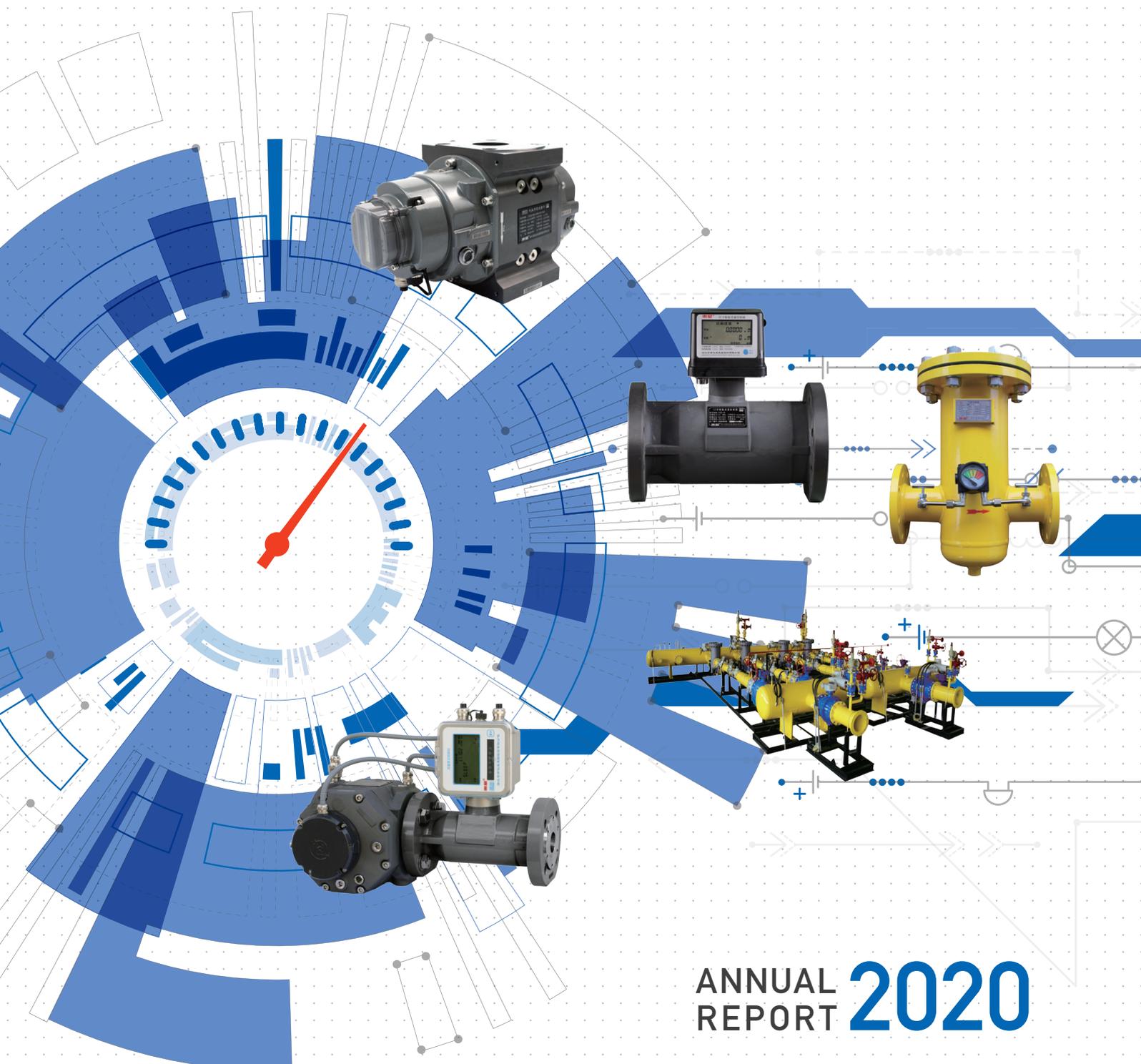




# Zhejiang Cangnan Instrument Group Company Limited 浙江蒼南儀錶集團股份有限公司

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

Stock code : 1743



ANNUAL REPORT **2020**



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## Company Profile

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

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

## Corporate Information

### LEGAL NAME OF THE COMPANY

浙江蒼南儀錶集團股份有限公司

### ENGLISH NAME OF THE COMPANY

Zhejiang Cangnan Instrument Group Company Limited

### DIRECTORS

#### Executive Directors

Mr. Hong Zuobin (*Chairman*)  
Mr. Huang Youliang (*General Manager*)  
Mr. 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

## Corporate Information

### Registered Office

Industrial Demonstrative Park  
Lingxi Town  
Cangnan County  
Zhejiang Province  
PRC

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

Industrial Demonstrative Park  
Lingxi Town  
Cangnan County  
Zhejiang Province  
PRC

### Principal Place of Business in Hong Kong

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

### Auditor

PricewaterhouseCoopers  
*Certified Public Accountants*  
Registered Public Interest Entity Auditor  
22/F, Prince's Building  
Central, Hong Kong

### Legal Advisors

#### As to Hong Kong Law

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

#### As to PRC law

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

### Principal Bankers

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

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

### H Share Registrar

Computershare Hong Kong Investor Services  
Limited  
Shops 1712-1716  
17/F, Hopewell Centre  
183 Queen's Road East  
Wan Chai  
Hong Kong

### Stock Abbreviation and Stock Code

CANGNAN INST (1743)

### Compliance Advisor

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

### Investor Enquiry

Special telephone line for investors:  
+86-577-64837701  
+86-577-64839376  
Fax: +86-577-64839306  
Website: [www.zjcnyb.com](http://www.zjcnyb.com)  
E-mail: [investor@zjcnyb.com](mailto:investor@zjcnyb.com)

## Chairman's Statement

To all the shareholders:

On behalf of the Board of Directors of the Company, I am pleased to present the annual results of the Group for the year ended 31 December 2020 to all the shareholders.

2020 was the final year for our Company to implement the 13th Five-Year Plan and the crucial year for our Company to deepen reforms, accelerate innovation, and plan for the 14th Five-Year Plan. The Group kept focusing on its core business and devoted itself to the reliability and intelligence of industrial and commercial flowmeter products, thereby winning and accumulating the trust from and good reputation among the vast number of users. On this basis, the Group held on tight the favorable opportunity for the strategic adjustment of the national energy structure and the in-depth development of the natural gas industry, and achieved good results. However, materially affected by the sudden outbreak of COVID-19, and influenced by the natural gas sources, prices, pipeline construction, and insufficient interconnection, the industry showed a “weak” development trend.

In the past year, we continued to adhere to the basic policy of “deepening reform, accelerating innovation, expanding opening-up, and implementing scientific management”, improved the Company's basic management system, enhanced the Company's governance capabilities and standards, focused on innovation-driven development, vigorously strengthened efforts for technology and product innovation, strove to cultivate new economic growth points for the Company, and promoted high-quality development.

In 2020, taking the opportunity of winning the Mayor's Quality Award, we further established a sound and efficient quality management organization, continued to innovate management methods, implemented “quality awareness” and “brand awareness” always throughout the entire process of production and operation, and continued to promote “Made in Zhejiang” and the international certification of products. At the same time, the Group won many honors such as the “Zhejiang Potential Champion Cultivation Enterprise”, “Excellent Unit for Technological Innovation”, “Advanced Group for the Creation of “Two Healthy (healthy development of non-public economy and healthy growth of non-public economic persons)” Pioneer Zones in the New Era of Wenzhou City”, and “Enterprise with Outstanding Contribution to Combating the Epidemic”.

We continued to facilitate technological reforms, strengthen R&D and accelerate the development of new products under the principle of “market demand-oriented”. We set up an enterprise research institute to further improve our independent innovation capabilities and continuously develop new technologies, new processes and new products with market prospects and competitiveness. We closely tracked the latest technological development of “Internet + Energy”, and increased the technological empowerment of our products by expanding the application of intelligence and IOT.

## Chairman's Statement

We strove to cultivate a team of management talents, and made every effort to improve the multiple capabilities of strategic decision-making, innovative thinking, operational management, and competitive awareness so as to deal with complex situations. We facilitated the reform of marketing system and mechanism, and innovative marketing thinking. While maintaining the existing market and users, we put more efforts to tap into new markets and built a harmonious relationship with customers. We used the Internet and big data technology platform to build a new service system with rapid response, strengthened the construction of service technology guidance stations and service network, and always followed the service philosophy of “Cangnan Instrument always stays by its customers and customers are always at the heart of us”, with a view to provide better, faster and quality after-sales services.

Under the epidemic, the great-changing period unseen in a century is accelerating to bring about more profound, extensive, long-term, and global changes. The industry we are engaged in is faced with many challenges such as large fluctuations in demand growth, insufficient infrastructure construction and pipeline transmission and distribution efficiency, and competition from multiple alternative energy sources. Nevertheless, we also see that, it remains unchanged that clean energy such as natural gas is becoming more and more important in the national energy structure and strategy; the trend and policy of the state to prevent and control air pollution and to continuously seek for environmental improvement will remain unchanged; and the market demand for reliable and intelligent gas flowmeters will remain unchanged. On this basis, the Company maintains strong confidence in the future sustainable development.

In 2021, it will be a long journey, and only by struggle can we achieve success! We will continue to strengthen our confidence and make every effort to improve the quality of enterprise development and enhance the ability to resist risks based on scientific and technological innovation, and strive to achieve development goals. We will reciprocate the trust of investors and all walks of life with excellent results.

## Financial Highlights

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

	For the year ended 31 December				
	2020 RMB' 000	2019 RMB' 000	2018 RMB' 000	2017 RMB' 000	2016 RMB' 000
Revenue	<b>409,682</b>	484,260	630,323	669,813	444,160
Gross profit	<b>259,252</b>	337,881	461,304	485,537	288,553
Operating profit	<b>82,346</b>	151,997	258,513	286,220	142,961
Profit for the year	<b>81,553</b>	139,980	221,415	241,683	117,883

	As at 31 December				
	2020 RMB' 000	2019 RMB' 000	2018 RMB' 000	2017 RMB' 000	2016 RMB' 000
<b>Assets</b>					
Non-current assets	<b>268,779</b>	120,201	120,396	133,044	127,939
Current assets	<b>1,145,903</b>	1,271,023	1,030,318	824,554	601,456
<b>Total assets</b>	<b>1,414,682</b>	1,391,224	1,150,714	957,598	729,395
<b>Equity and liabilities</b>					
Total equity	<b>1,084,369</b>	1,046,119	785,858	604,754	400,543
Non-current liabilities	<b>125</b>	305	485	18,188	25,500
Current liabilities	<b>330,188</b>	344,800	364,371	334,656	303,352
<b>Total liabilities</b>	<b>330,313</b>	345,105	364,856	352,844	328,852
<b>Total equity and liabilities</b>	<b>1,414,682</b>	1,391,224	1,150,714	957,598	729,395

# Management Discussion and Analysis

## I. Industry Overview

In recent years, the continuous development of China's economy, the adjustment of national energy structure, the orderly advancement of urbanization and the focus on environmental protection issues have driven demand for natural gas. Since 2020, the growth of natural gas demand has slowed down significantly due to multiple factors, such as the outbreak of COVID-19, which has exerted a significant negative impact on China's economic and social development and energy development, the increasing downward pressure of macro economy and the weakening of the "coal to gas" strategy in northern China. According to the comprehensive forecast results in China Natural Gas Development Report (2020), the natural gas consumption in China was about 320 billion cubic meters in 2020, with an increase of about 13 billion cubic meters from 2019.

The year of 2020 was the decisive year for China's Three-year Blue Sky Protection Campaign. The Central Economic Work Conference has set "implementing action plan for peaking carbon dioxide emissions and ensuring carbon neutrality" as one of the key tasks in 2021. China is increasing its national determined contribution, with an aim to peak its carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060. At present, there is a generally relaxed international supply and demand of natural gas, the domestic capacity to increase storage and production has been significantly enhanced, and the gas supply security capacity is further improved. The new industries, new models and new forms of business spawned and promoted by the pandemic has provided favorable environment for the rapid development of natural gas.

## II. Business Overview

The Company is a leading manufacturer of industrial and commercial gas flowmeters in China. Leveraging over 40 years of industry experience, we are dedicated to the manufacture and sales of a wide range of industrial and commercial gas flowmeters products, which are generally used by gas operators to measure the flow volume of gas. We engage in a comprehensive business, integrating R&D, manufacture, sales and aftersales services. In 2020, our revenue from the sales of industrial and commercial gas flowmeter products amounted to RMB340.3 million.

Through an extensive sales network covering most provinces in China, the Company mainly sells our industrial and commercial gas flowmeters to gas operators in China. Our major customers include certain leading enterprise groups of the gas industry in China. We have established long-term and stable relationships with our major customers. In particular, three leading gas conglomerates in China have consistently been among our top five customers over the past few years. As of 31 December 2020, we have maintained business relationships with these customers for 10 to 16 years. In 2020, the sales to our top five customers accounted for approximately 29.6% of our revenue in the same period.

