



# 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



## 2020 Interim Report

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# Corporate Information

## Legal Name of the Company

浙江蒼南儀錶集團股份有限公司

## English name of the Company

Zhejiang Cangnan Instrument Group Company Limited

## Directors

### Executive Directors

Mr. Hong Zuobin (*Chairman*)  
Mr. Huang Youliang (*General Manager*)  
Mr. Jin Wensheng (*appointed in June 2020*)  
Mr. Yin Xingjing  
Mr. Zhang Shengyi  
Ms. Lin Zichan  
Mr. Lin Jingdian (*resigned in June 2020*)  
Mr. Lin Zhongzhu

### 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  
Mr. Lin Jingdian (*appointed in June 2020*)  
Mr. Liu Jie (*appointed in June 2020*)

## Legal representative of the Company

Mr. Hong Zuobin

## Authorized representatives

Mr. Huang Youliang  
Mr. Chan Chun Wai

## Joint Company Secretaries

Ms. Lin Zichan  
Mr. Chan Chun Wai

## Committees of the Board

### Nomination Committee

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

### Audit Committee

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

### Remuneration Committee

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

### 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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## Interim Results

The Board of Directors of the Company hereby publishes the unaudited operating results of the Group for the six months ended 30 June 2020, together with the comparative figures of the corresponding period of 2019. For the six months ended 30 June 2020, the revenue of the Group amounted to RMB142.9 million, representing a decrease of 28.5% as compared with the corresponding period of 2019; profit before tax amounted to RMB31.1 million, representing a decrease of 58.3% as compared with the corresponding period of 2019; profit attributable to the equity holders of the Company amounted to RMB28.2 million, representing a decrease of 55.5% as compared with the corresponding period of 2019; earnings per share is RMB0.4, representing a decrease of 56.0% as compared with the corresponding period of 2019.

## Financial Highlights

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

	<b>For the six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Unaudited)
Revenue	<b>142,931</b>	199,797
Gross profit	<b>91,274</b>	139,931
Operating profit	<b>26,739</b>	73,245
Profit for the period	<b>27,432</b>	64,265
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Audited)
<b>Assets</b>		
Non-current assets	<b>131,954</b>	120,201
Current assets	<b>1,225,270</b>	1,271,023
<b>Total assets</b>	<b>1,357,224</b>	1,391,224
<b>Equity and liabilities</b>		
Total equity	<b>1,031,291</b>	1,046,119
Non-current liabilities	<b>215</b>	305
Current liabilities	<b>325,718</b>	344,800
<b>Total liabilities</b>	<b>325,933</b>	345,105
<b>Total equity and liabilities</b>	<b>1,357,224</b>	1,391,224

# 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 target year for China's Three-year Blue Sky Protection Campaign to promote the goal of clean production of enterprises and steadily implement coal control targets in key areas. Environmental protection policies still have a driving effect on the growth of natural gas demand. Urban gas, industrial gas and power generation gas are the three core driving forces of our country's natural gas demand growth. The volume of imported gas on the China-Russia east route has increased steadily, which will drive a steady increase in the volume of pipeline gas imports, complete the expansion of LNG receiving stations, continue to improve the import capacity and diversification level, and stabilize the growth of LNG imports. It is predicted that in 2020, the domestic natural gas market demand growth will be relatively stable, with an increase of about 6% over the previous year, and the overall market supply and demand will be loose.

However, the outbreak of the novel coronavirus named COVID-19 ("**COVID-19**") in early 2020 resulted in the closure of various production and business sites in various places, the extension of the Spring Festival holiday, the postponement of the resumption of work, the sharp decline in social consumption and production and the reduction in demand for industrial and commercial gas, leading to the suspension and postponement of technological improvement and capacity increasing in gas engineering, and slowing down the overall development of the public service industry.

## II. BUSINESS OVERVIEW

The Company is a leading manufacturer of industrial and commercial gas flowmeters in China. Leveraging over 40 years of industry experience, the Company is dedicated to the manufacture and sales of a wide range of industrial and commercial gas flowmeter products, which are generally used by gas operators to measure the flow volume of gas. We engage in a comprehensive business integrating research and development ("**R&D**"), manufacture, sales and aftersales services. The Company's revenue from the sales of industrial and commercial gas flowmeter products amounted to RMB116.6 million.

Through our extensive sales network covering most of the provinces in China, the Company mainly sells our industrial and commercial gas flowmeter products to gas operators in China. Major customers of the Company include certain leading enterprise groups of the gas industry in China. We have established long-term stable relationships with our major customers. In particular, three leading gas enterprise groups in China remained among our top five customers of the Company during the current period. As of 30 June 2020, we had maintained business relationships with these customers for 9 to 15 years. For the six months ended 30 June 2020, sales to our top five customers accounted for approximately 30.5% of our revenue in the same period. The Directors and Supervisors of the Company and their close associates (as defined in the Listing Rules) had no interests in the five top customers above in the first half of 2020.

## Management Discussion and Analysis

The following table sets out a breakdown of our sales by product category in the first half of 2020:

	<b>Revenue</b> (RMB' 000)	<b>Cost</b> (RMB' 000)	<b>Gross profit</b> (RMB' 000)
Industrial and commercial gas flowmeter products	116,599	33,567	83,032
Residential gas meter products	22,492	16,568	5,924
Nuclear-related products	2,716	1,244	1,472
Maintenance services	1,124	278	846
<b>Total</b>	<b>142,931</b>	<b>51,657</b>	<b>91,274</b>

The following table sets out a breakdown of our sales by product category in the first half of 2019:

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



## Management Discussion and Analysis

The following table sets out a breakdown of our revenue by region in the first half of 2020 as compared with that in the same period of last year:

	<b>First half of 2020 (RMB' 000)</b>	First half of 2019 (RMB' 000)
<b>China</b>	<b>141,718</b>	197,519
North China	<b>26,089</b>	41,245
East China	<b>58,345</b>	81,358
Southwest China	<b>18,059</b>	19,165
South China	<b>14,131</b>	17,177
Central China	<b>6,430</b>	9,883
Headquarters	<b>10,576</b>	17,526
Northeast China	<b>4,684</b>	7,179
Northwest China	<b>3,404</b>	3,986
<b>Overseas</b>	<b>1,213</b>	2,278
<b>Total</b>	<b>142,931</b>	199,797

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

#### 1. Overview

For the six months ended 30 June 2020, the Group's revenue amounted to RMB142.9 million, representing a decrease of RMB56.9 million as compared with the same period of 2019 of RMB199.8 million; the Group's profit amounted to RMB27.4 million, representing a decrease of RMB36.9 million as compared with the same period of 2019 of RMB64.3 million; profit attributable to the equity holders of the Company amounted to RMB28.2 million, representing a decrease of RMB35.2 million as compared with the same period of 2019 of RMB63.4 million. As at 30 June 2020, cash and cash equivalents of the Group decreased by RMB140.2 million from RMB593.3 million as at 31 December 2019 to RMB453.1 million as at 30 June 2020; the Group's total assets amounted to RMB1,357.2 million, representing a decrease of RMB34.0 million as compared with RMB1,391.2 million as at 31 December 2019; the Group's total liabilities amounted to RMB325.9 million, representing a decrease of RMB19.2 million as compared with RMB345.1 million as at 31 December 2019. Return on total assets of the Group in the first half of 2020 was 2.0%, and 4.8% in the same period of 2019.

### 2. Operating Results

#### 2.1. Revenue

For the six months ended 30 June 2020, the Group's revenue amounted to RMB142.9 million, representing a decrease of 28.5% as compared with the same period of 2019 of RMB199.8 million, primarily due to the outbreak of COVID-19 in early 2020, which resulted in the closure of various production and business sites in various places, the extension of the Spring Festival holiday, the postponement of the resumption of work, the sharp decline in social consumption and production and the reduction in demand for industrial and commercial gas, leading to the suspension and postponement of technological improvement and capacity increasing in gas engineering, slowing down the overall development of the public service industry, and impact significantly on the Company. Our sales of nuclear-related products amounted to RMB2.7 million, representing a decrease of 66.3% as compared with the same period of 2019 of RMB8.0 million, primarily due to the decrease of demand as the reduction in national planned nuclear power projects, which led to a sharp decrease of the revenue of nuclear power products.

