows:

	Fees RMB' 000	Salary RMB' 000	Discretionary bonuses RMB' 000	Allowances and benefits in kind RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking RMB' 000	Total RMB' 000
<b>Chairman</b>							
Mr. Hong Zuobin	-	168	757	-	-	-	925
<b>Executive Directors</b>							
Mr. Huang Youliang	-	144	719	-	13	-	876
Mr. Zhang Shengyi	-	108	542	-	13	-	663
Ms. Lin Zichan	-	90	478	-	13	-	581
Mr. Lin Zhongzhu	-	108	542	-	13	-	663
Mr. Yin Xingjing	-	108	542	-	13	-	663
Mr. Lin Jingdian	-	84	341	-	13	-	438
<b>Non-executive Directors</b>							
Mr. Ye Xiaosen	-	144	-	-	-	-	144
Mr. Hou Zukuan	-	144	-	-	-	-	144
<b>Independent Non-executive Directors</b>							
Mr. Wong Hak Kun (i)	-	79	-	-	-	-	79
Mr. Ng Jack Ho Wan (i)	-	79	-	-	-	-	79
Mr. Wang Jingfu (i)	-	72	-	-	-	-	72
Mr. Li Jing (i)	-	72	-	-	-	-	72
Mr. Su Zhongdi (i)	-	72	-	-	-	-	72
<b>Supervisors</b>							
Mr. Huang Xijun	-	26	209	-	13	-	248
Mr. Ye Sigong	-	84	259	-	13	-	356
Mr. Zhou Xiaoding	-	235	100	-	13	-	348
	-	1,817	4,489	-	117	-	6,423

## Notes to the Consolidated Financial Statements

### 37 Benefits and interests of directors (Continued)

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

(i) *The five independent non-executive directors were appointed on 21 June 2018.*

There were no remuneration paid to the directors of the Company by the shareholders for the year ended 31 December 2019.

For the year ended 31 December 2019, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

For the year ended 31 December 2019, no consideration was provided to third parties for making available directors' services.

#### (b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the year ended 31 December 2019 or at any time during the year.

#### (c) Retirement benefits of directors

During the year ended 31 December 2019, there were no additional retirement benefit received by the directors except for the contribution to a retirement benefit scheme as disclosed in the "Employer's contribution to a retirement benefit scheme" in the table in Note (a) above.

#### (d) Termination benefits of directors

During the year ended 31 December 2019, there were no termination benefits received by the directors.

#### (e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2019, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favour of directors.

## Definition and Glossary of Technical Terms

“Director(s)”	the members of the Board
“Board”	the board of Directors of the Company
“the Company” or “Cangnan Instrument”	Zhejiang Cangnan Instrument Group Company Limited (浙江蒼南儀錶集團股份有限公司)
“Group”	the Company and its subsidiaries
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Share”	overseas listed foreign invested ordinary shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are to be subscribed and traded in Hong Kong dollars
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Dollars” or “HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huashi LP”	Cangnan County Huashi Investment Management Enterprise (LP) (蒼南縣華實投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the Promoters of the Company
“intelligent gas flowmeter”	a flowmeter with a correction function (for pressure, temperature or compression factor, etc.)
“Internet-of-Things” or “IoT”	an interconnected network that collects information from the physical world through the deployment of various devices with certain ability of perception, computing, execution and communication, and that enables information exchange between people and things and among different things by the transmission, synchronisation and processing of information achieved through a network
“Listing Date”	the date, on which our H Shares were listed on the Main Board of Hong Kong Stock Exchange (being 4 January 2019)



## Definition and Glossary of Technical Terms

“LNG”	liquefied natural gas
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the main board of the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“North China”	mainly includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia
“Northeast China”	mainly includes Liaoning and Heilongjiang
“Northwest China”	mainly includes Xinjiang, Gansu and Ningxia
“Reporting Period”	the period from the 1 January 2019 to 31 December 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, supplemented or otherwise modified from time to time
“Shareholders”	holder(s) of our Shares
“Shares”	the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
“South China”	mainly includes Hainan and Guangdong
“Southwest China”	mainly includes Sichuan and Chongqing
“subsidiary(ies)”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“substantial shareholder”	has the meaning ascribed thereto in the Hong Kong Listing Rules
“Supervisor(s)”	the member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of the Company
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“%”	per cent