## Management Discussion and Analysis

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

	Revenue (RMB' 000)	Cost (RMB' 000)	Gross profit (RMB' 000)
Industrial and commercial gas			
flowmeter products	340,269	105,451	234,818
Residential gas meter products	44,356	33,451	10,905
Nuclear-related products	21,831	10,738	11,093
Maintenance services	3,226	790	2,436
<b>Total</b>	<b>409,682</b>	<b>150,430</b>	<b>259,252</b>

The following table sets out a breakdown of our revenue by region in 2020 and 2019:

	2020 (RMB' 000)	2019 (RMB' 000)
<b>China</b>	<b>407,677</b>	480,847
North China	77,294	99,504
East China	166,295	204,498
Southwest China	36,755	40,239
South China	32,973	33,409
Central China	18,936	24,040
Headquarters	45,733	43,721
Northeast Region	19,833	23,746
Northwest China	9,858	11,690
<b>Overseas</b>	<b>2,005</b>	3,413
<b>Total</b>	<b>409,682</b>	484,260

## Management Discussion and Analysis

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

#### 1. Overview

The Group's revenue decreased RMB74.6 million from RMB484.3 million in 2019 to RMB409.7 million in 2020; the Group's profit amounted to RMB81.6 million in 2020, representing a decrease of RMB58.4 million as compared with the same period of 2019 of RMB140.0 million; profit attributable to the equity holders of the Company amounted to RMB80.0 million for the year ended 31 December 2020, representing a decrease of RMB56.5 million as compared with the same period of 2019 of RMB136.5 million; the cash and cash equivalents of the Group decreased by RMB89.5 million from RMB593.3 million as at 31 December 2019 to RMB503.8 million as at 31 December 2020; the Group's total assets increased by RMB23.5 million from RMB1,391.2 million as at 31 December 2019 to RMB1,414.7 million as at 31 December 2020. The total liabilities of the Group decreased by RMB14.8 million from RMB345.1 million as at 31 December 2019 to RMB330.3 million as at 31 December 2020. Return on total assets of the Group in 2020 was 5.8% compared to 10.1% in 2019.

#### 2. Operating Results

##### 2.1. Revenue

Our revenue decreased by RMB74.6 million from RMB484.3 million in 2019 to 409.7 million in 2020, which was mainly because the consumption demand in the natural gas industry in the current period has been significantly affected by the COVID-19 outbreak and the macroeconomic situation. The industrial and commercial as well as power generation gas use has been suppressed, intensifying the oversupply situation, the price of gas in major markets has fallen, and the budget for new installation and renovation of gas companies' industrial and commercial flowmeters has been substantially reduced, which has a relatively great impact on the Company's performance. Our sales of nuclear-related products increased by 0.9% from RMB21.6 million in 2019 to RMB21.8 million in 2020.

##### 2.2. Cost of sales

Our cost of sales increased by 2.7% from RMB146.4 million in 2019 to RMB150.4 million in 2020, which was mainly because product structure has been upgraded in the current period, EVC component has been upgraded, and the purchase prices of the main materials of integrated circuit and aluminum ingot have increased due to the impact of the COVID-19 outbreak, which has increased the cost of materials, resulting in an increase in the cost of sales.

## Management Discussion and Analysis

### 2.3. Gross profit

Our gross profit decreased by 23.3% from RMB337.9 million in 2019 to RMB259.3 million in 2020, and our gross profit margin decreased from 69.8% in 2019 to 63.3% in 2020, which was mainly because the decrease in sales revenue and the increase in cost of sales in the current period led to a decrease in gross profit. In addition, sales prices have been appropriately lowered in order to maintain market share as market competition is fierce, resulting in a decrease in gross profit margin.

### 2.4. Selling and distribution expenses

Our selling and distribution expenses decreased by 25.8% from RMB124.2 million in 2019 to RMB92.1 million in 2020, which was mainly because sales volume in the current period decreased and sales and distribution services to customers reduced due to the impact of the COVID-19 outbreak, resulting in a decrease in selling expenses.

### 2.5. Administrative expenses

Our administrative expenses decreased by 17.9% from RMB76.4 million in 2019 to RMB62.7 million in 2020, which was mainly due to the decrease of employee benefits expense and travel expenses.

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

For the year ended 31 December 2020, the Group's net impairment losses on financial assets amounted to RMB12.6 million, while the net reversal of impairment losses on financial assets in 2019 amounted to RMB1.2 million. The net impairment losses on financial assets in 2020 were mainly because market condition has been sluggish this year affected by the COVID-19 outbreak, and some merchants have slowed their payments, especially payment of long-age trade receivables has worsened.

### 2.7. Research and development expenses

Our research and development expenses decreased by 14.6% from RMB39.7 million in 2019 to RMB33.9 million in 2020, which was mainly because investment in some R&D projects decreased and salary of R&D personnel slightly decreased due to the impact of the COVID-19 outbreak in the current period.

## Management Discussion and Analysis

### 2.8. Other income

Our other income decreased by 55.4% from RMB45.1 million in 2019 to RMB20.1 million in 2020, which was mainly because the Company received one-off government awards and subsidies in 2019 for its successful listing, but not in this period, resulting in a significant reduction in government subsidies in the current period.

### 2.9. Other gains – net

Our other gains – net decreased by 46.9% from RMB8.1 million in 2019 to RMB4.3 million in 2020, which was mainly due to the decrease in reversal of guarantee losses in the current period.

### 2.10. Operating profit

Our operating profit decreased by 45.9% from RMB152.0 million in 2019 to RMB82.3 million in 2020, which was mainly due to decrease in revenue and government subsidies in the current period.

### 2.11. Finance income – net

Our finance income – net increased by 12.2% from RMB9.0 million in 2019 to RMB10.1 million in 2020, which was mainly due to the decrease in borrowing interest rates, which led to a decrease in interest expenses, resulting in an increase in financial income – net.

### 2.12. Income tax expenses

Our income tax expenses decreased by 48.1% from RMB21.0 million in 2019 to RMB10.9 million in 2020, which was mainly because profit before tax in the current period decreased, resulting in a decrease in income tax expenses.

### 2.13. Profit for the year

Based on the above, our profit for the year decreased by 41.7% from RMB140.0 million in 2019 to RMB81.6 million in 2020, which was mainly due to decrease in revenue and government subsidies for the current period, resulting in a decrease in profit for the year.

## 3. Cash and Cash Equivalents

As at 31 December 2020, cash and cash equivalents of the Group decreased by RMB89.5 million from RMB593.3 million as at 31 December 2019 to RMB503.8 million.

## Management Discussion and Analysis

### 4. Current Assets and Liabilities

As at 31 December 2019, we had net current assets of approximately RMB926.2 million. As at 31 December 2020, we had net current assets of RMB815.7 million, representing a decrease of 11.9% as compared to that as at 31 December 2019, which was mainly due to increase in prepayment for external investment in the current period and increase in cash payment arising from purchase of the land of Cangnan Instrument Industrial Park.

### 5. Indebtedness

Our borrowings were short-term bank borrowings primarily for our working capital purposes. As at 31 December 2020, our bank loans amounted to RMB76.8 million. We plan to settle our indebtedness primarily by using expected cash generated from operations.

Our provisions for financial guarantee contracts were guarantee for two companies' bank borrowings. As at 31 December 2020, our provisions for financial guarantee contracts amounted to RMB61.3 million.

Our provisions for litigation loss were the loss provided to the litigation claim and the relevant interest accrual. As at 31 December 2020, our provision for litigation loss amounted to RMB18.6 million.

### 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 year ended 31 December	
	2020	2019
Gearing ratio <sup>(1)</sup>	0.1	0.1
Current ratio <sup>(2)</sup>	3.5	3.7
Quick ratio <sup>(3)</sup>	3.1	3.3
Return on equity <sup>(4)</sup> (%)	7.5%	13.4%
Return on total assets <sup>(5)</sup> (%)	5.8%	10.1%
Net debt to equity ratio <sup>(6)</sup>	-0.4	-0.5
Interest coverage <sup>(7)</sup>	52.3	39.7

## Management Discussion and Analysis

### Notes:

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

## 7. Significant Investments

On 11 December 2020, under the approval of the Board of Directors, the Company entered into a limited partnership agreement with nine other partners in relation to (among other things) the investment of Wenzhou Yongrun Investment Partnership (limited partnership) (“**Wenzhou Yongrun**”) and the subscription of interests in it. According to the limited partnership agreement, the total subscribed capital of all the partners of the limited partnership is RMB204,000,000, of which the Company (as a limited partner) subscribed for a capital of RMB100,000,000. Wenzhou Yongrun will mainly engage in the investment of the government-guided science and technology innovation funds of Wenzhou, with an aim to achieve investment returns for the partners.

As of 31 December 2020, the Company did not obtain any rights or obligations of a limited partner of Wenzhou Yongrun. Due to the commercial consideration and arrangement of the Company and after further consideration of the prospect and development of the relevant market, the Company and the other Partners of the Limited Partnership agreed in writing on 17 March 2021 to terminate all the arrangements under the Limited Partnership Agreement (the “**Termination**”). For the details of Termination, please refer to the announcement dated 17 March 2021 of the Company.

Except as disclosed above, the Group had no significant investments for the year ended 31 December 2020.

## Management Discussion and Analysis

### 8. Material Acquisition and Disposal

The Group had no material acquisition or disposal for the year ended 31 December 2020.

### 9. Contingent Liabilities

#### (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.

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

The Company had another legal proceeding with a company related to payment of goods. According to the judgement by the relevant court, this company was ordered to pay the Company RMB13,644,000 plus relevant interest and the Company was ordered to pay this company RMB2,628,000 plus relevant interest. The enforcement of the judgement of this legal proceeding was suspended in June 2016 as this company 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 recognised any contingent assets related to this legal proceeding in view of the uncertainty of the outcome at this stage.

Other than the matter as mentioned above, there are no other contingencies which might have a significant impact to the financial statements for the year ended 31 December 2020.

## Management Discussion and Analysis

### 10. Employees and Remuneration Policy

As at 31 December 2020, we had 535 full-time employees in China. We enter into individual labor contracts with our employees, with terms covering, among other things, positions, salaries, working hours, annual leave and other benefits. In 2020, we incurred employee benefits expenses (including salaries, wages and bonuses, pension and housing fund, medical insurance and other social insurances) of approximately RMB77.3 million, representing approximately 18.9% of our revenue in 2020.

The Group did not have any share option scheme.

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

### 11. Pledge of Assets

The Group's borrowings are partially secured by plant and land use right. As at 31 December 2020, the total net carrying value of assets pledged was RMB7.8 million.

### 12. Liquidity and Sources of Capital

As at 31 December 2020, the Group's cash and cash equivalents decreased by 15.1% to RMB503.8 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. The main sources of the Group's business capital come from operating activities.

As at 31 December 2020, the Group's borrowings increased by 15.1% to RMB76.8 million from 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 seeks to maintain optimal level of liquidity that can meet the working capital needs while supporting a healthy level of business and its various growth strategies. In the future, the Group intends to finance its operations through cash generated from operating activities, bank and other borrowings. Other than normal bank borrowings that the Group obtained from commercial banks and potential debt financing plans, the Group does not expect to have any material external debt financing plan in the near future.

## Management Discussion and Analysis

### IV. RISK FACTORS AND RISK MANAGEMENT

#### 1. Foreign Exchange 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 2020 included foreign currencies and were denominated in HKD, USD or other foreign currencies ("**Other Foreign Currencies**"). In 2020, the Group did not have any significant foreign exchange risk from operation.

#### 2. Competitive Risks

We primarily operate in the gas measurement instrument industry in the PRC. Participants in this market include both domestic and international gas measurement instrument manufacturers. Companies participating in the competition continue to increase capital investment, improve research and development strength and expand production scale. The industry is currently in extremely fierce competition, increasing downward pressure on prices. 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.

#### 3. Expansion Risks

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

## Management Discussion and Analysis

### 4. Industry Risks

China has a high dependence on overseas supply of natural gas. Insufficient supply of natural gas may be caused due to domestic natural gas exploitation, natural gas pipeline infrastructure construction, international geopolitics and other factors, which is not conducive to the promotion of the Company's products and services.

### 5. Outbreak Risks

The sudden outbreak of COVID-19 in early 2020 caused certain negative impacts on the Chinese economy, finance, trade, and the industrial chain. 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. At present, COVID-19 is still in pandemic mode worldwide. Although China has achieved good results in the prevention and control of the pandemic, we still need to maintain normal state of pandemic prevention and control for a long time before the "national immunization" is achieved. As a result, China's demand for natural gas will be affected. Due to the above factors, COVID-19 may continue to adversely affect our business, financial position and operating results.

### 6. Investment Risks

With the continuous development and improvement of the Company's operation, in order to enhance the competitiveness in the market and launch new business opportunities business area, the Company invests foreign business from time to time. The implementation of scientific and reasonable investment behavior can promote the development of enterprises, better realize the optimal allocation of enterprise resources and production factors. Although the Company will make scientific prediction and analysis in the process of investment, or employ professional venture capital institutions to manage the investment before and after the investment. If the Company fails to control the risk of the investment project, resulting in the failure of the project operation, it may have an adverse impact on our business, financial situation and operating performance.

## Management Discussion and Analysis

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

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

China's natural gas consumption exceeded 300 billion cubic meters in 2019 and is expected to reach 320 billion cubic meters by 2020, with an increase of 127 billion cubic meters or 66% over 2015. The PRC government facilitated further utilization of oil, gas and other clean energy resources on a consistent basis in recent years, which significantly stimulated the market demand for industrial and commercial natural gas flowmeter. During the period of the 13th Five-Year Plan, the government, in tandem, issued a series of guiding documents such as Energy Production and Consumption Revolution Strategy (2016-2030), the 13th Five-Year Plan for Energy Development, Certain Opinions on Promoting the Coordinated and Stable Development of Natural Gas, as well as a series of environmental protection policy documents such as the Action Plan for the Prevention and Control of Air Pollution and the Three-Year Action Plan for Winning the Battle for the Defense of Blue Sky, which determined at the policy level to cultivate natural gas as one of the main energy sources in China. In addition, in order to promote the development of the natural gas industry in the future, it is proposed that the proportion of natural gas in the primary energy consumption structure should reach 15% by 2030. 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.

Currently, the industrial and commercial natural gas flowmeter market still faces big challenges, such as large fluctuation of market demand growth, the need for improvement in the infrastructure construction and pipeline transmission and distribution efficiency, and the intense competition from a variety of alternative energy sources, which, together with the deep impact of COVID-19, has led to uncertainties in the industry development. However, the broad prospect of natural gas as a clean energy has not changed, and the optimization and adjustment of China's energy structure for achieving the target of peaking carbon dioxide emissions and ensuring carbon neutrality are maintained. The Company still maintains strong confidence in the future development.