#### 2.2. Cost of sales

For the six months ended 30 June 2020, the Group's cost of sales amounted to RMB51.7 million, representing a decrease of 13.7% as compared with the same period of 2019 of RMB59.9 million, primarily due to the decline in sales revenue during the period, which led to a corresponding decline in sales costs.

#### 2.3. Gross profit

For the six months ended 30 June 2020, the Group's gross profit amounted to RMB91.3 million, representing a decrease of 34.7% as compared with the same period of 2019 of RMB139.9 million, and the gross profit margin decreased from 70.0% as at 30 June 2019 to 63.9% as at 30 June 2020, primarily due to the decrease in sales revenue during the period. In addition, affected by fierce market competition, in order to maintain market share, the sales price was appropriately lowered, which resulted in a slight decrease in gross profit.

#### 2.4. Selling and distribution expenses

For the six months ended 30 June 2020, the Group's selling and distribution expenses amounted to RMB33.4 million, representing a decrease of 37.7% as compared with the same period of 2019 of RMB53.6 million, primarily due to the decline in the number of instruments sold during the period and the outbreak of COVID-19 that reduced customer selling and distribution service, resulting in the reduction in selling expenses.

#### 2.5. Administrative expenses

For the six months ended 30 June 2020, the Group's administrative expenses amounted to RMB28.5 million, representing a decrease of 17.9% as compared with the same period of 2019 of RMB34.7 million, remaining fairly flat.

#### 2.6. (Impairment losses on financial assets)/gains from reversal of impairment losses on financial assets – net

For the six months ended 30 June 2020, the Group's net impairment losses on financial assets amounted to RMB4.8 million, gains from reversal of impairment losses on financial assets-net for the same period of 2019 amounted to RMB1.8 million. The impairment losses for the current period was primarily due to increase in expected credit loss due to the sluggish market affected by the pandemic.

## Management Discussion and Analysis

### 2.7. Research and development expenses

For the six months ended 30 June 2020, the Group's research and development expenses amounted to RMB12.7 million, representing a decrease of 5.9% as compared with the same period of 2019 of RMB13.5 million, primarily due to the slight reduction in the salary of R&D personnel during the period affected by the COVID-19 outbreak.

### 2.8. Other income

For the six months ended 30 June 2020, the Group's other income amounted to RMB8.7 million, representing a decrease of 75.2% as compared with the same period of 2019 of RMB35.1 million, primarily due to the fact that the Company received one-off incentives and subsidies from the government due to the Company's successful listing and restructuring into a joint-stock company in the same period of 2019, but not in the current period, which resulted in a sharp decrease in the subsidies from the government during the period.

### 2.9. Other gains/(losses) – net

For the six months ended 30 June 2020, the Group's other gains/(losses) – net amounted to RMB6.2 million, primarily due to the amount recovered from one of the companies to which the Company has provided guarantee and paid the loan to the bank on behalf of the guaranteed company.

### 2.10. Operating profit

For the six months ended 30 June 2020, the Group's operating profit amounted to RMB26.7 million, representing a decrease of 63.5% as compared with the same period of 2019 of RMB73.2 million, primarily due to the decline in revenue in the period and the decrease in government subsidies.

### 2.11. Finance income – net

For the six months ended 30 June 2020, the Group's finance income – net amounted to RMB4.3 million, representing an increase of 230.8% as compared with the same period of 2019 of RMB1.3 million, primarily due to increase in interest income.

### 2.12. Income tax expenses

For the six months ended 30 June 2020, the Group's net income tax expenses amounted to RMB3.6 million, representing a decrease of 65.0% as compared with the same period of 2019 of RMB10.3 million, primarily due to the decrease in profit before tax for the period, leading to the decrease of income tax expenses.

### 2.13. Profit for the current period

For the six months ended 30 June 2020, the Group's profit for the current period amounted to RMB27.4 million, representing a decrease of 57.4% as compared with the same period of 2019 of RMB64.3 million, primarily due to the decline in revenue in the period and the decrease in government subsidies, which resulted in the decrease of the profit for the period.

## Management Discussion and Analysis

### 3. Cash and Cash Equivalents

As at 30 June 2020, the Group's cash and cash equivalents amounted to RMB453.1 million, representing a decrease of RMB140.2 million as compared with RMB593.3 million as at 31 December 2019.

### 4. Current Assets and Liabilities

As at 31 December 2019, we had net current assets of approximately RMB926.2 million. As at 30 June 2020, we had net current assets of RMB899.6 million, representing a decrease of 2.9% as compared with that as at 31 December 2019, remaining fairly flat.

### 5. Indebtedness

Our borrowings were short-term bank borrowings primarily for our working capital purposes. As at 30 June 2020, our bank loans amounted to RMB57.4 million, which were mainly used for supplementing our working capital. We plan to service our indebtedness primarily using expected cash generated from operations.

### 6. Financial Ratio

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

	As at or for the six months ended 30 June	
	2020	2019
Gearing ratio <sup>(1)</sup>	0.1	0.1
Current ratio <sup>(2)</sup>	3.8	3.3
Quick ratio <sup>(3)</sup>	3.3	2.9
Return on equity <sup>(4)</sup> (%)	2.7	6.6
Return on total assets <sup>(5)</sup> (%)	2.0	4.8
Net debt to equity ratio <sup>(6)</sup>	-0.4	-0.5
Interest coverage <sup>(7)</sup>	22.7	36.4

Notes:

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

(2) calculated by dividing current assets by current liabilities as at the end of the respective period.

## Management Discussion and Analysis

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

### 7. Significant Investment

For the half year ended 30 June 2020, the Group had no significant investment.

### 8. Material Acquisition and Disposal

For the half year ended 30 June 2020, the Group had no material acquisition or disposal of subsidiaries, associates or joint ventures.

### 9. Contingent Liabilities

As at 30 June 2020, the Group had no material contingent liabilities.

### 10. Employees and Remuneration Policy

As at 30 June 2020, we had 532 full-time employees. We enter into individual labor contracts with our employees, with terms covering, among other things, positions, salaries, working hours, annual leave and other benefits. In the first half of 2020, we incurred employee benefits expenses (including salaries, wages and bonuses, pension and housing fund, medical insurance and other social insurances and share-based payment expense) of approximately RMB33.7 million, representing approximately 23.6% of our revenue in the first half of 2020.

We place emphasis on the training of our employees and strive to ensure that our employees are equipped with the required skills and safety knowledge when performing their duties. We believe that adequate training will increase the overall competitiveness of our workforce. We carry out a wide variety of training courses for our employees including induction training, on-the-job training, professional knowledge training and technical skills training. We also engage external consulting and educational institutions to provide training to our employees and periodically send our research and development staff to receive training at academic institutions such as China Jiliang University.

The Group did not have any share option scheme.

## Management Discussion and Analysis

### 11. Pledge of Assets

The Group's borrowings are partially secured by property, plant and land use rights. As at 30 June 2020, the total net carrying value of assets pledged was RMB8.4 million. 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 30 June 2020, the Group's cash and cash equivalents decreased by 23.6% to RMB453.1 million as compared with RMB593.3 million as at 31 December 2019, primarily due to that the cash flow from investing activities was net cash outflow during the period, resulting in a decrease in cash and cash equivalents. The main sources of the Group's business capital come from operating activities.

As at 30 June 2020, the Group's borrowings decreased by 13.9% to RMB57.4 million as compared with RMB66.7 million as at 31 December 2019. Such borrowings were all short-term borrowings.

### 13. Capital Structure

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

## IV. RISK FACTORS AND RISK MANAGEMENT

### 1. Outbreak Risks

In the beginning of 2020, the sudden outbreak of COVID-19 put downward pressure on the Chinese economy which is in transition period. The spread of COVID-19 and its subsequent effects caused certain negative impacts on the Chinese economy, finance, trade, and the industrial chain, including delayed resumption of work of enterprise, delayed production, closure of restaurants, stagnant circulation, weak demand and global pandemics and other various risks. For the gas industry, the COVID-19 outbreak caused labor difficulties, rising costs, reduced orders, blocked logistics, and led it into a semi-stagnation state in the short term. In the longer term, the COVID-19 outbreak may continue to have negative impacts 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

### 2. 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 the first half of 2020 included Euro, US\$ or other foreign currencies ("**Other Foreign Currencies**"). In the first half of 2020, the Group did not have any significant foreign exchange risk from operation.

### 3. 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.

### 4. 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.

### 5. 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.

### 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, endeavor 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.

#### (III) Business Plan for the Second Half of 2020

##### (I) To enhance product and technology innovation and maintain the core competence of the Company

We will adhere to the market-demand-oriented, track the development trend of smart gas, accelerate the technological innovation of information, network and intelligent products, formulate research and development tasks and objectives, optimize the allocation of research and development resources, pay close attention to implementation, in order to ensure the efficiency and quality of research and development, and improve the market adaptability of our products. We will accelerate the development of ultrasonic flow meters, prepaid flow meters, IoT gas meters, cloud service platform and other products, continue to optimize the structure of turbine flowmeter, Roots flowmeter and vortex precession flowmeter, improve the technical performance, and accelerate the research and development of medium and low pressure gas regulator, in order to comprehensively improve the intelligent research and development and production of household meters, maintain the leading position of our flagship products in the industry. We will maintain a high level of investment in technology research and development, strengthen the introduction and training of research and development personnel, and improve the quality and quantity of intellectual property applications.



## Management Discussion and Analysis

### (II) To promote the construction of smart plant

The Company has established a special team to promote the infrastructure construction of Cangnan Instrument Industrial Park. We will focus on the research and use of new sensors, electronic information technology and high-precision production equipment as well as the robots, manipulators and transmission lines to create an automated and intelligent processing and assembly line, modern intelligent storage and logistics system, and construct Cangnan Instrument Industrial Park project, with an aim to change the existing production process and production layout, accelerate the realization of intelligent production and refined production, improve the flexibility of the supply structure, meet the demand for supply-side structural reform, enhance the modernization of production technology innovation and management level of the Company, and adapt to the changes in the structure of market demand.

### (III) To proactively explore the market and build a new marketing service system

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

### (IV) To improve management level and promote management reform

The Company will continue to deepen the management, and promote the implementation of management reforms. The Company will further adjust the organizational structure, improve the system construction, optimize the working process, and strengthen the diligent and honest administration. At the same time, we will vigorously strengthen the recruitment of talents and the development of human resources, strive to make the compensation system more scientific, the incentive mechanism more effective, and the talent structure more reasonable, so as to create a new situation in which talented people come in large groups and embrace fair competitions.

## Other Information

### H Share Full Circulation

On 8 May 2020, the Company submitted an application (the “**Application**”) in relation to H share full circulation to China Securities Regulatory Commission (the “**CSRC**”) in order to convert the domestic shares of the Company (the “**Domestic Shares**”) into H shares (the “**H Shares**”). On 22 May 2020, the Company received the official acceptance letter “Acceptance Notice of the Application for Administrative Permission from the CSRC” 《中國證監會行政許可申請受理單》 (No. 201067) issued by the CSRC in relation to the Application (the “**Acceptance Notice**”). Pursuant to the Acceptance Notice, the application materials were complete and the CSRC had accepted the Application.

As at the date of this report, details of the implementation plan of the conversion and listing (the “**Conversion and Listing**”) of not more than 51,890,000 Domestic Shares of the Company into H Shares have not been finalised. The Company will make further announcement(s) on the progress of the Conversion and Listing in compliance with the requirements under the Inside Information Provisions of Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the Listing Rules.

### Share Capital

As of 30 June 2020, the total share capital of the Company was RMB69,791,167, divided into 69,791,167 Shares with par value of RMB1.0 each (of which 51,890,000 are domestic shares and 17,901,167 are H shares).

### Interim Dividend

The Board has not made any recommendation on the distribution of an interim dividend for the six months ended 30 June 2020.

### Purchase, Sale or Redemption of Listed Securities of the Company

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

### Interests and Short Positions of Directors, Supervisors and Chief Executive in Shares, Underlying Shares and Debentures

As of 30 June 2020, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Code for Trading in Securities (“**Code for Trading in Securities**”) defined in the Corporate Governance Report of this annual report are set out below:

## Other Information

### Interests and Short Positions in Shares and Underlying Shares of the Company

Name of Director/ Supervisor/ Chief Executive	Long/ Short Position	Nature of Interest	Nature 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. Jin Wensheng	Long position	Beneficial owner	1,604,000	2.30%	3.09%
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. 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%
Mr. Lin Jingdian	Long position	Beneficial owner	159,200	0.23%	0.31%

### Interests and Short Positions in Shares and Underlying Shares of Associated Corporations of the Company

Name ( Directors, Supervisions or Chief Executive)	Long/Short Position	Name of Associated Corporations of the Company	Nature of Interest	Approximate Percentage of Shareholding in Associated Corporations of the Company
Mr. Jin Wensheng	Long position	Dongxing Intelligence Instrument Limited (浙江蒼南儀錶集團東星智能儀錶有限公司)	Beneficial owner	5.33%
Mr. Liu Jie	Long position	Dongxing Energy Technology Limited (浙江蒼南儀錶集團東星能源科技有限公司)	Beneficial owner	5.00%

Save as disclosed above, as at 30 June 2020, none of the Directors, Supervisors or chief executives had or were deemed to have (i) any interests and short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or (iii) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Code for Trading in Securities.

### Substantial Shareholders' Interests in the Shares

As at 30 June 2020, 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 of the Company:

Name of Shareholders	Class of Shares	Capacity	Number of Shares/ Underlying Shares Held (share) <sup>2</sup>	Percentage of Relevant Class of Share Capital (%)	Percentage of Total Share Capital (%)
Mr. Hong Zuobin	Domestic Shares	Legal and Beneficial Owner	9,253,400 (L)	17.83%	13.26%
Mr. Huang Youliang	Domestic Shares	Legal and Beneficial Owner	6,697,900 (L)	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 (L)(S)	27.51%	7.06%
Mr. Deping Xi <sup>1</sup>	H Shares	Interest held by controlled corporation	4,923,800 (L)(S)	27.51%	7.06%
Qiu Yanjie	H Shares	Legal and Beneficial Owner	2,658,000 (L)	14.85%	3.81%
Shao Shun	H Shares	Legal and Beneficial Owner	2,408,000 (L)	13.45%	3.45%
Huashi LP	Domestic Shares	Legal and Beneficial Owner	4,912,000 (L)	9.47%	7.04%
Changhua LP	Domestic Shares	Legal and Beneficial Owner	4,830,000 (L)	9.31%	6.92%
Dongxing LP	Domestic Shares	Legal and Beneficial Owner	4,741,000 (L)	9.14%	6.79%
Cangyi LP	Domestic Shares	Legal and Beneficial Owner	4,699,000 (L)	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.
2. ( L ) – Long position, ( S ) – Short position.

## Other Information

### Changes to Biographical Details of Directors, Supervisors and Chief Executives Under Rule 13.51B(1) of the Listing Rules

#### Directors

On 10 June 2020, the Company's 2019 annual general meeting elected Mr. Jin Wensheng as an executive director of the Company.