#### (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", give prominence to innovation-driven development, vigorously strengthen technology and product innovation, and cultivate new points of economic growth with all our strength. We will focus on the national energy development strategy, adhere to the market demand-oriented guidelines, track the development trend of smart gas, accelerate the technological innovation of information, network and intelligent products, realize the optimization and upgrading of product structure, and enhance the core competitiveness.

## Management Discussion and Analysis

### (III) Business Plan for 2021

#### 1. To constantly strengthen the technological and intellectual enabling of key products.

The Company will value knowledge and creation and invest more in research and development under the principle of mastering core technologies so as to ensure that its key products continue to keep the leading position nationwide. The Company will pay close attention to the development trend of smart gas, accelerate the technological innovation of information, network and intelligent products, and enhance the competitive advantage of the products. The Company will constantly study and explore the application of IoT, 5G and other technologies in the “smart city”, innovate the interactive mode of urban gas, improve user experience, and realize cloud storage, cloud Internet of Things and cloud security. The Company will introduce and adopt new technologies, new processes, new materials and new equipment to continuously seek for breakthrough of key technological bottleneck with an aim to continuously upgrade the product technologies and accumulate the technological reserve for development of new products.

#### 2. 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 energy structure adjustment and environmental governance, and proactively maintain and explore markets. With regard to marketing and strategic promotion, we will embed big data and cloud computing to guide data and cloud service demands, realize scientific allocation of internal resources and full sharing of external resources, and realize intelligent service, so that users’ demands can be mined, identified and met efficiently, accurately and in a timely manner. We will strengthen product sales, technical support and after-sales service, deeply explore the value contained in customer data, enhance user stickiness, and promote the in-depth development of big data to optimize our business model. Focusing on greater regional marketing, the Company will consolidate and use the resources to coordinate and collaborate the development of the entire regional market.

## Management Discussion and Analysis

### 3. To actively promote intelligent manufacturing and build smart plants.

We will focus on the key link of “Internet+ Manufacturing” and explore the construction of “5G+Smart Plants”, so as to effectively link all stages from orders to research and development, production and product delivery. We will actively promote the strategy of replacing human labor with machines and intelligent manufacturing to optimize cost, efficiency and energy consumption. We will actively promote the construction of intelligent gas flowmeter product transformation and upgrading projects, and promote the deep integration of the new generation of information technology and existing equipment, focusing on intelligent manufacturing. We will vigorously promote intelligent management to achieve real-time interconnection of enterprises, people, equipment and products, so that products can be traced, identified, positioned and managed, and intelligent equipment and production can be realized.

### 4. To improve the enterprise management innovation capacity and promote the strategy of talent development.

We will focus on cultivating innovative thinking, with an aim to break through thinking barriers and make innovation an important element of our corporate culture. We will improve the informationization and modernization level of enterprise management, and realize the refinement of enterprise management. We will effectively promote cost reduction and efficiency improvement, and enhance the core competitiveness of the Company. We will create a favorable development environment, strengthen staff skills training at multiple levels and through multiple channels, constantly improve the quality of human resources, and promote people-oriented scientific development and innovative enterprise construction. We will actively introduce all kinds of talents according to the development strategy plan of the Company. We will, centering on building a modern enterprise, establish a talent team that meets the strategic development needs of a modern, innovation-oriented and technology-based enterprise, with a reasonable age structure, a clear hierarchy and a comprehensive professional structure, so as to form a highly intensive talent advantage in the core business areas.

## Directors, Supervisors and Senior Management

### I. EXECUTIVE DIRECTORS

**Mr. Hong Zuobin** (洪作斌先生), aged 73, is the Chairman and the executive Director of the Company. Mr. Hong was a teacher at Mazhan Secondary School in Cangnan County, Zhejiang Province from September 1970 to September 1975, and served as the Party Branch Secretary and the manager of Cangnan Meter Plant from 1977 to June 1984. Mr. Hong served as the deputy head of the Industry Bureau of Cangnan County, the deputy director, director and the Secretary of the Economic Planning Commission of Cangnan County from April 1984 to December 1990; the director and the Secretary of the Party Leadership Group of the Overseas Chinese Affairs Office of Cangnan County from December 1990 to June 1993; the director and the Secretary of the Party Leadership Group of the Urban and Rural Construction Committee of Cangnan County from June 1993 to January 1997; the Secretary of the Party Leadership Group of the Environmental Protection Bureau of Cangnan County from January 1997 to June 1999; the director and the Secretary of the Party Leadership Group of the Taiwan Affairs Office of Cangnan County from June 1999 to June 2002; a researcher of the Taiwan Affairs Office of Cangnan County from January 2002 to December 2005. Mr. Hong has served as the Chairman of the Company since May 2004.

**Mr. Huang Youliang** (黃友良先生), aged 55, is an executive Director and the general manager of the Company. Mr. Huang served as a statistical clerk of the production division and an officer, the deputy director and director of the factory office of our Company from August 1984 to November 2000, and was appointed as deputy factory manager from November 2000 to May 2001, and was promoted to the executive vice factory manager from May 2001 to December 2002. Mr. Huang has served as the general manager of our Company since January 2003. Mr. Huang studied at Graduate School of the Asia International Open University (Macau) from 2004 to 2006 and received a Master of Business Administration degree. Mr. Huang currently serves as an executive member of the China City Gas Association and vice president of Zhejiang Investment Promotion Association. In addition, Mr. Huang was awarded the title “National Machinery Industry Model Worker (全國機械工業勞動模範)” in 2014.

## Directors, Supervisors and Senior Management

**Mr. Jin Wensheng** (金文勝先生), aged 52, is an executive Director, the vice general manager and the CPC Committee Secretary of the Group, and the chairman of the board of directors of Dongxing Intelligent Instrument Co., Ltd., a subsidiary of the Group. Mr. Jin worked as a staff on the engineering department of the Company from January 1992 to January 1998; vice director of the technical development centre and plant manager assistant from January 1999 to December 2000; diaphragm gauge branch plant manager (vice plant manager level) from January 2004 to December 2009; executive vice factory director of the Company and diaphragm gauge branch plant manager from January 2010 to January 2012; diaphragm gauge branch plant manager from January 2012 to May 2015; manager of Zhejiang Cangnan Instrument Group Dongxing Intelligent Instrument Co., Ltd. from May 2015 to December 2019. Mr. Jin studied in Zhejiang University from September 1989 to July 1991, majoring in light chemistry and machinery, and pursued the EMBA programme (for presidents) in Shanghai Jiao Tong University from July 2010 to October 2011. Mr. Jin was granted the title of Mechanical Manufacturing Engineer by the Wenzhou Municipal Government in October 2001.

**Mr. Yin Xingjing** (殷興景先生), aged 48, is an executive Director and the deputy general manager of the Company. Mr. Yin was an officer of the technical division and the director of the No. 3 design workshop of the technical division of the Company from September 1993 to December 1999; the deputy director of the production engineering department from January 2000 to October 2000; the director of the technical department from November 2000 to May 2003; and was appointed as the chief engineer from January 2004 to January 2011. Mr. Yin has served as a deputy factory manager of the Company since January 2011. Mr. Yin majored in mechanical design and manufacture at University of Shanghai for Science and Technology from September 1993 to January 1997, and subsequently obtained a graduation certificate for the network education programme in mechanical and electrical engineering at University of Science and Technology Beijing in January 2009. In addition, Mr. Yin was awarded the title of Instrument Technical Engineer by the General Office of the Wenzhou Municipal People's Government in November 2002, and was subsequently promoted as Flow Instrument Professional Senior Engineer by the Zhejiang Province Human Resources and Social Security Department in December 2010. Mr. Yin was awarded with the National May 1 Labour Medal in 2013.

## Directors, Supervisors and Senior Management

**Mr. Zhang Shengyi** (章聖意先生), aged 53, is an executive Director and the chief engineer of the Company. Mr. Zhang joined the Company in March 1989 and worked as a worker at the instrument workshop up to December 1999; served as the deputy director of the technical development department from March 1999 to December 1999; the director of the technology development department from December 1999 to November 2000; the director of the chief engineer office from November 2000 to May 2001; assistant to the factory manager from May 2001 to August 2001; and was appointed as the deputy factory manager from August 2001 to January 2011. Mr. Zhang has served as the chief engineer and the director of the chief engineer office since January 2011. Mr. Zhang majored in computer science and technology at Southwest China Normal University from March 2003 to January 2005. In addition, Mr. Zhang was awarded with the title of Automated Instrument Engineer by Wenzhou Municipal People's Government in November 2011, and the title of "Renowned Master" of the tertiary industries of Wenzhou in 2014.

**Ms. Lin Zichan** (林姿嬋女士), aged 43, is an executive Director, the vice general manager, the secretary to the Board of the Company. Ms. Lin was an officer of the factory department office from November 2000 to May 2003; deputy head of the factory department office from May 2003 to January 2006; head of the factory department office from January 2006 to December 2008; assistant to the factory manager, and head of the factory department office from January 2009 to December 2012. Ms. Lin has served as a deputy general manager of the Company since January 2013. Ms. Lin majored in international economics and trade at Zhejiang Radio and Television University from September 1996 to June 1998 and subsequently studied an EMBA at Shanghai Jiao Tong University from May 2012 to August 2013.

**Mr. Lin Zhongzhu** (林中柱先生), aged 42, is an executive Director and the deputy general manager of the Company. Mr. Lin was an officer of the Company's technical equipment department from January 2001 to December 2002; a technician of the precision work group from January to December 2003; deputy head of the technical equipment department from January 2004 to December 2005; head of the technical equipment department from January 2006 to March 2008; the deputy chief engineer and the head of the technical equipment department from April 2008 to December 2011; and assistant to the factory manager and the head of the technical equipment department from January 2012 to December 2012. Mr. Lin has served as a deputy factory manager since January 2013. Mr. Lin majored in mechanical manufacturing and automation at Zhejiang University of Technology from September 1996 to July 2000 and obtained a bachelor's degree. In addition, Mr. Lin was awarded with the title of Mechanical Manufacturing Engineer by Wenzhou Municipal People's Government in November 2011.

## Directors, Supervisors and Senior Management

### II. NON-EXECUTIVE DIRECTORS

**Mr. Ye Xiaosen** (葉小森先生), aged 69, is a non-executive Director of the Company. Mr. Ye had been working with the Company from November 1983 to November 2011. Mr. Ye served as a salesman and assistant to the chief of the sales department from November 1983 to April 1985; deputy chief of the sales department of the Company from April 1985 to February 1988; chief of the sales department of the Company from February 1988 to May 1993; deputy plant director from May 1993 to January 1996; plant director from January 1996 to September 1998; Chairman of the Company from September 1998 to May 2004; and vice chairman of the Company from May 2004 to November 2011.

**Mr. Hou Zukuan** (侯祖寬先生), aged 69, is a non-executive Director of the Company. Mr. Hou had been working with the Company from September 1977 to July 2017. Mr. Hou served as chief of the financial section from the time when the Company started business operation to November 1984; director of the factory office from November 1984 to July 1986; secretary to the factory department from July 1986 to January 1987; deputy factory manager and executive deputy factory manager from January 1987 to February 2001; factory manager from February 2001 to December 2002; consultant to the factory manager from January 2003 to January 2013; and director of the infrastructure office of the Company from January 2013 to July 2017.

### III. INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ng Jack Ho Wan** (吳浩雲先生), aged 44, is an independent non-executive Director of the Company. Mr. Ng has over 20 years of experience in accounting, auditing, asset management and fund management. He worked in PricewaterhouseCoopers LLP, Canada from September 1997 to February 2001. Mr. Ng then worked in KPMG in Hong Kong from March 2001 to October 2012 and was an audit partner in KPMG in Hong Kong from July 2008 to October 2012, where he was responsible for overseeing audit and advisory projects in the wealth and fund management sectors both in China and Hong Kong. Mr. Ng has been the managing director of Jack H.W. Ng CPA Limited since June 2013. Mr. Ng has been appointed as an independent non-executive director of HM International Holdings Limited (a company listed on the GEM Board of the Stock Exchange, stock code: 8416) (with effect from 15 December 2016). Mr. Ng graduated from Simon Fraser University, Canada with a degree of Bachelor of Business Administration in May 2000. Mr. Ng has been a senior fellow of the Hong Kong Institute of Certified Public Accountants since May 2010 and also a chartered accountant in British Columbia, Canada since February 2001. Mr. Ng was granted the designation of financial risk manager by the Global Association of Risk Professionals and the certification of information systems auditor by ISACA in November 2004 and January 2007, respectively. In September 2007, Mr. Ng was certified as chartered financial analyst by the Chartered Financial Analyst Institute. Mr. Ng was awarded with a specialist certificate in asset management by Hong Kong Securities Institute in February 2005.

## Directors, Supervisors and Senior Management

**Mr. Wong Hak Kun** (王克勤先生), aged 64, is an independent non-executive Director of the Company. Mr. Wong once worked in Deloitte China, and has more than 36 years of experience in auditing, assurance and management. He had been a partner of Deloitte China since 1992. He served as a member on the board of directors of Deloitte China from 2000 to 2008. Before retiring in May 2017, Mr. Wong was a partner of Deloitte China in charge of national audit and assurance. Mr. Wong has been respectively appointed as an independent non-executive director of Yue Yuen Industrial (Holdings) Limited (a company listed on the Main Board of the Stock Exchange, stock code: 551) (with effect from 1 June 2019), an independent non-executive director of Lung Kee (Bermuda) Holdings Limited (a company listed on the Main Board of the Stock Exchange, stock code: 255) (with effect from 1 June 2019), an independent director of Guangzhou Automobile Group Co., Ltd. (a company listed on the Main Board of the Stock Exchange, stock code :02238 and Shanghai Stock Exchange ,stock code :601238)(with effect from 29 May 2020) and Haier Smart Home Co., Ltd. (a company listed on the Main Board of the Stock Exchange, stock code :06690, Shanghai Stock Exchange ,stock code 600690 and Frankfurt Stock Exchange ,stock code :690D) (with effect from 3 June 2020). Mr. Wong obtained a bachelor's degree in social sciences from The University of Hong Kong in November 1980. He is a member of Hong Kong Institute of Certified Public Accountants since December 1983, the Association of Chartered Certified Accountants since September 1983, and the Chartered Institute of Management Accountants since June 1990.

**Mr. Wang Jingfu** (王靖甫先生), aged 55, is an independent non-executive Director of the Company. Mr. Wang is currently the chairman and president of Zhejiang Zhengda Certified Public Accounting. Mr. Wang currently serves as the independent director of Zhemao Science & Technology Company Limited. Mr. Wang graduated from Hangzhou Business School (杭州商學院) (now Hangzhou Business College of Zhejiang Gongshang University) in 1987. He studied a continuing education and majored in accounting at Zhejiang Institute of Finance and Economics from February 2004 to January 2007. Mr. Wang served as a director of Zhejiang Institute of Certified Public Accountants, a visiting professor of Hangzhou Polytechnic, and chairman of accounting professional steering committee of Hangzhou Polytechnic. Mr. Wang currently serves as a director of Zhejiang Engineering Cost Association. Mr. Wang is qualified as senior accountant and CPA.

**Mr. Li Jing** (李靜先生), aged 54, is an independent non-executive Director of the Company. From August 1988 to July 1998, Mr. Li worked in Faculty of Laws in Hangzhou University (currently Zhejiang University). From November 1998 to the present, he has worked in L&H Law Firm. He is a founding partner of L&H Law Firm. From 23 November 2007 to 29 December 2010, Mr. Li served as the independent director of Sichuan Jinding (Group) Co., Ltd. Mr. Li graduated from the Department of Political Education of East China Normal University with a Bachelor of Law degree in July 1988. He became a CPA in China in 1996. He was admitted as a PRC qualified lawyer by Zhejiang Provincial Department of Justice (浙江省司法廳) in October 1991.

## Directors, Supervisors and Senior Management

**Mr. Su Zhongdi** (蘇中地先生), aged 64, is an independent non-executive Director of the Company. Mr. Su graduated from Zhejiang University with a bachelor's degree, majoring in fluid mechanics in January 1982, and graduated from Peking University with a Master of Science degree in 1984, majoring in fluid mechanics. Afterward, he worked as a teacher in China Jiliang University. From March 2000 to July 2003, he pursued advanced studies in Department of Mechanical Engineering of The Hong Kong Polytechnic University and obtained the degree of Doctor of Philosophy. Mr. Su had been engaged in the teaching of fluid mechanics and the research of flow metrology from 1984 to 2017. In the meantime, he had been the academic leader in fluid mechanics and the head of Fluid Detection and Simulation Research Institute in China Jiliang University. He participated in the creation of undergraduate programmes for fluid mechanics and engineering mechanics in China Jiliang University as the principal. He has directed dozens of scientific research projects, including projects of Natural Science Foundation of China, projects of the AQSIQ, projects of Natural Science Foundation of Zhejiang Province, key scientific research projects of Zhejiang Province, projects of oversea study fund, and projects entrusted by large enterprises.

### IV. SUPERVISORS

**Mr. Huang Xijun** (黃希俊先生), aged 44, is a Supervisor and the deputy director of production department of the Company. Mr. Huang worked in Cangnan Metallurgical Machinery Plant from October 1995 to October 1999. Mr. Huang joined the Company in October 1999 and served as a worker of the metalworking workshop until September 2005. Mr. Huang served as the head of the precision machinery division from October 2005 to December 2005; the deputy director of the metalworking workshop from January 2006 to December 2007; and the director of the metalworking workshop from January 2008 to March 2017. Mr. Huang has served as the deputy director of production department of the Company since March 2017. Mr. Huang obtained a graduation certificate for the network education programme in Business Administration from Shandong University in July 2014.

**Mr. Ye Sigong** (葉思共先生), aged 54, is a Supervisor of the Company. Mr. Ye served as a worker of the electrical instrument and assembly workshop of the Company from August 1989 to June 1995; the director of the electrical instrument and assembly workshop from June 1995 to January 2006; the deputy director of production department and director of the electrical instrument and assembly workshop from January 2006 to January 2007; the managing deputy factory manager of the heat metre branch from January 2007 to December 2007; and the deputy director and director of the quality department from January 2008 to December 2009. Mr. Ye has served as the director of the market services centre since January 2010. Mr. Ye obtained a high school diploma from Mazhan High School in July 1984.

## Directors, Supervisors and Senior Management

**Mr. Zhou Xiaoding** (周孝定先生), aged 54, is a Supervisor of the Company. Mr. Zhou served as a worker, section officer of the technology department and salesman of the Company from July 1984 to March 2000; and the deputy director of planning and marketing from March 2000 to December 2007. Mr. Zhou has served as the regional marketing manager in places including Chongqing, Sichuan, Guizhou and Yunnan since January 2008. From September 1984 to July 1986, Mr. Zhou took a postgraduate advancement course in textile machinery at Zhejiang Silk Institute of Technology (浙江絲綢工學院) (now Zhejiang Sci-Tech University).

**Mr. Lin Jingdian** (林景殿先生), aged 46, is a Supervisor and the deputy chief engineer of the Company. Mr. Lin served as the head of mechanical design and head of standard metrology of the Company from October 2003 to December 2010; the (head) deputy director of the technical R&D centre from February 2011 to December 2011; and the director of the technical R&D centre from January 2012 to December 2013. Mr. Lin has served as the deputy chief engineer and the director of technical R&D department since January 2014. Mr. Lin majored in mechanical design and manufacturing at Zhengzhou University of Technology from September 1995 to December 1998, and subsequently obtained a graduation certification of the network education programme in mechanical and electrical engineering at the University of Science and Technology Beijing in January 2009. Moreover, Mr. Lin was awarded the title of Senior Flowmeter Engineer by Zhejiang Province Human Resources and Social Security Department in December 2011, and was subsequently promoted to Professorate Senior Flowmeter Engineer in December 2016. Meanwhile, Mr. Lin is currently a part-time off-campus postgraduate tutor of instrument science and technology at China Jiliang University.

**Mr. Liu Jie** (劉傑先生), aged 43, is a Supervisor of the Company. He is the managing deputy manager of Zhejiang Cangnan Instrument Group Dongxing Energy Technology Co., Ltd., a subsidiary of the Group. Mr. Liu served as an employee of the Company's power supply and distribution workshop from May 1999 to February 2004; director of the power supply and distribution workshop from February 2004 to January 2008; deputy director of process equipment department from January 2008 to April 2011; deputy factory manager of machinery manufacturing branch from April 2011 to September 2014; managing deputy factory manager of Dongxing precision casting branch from September 2014 to January 2016; deputy director of production department from January 2016 to September 2016; director of process equipment department from September 2016 to May 2017; and the managing deputy manager of Dongxing Energy Technology Co., Ltd. since May 2017.

## Directors, Supervisors and Senior Management

### V. SENIOR MANAGEMENT

**Mr. Huang Youliang** (黃友良先生), aged 55, is an executive Director and the general manager of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. Yin Xingjing** (殷興景先生), aged 48, is an executive Director and the vice general manager of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. Zhang Shengyi** (章聖意先生), aged 53, is an executive Director and chief engineer of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. Fan Zefeng** (范則鋒先生), aged 55, is the deputy general manager of the Company. Mr. Fan served as a worker of the metalworking workshop from June 1984 to March 1999; the director of quality control from March 1999 to December 1999; the deputy director of quality control department from December 1999 to May 2001; director of quality control department from June 2001 to December 2003; and the plant manager assistant and director of production department from January 2004 to December 2004. He has been the deputy general manager of the Company since January 2005.

**Ms. Lin Zichan** (林姿嬋女士), aged 43, is an executive Director, the vice general manager, the secretary to the Board of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. Lin Zhongzhu** (林中柱先生), aged 42, is an executive Director and vice general manager of the Company. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

## Directors, Supervisors and Senior Management

**Mr. Jin Wensheng** (金文勝先生), aged 52, is an executive Director, the vice general manager and the CPC Committee Secretary of the Group. For the biographical details, please refer to the paragraph headed “Executive Directors” in this section.

**Mr. Xie Shangpeng** (謝尚鵬先生), age 47, is the manager of Dongxing Energy Technology Co., Ltd., a subsidiary of the Group. Mr. Xie worked as a staff of the engineering department of the Company from September 1991 to December 1993; deputy chief engineer and director of technical R&D centre from June 2002 to April 2012; vice plant manager and manufacturing branch manager from April 2012 to April 2015; and manager of Zhejiang Dongxing Energy Technology Co., Ltd. from May 2015 to present. Mr. Xie obtained a college diploma in Computer Application from China Jiliang Institute (Correspondence) in July 2014, and subsequently studied an EMBA at Shanghai Jiao Tong University from May 2012 to August 2013. Mr. Xie was granted the title of Chemical Machinery Engineer by the Wenzhou Municipal Government in November 2002.

**Mr. Zhou Chongyin** (周崇銀先生), aged 39, is the deputy general manager of the Company. Mr. Zhou was a member of External Affairs Department of our Company from April 2004 to April 2006; assistant to the director of External Affairs Department from April 2006 to January 2007; deputy Director of External Affairs Department from January 2007 to February 2011; director of External Affairs Department from February 2011 to February 2016; assistant to the general manager and director of External Affairs Department of the Company from February 2016 to June 2020 and he was the deputy general manager of the Company since June 2020.

**Mr. Chen Qihui** (陳其慧先生), aged 43, is the financial controller of the Company. Mr. Chen worked as a staff on the information centre under the technical research and development department of the Company from August 2003 to July 2013; deputy director of the information centre from July 2013 to July 2014; and deputy head of the Company’s financial department from July 2014 to present. Mr. Chen majored in computerised accounting in Huazhong University of Science and Technology from September 1998 to July 2000, and then majored in accounting in Zhejiang University from September 2012 to December 2015. In addition, Mr. Chen was granted the professional title of informatization technology engineer by China Enterprise Confederation in October 2004.

**Ms. Huang Liyun** (黃麗雲女士), aged 69, is the head of the finance department of the Company. Ms. Huang worked in Pingyang Trademark Cotton Mill from March 1977 to August 1984. She joined the Company in September 1984 and was a clerk of the finance division of the Company until December 2000; she served as the deputy director of the finance department of the Company from December 2000 to June 2001; and she has been the head of the finance department of the Company since June 2001. Ms. Huang studied “Industrial Accounting” course in Wenzhou City Accounting Correspondence School in February 1986. Ms. Huang was awarded the title of accountant by Wenzhou Municipal People’s Government in December 1999.

## Directors' Report

The Board hereby presents to Shareholders the annual report and the audited financial statements for the year ended 31 December 2020 (the “**Financial Statements**”).

### H SHARE FULL CIRCULATION

On 8 May 2020, the Company submitted an 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 into H shares. On 22 May 2020, the CSRC accepted the Company's application for the implementation of the H-share full circulation plan.

In view of the changes in the Company's long-term development plan, the Company decided to withdraw its application for the H-share full circulation to the CSRC. On 26 November 2020, the Company received the notice of termination of examination from the CSRC regarding the withdrawal of the application for H-share full circulation.

### SHARE CAPITAL

Details of the movements in share capital of the Company for the year ended 31 December 2020 and as at 31 December 2020 are set out in note 23 to the Financial Statements.

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

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

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

### PRE-EMPTIVE RIGHTS

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

### PRINCIPAL BUSINESS

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

## Directors' Report

### RESULTS

The results of the Group for the year ended 31 December 2020 and the financial position of the Group as at 31 December 2020 are set out in the audited Financial Statements on pages 168 to 174.

A discussion and analysis of the Company's performance and business review during the year and the material factors underlying its results, financial position, the financial key performance indicators and the principal risks and uncertainties are set out in the "Management Discussion and Analysis" on pages 8 to 21 and "Financial Highlights" on page 7 of this annual report.

### PROFIT DISTRIBUTION

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

The Board has not made any recommendation on the distribution of a final dividend for the year ended 31 December 2020.

### PROPERTY, PLANT AND EQUIPMENT

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

### RESERVES

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

### TAX CONCESSION

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

### BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and its Subsidiaries as at 31 December 2020 are set out in note 27 to the Financial Statements.

## Directors' Report

**DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT**

The following table sets forth information concerning the Directors, Supervisors and senior management of the Company for the year ended 31 December 2020.