From 10 June 2020, Mr. Lin Jingdian ceased to serve as an executive director of the Company.

Mr. Wong Hak Kun was appointed as an independent non-executive director of Guangzhou Automobile Group Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 6001238) and Hong Kong Stock Exchange (stock code: 2238)), which became effective from 29 May 2020; and as an independent non-executive director of Haier Smart Home Co., Ltd. (a company listed on the Shanghai Stock Exchange (stock code: 600690) and Frankfurt Stock Exchange (stock code: 690D), which became effective from 3 June 2020.

#### Supervisors

On 10 June 2020, the Company's 2019 annual general meeting elected Mr. Liu Jie as a supervisor of the Company.

On 10 June 2020, the Company held an employee representative meeting to elect Mr. Lin Jingdian and Mr. Huang Xijun as employee supervisors of the Company.

Save as disclosed above, there is no other change to the biographical details of the Directors, Supervisors and chief executives of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules during the Reporting Period.

#### Employees and Remuneration Policy

As at 30 June 2020, the Group had a total of 532 employees. The remuneration of employee of the Group comprises basic salary and bonus payment, and the bonus payment is determined with reference to the operating results of the Group and results of performance assessment.

### Use of Net Proceed

The Company's shares have been listed on the Stock Exchange since 4 January 2019. The net proceeds from the global offering of the shares of the Company after deducting the underwriting fees, commissions and other expenses were approximately RMB178.05 million, which will be used in the ways stated in the section headed "Future Plans and Use of Proceeds" of the prospectus of the Company dated 19 December 2018 (the "**Prospectus**"). Please also refer to the announcement of the Company dated 5 August 2020 for details.

Due to the postponement of approving the use of land for relevant projects and the outbreak of COVID-19 in early 2020, the Company has not yet used any of net proceeds as at 30 June 2020. The following table details the proposed use of proceeds as set out in the Prospectus and the actual use of the proceeds as at 30 June 2020:

*RMB (million)*

	Budget (approximately)	Amount had been used as at 30 June 2020	Remaining balance as at 30 June 2020 (approximately)	Proposed timetable for use of the unused net proceeds
Used for intelligent gas flowmeter modification and upgrade project	97.93	–	97.93	31 December 2020 or before
Used for Internet-of-Things (IoT) gas measurement and transmission and distribution management platform	35.61	–	35.61	31 December 2020 or before
Used for flowmeter testing and inspection laboratory project	26.71	–	26.71	31 December 2020 or before
Used for working capital related to principal businesses and other general corporate purposes	17.80	–	17.80	31 December 2020 or before
<b>Total</b>	<b>178.05</b>	<b>–</b>	<b>178.05</b>	<b>31 December 2020 or before</b>

The remaining proceeds (i.e. RMB178.05 million) are expected to be used in the period from 1 January 2020 to 31 December 2020 for the same purpose as set out in the Prospectus, which are based on the Directors' best estimate of future market conditions, but subject to adjustments.

### 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.

## Other Information

### Material Litigation

As at 30 June 2020, the Company was involved in certain ongoing legal proceedings, including:

#### 1. Certain lawsuits with 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., of which Mr. Ye is a shareholder and director, have launched two legal proceedings over the outstanding payments for goods. Both cases are currently under enforcement.

#### 2. Certain lawsuits involving the Company due to external guarantees

- (1) The Company provided guarantees for Shengyu Group Company Limited (盛宇集團股份有限公司) (“**Shengyu Company**”) in Shanghai Pudong Development Bank, Hua Xia Bank and Bank of Ningbo. Since Shengyu Company was unable to repay the bank loan as agreed due to bad management, such banks filed a lawsuit with the court and got a judgment that Shengyu Company was ordered to repay the loan and the guarantor (the Company) was held liable for joint and several liabilities. The Company, 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. As of 30 June 2020, the aforesaid cases are in the course of enforcement.
- (2) The Company provided guarantees for Huazheng Plastics Group Company Limited (華正塑膠集團有限公司) (“**Huazheng Company**”) in China Zheshang Bank, China Merchants Bank and Fuding Hengxing Rural Bank. Since Huazheng Company was unable to repay the bank loan as agreed due to bad management, such banks filed a lawsuit with the court and got a judgment that Huazheng Company was ordered to repay the loan and the guarantor (the Company) was held liable for joint and several liabilities. 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. As of 30 June 2020, the Company has received a total of RMB3.7 million in principal and interest for part of the enforcement amount, with remaining RMB3.7 million yet to be recovered.

Please refer to the Prospectus, the announcement of the Company dated 16 July 2019 and note 24 to the interim condensed consolidated financial information for details. Save as disclosed above, as of 30 June 2020, the Company was not involved in any material litigation or arbitration. So far as the Directors are aware, no litigation or claim are pending or threatened against the Company.

# Corporate Governance

## 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. During the Reporting Period, the Company has complied with all code provisions as set out in Appendix 14 of the Listing Rules.

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

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

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

## Directors' Responsibility for the Financial Statements

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



## Corporate Governance

### Independent non-executive Directors

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

### Nomination Committee

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

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

During the Reporting Period, the Nomination Committee held one meeting. All members of the nomination committee attended the meeting. Details of the meetings are as follows:

- The first meeting of the Nomination Committee of the first session of the Board of Directors was held on 23 March 2020, to consider and approve the proposal on nomination of directors of the second session of the Board of Directors.

### Audit Committee

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

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

During the Reporting Period, the Audit Committee held one meeting. All members of the audit committee attended the meetings. Details of the meetings are as follows:

- On 25 March 2020, the Company held the Fifth Meeting of the Audit Committee of the First Session of the Board of Directors. The meeting considered and approved (1)the Resolution Regarding Annual Report and Results Announcement for the Year 2019; (2)the Resolution Regarding Independent Auditor Report and the Audited Financial Statements for the Year 2019; (3)the Resolution Regarding the Final Financial Report for the Year 2019; (4)the Resolution Regarding the Financial Budget Report for the Year 2020; (5)the Resolution Regarding the Profit Distribution Plan for the Year 2019; (6)the Resolution Regarding the Effectiveness Assessment and Disclosure of Risk Management and Internal Monitoring System; (7)the Resolution Regarding the Re-appointment of Auditor for the Year 2020; and (8)the Resolution Regarding the Internal Auditing Charter, Three-year Audit Planning and Risk Management Manual.

The Audit Committee of the Company has reviewed the interim results of the Group for the six months ended 30 June 2020, and is of the view that the interim results of the Group for the six months ended 30 June 2020 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

## Corporate Governance

### Remuneration Committee

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

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

During the Reporting Period, the Company held a total of one meeting of the remuneration committee. All members of the remuneration committee attended the meeting. Details of the meetings are as follows:

- The second meeting of the Remuneration Committee of the first Board of Directors was held on 10 April 2020, to consider and approve the remuneration plan for the directors of the second Board of Directors and the supervisors of the second Board of Supervisors.

# Report on Review of Interim Financial Information



羅兵咸永道

**To the Board of Directors of Zhejiang Cangnan Instrument Group Company Limited**

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

## Introduction

We have reviewed the interim financial information set out on pages 28 to 57, which comprises the interim condensed consolidated balance sheet of Zhejiang Cangnan Instrument Group Company Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2020 and the interim condensed consolidated statement of profit or loss, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting”. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Scope of Review

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

## Conclusion

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

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 25 August 2020

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## Interim Condensed Consolidated Statement of Profit or Loss

	Note	Six months ended 30 June	
		2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Revenue	6	142,931	199,797
Cost of sales	9	(51,657)	(59,866)
<b>Gross profit</b>		<b>91,274</b>	139,931
Selling and distribution expenses	9	(33,375)	(53,624)
Administrative expenses	9	(28,521)	(34,720)
(Impairment losses on financial assets)/gains from reversal of impairment losses on financial assets-net	15	(4,772)	1,816
Research and development expenses	9	(12,716)	(13,470)
Other income	7	8,677	35,108
Other gains/(losses) – net	8	6,172	(1,796)
<b>Operating profit</b>		<b>26,739</b>	73,245
Finance income	10	5,765	3,394
Finance expenses	10	(1,435)	(2,105)
Finance income – net		4,330	1,289
<b>Profit before income tax</b>		<b>31,069</b>	74,534
Income tax expenses	11	(3,637)	(10,269)
<b>Profit for the period</b>		<b>27,432</b>	64,265
<b>Attributable to:</b>			
Equity holders of the Company		28,166	63,369
Non-controlling interests		(734)	896
		27,432	64,265
<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	0.40	0.91

The notes on pages 34 to 57 are an integral part of this interim condensed consolidated financial information.