<b>Name</b>	<b>Age</b>	<b>Position Held in the Company</b>	<b>Date of Appointment/ Resignation</b>
<b>Directors</b>			
Mr. Hong Zuobin	73	Chairman, Executive Director	June 2020
Mr. Huang Youliang	55	Executive Director, General Manager	June 2020
Mr. Jin Wensheng	52	Executive Director, Vice General Manager	June 2020
Mr. Yin Xingjing	48	Executive Director, Vice General Manager	June 2020
Mr. Zhang Shengyi	53	Executive Director, Chief Engineer	June 2020
Ms. Lin Zichan	43	Executive Director, Vice General Manager, Joint Company Secretary	June 2020
Mr. Lin Zhongzhu	42	Executive Director, Vice General Manager	June 2020
Mr. Lin Jingdian	46	Executive Director	Resigned in June 2020
Mr. Ye Xiaosen	69	Non-executive Director	June 2020
Mr. Hou Zukuan	69	Non-executive Director	June 2020
Mr. Ng Jack Ho Wan	44	Independent Non-executive Director	June 2020
Mr. Wong Hak Kun	64	Independent Non-executive Director	June 2020
Mr. Wang Jingfu	55	Independent Non-executive Director	June 2020
Mr. Li Jing	54	Independent Non-executive Director	June 2020
Mr. Su Zhongdi	64	Independent Non-executive Director	June 2020
<b>Supervisors</b>			
Mr. Huang Xijun	44	Chairman of the Supervisory Committee, Employee Supervisor	June 2020
Mr. Ye Sigong	54	Supervisor	June 2020
Mr. Zhou Xiaoding	54	Supervisor	June 2020
Mr. Lin Jingdian	46	Employee Supervisor	June 2020
Mr. Liu Jie	43	Employee Supervisor	June 2020
<b>Senior Management</b>			
Mr. Fan Zefeng	55	Vice General Manager	June 2020
Mr. Xie Shangpeng	47	Vice General Manager, and Manager of Dongxing Energy	June 2020
Mr. Zhou Chongyin	39	Vice General Manager	June 2020
Mr. Chen Qihui	43	Financial Controller	June 2020
Ms. Huang Liyun	69	Head of Finance Department	June 2020

## Directors' Report

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

Biographical details of Directors, Supervisors and senior management are set out on pages 22 to 30 of this annual report.

### SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

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

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

### REMUNERATION OF DIRECTORS AND SUPERVISORS

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

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

At the end of the year 2020 or at any time during the year, there was no transactions, arrangements or contracts of significance to the Group's business in which the Company or its Subsidiaries was a party, and in which a Director or Supervisor had a material interest, either directly or indirectly, subsisted during the year or at the end of the year.

### INTERESTS OF DIRECTORS IN COMPETING BUSINESS

During the year of 2020, none of the Directors and their associates had any competing interests in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group.

## Directors' Report

**LIABILITY INSURANCE AND INDEMNITY**

Information in relation to the liability insurances provided for Directors and Supervisors of the Company and the permitted indemnity provisions can be found on page 57 in the Corporate Governance Report of this annual report.

**EQUITY-LINKED AGREEMENTS**

For the year ended 31 December 2020, the Company has not entered into any equity-linked agreement.

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

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

<b>Name of Director/ Supervisor/ Chief Executive</b>	<b>Long/Short position</b>	<b>Nature of Interest</b>	<b>Nature of Shares</b>	<b>Approximate Percentage of Shareholding in the Company</b>	<b>Approximate Percentage of Shareholding in the Domestic Shares of the Company</b>
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%

## Directors' Report

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

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES

As at 31 December 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 in the Relevant Class of Share Capital (%)	Percentage in the Total Share Capital (%)
Mr. Hong Zuobin	Domestic Shares	Legal and Beneficial Owner	9,253,400 (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%
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.

## Directors' Report

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

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

### **MANAGEMENT CONTRACTS**

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

### **CONNECTED TRANSACTIONS**

For the year ended 31 December 2020, the Company did not enter into any connected transaction. The related party transactions of the Group for the year ended 31 December 2020 were not connected transactions or continuing connected transactions under the Listing Rules.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 December 2020, the purchase from the Group's five largest suppliers in aggregate contributed 10.9% of the Group's total purchase for the year, among which, the total purchase from the largest supplier contributed 2.8% of the Group's total purchase for the year.

For the year ended 31 December 2020, the sales to the Group's five largest customers in aggregate contributed 29.6% of the Group's total sales for the year, among which, the sales to the largest customer contributed 9.1% of the Group's total sales for the year.

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

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

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

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

Please refer to the Corporate Governance Report as set out on pages 47 to 64 of this annual report for details.

## Directors' Report

### PUBLIC FLOAT

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

### MATERIAL LITIGATIONS

As at 31 December 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., in which Mr. Ye acted as a shareholder and a director, were engaged in three lawsuits for outstanding payments for goods. Currently, the three cases are on trial or under enforcement.

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

- (1) 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 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. As of 31 December 2020, the aforesaid cases are in the course of enforcement.

## Directors' Report

- (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 Shengyu Company was ordered to repay the loan and the guarantor (the Company) was held liable for joint and several liabilities. The Company has filed a lawsuit against Huazheng Company with the People's Court of Cangnan County according to the compensation amount and claimed for enforcement thereof. As of 31 December 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.

Save as disclosed above, as of 31 December 2020, the Company was not involved in any material litigation or arbitration. So far as the Directors are aware, no such litigation or claim are pending or threatened against the Company.

### SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this Report, the Group had no other significant subsequent event to be disclosed as of the date of this Report.

### CHANGE IN ACCOUNTING POLICIES

No major changes in accounting policies during the Reporting Period.

### USE OF PROCEEDS

The Company's shares have been listed on the Stock Exchange since 4 January 2019. The net proceeds from the Global Offering after deducting the underwriting fees, commissions and other expenses were approximately RMB178.05 million (the “**Net Proceeds**”).

Due to (i) the postponement of government approval on the use of land, construction project planning and construction permit; (ii) COVID-19 prevention and control policies; and (iii) other reasons as disclosed in the announcement dated 31 December 2020 of the Company, the Company has not yet used any of the Net Proceeds as at 31 December 2020. The table below sets out the utilisation of net proceeds from equity raising activities for year ended 31 December 2020.

## Directors' Report

RMB (million)

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

## Directors' Report

The following table details the expected timetable for use of the Net Proceeds (i.e. RMB178.05 million):

		RMB (million)
	<b>Expected Period</b>	<b>Estimated Amount of Expenditure</b> (approximately)
Used for intelligent gas flowmeter modification and upgrade project	1 January 2021 – 30 June 2021	23.87
	1 July 2021 – 31 December 2021	23.27
	1 January 2022 – 30 June 2022	31.29
	1 July 2022 – 31 December 2022	12.05
	1 January 2023 – 31 March 2023	7.45
Used for Internet-of-Things (IoT) gas measurement and transmission and distribution management platform	1 July 2021 – 31 December 2021	16.23
	1 January 2022 – 30 June 2022	19.38
Used for flowmeter testing and inspection laboratory project	1 July 2021 – 31 December 2021	10.50
	1 January 2022 – 30 June 2022	16.21
Used for working capital related to principal businesses and other general corporate purposes	1 January 2021 – 31 December 2022	17.80

Other than the expected timetable, there is not any material changes in the plans in relation to the use of the Net Proceeds as set out in the section headed "Future Plans and Use of Proceeds" of the Prospectus dated 19 December 2018.

## AUDIT COMMITTEE

The Audit Committee of the Company has reviewed the annual consolidated financial statements for the year ended 31 December 2020, and is of the view that the Group's consolidated financial statements for the year ended 31 December 2020 are prepared in accordance with the applicable accounting standards, laws and regulations, and appropriate disclosures have already been made.

## Directors' Report

### AUDITOR

As approved at the 2019 annual general meeting of the Company, PricewaterhouseCoopers was appointed as the auditor of the Company for the year of 2020. The enclosed Financial Statements prepared in accordance with the International Financial Reporting Standards have been audited by PricewaterhouseCoopers.

As recommended by the Audit Committee of the Company, the Board of the Company decided to propose subsequent appointment of PricewaterhouseCoopers as the auditor of the Company for the year of 2021 which is subject to approval by the shareholders at the 2020 annual general meeting of the Company.

Yours faithfully,

By order of the Board

**Zhejiang Cangnan Instrument Group  
Company Limited**

*Chairman*

**Hong Zuobin**

Wenzhou, the PRC, 25 March 2021

## Report of the Supervisory Committee

The Supervisory Committee of the Company fulfilled its duties in compliance with laws and regulations, earnestly performed the duties of the Supervisory Committee and independently exercised the powers of the Supervisory Committee in strict accordance with the provisions and requirements of the Company Law, the Articles of Association and the Rules of Procedures for the Supervisory Committee. The members of the Supervisory Committee have participated in or attended all the general meetings and Board meetings during the Reporting Period, effectively supervised the Company's business activities, financial status, major decisions, procedures for convening the general meetings, and performance of duties by Directors and senior management and well protected the shareholders' rights, the Company's interests and the legitimate rights and interests of employees to promote the standardized operation of the Company. The main works of 2020 are now reported as follows:

### I. WORK OF THE SUPERVISORY COMMITTEE

1. On 27 March 2020, the Company held the sixth meeting of the first session of the Supervisory Committee. (1) Work Report of the Supervisory Committee for the Year 2019; (2) Annual Report and Results Announcement for the Year 2019; (3) Report of Final Financial Accounts for the Year 2019; (4) Independent Auditor Report and Audited Financial Statements for the Year 2019; (5) Profit Distribution Plan for the Year 2019; (6) Report of Financial Budget for the Year 2019; (7) Recommendation on the amendment of the Articles of Association and Rules of Procedures for Supervisory Committee; (8) Proposal on Election of A New Supervisory Committee were considered and approved at the meeting.
2. On 10 June 2020, the Company held the first meeting of the second session of the Supervisory Committee, and the proposal on the election of the chairman of the Supervisory Committee of the Company was considered and approved at the meeting.
3. In 2020, the meetings of the Supervisory Committee of the Company were held in accordance with relevant provisions of the Company Law of the PRC and the Articles of Association in a legal and effective manner.
4. In 2020, under the strong support of all shareholders of the Company, the members of the Supervisory Committee attended all the Board meetings and general meetings, participated in the discussion of the Company's major decisions, and supervised the resolutions considered at the Board meetings and general meetings as well as the procedures for convening the meetings according to the law.
5. In 2020, the Supervisory Committee paid close attention to the operation and management of the Company, carefully supervised the Company's financial and capital utilization, and inspected the duty performance of the Board of Directors and the management team of the Company to ensure the standardization of the Company's operation and management practices.

## Report of the Supervisory Committee

### II. INSPECTION OPINIONS OF THE SUPERVISORY COMMITTEE

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

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

In 2020, the Supervisory Committee participated in or attended the Board meetings and general meetings of the Company, and comprehensively supervised and inspected the convening procedures of and the resolutions considered at the Board meetings and general meetings, the implementation of the resolutions of the general meetings by the Board and the performance of duties of Directors and senior management. The Supervisory Committee believed that the convening procedures and decision-making procedures of the Board meetings and general meetings of the Company strictly followed the relevant provisions of the Company Law and the Articles of Association. Members of the Board of Directors and senior management of the Company performed their duties faithfully and diligently in accordance with the relevant national laws and regulations and the relevant provisions of the Articles of Association. During the Reporting Period, no Director or senior management member of the Company was found to have violated laws, regulations and the Articles of Association or committed any act detrimental to the interests of the Company and shareholders when performing their duties and exercising their powers.

## Report of the Supervisory Committee

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

In 2020, the Supervisory Committee inspected and supervised the financial operations of the Company by listening to the report of the chief financial officer of the Company, considering the annual report of the Company and reviewing the audit report issued by the auditors. The Supervisory Committee believed that the Company had perfect financial system, sound management system and reasonable withdrawals of various kinds. The Company's financial statements was audited by PricewaterhouseCoopers with securities practice qualification, and a standard unqualified audit report was issued, considering that the Company's financial statements have been prepared in accordance with the International Financial Reporting Standards and reflect the Company's financial position as at 31 December 2020 and the operating results and cash flow for 2020.

In 2020, due to the outbreak of the COVID-19 epidemic and the declining demand of the whole natural gas market, the Company's performance declined much. The Company, under the correct leadership of the Board of Directors and the joint efforts of all the cadres and employees, was able to grasp the market opportunities, overcome difficulties and complete the annual tasks.

### III. WORK PLAN OF THE SUPERVISORY COMMITTEE FOR 2021:

In 2021, the Supervisory Committee of the Company will continue to fulfill its duties and supervise the standardized operation of the Company based on the principle of being responsible to the general meeting of shareholders and the Company's strategic objectives and in strict accordance with the responsibilities of the Supervisory Committee required by the national laws and regulations and the Articles of Association.

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

## Report of the Supervisory Committee

3. Strengthen the self-construction of the Supervisory Committee, further improve the professional quality of the members of the Supervisory Committee and strengthen the study of laws, administrative regulations, financial accounting knowledge to continuously improve the quality of supervision and inspection.
4. Although the annual tasks have been well completed in 2020, the “two controls” indicators are still high, and the enterprise must have new measures and effects on inventories and accounts receivable in key markets.

In 2021, the members of the Supervisory Committee of the Company should continuously improve their capabilities, enhance their sense of responsibility, further improve the corporate governance structure according to the requirements of relevant laws and regulations and the Articles of Association, enhance self-discipline consciousness and integrity awareness, strengthen supervision and earnestly take responsibility for protecting the rights and interests of shareholders. We will do our utmost to work together with the Board of Directors and all shareholders to promote the standardized operation of the Company and realize the sustainable and healthy development of the Company.

# Corporate Governance Report

## I. CORPORATE GOVERNANCE

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

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

## II. COMPLIANCE WITH THE CODE FOR SECURITIES TRANSACTIONS

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

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

## III. THE BOARD

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

### (I) Composition of the Board

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

## Corporate Governance Report

The biographical details of the Directors as at the date of this Report are set out on pages 22 to 27 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationship) among members of the Board. The structure of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operation and development of the Group. All Directors are aware of their joint and several responsibilities to the shareholders.

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

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

<b>Name</b>	<b>Position</b>	<b>Date of Appointment</b>
Mr. Hong Zuobin	Chairman, Executive Director	10 June 2020
Mr. Huang Youliang	Executive Director, General Manager	10 June 2020
Mr. Jin Wensheng	Executive Director, Vice General Manager	10 June 2020
Mr. Yin Xingjing	Executive Director, Vice General Manager	10 June 2020
Mr. Zhang Shengyi	Executive Director, Chief Engineer	10 June 2020
Ms. Lin Zichan	Executive Director, Vice General Manager, Joint Company Secretary	10 June 2020
Mr. Lin Zhongzhu	Executive Director, Vice General Manager	10 June 2020
Mr. Ye Xiaosen	Non-executive Directors	10 June 2020
Mr. Hou Zukuan	Non-executive Directors	10 June 2020
Mr. Ng Jack Ho Wan	INDEPENDENT NON-EXECUTIVE DIRECTORS	10 June 2020
Mr. Wong Hak Kun	INDEPENDENT NON-EXECUTIVE DIRECTORS	10 June 2020
Mr. Wang Jingfu	INDEPENDENT NON-EXECUTIVE DIRECTORS	10 June 2020
Mr. Li Jing	INDEPENDENT NON-EXECUTIVE DIRECTORS	10 June 2020
Mr. Su Zhongdi	INDEPENDENT NON-EXECUTIVE DIRECTORS	10 June 2020

## Corporate Governance Report

### (II) Board Meetings

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

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

During the Reporting Period, 11 meetings were held by the Board. The attendance record is as follows:

<b>Name</b>	<b>Position</b>	<b>Number of attendance/ meetings held</b>
Mr. Hong Zuobin	Chairman, Executive Director	11/11
Mr. Huang Youliang	Executive Director, General Manager	11/11
Mr. Jin Wensheng	Executive Director, Vice General Manager	11/11
Mr. Yin Xingjing	Executive Director, Vice General Manager	11/11
Mr. Zhang Shengyi	Executive Director, Chief Engineer	11/11
Ms. Lin Zichan	Executive Director, Vice General Manager, Joint Company Secretary	11/11
Mr. Lin Zhongzhu	Executive Director, Vice General Manager	11/11
Mr. Ye Xiaosen	Non-executive Director	11/11
Mr. Hou Zukuan	Non-executive Director	11/11
Mr. Ng Jack Ho Wan	Independent Non-executive Director	11/11
Mr. Wong Hak Kun	Independent Non-executive Director	11/11
Mr. Wang Jingfu	Independent Non-executive Director	11/11
Mr. Li Jing	Independent Non-executive Director	11/11
Mr. Su Zhongdi	Independent Non-executive Director	11/11

## Corporate Governance Report

### (III) Powers Exercised by the Board and the Management

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

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

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

### (IV) Directors' Training

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

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

### (V) Chairman and General Manager

The roles of the Chairman of the Board and General Manager (i.e. executive general manager pursuant to the relevant Listing Rules) of the Company are segregated and held by different persons to ensure their respective independence of responsibilities, accountability and the balance of power and authority between them. During the Reporting Period, Mr. Hong Zuobin acted as the Chairman of the Board (appointed in June 2020); and Mr. Huang Youliang acted as the General Manager (appointed in June 2020). The Chairman and General Manager do not have any relationships (including financial, business, family or other material or connected relationship). Articles of Association clearly defines the division of duties between the Chairman and the General Manager.

## Corporate Governance Report

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

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

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

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

### (VII) Board Diversity Policy

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

## Corporate Governance Report

### (VIII) Remuneration of Directors, Supervisors and Senior Management

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

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

### (IX) Corporate governance functions

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

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

## Corporate Governance Report

### IV. BOARD COMMITTEES

There are three Board committees, namely the Nomination Committee, Audit Committee and Remuneration Committee.

#### (I) Nomination Committee

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

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

During the Reporting Period, 1 meeting was held by the Nomination Committee. The attendance record is as follows:

<b>Name</b>	<b>Number of attendance/meetings held</b>
Mr. Hong Zuobin	1/1
Mr. Li Jing	1/1
Mr. Su Zhongdi	1/1
Mr. Ye Xiaosen	1/1
Mr. Wang Jingfu	1/1

## Corporate Governance Report

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

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

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

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

### (II) Audit Committee

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

## Corporate Governance Report

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

During the Reporting Period, 3 meetings were held by the Audit Committee. The attendance record is as follows:

<b>Name</b>	<b>Number of attendance/meetings held</b>
Mr. Wong Hak Kun	3/3
Mr. Ng Jack Ho Wan	3/3
Mr. Su Zhongdi	3/3
Mr. Wang Jingfu	3/3
Mr. Hou Zukuan	3/3

### (III) Remuneration Committee

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

## Corporate Governance Report

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

From the Listing Date to the date of this Report, the Remuneration Committee held a total of 1 meeting. The attendance record is as follows:

<u>Name</u>	<u>Number of attendance/meetings held</u>
Mr. Su Zhongdi	1/1
Ms. Lin Zichan	1/1
Mr. Yin Xingjing	1/1
Mr. Wong Hak Kun	1/1
Mr. Ng Jack Ho Wan	1/1

## V. SUPERVISORY COMMITTEE

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

## VI. AUDITOR AND REMUNERATION

PricewaterhouseCoopers was appointed as auditor for the Financial Statements prepared in accordance with the International Financial Reporting Standards for the year ended 31 December 2020.

During the Reporting Period, the remuneration payable by the Company to the auditor for the above audit services was RMB4.5 million. In addition, during the Reporting Period the remuneration payable by the Company to the auditor for the above non-audit services was RMB1.35 million.

## Corporate Governance Report

The responsibility of PricewaterhouseCoopers, as the Company's external auditor to the Financial Statements, is set out in the pages 165 to 167 in this annual report. The Board concur with the Audit Committee in respect of the matters relating to the selection, appointment, resignation and removal of the external auditor.

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

The Board acknowledges its responsibility for preparing the Financial Statements of the Group for the year ended 31 December 2020. The Company's accounts are prepared in accordance with all relevant statutory requirements and appropriate accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable; and the accounts are prepared on a going concern basis. The Board is responsible for presenting a clear and understandable assessment of annual and interim reports, inside information and other disclosures required under the Listing Rules and other regulatory requirements. The management has provided such explanation and information to the Board as necessary to enable the Board to make an informed assessment of the financial information and position of the Group put forward to the Board for approval.

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

### VIII. JOINT COMPANY SECRETARIES

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

### IX. SHAREHOLDERS' RIGHTS

#### (I) Procedures for Shareholders to Convene an Extraordinary General Meeting

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

## Corporate Governance Report

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

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

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

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

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

## Corporate Governance Report

### (II) Procedures for Directing Shareholders' Enquiries to The Board

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

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

Contact details are as follows:

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

Fax: +86-577-64839306

Email: investor@zjcnyb.com

### (III) Procedures for Putting Forward Proposals at A General Meeting

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

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

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

## Corporate Governance Report

### X. GENERAL MEETING

During the Reporting Period, the Company convened one general meeting. The attendance record is as follows:

<b>Name</b>	<b>Position</b>	<b>Number of attendance/ meetings held</b>
Mr. Hong Zuobin	Chairman, Executive Director	1/1
Mr. Huang Youliang	Executive Director, General Manager	1/1
Mr. Jin Wensheng	Executive Director, Vice General Manager	1/1
Mr. Yin Xingjing	Executive Director, Vice General Manager	1/1
Mr. Zhang Shengyi	Executive Director, Chief Engineer	1/1
Ms. Lin Zichan	Executive Director, Vice General Manager, Joint Company Secretary	1/1
Mr. Lin Zhongzhu	Executive Director, Vice General Manager	1/1
Mr. Ye Xiaosen	Non-executive Director	1/1
Mr. Hou Zukuan	Non-executive Director	1/1
Mr. Ng Jack Ho Wan	Independent Non-executive Director	1/1
Mr. Wong Hak Kun	Independent Non-executive Director	1/1
Mr. Wang Jingfu	Independent Non-executive Director	1/1
Mr. Li Jing	Independent Non-executive Director	1/1
Mr. Su Zhongdi	Independent Non-executive Director	1/1

### XI. COMMUNICATIONS WITH SHAREHOLDERS

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

The Board welcomes shareholders' views and encourages them to attend the annual general meeting to communicate any concerns they might have with the Board or the management. Chairman of the Board and the chairmen of all committees usually attend the annual general meeting and other general meetings to address shareholders' queries. The Board of Directors will be arranged to answer questions from shareholders at the Company's 2020 Annual General Meeting.

## Corporate Governance Report

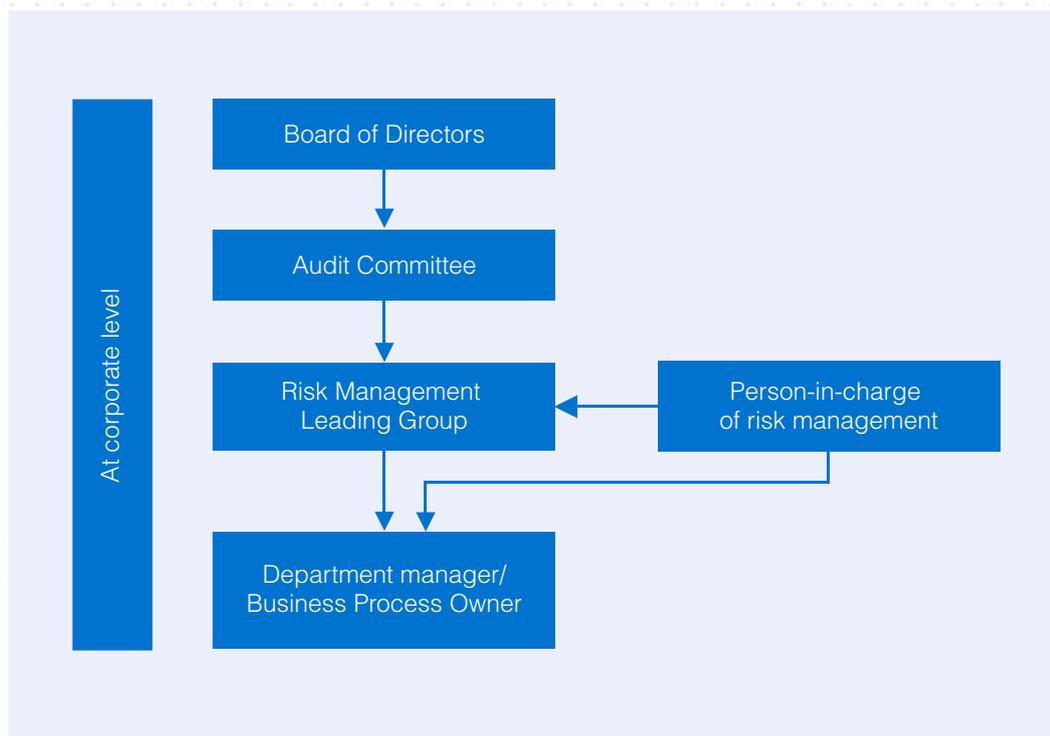
### XII. RISK MANAGEMENT AND INTERNAL CONTROL

The Board believes that a sound risk management and internal control system is crucial for the achievement of the strategical goals of the Company. The Board is responsible for the establishment, maintenance and review of the effectiveness of the Company's risk management and internal control system. The management is responsible for the design and implementation of the Company's internal control system to manage risk. A good internal control system is designed to manage rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable rather than absolute assurance.

#### (I) Risk Management

##### Risk management structure

The organizational structure of risk management consists of the Board of Directors, its Audit Committee, Risk Management Leading Group and risk management Executives. The Company also defines the direct management responsibilities of risk management and the routes for reporting risk information at all levels.



## Corporate Governance Report

### Risk management procedure

The Company has established a Risk Management Manual, which defines the structure, duties and process of risk management. The Company organizes the management of each business unit to implement a risk management process for each financial year. Through a systematic risk management process, the nature and extent of the risks to which the Company is exposed are determined and the main risks to which the Company is exposed are identified. The Company prioritizes the risks according to their probability of occurrence and the severity of their impacts on the Company's business. Then we develop risk response measures to maintain the risk at an acceptable level.

### Risk management assessment

The Company conducted an enterprise risk management assessment for the year ended December 31, 2020 in accordance with the risk management process to evaluate the risks associated with the Company's business. Compiling an enterprise risk management assessment report covering: (i) the results of the enterprise risk assessment; and (ii) the recommended measures to manage the risks. Submitting the enterprise risk management assessment report endorsed by the Audit Committee to the Board for review.

## (II) Internal Control

The Board evaluates the effectiveness of the internal control system through the Audit Committee. The Company has set up an internal control system to reasonably protect its assets, make sure all transactions are authorized by the management, and prevent unauthorized misappropriation or disposal of assets. This system is designed to ensure that the accounting records are accurate enough for the preparation of operating financial information and the financial information for disclosure.

For key business processes such as sales and collection, procurement and payment, and inventory and R&D, the Company has designed control measures to deal with risks, and monitored the effectiveness of their implementation to achieve the control objectives of the measures taken in the internal control system. The discovered absence of internal control will be dealt with by means of ordered rectification after internal management communication, while significant control procedures or system deficiencies found will be directly reported to the Board for communication and discussion.

Since 2019 the Company has engaged an internationally leading consulting company for the majority of its internal auditing. The Company formulates and implements its annual internal audit plan in accordance with the Internal Audit Charter. For the year ended 31 December 2020, the Company's management and internal audit personnel, with the assistance of an experienced consulting team, performed updates to the Company's internal authorization system, performed independent internal control reviews of the effectiveness of key processes and management's internal control self-assessments, and reported directly to the Audit Committee.

## Corporate Governance Report

### (III) Inside Information

With respect to procedures and internal controls for the handling and publication of inside information, the Company:

- is aware of the Company's obligations under the Listing Rules and Part XIVA of the SFO to disclose as soon as reasonably practicable any information that is expected to be inside information;
- complies with the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission in 2012 in conducting the operations and business of the Company;
- includes in its code of conduct a strict prohibition on the unauthorized use of confidential information or inside information; and
- ensures that confidentiality is maintained until such inside information is properly authorized for disclosure, and makes extensive and non-exclusive disclosure to the public through channels including the Company's website and the website of the Stock Exchange, in order to achieve fair and timely disclosure of information.