## Interim Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
<b>Profit for the period</b>	<b>27,432</b>	64,265
Other comprehensive income	–	–
<b>Total comprehensive income for the period</b>	<b>27,432</b>	64,265
<b>Attributable to:</b>		
Equity holders of the Company	<b>28,166</b>	63,369
Non-controlling interests	<b>(734)</b>	896
	<b>27,432</b>	64,265

The notes on pages 34 to 57 are an integral part of this interim condensed consolidated financial information.

# Interim Condensed Consolidated Balance Sheet

		<b>As at</b>	
	Note	<b>30 June 2020 RMB' 000 (Unaudited)</b>	31 December 2019 RMB' 000 (Audited)
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights	14	<b>16,881</b>	5,898
Property, plant and equipment	14	<b>69,811</b>	71,567
Intangible assets	14	<b>214</b>	–
Right-of-use assets	14	<b>1,670</b>	354
Deferred income tax assets		<b>24,008</b>	23,014
Financial assets at fair value through other comprehensive income		<b>100</b>	100
Restricted cash	17	<b>19,270</b>	19,268
		<b>131,954</b>	120,201
<b>Current assets</b>			
Trade receivables and other financial assets at amortised cost and prepayments	15	<b>507,447</b>	524,124
Inventories	16	<b>139,250</b>	127,741
Restricted cash	17	<b>23,805</b>	25,879
Bank deposit	18	<b>101,687</b>	–
Cash and cash equivalents	19	<b>453,081</b>	593,279
		<b>1,225,270</b>	1,271,023
<b>Total assets</b>		<b>1,357,224</b>	1,391,224
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	20	<b>69,791</b>	69,791
Other reserves	21	<b>499,822</b>	499,822
Retained earnings		<b>447,626</b>	461,335
		<b>1,017,239</b>	1,030,948
<b>Non-controlling interests</b>		<b>14,052</b>	15,171
<b>Total equity</b>		<b>1,031,291</b>	1,046,119

## Interim Condensed Consolidated Balance Sheet

	Note	As at	
		30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income		215	305
<b>Current liabilities</b>			
Trade and other payables	22	154,841	153,280
Current income tax liabilities		27,467	39,748
Borrowings	23	57,400	66,650
Lease liabilities		1,521	363
Deferred income		180	180
Warranties provision	24	6,003	6,042
Provisions for other liabilities and charges	24	78,306	78,537
		<b>325,718</b>	344,800
<b>Total liabilities</b>		<b>325,933</b>	345,105
<b>Total equity and liabilities</b>		<b>1,357,224</b>	1,391,224

The notes on pages 34 to 57 are an integral part of this interim condensed consolidated financial information.

The interim condensed consolidated financial information on pages 28 to 57 were approved by the Board of Directors on 25 August 2020 and were signed on its behalf:

**Hong Zuobin**

*Director*

**Huang Youliang**

*Director*



## Interim Condensed Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>(Unaudited)</b>						
<b>Balance at 1 January 2019</b>	51,890	339,676	380,636	772,202	13,656	785,858
<b>Comprehensive income</b>						
Profit for the period	–	–	63,369	63,369	896	64,265
<b>Total comprehensive income</b>	–	–	63,369	63,369	896	64,265
<b>Transactions with owners</b>						
Issuance of ordinary shares	17,901	160,146	–	178,047	–	178,047
Dividends declared (Note 13)	–	–	(55,833)	(55,833)	–	(55,833)
Dividends to non-controlling interests	–	–	–	–	(1,103)	(1,103)
<b>Total transactions with owners, recognized directly in equity</b>	17,901	160,146	(55,833)	122,214	(1,103)	121,111
<b>Balance at 30 June 2019</b>	69,791	499,822	388,172	957,785	13,449	971,234
<b>(Unaudited)</b>						
<b>Balance at 1 January 2020</b>	69,791	499,822	461,335	1,030,948	15,171	1,046,119
<b>Comprehensive income</b>						
Profit for the period	–	–	28,166	28,166	(734)	27,432
<b>Total comprehensive income</b>	–	–	28,166	28,166	(734)	27,432
<b>Transactions with owners</b>						
Dividends declared (Note 13)	–	–	(41,875)	(41,875)	–	(41,875)
Dividends to non-controlling interests	–	–	–	–	(385)	(385)
<b>Total transactions with owners, recognized directly in equity</b>	–	–	(41,875)	(41,875)	(385)	(42,260)
<b>Balance at 30 June 2020</b>	69,791	499,822	447,626	1,017,239	14,052	1,031,291

The notes on pages 34 to 57 are an integral part of this interim condensed consolidated financial information.

## Interim Condensed Consolidated Statement of Cash Flows

	Note	Six months ended 30 June	
		2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
<b>Cash flows from operating activities</b>			
Cash generated from operations		47,588	91,239
Interest received		5,050	2,879
Income tax paid		(16,912)	(22,434)
Net cash generated from operating activities		35,726	71,684
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment	14	(4,073)	(2,691)
Purchases of land use rights	14	(11,080)	–
Purchase of intangible assets	14	(238)	–
Proceeds from disposals of property, plant and equipment		56	6
Payments for deposits for potential investments	15	(53,145)	–
Placement of bank deposit		(100,000)	–
Payments for other financial assets at amortised cost		(10,000)	(19,037)
Repayment received upon maturity of other financial assets at amortised cost		12,000	–
Interest received on other financial assets at amortised cost		1,052	573
Net cash used in investing activities		(165,428)	(21,149)
<b>Cash flows from financing activities</b>			
Proceeds from short-term borrowings		18,500	27,750
Repayment of short-term borrowings		(27,750)	(27,750)
Interest paid		(1,130)	(1,610)
Principal elements of lease payments		(596)	–
Payments in relation to financial guarantees	24	(77)	(5,000)
Dividends paid to non-controlling interests		–	(368)
Listing expenses paid		–	(17,046)
Proceeds from issuance of ordinary shares		–	225,892
Net cash (used in)/generated from financing activities		(11,053)	201,868
<b>Net (decrease)/increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of period		593,279	260,026
Exchange differences on translation of cash and cash equivalents		557	42
<b>Cash and cash equivalents at end of period</b>		<b>453,081</b>	<b>512,471</b>

The notes on pages 34 to 57 are an integral part of this interim condensed consolidated financial information.

# Notes to the Interim Condensed Consolidated Financial Information

## 1 General Information

The Company was incorporated in September 1982 in the People's Republic of China (the "PRC") under the law of the PRC. The address of its registered office is Industrial Demonstrative Park, Lingxi Town, Cangnan County, Wenzhou City, Zhejiang Province, the PRC. The Company was formerly known as Zhejiang Cangnan Instrument Group Limited (浙江蒼南儀錶集團有限公司) with registered capital of RMB51,890,000.

On 13 June 2017, the Company was converted into a joint stock company with limited liability with registered capital of RMB51,890,000. Following the conversion, the Company was renamed as Zhejiang Cangnan Instrument Group Company Limited (浙江蒼南儀錶集團股份有限公司).

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

The Company does not have any controlling shareholders.

The Company and its subsidiaries (together the "Group") are principally engaged in the manufacturing and sales of gas metering instruments and other related products in Cangnan, Zhejiang Province, the PRC.

This interim condensed consolidated financial information has not been audited.

## 2 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim financial reporting". The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, the interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board.

## Notes to the Interim Condensed Consolidated Financial Information

### 3 Accounting policies

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 December 2019, as described in those annual consolidated financial statements, except for the adoption of new and amended standards as set out below.

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

A number of new or amended standards become applicable for the current reporting period, the adoption of these applicable new and amended standards did not have any material impact on the interim condensed consolidated financial information of the Group.

- (b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2020 and have not been early adopted:

		<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
Amendment to IFRS 16	Leases – Covid-19 related rent concessions	1 June 2020
Amendments to IAS 1	Presentation of financial statements' on classification of liabilities	1 January 2022
Amendments to IFRS 3	Business combinations	1 January 2022
Amendments to IAS 16	Property, plant and equipment	1 January 2022
Amendments to IAS 37	Provisions, contingent liabilities and contingent assets	1 January 2022
Annual improvements to IFRS 2018-2020		1 January 2022
IFRS 17	Insurance contracts	1 January 2023

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

## Notes to the Interim Condensed Consolidated Financial Information

### 4 Estimates

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

In preparing the interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019.

### 5 Financial risk management

#### 5.1 Financial risk factors

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

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2019.

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

#### 5.2 Liquidity risk

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

## Notes to the Interim Condensed Consolidated Financial Information

### 5 Financial risk management (Continued)

#### 5.3 Outbreak risk

During the COVID-19 outbreak in 2020, the Company has experienced reduced orders, delayed procurement and supply, and delayed production and logistics. COVID-19 may continue to have an adverse affect on the Company's business, financial condition and results of operation.

#### 5.4 Fair value estimation

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

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

As at 30 June 2020, except for financial assets at fair value through other comprehensive income and the bank deposit as stated in Note 18, 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.

### 6 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 Interim Condensed Consolidated Financial Information

### 6 Revenue and segment information (Continued)

Revenue by product categories are analysed as below:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Unaudited)
Industrial and commercial gas flowmeter products	<b>116,599</b>	167,290
Residential gas meter products	<b>22,492</b>	23,509
Nuclear-related products	<b>2,716</b>	7,971
Maintenance services	<b>1,124</b>	1,027
	<b>142,931</b>	199,797

Revenue by geographical areas are analysed as below:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Unaudited)
The PRC	<b>141,718</b>	197,519
Other countries	<b>1,213</b>	2,278
	<b>142,931</b>	199,797

Customers contributing more than 10% of the Group's total revenue for the six months ended 30 June 2020 are as follows:

	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Unaudited)
Customer 1	*	11%
Customer 2	*	11%

\* less than 10%

## Notes to the Interim Condensed Consolidated Financial Information

### 7 Other income

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Government grants	8,587	35,018
Amortization of deferred income related to government grants	90	90
	8,677	35,108

### 8 Other gains/(losses) – net

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Recoverable from guaranteed contract (Note 24)	3,651	–
Foreign exchange gains – net	680	848
Reversal of guarantee losses (Note 24)	462	–
Gains/(losses) on disposals of property, plant and equipment	29	(40)
Litigation losses (Note 24)	–	(3,336)
Donation	(680)	(33)
Others	2,030	765
	6,172	(1,796)



## Notes to the Interim Condensed Consolidated Financial Information

### 9 Expenses by nature

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Changes in inventories of finished goods and work in progress	<b>(4,540)</b>	(19,798)
Raw materials and consumables used	<b>40,045</b>	62,752
Employee benefits expense	<b>33,685</b>	43,009
Sales service fee	<b>13,686</b>	27,191
Depreciation and amortization (Note 14)	<b>6,350</b>	6,037
Professional service fee	<b>4,456</b>	2,476
Travel and office expenses	<b>3,844</b>	8,485
Warranties provision (Note 24)	<b>3,711</b>	2,826
Costs for the moulds used in research and development and the design of new products	<b>1,859</b>	1,467
Transportation expenses	<b>1,735</b>	2,319
Utilities	<b>1,391</b>	1,565
Commission	<b>1,256</b>	3,207
Promotion costs	<b>538</b>	1,041
Real estate tax, stamp duty and other taxes	<b>103</b>	404
Other expenses (*)	<b>18,150</b>	18,699
	<b>126,269</b>	161,680

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

## Notes to the Interim Condensed Consolidated Financial Information

### 10 Finance income – net

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Finance income:		
– Interest income	5,765	3,394
Finance expenses:		
– Interest expense on loans and provisions for legal claims	(1,761)	(1,746)
– Interest expense on leases	(11)	(25)
– Provisions: unwinding of discounts (Note 24)	–	(334)
Amount capitalised	337	–
Finance expenses expensed	(1,435)	(2,105)
Finance income – net	4,330	1,289

### 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 (“Dongxing Software”): from 2019 to 2021, Dongxing Energy Technology Limited and Dongxing Intelligence Instrument Limited: from 2018 to 2020).

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Current income tax	4,631	9,246
Deferred income tax	(994)	1,023
Total income tax expenses	3,637	10,269

## Notes to the Interim Condensed Consolidated Financial Information

### 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 during the six months ended 30 June 2020. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The fully diluted earnings per share for the six months ended 30 June 2020 (six months ended 30 June 2019: same) is the same as the basic earnings per share as there is no dilutive potential share during the six months ended 30 June 2020 (six months ended 30 June 2019: same).

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
Profit attributable to the equity holders of the Company (RMB' 000)	28,166	63,369
Weighted average number of shares in issue (in thousands)	69,791	69,408
Basic and diluted earnings per share (RMB)	0.40	0.91

### 13 Dividends

The 2019 final dividend of RMB0.6 per ordinary share, totaling RMB41,875,000, was approved by the shareholders at the annual general meeting held on 10 June 2020 and was paid on July 2020.

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

## Notes to the Interim Condensed Consolidated Financial Information

### 14 Land use rights, Property, plant and equipment, Intangible assets and Right-of-use assets

	Land use rights RMB' 000	Property, plant and equipment RMB' 000	Intangible assets RMB' 000	Right- of-use assets RMB' 000
<b>At 31 December 2019 (Audited)</b>				
Cost	7,830	173,897	1,318	1,205
Accumulated depreciation/amortisation	(1,932)	(102,330)	(1,318)	(851)
<b>Net book amount</b>	<b>5,898</b>	<b>71,567</b>	<b>–</b>	<b>354</b>
<b>Six months ended 30 June 2020 (Unaudited)</b>				
Opening net book amount	<b>5,898</b>	<b>71,567</b>	<b>–</b>	<b>354</b>
Additions	<b>11,080</b>	<b>4,073</b>	<b>238</b>	<b>1,743</b>
Disposals	<b>–</b>	<b>(27)</b>	<b>–</b>	<b>–</b>
Depreciation/amortisation charges (Note 9)	<b>(97)</b>	<b>(5,802)</b>	<b>(24)</b>	<b>(427)</b>
<b>Closing net book amount</b>	<b>16,881</b>	<b>69,811</b>	<b>214</b>	<b>1,670</b>
<b>At 30 June 2020 (Unaudited)</b>				
Cost	<b>18,910</b>	<b>177,456</b>	<b>1,556</b>	<b>2,948</b>
Accumulated depreciation/amortisation	<b>(2,029)</b>	<b>(107,645)</b>	<b>(1,342)</b>	<b>(1,278)</b>
<b>Net book amount</b>	<b>16,881</b>	<b>69,811</b>	<b>214</b>	<b>1,670</b>

## Notes to the Interim Condensed Consolidated Financial Information

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

	As at 30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Trade receivables – third parties	426,921	454,793
Less: Loss allowance	(54,864)	(50,101)
Trade receivables – net	372,057	404,692
Notes receivable	30,473	60,441
Prepayments	12,085	18,091
Interest receivable	5,047	5,384
Deposits for potential investments (*)	53,145	–
Other financial assets at amortised cost	34,755	35,622
Less: Loss allowance	(115)	(106)
Other financial assets at amortised cost- net	34,640	35,516
	<b>507,447</b>	524,124

\* In April 2020, the Group entered into letters of intent with five third-party companies (the “Target Companies”), respectively, under which the Group intends to acquire equity interests in the Target Companies ranging from 10% to 30%. According to the letters of intent, the Group, through Wenzhou Fangxuan Corporate Management LLP (“Fangxuan”), has paid deposits with a total amount of RMB53,145,000 to the Target Companies in order to carry out due diligence work on the Target Companies. The deposits paid will be converted into capital contribution to the Target Companies if the Group decides to acquire their equity interests. If the Group decides not to invest in the Target Companies after the due diligence, the deposits shall be returned to the Group. Due diligence work has not been completed as of 30 June 2020.