In order to identify, handle and publish inside information in compliance with the SFO, the Company has implemented a number of procedures, including blackout notices, restrictions on trading of securities by relevant directors and employees, and regular reminders to directors and employees to properly comply with all policies on inside information to prevent possible improper handling of inside information within the Group.

### (IV) Effectiveness of Risk Management and Internal Control

The Board is responsible for the risk management and internal control system, as well as for reviewing the effectiveness of the system. The Board has reviewed the effectiveness of the Company's risk management and internal control system through the Audit Committee for the year ended 31 December 2020, covering the year ended 31 December 2020 and all major control aspects, including operation, finance and compliance control, taking into account the nature and changes in the severity of major risks and the Company's ability to respond to changes in its business and the external environment.

The Board has received a confirmation from the management on the effectiveness of the Company's risk management and internal control system, and is of the opinion that the system is effective and sufficient for the year ended 31 December 2020.

No significant issues affecting the shareholders of the Company and requiring attention have been found.

## Corporate Governance Report

### XIII. INVESTOR RELATIONS

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

In 2020, the Company focused more on the needs of investors and analysts, paid close attention to the important policies of the PRC gas measurement instrument industry, made timely disclosure of data and continuously improved the timeliness and completeness of data disclosure so that the public could obtain complete business data in a timely manner.

### XIV. ARTICLES OF ASSOCIATION

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

On 10 June 2020, the Company's 2019 Annual General Meeting adopted a resolution to amend the Articles of Association applicable at that time.

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

# Environmental, Social and Governance Report

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

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

### 1. Reporting period

This Report is for the period from 1 January 2020 to 31 December 2020 (hereinafter referred to as the “Reporting Period” or “This Year”), which is consistent with the financial year of the Group, and some of the contents are appropriately extended forward or backward. The Group will publish the ESG report regularly every year for public review from time to time.

### 2. Report scope

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

### 3. Basis of preparation

The Group has prepared this Report in accordance with the Environmental, Social and Governance Reporting Guide (《環境、社會及管治報告指引》) (hereinafter referred to as the “ESG Reporting Guide”) of The Stock Exchange of Hong Kong Limited (hereinafter referred to as the “Stock Exchange”). Under the principles of materiality, balance, quantitative and consistency and presenting with data and cases, the Group strives to make a sufficient and objective disclosure of the efforts in and performance of its ESG work in 2020. The content index for the ESG Reporting Guide is detailed in the last part of this Report for quick user review.

## Environmental, Social and Governance Report

Principle	Definitions	Responses from the Group
<b>Materiality</b>	The issues covered in the Report should reflect the significant impacts of the Group on the economy, environment and society, or the scope of assessments and decisions of stakeholders being affected.	Through communication with stakeholders as well as considering the Group's business nature and development, material sustainability issues are being identified.
<b>Quantitative</b>	The Report should disclose key performance indicators in a measurable manner.	The Group will disclose its key environmental and social performance indicators quantitatively where appropriate.
<b>Balance</b>	The Report should reflect fairly the overall sustainability performance of the Group.	The Group has identified the environmental, social and governance issues that have significant impact on the Group's business, including the results and challenges faced by the Group.
<b>Consistency</b>	The Group should confirm that the preparation methods of the ESG report is consistent with those used in the previous year(s), or state the revised reporting methods, or illustrate other relevant factors that will affect meaningful comparison.	The reporting scope and reporting method of the Report are substantially consistent with those in last year.

## Environmental, Social and Governance Report

### 4. Source of information

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

### 5. Description of references

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

### 6. Access to the Report

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

## Environmental, Social and Governance Report

### II. Environmental, Social and Governance

#### 1. Sustainable development concept

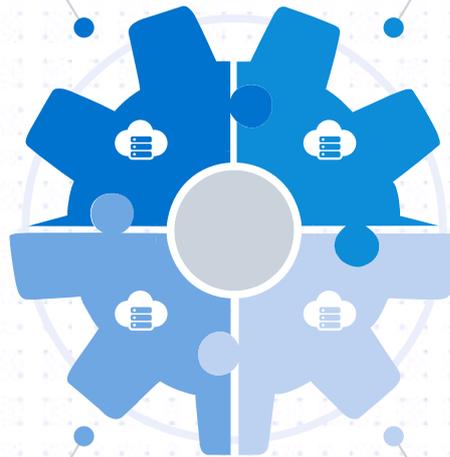
The Group adheres to the core value of “maximizing social contributions” and integrates the concept of sustainable development into its corporate culture, always taking the best interests of society as the premise in its corporate development planning, striving to promote development through innovation, providing quality products and services, assuming corporate social responsibility and conserving the ecological environment, and is committed to becoming a healthy enterprise with leading economic benefits, beneficial to social development and eco-friendly.

#### Core value

Maximizing social contributions

#### Corporate mission

People-oriented, scientific development, and creating national industry



#### Team concept

Gathering crowd wisdom and creating brilliant achievements

#### Service aim

Cangnan Instrument always stays by its customers and customers are always at the heart of us

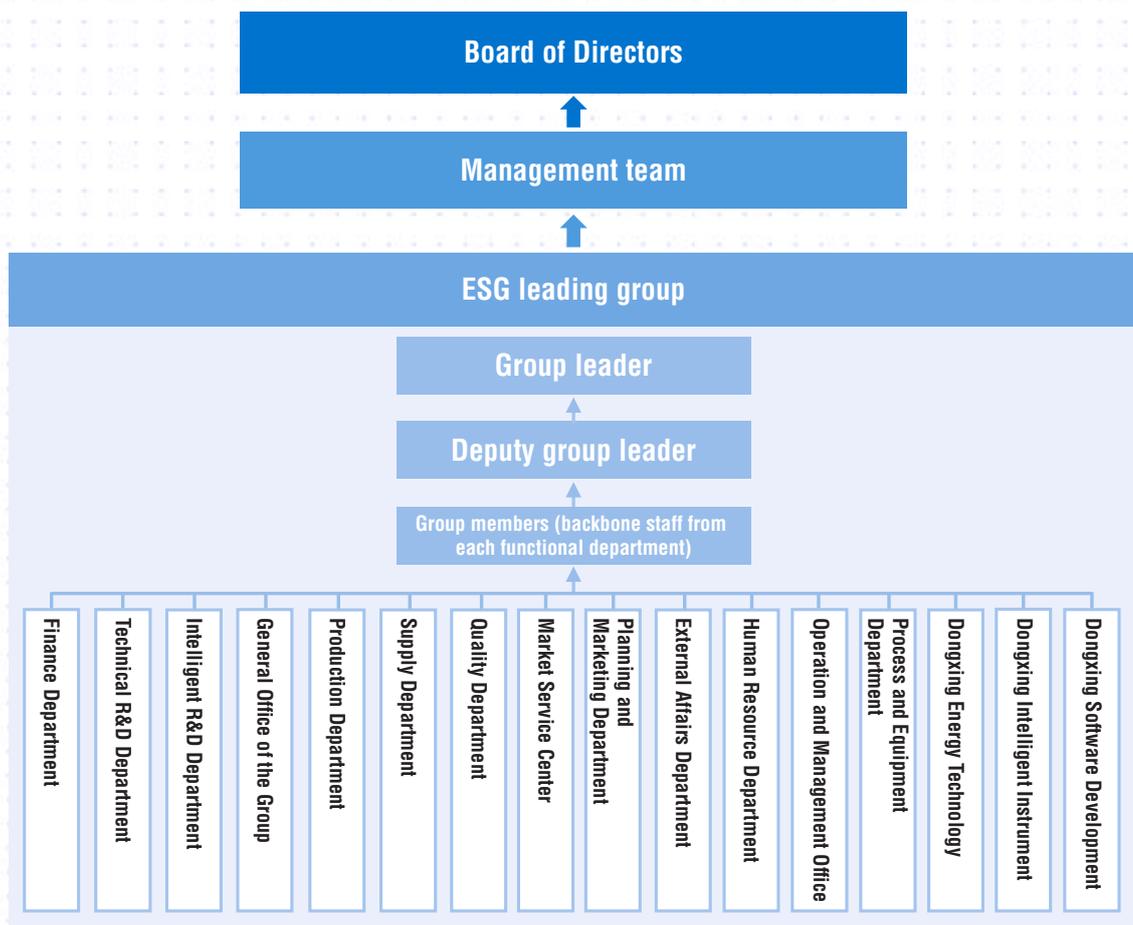
## Environmental, Social and Governance Report

### 2. ESG Governance

The Board of the Group is fully responsible for the Group's ESG strategies and reporting, and for reviewing and officially signing the annual ESG report. Through shareholder's meetings, Board meetings and other channels, the Board knows and discusses ESG related work, and gives instructions on relevant issues depending on the specific circumstances. The Group's management team is responsible for promoting the implementation of environmental, social and governance strategies, reviewing the performance of the Group's ESG management and reporting to the Board.

At the same time, the Group established an ESG leading group in 2019 to promote the implementation of management concepts and control measures in each of the ESG field. Specifically, the ESG leading group is responsible for closely combining ESG work with business development, identifying and managing ESG related risks in advance, doing the ESG work of which it is in charge and constantly innovating and optimizing daily operation with the ESG work as an opportunity. The Group, in virtue of the preparation and disclosure of this Report, strengthens communication with stakeholders to continuously improve its ESG governance capabilities.

The Group's ESG governance structure is as follows:



## Environmental, Social and Governance Report

At the end of 2019, the Hong Kong Stock Exchange revised the Environmental, Social and Governance Reporting Guide to further emphasize the importance for the board of directors of listed companies to involve in ESG management. In order to continuously strengthen the substantive management of ESG, in December 2020, the Group invited an external professional institution to conduct training on the latest policies of the ESG Reporting Guide for the Group. The participants included members of the Board of Directors, members of the ESG leading group, Group members and backbone staff from each functional department, with an effort to enhance the understanding of the latest development of ESG policies of the Board of Directors and management personnel, improve ESG management regulations and management measures, and enhance the management level of ESG issues.



Training session on the new ESG reporting regulations

### 3. Annual Performance

The Group's major environmental and social performance for 2020 is as follows:

<b>Key Environmental Performance Indicators</b> <b>Energy consumption</b> 13.41 kWh per piece  <b>Greenhouse gas emission</b> 0.01 tonnes of CO <sub>2</sub> equivalent per piece  <b>Unit water consumption</b> 0.14 m <sup>3</sup> per piece	<b>Key Social Performance Indicators</b> <b>Percentage of female employees</b> 21%  <b>Number of work related fatalities</b> 0  <b>Average training hours per employee</b> 17.48 hours per staff	<b>Recall percentage of products due to health or safety factors</b> 0  <b>Overall satisfaction level of complaints processing</b> 100%
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## Environmental, Social and Governance Report

### 4. Honors and Awards

The Group has been awarded as National advanced enterprise, National model harmonious labor relations enterprise, National factory affairs open democratic management demonstration unit, Certificate of high-tech enterprise, China's top ten enterprises in gas metering instrument industry, Zhejiang outstanding contribution enterprise, Zhejiang green enterprise, National secondary safety production standardization machinery manufacturing enterprise, AAA credit enterprise, Cangnan County model industrial enterprise and taxpayer. The trademark of "Dongxing" is listed as a famous trademark of Zhejiang Province, and the overall technology of the enterprise products is in the leading position in China and abroad. Many products are listed as "National key new product projects, National torch plan projects, National innovation fund projects, the first set of product projects in key areas of equipment manufacturing industry in Zhejiang Province, Zhejiang famous brand products and Zhejiang high-tech products", etc.

In 2020, the Group received the following honors and awards:

No.	Award Name	Awarding Authority	Award time
1	Zhejiang Province "Invisible Champion" Cultivating Enterprise	Economy and Information Technology Department of Zhejiang	2020
2	2020 Cangnan County Quality Management Innovation Award Certificate (Dongxing Intelligent)	Cangnan County People's Government	January 2020
3	Wenzhou Mayor Quality Award	Wenzhou Municipal People's Government	January 2020
4	Advanced Unit of Wenzhou "two healthy" pioneer area in the new era	Wenzhou Municipal Committee and Wenzhou Municipal Government	February 2020
5	Anti-epidemic donation certificate of RMB600,000	Cangnan County Charity Federation (蒼南縣慈善總會)	February 2020
6	2019 Cangnan County Top 100 Enterprises (Cangnan Instrument)	Cangnan County People's Government	April 2020
7	2019 Cangnan County Top 100 Enterprises (Dongxing Software)	Cangnan County People's Government	April 2020
8	2019 Leader of "Benefit per hectare" of Cangnan County	Cangnan County Leading Group Office to deepen the "Heroes based on output per hectare" Reform (蒼南縣深化"畝均論英雄"改革工作領導小組辦公室)	April 2020

## Environmental, Social and Governance Report

No.	Award Name	Awarding Authority	Award time
9	2019 Outstanding Unit of Science and Technology Innovation	Cangnan County People's Government	May 2020
10	President of Units of Cangnan County Association for the Protection of National Tax Payers' Rights and Interests	Cangnan County Association for the Protection of National Tax Payers' Rights and Interests	May 2020
11	2019 Lingxi Town Outstanding Contribution Enterprise	The CPC Lingxi Town Committee and the Lingxi Town People's Government	May 2020
12	2019 Advanced Unit of Safety Production and Fire Safety	The CPC Lingxi Town Committee and the Lingxi Town People's Government	May 2020
13	Outstanding Contributor to the Fight against the Epidemic	Cangnan Charity Federation	May 2020
14	Charity Star (慈善福星)	Cangnan Charity Federation	May 2020
15	AAA Bank Credit Rating Certificate (Dongxing Intelligent)	Zhejiang Huayu Credit Rating Co., Ltd	May 2020
16	Standing Director of China Gas Association (June 2020 to June 2021)	China Gas Association	June 2020
17	Member of Smart Gas Grid Committee of China Gas Association (1 August 2020 to 31 July 2021)	Smart Gas Grid Committee of China Gas Association	June 2020
18	AAA Credit Rating Certificate	Zhejiang Huayu Credit Rating Co., Ltd	June 2020
19	Vice president of Units of Cangnan County Two New Organization Party Workers Association	Cangnan County Two New Organization Party Workers Association	August 2020
20	Vice president of Units of Cangnan County Two New Organization Party Workers Association	Cangnan County Two New Organization Party Workers Association	August 2020
21	AAA Contract-observing and Trustworthy Enterprise (18 August 2020 to 18 August 2022)	Zhejiang Provincial Market Supervision Administration	August 2020
22	Second Prize of Scientific Progress Award of China Instrument and Control Society	China Instrument and Control Society	December 2020