To further safeguard the credit security of the deposits paid, the Company has entered into a letter of guarantee with China Minsheng Bank, Wenzhou Branch (the “Bank”) on 21 August 2020, for which the Bank provides guarantee that should Fangxuan fail to repay any of the due diligence deposits of the Target Companies to the Company on the due date of 28 February 2021, the Bank will be responsible to repay the amount of such deposits to the Company as the guarantor upon written request furnished by the Company during the guarantee period.

## Notes to the Interim Condensed Consolidated Financial Information

### 15 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 RMB.

As at 30 June 2020 and 31 December 2019, 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:

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Within 1 year	<b>328,569</b>	360,518
1 year to 2 years	<b>38,104</b>	40,471
2 years to 3 years	<b>18,712</b>	12,174
Over 3 years	<b>41,536</b>	41,630
	<b>426,921</b>	454,793

## Notes to the Interim Condensed Consolidated Financial Information

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

The closing loss allowance for trade receivables and other financial assets at amortised cost as at 30 June 2020 reconcile to the opening loss allowance of the Group was as follows:

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
At beginning of period	50,207	51,367
Increase in loss allowance recognized in profit or loss during the period	10,169	7,324
Unused amounts reversed	(5,397)	(9,140)
At end of period	54,979	49,551

### 16 Inventories

	As at	
	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Raw materials	41,092	34,103
Work-in-progress	35,583	34,677
Finished goods	62,311	58,677
Packaging materials and consumables	264	284
	139,250	127,741

## Notes to the Interim Condensed Consolidated Financial Information

### 17 Restricted cash

	As at	
	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Restricted cash pledged for notes payable	–	1,765
Restricted cash pledged for financial guarantees provided to third parties (i)	<b>32,770</b>	32,770
Others	<b>10,305</b>	10,612
	<b>43,075</b>	45,147
Less: non-current portion of restricted cash	<b>(19,270)</b>	(19,268)
	<b>23,805</b>	25,879
Non-current portion of restricted cash:		
Restricted cash pledged for financial guarantees provided to third parties (i)	<b>10,990</b>	10,990
Others	<b>8,280</b>	8,278
	<b>19,270</b>	19,268

Restricted cash is all denominated in RMB.

- (i) Due to providing financial guarantees to third parties (Note 24), bank deposits amounting to RMB21,780,000 with maturity of 5 years were pledged in 2015, and another additional bank deposit amounting to RMB10,990,000 with maturity of 3 years was pledged in 2019.

### 18 Bank deposit

On 21 January 2020, the Company has placed a deposit with a principal amount of RMB100,000,000 in Bank of Communications, Wenzhou Branch. The term of the deposit is 342 days. The annualized interest rate of the deposit is either 1.55% or 3.80% depending on the exchange rate between EUR/USD at a specified date prior to maturity of the deposit.



## Notes to the Interim Condensed Consolidated Financial Information

### 19 Cash and cash equivalents

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Audited)
Cash on hand	47	47
Cash at bank	453,034	593,232
Cash and cash equivalents	<b>453,081</b>	593,279

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

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Audited)
RMB	422,157	563,508
HK\$	5,361	5,082
EUR	10,184	9,134
US\$	15,379	15,555
	<b>453,081</b>	593,279

### 20 Share capital

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 4 January 2019. As of the date of this report, the Company has issued 17,901,167 H Shares at an offer price of HK\$15.80 per share. As at 30 June 2020, the share capital of the Company is RMB69,791,167 with 51,890,000 domestic shares and 17,901,167 H Shares in issue.

## Notes to the Interim Condensed Consolidated Financial Information

### 21 Other reserves

	<b>Capital reserves</b>
	RMB'000
<b>(Unaudited)</b>	
<b>Balance at 1 January 2019</b>	339,676
Issuance of ordinary shares	160,146
<b>Balance at 30 June 2019</b>	499,822
<b>(Unaudited)</b>	
<b>Balance at 1 January and 30 June 2020</b>	<b>499,822</b>

### 22 Trade and other payables

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
Trade payables – third parties (a)	<b>47,706</b>	58,987
Taxes payable	<b>26,642</b>	33,664
Notes payable	<b>–</b>	764
Advances from customers	<b>4,186</b>	4,543
Salaries and bonuses payable	<b>2,980</b>	725
Interests payable	<b>69</b>	79
Dividends payable	<b>42,260</b>	–
Advances from employees for sundry expenses	<b>3,607</b>	5,963
Sales service fee payable	<b>13,157</b>	32,694
Sales commission payable	<b>3,270</b>	4,319
Others	<b>10,964</b>	11,542
	<b>154,841</b>	153,280

## Notes to the Interim Condensed Consolidated Financial Information

### 22 Trade and other payables (Continued)

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

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

#### (a) Trade payables

As at 30 June 2020, the aging analysis of the trade payables based on invoice date was as follows:

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Audited)
Within 1 year	<b>43,558</b>	54,075
1 year to 2 years	<b>2,021</b>	2,487
2 years to 3 years	<b>404</b>	721
Over 3 years	<b>1,723</b>	1,704
	<b>47,706</b>	58,987

## Notes to the Interim Condensed Consolidated Financial Information

### 23 Borrowings

	As at	
	30 June 2020 RMB' 000 (Unaudited)	31 December 2019 RMB' 000 (Audited)
Short-term bank borrowings		
– Secured and guaranteed	52,400	46,900
– Secured	–	14,750
– Guaranteed	5,000	5,000
Total borrowings	57,400	66,650

As at 30 June 2020 and 31 December 2019, the weighted average effective interest rates on borrowings from banks were 4.37% and 4.45%, respectively.

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

## Notes to the Interim Condensed Consolidated Financial Information

### 24 Warranties provision and provisions for other liabilities and charges

#### (a) Warranties provision

	<b>Warranties provision</b>
	RMB' 000
<b>(Unaudited)</b>	
<b>Balance at 1 January 2019</b>	9,452
Charged to profit or loss:	
Additional provisions	2,826
Utilized during period	(3,531)
<b>Balance at 30 June 2019</b>	<b>8,747</b>
<b>(Unaudited)</b>	
<b>Balance at 1 January 2020</b>	<b>6,042</b>
Charged to profit or loss:	
Additional provisions	<b>3,711</b>
Utilized during period	<b>(3,750)</b>
<b>Balance at 30 June 2020</b>	<b>6,003</b>

Analysis of total warranties provisions:

	<b>As at</b>	
	<b>30 June 2020</b>	31 December 2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Audited)
Current	<b>6,003</b>	6,042

## Notes to the Interim Condensed Consolidated Financial Information

### 24 Warranties provision and provisions for other liabilities and charges (Continued)

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

##### (i) Provisions for financial guarantee contracts

	<b>Legal claims</b> RMB' 000
<hr/>	
<b>(Unaudited)</b>	
<b>Balance at 1 January 2019</b>	72,304
Charged to profit or loss:	
Unwinding of discount	334
Paid during period	(5,000)
<hr/>	
<b>Balance at 30 June 2019</b>	67,638
<hr/>	
<b>(Unaudited)</b>	
<b>Balance at 1 January 2020</b>	<b>61,838</b>
Paid during period	<b>(77)</b>
Reversal of guarantee losses (Note 8)	<b>(462)</b>
<hr/>	
<b>Balance at 30 June 2020</b>	<b>61,299</b>

Analysis of total provisions for financial guarantee contracts:

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Audited)
Current	<b>61,299</b>	61,838

## Notes to the Interim Condensed Consolidated Financial Information

### 24 Warranties provision and provisions for other liabilities and charges (Continued)

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

##### (i) Provisions for financial guarantee contracts (Continued)

During the years 2012 to 2014, the Company provided financial guarantees in favour of the bank borrowings granted to two companies. The repayments of the principals and/or interests of these bank borrowings were in default in 2014 and 2015, and therefore, the Company was held liable for the performance of loan contracts as the guarantor. Based on certain court decisions and the terms of the guarantee contracts, the Company recognized provisions for these financial guarantee contracts in 2014 and 2015.

During the six months ended 30 June 2020, all outstanding interest relating to one of the borrowings was repaid by the relevant guaranteed company. The Company therefore reversed the remaining guarantee losses provision relating to this borrowing amounting to RMB462,000 during the six months ended 30 June 2020.

In addition, the Company received repayment from one of the guaranteed companies in the amount of RMB3,651,000 as the Company previously paid the bank loans on behalf of the guaranteed company and the Company recognised a gain amounting to RMB3,651,000 for this recovered amount accordingly.

The reversal of provision and recognition of the recovered amount is recognized in profit or loss within 'Other gains/(losses) – net'.

## Notes to the Interim Condensed Consolidated Financial Information

### 24 Warranties provision and provisions for other liabilities and charges (Continued)

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

##### (ii) Provisions for litigation loss

	<b>Legal claims</b>
	RMB' 000
<b>(Unaudited)</b>	
<b>Balance at 1 January 2019</b>	12,915
Charged to profit or loss:	
Additional provisions	
– Litigation claims (*)	3,336
– Interest accrual on litigation claims	138
<b>Balance at 30 June 2019</b>	16,389
<b>(Unaudited)</b>	
<b>Balance at 1 January 2020</b>	<b>16,699</b>
Charged to profit or loss:	
Additional provisions	
– Interest accrual on litigation claims	<b>308</b>
<b>Balance at 30 June 2020</b>	<b>17,007</b>

Analysis of total provisions for litigation loss:

	<b>As at</b>	
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
	<b>(Unaudited)</b>	(Audited)
Current	<b>17,007</b>	16,699



## Notes to the Interim Condensed Consolidated Financial Information

### 24 Warranties provision and provisions for other liabilities and charges (Continued)

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

##### (ii) Provisions for litigation loss (Continued)

\* In April and December 2014, the board of directors of the Company passed resolutions to retrieve and transfer the shareholding held by an ex-shareholder to a number of current employees of the Company as he carried out competing business activities in breach of the Company's then articles of association. The aggregate consideration for the transfer of RMB4.3 million was received in full from the current employees and recorded under "trade and other payables – others". Payment has not been made to the ex-shareholder pending the outcome of the legal claims brought against the Company by the ex-shareholder. The amounts provided under "provisions for litigation loss" represent provisions for two legal claims brought against the Company by the ex-shareholder for the unpaid dividend, and by Shanghai Zhongde Energy (Group) Co., Ltd. ("Zhongde"), of which the ex-shareholder was a shareholder and director, for a purchase transaction in dispute. Provision has been made against these legal claims in 2017 considering the facts and circumstances and after seeking advice from legal counsel. In May 2019, a final court judgement was made by the Supreme Court of the PRC and the Company recognized an additional provision of RMB3,336,000 accordingly. In the directors' opinion, the final outcome of these legal claims will not give rise to any significant loss beyond the amounts provided as at 30 June 2020.

### 25 Significant related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operation decisions.

#### (a) Significant related party transactions

##### (i) Key management compensation

	Six months ended 30 June	
	2020 RMB' 000 (Unaudited)	2019 RMB' 000 (Unaudited)
Short-term employee benefits		
– Wages, salaries and bonuses	1,940	1,890
– Pension, housing fund, medical insurance and other social insurance	88	54
	2,028	1,944

## Notes to the Interim Condensed Consolidated Financial Information

### 26 Contingencies

#### (a) Contingent liabilities of the Group

Provision for legal claims has been made for the guarantees provided to third parties and legal disputes with an individual and a company. Please refer to Note 24 for details.

#### (b) Other contingencies of the Group

The Company had another legal proceeding with Zhongde related to payment of goods. According to the judgement by the relevant court, Zhongde was ordered to pay the Company RMB13,644,000 plus relevant interest and the Company was ordered to pay Zhongde RMB2,628,000 plus relevant interest. The enforcement of the judgement 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 interim condensed consolidated financial information.

## Definition and Glossary of Technical Terms

“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Audit Committee”	the audit committee of the Board
“Director(s)”	members of the Board of Directors
“Board”	the Board of Directors of the Company
“Cangyi LP”	Cangnan County Cangyi Investment Management Enterprise (LP) (蒼南縣蒼怡投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the promoters of the Company
“Changhua LP”	Cangnan County Changhua Investment Management Enterprise (LP) (蒼南縣昌華投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the promoters of the Company
“China” or “PRC” or “Peoples’ Republic of China”	the People’s Republic of China, but for the purpose of this prospectus only, excluding Hong Kong, Macau and Taiwan region
“Company”, “we” or “us”	Zhejiang Cangnan Instrument Group Company Limited
“Director(s)”	the director(s) of the Company
“Domestic Shares”	ordinary shares in the share capital of the Company, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi
“Dongxing LP”	Cangnan County Dongxing Investment Management Enterprise (LP) (蒼南縣東星投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the promoters of the Company
“East China”	mainly includes Shandong, Anhui, Jiangsu, Jiangxi, Shanghai, Zhejiang and Fujian
“flowmeter”	An instrument for measuring, storing and displaying the amount of gas passing through the flow sensor

## Definition and Glossary of Technical Terms

“gas meter”	normally diaphragm gas meter in case of gas meters relating to the Company
“Group”	the Company and its subsidiaries
“H Shares”	overseas listed foreign invested ordinary shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are to be subscribed and traded in Hong Kong dollars
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Dollars” or “HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huashi LP”	Cangnan County Huashi Investment Management Enterprise (LP) (蒼南縣華實投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the promoters of the Company
“Listing Date”	the date, on which our H Shares were listed on the Main Board of Hong Kong Stock Exchange (being 4 January 2019)
“Main Board”	the main board of the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“North China”	mainly includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia
“Northeast China”	mainly includes Liaoning and Heilongjiang

## Definition and Glossary of Technical Terms

“Northwest China”	mainly includes Xinjiang, Gansu and Ningxia
“Reporting Period”	the period from the 1 January 2020 to 30 June 2020
“RMB” or “Renminbi”	the lawful currency of the PRC
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemental or otherwise modified from time to time
“Shareholder(s)”	holder(s) of our Shares
“Shares”	the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 each, comprising Domestic Shares and H Shares
“South China”	mainly includes Hainan and Guangdong
“Southwest China”	mainly includes Sichuan and Chongqing
“subsidiary(ies)”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“substantial shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Supervisor(s)”	the member(s) of the Supervisory Committee
“Supervisory Committee”	the supervisory committee of the Company
“%”	per cent