## Environmental, Social and Governance Report

### III. Communication with Stakeholders

#### 1. Stakeholder Engagement

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

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

## Environmental, Social and Governance Report

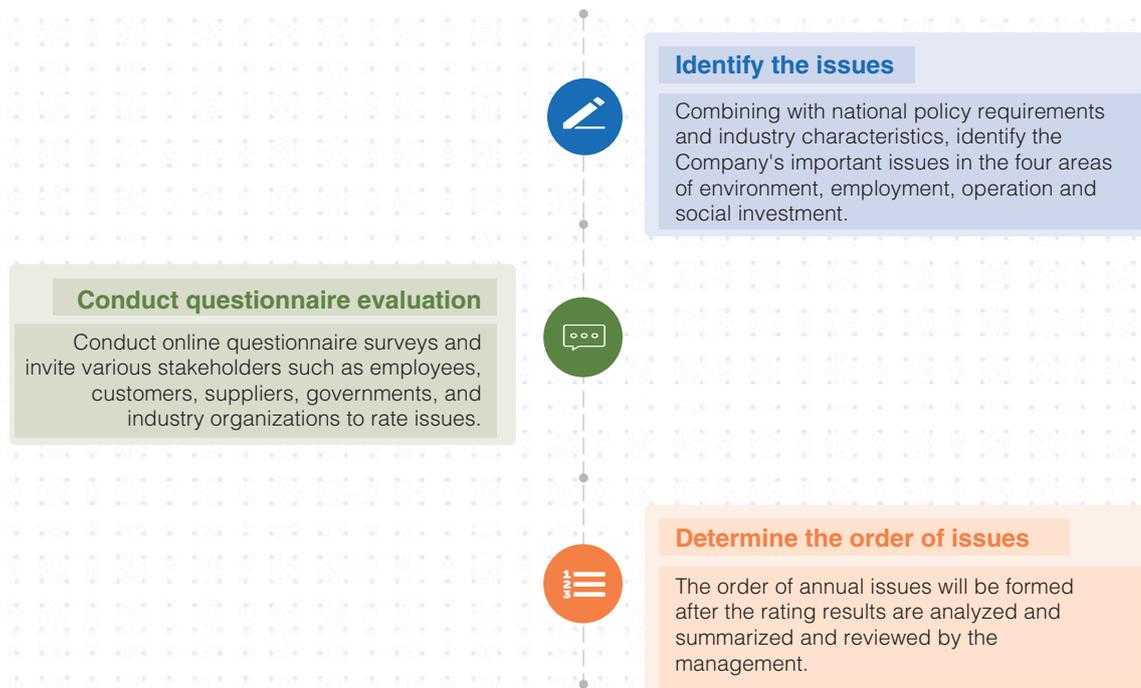
Stakeholder	Main Communication Channel	Priority Area of Attention	Response to Appeal/Expectation
<b>Government</b>	Tax information submission, Seminar/review meeting on preparing industry standards	Supervising legal compliance operations Corporate tax liability Co-establishing industry order Anti-corruption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

## Environmental, Social and Governance Report

### 2. Materiality Assessment

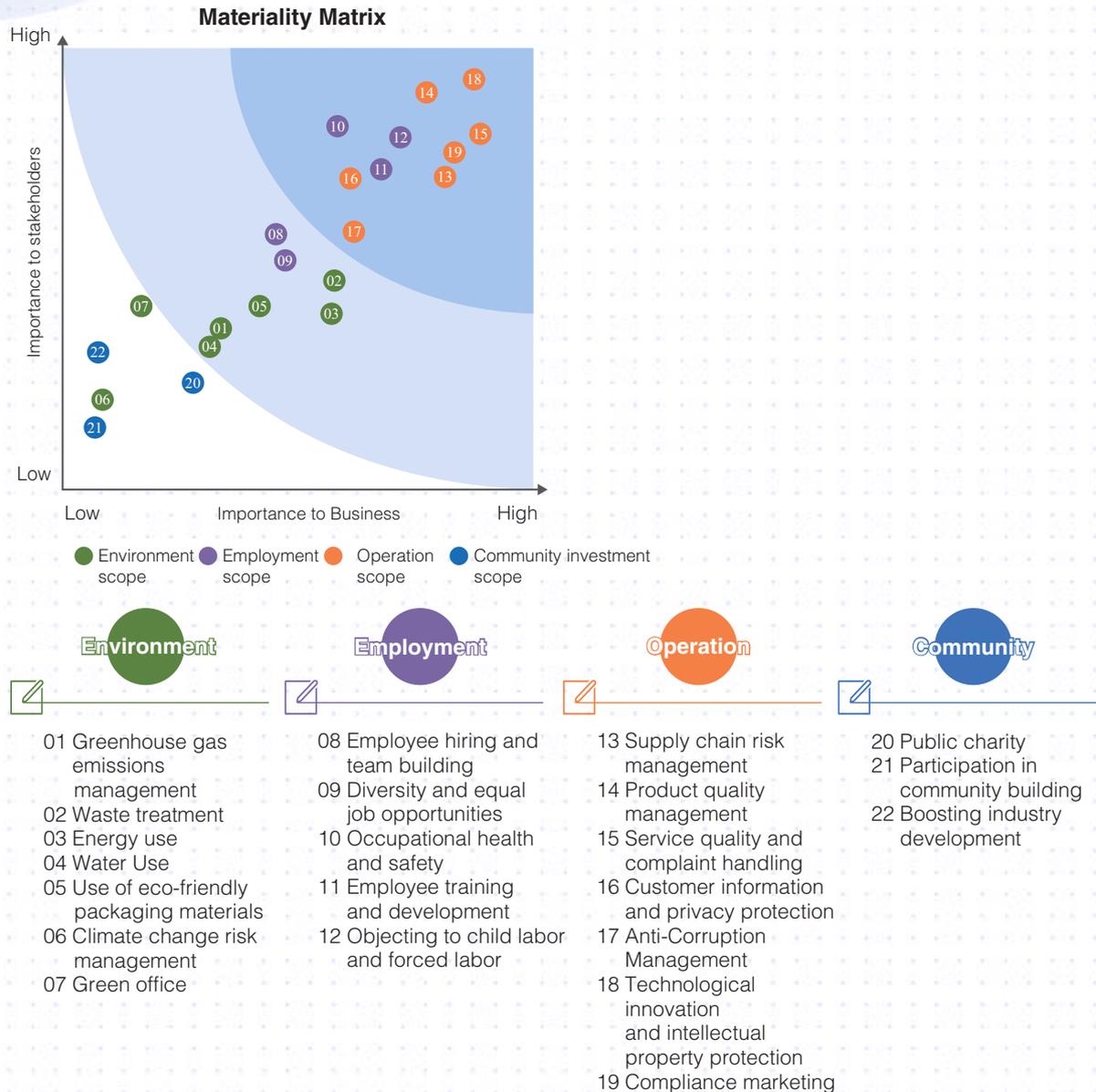
Maintaining close communication with stakeholders is an important way for the Group to achieve sustainable development. The Group maintains a multi-level and multi-channel communication mechanism with various stakeholders, actively listens to their opinions and suggestions, and constantly reviews its own operation and management on issues of concerns to stakeholders.

In order to better respond to stakeholders' requests for information disclosure, the Group has conducted a materiality assessment of environmental, social and governance issues for 2020, with the following steps:



## Environmental, Social and Governance Report

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



After assessment, the results of the materiality of ESG issues this Year were basically the same as those in the previous year, and stakeholders remained most concerned about such issues as technological innovation and intellectual property protection, product quality control, service quality and complaint handling. The Group will elaborate on the materiality of ESG issues concerned by stakeholders in the subsequent chapters of this Report and base the ESG management planning for the following year largely on the annual assessment results of the materiality of ESG issues, in an aim to continuously improve the internal ESG management system and performance and share the value created in economic, social and environmental aspects with each stakeholder.

## Environmental, Social and Governance Report

### IV. Based on Quality, Focus on Innovation

The manufacturing industry is the foundation of a rich and strong nation, and quality is the core of manufacturing development. The Group follows the applicable laws and regulations related to product health and safety, consumer rights protection, intellectual property protection and information security in the country and the place of operation, including but not limited to the Product Quality Law of the People's Republic of China 《中華人民共和國產品質量法》, the Law on the Protection of Consumers' Rights and Interests of the People's Republic of China 《中華人民共和國消費者權益保護法》, and the Regulations on Certification and Accreditation of the People's Republic of China 《中華人民共和國認證認可條例》. We adhere to fair and open competition, serve our customers with sincere faith, create products with the pursuit of excellence, and strive to build an excellent national brand in the gas instrument industry.

#### 1. Laying the Cornerstone of Quality

Product quality is the cornerstone of the long-term development of enterprises, especially in the gas meter industry, the durability, metering accuracy and safety performance of products are directly linked to the economic benefits of customers, and the quality of products is directly related to the safety of customers' personal property. With the quality policy of "providing satisfactory products and services to users is the eternal pursuit of the Group", the Group continued to strictly implement the Quality Management Rule 《質量管理制度》 and Quality Reward and Punishment Rule 《質量獎懲制度》 in 2020, further improved the product quality assurance system through practice and summary, and actively obtained the certification of quality management system and after-sales service system to ensure the achievement of quality objectives and meet the requirements of customers for product quality.

We have the following objectives for our product quality assurance system:

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

## Environmental, Social and Governance Report

### Product Quality Management Measures

The Group has established a “whole process quality management and control system” covering product development, procurement, production and after-sales, and ensures product quality through the implementation of quality control measures at all stages.



## Environmental, Social and Governance Report

### Certification Management

Inspection and testing of products is an important part of ensuring product quality. As a company with many years of experience in the gas instrument industry, the Group has accumulated industry-leading measurement management capabilities in product inspection. In January 2009, the Group passed the certification of “ISO 10012:2003 Measurement management systems – Requirements for measurement processes and measuring equipment”, and in 2019, it further obtained the “AAA Measurement Management System Certificate”, which is the highest certification standard for corporate measurement management capability in China. In the actual production process, the Group conscientiously implements and continuously improves the requirements of the management system manual and procedure documents, and sets inspection and testing standards and targets that moderately exceed industry standards for key quality control points of products, so as to standardize product inspection work and ensure the quality of products.

The Group’s products are diversified and serve the global market. In order to ensure our competitiveness in the international market and enhance customers’ confidence in product quality and safety, the Group obtains domestic professional certifications such as “Made in Zhejiang” certification and CCC certification<sup>1</sup> for mainstream products, as well as international professional certifications such as NMI laboratory certification in the Netherlands<sup>2</sup>, PED certification required by EU member states<sup>3</sup>, and PED material certification. Through the improvement of standards and management system and other management measures, we ensure the continuous validity of the certification, in order to meet customer requirements for quality and safety performance certification.

### Inspection and testing standards

The Group formulates inspection standards at four key links, namely the incoming quality control, process quality control, finished product quality control and delivery quality control, and strictly enforces the following testing standards for all products:



1 The full name of CCC certification is China Compulsory Certification, the English abbreviations is CCC.

2 NMI laboratory certification in the Netherlands is a professional metrology technology company appointed by the Dutch National Standards Laboratory to provide testing and certification for products, which is a legal requirement for certification in the Netherlands.

3 The full name of PED certification is: Pressure Equipment Directive (PED) certification. PED is a mandatory regulation issued by the EU member states to achieve consensus on the safety of pressurized equipment.

## Environmental, Social and Governance Report

### *Advanced testing equipment*

To guarantee the experimental testing capacity, the Group acquires international advanced testing equipment according to the actual product testing needs, improves the laboratory testing hardware environment, and the laboratory management standards, processes and requirements and other systems to continuously strengthen the construction of basic laboratory ability. The Group commissions inspectors from Wenzhou Institute of Metrology and Technology and Zhejiang Institute of Metrology and Technology to test laboratory equipment such as three-coordinate and temperature and humidity testing chamber every year to ensure the measurement accuracy of laboratory equipment.

The most critical quality control points for gas metering instruments are measurement accuracy and air tightness. Measurement accuracy is directly related to the economic profitability of the customer, while gas tightness of the instrument will be a matter of personal and property safety for customers and end users. The Group is equipped with the world's leading measuring instruments and equipment in these two areas to ensure the safety and efficient development of our customers.

#### Measurement accuracy

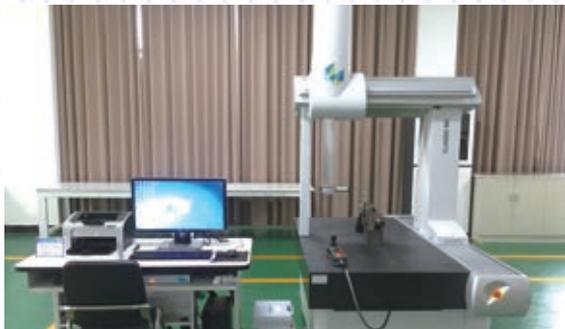


In terms of measurement accuracy, the Group has established a testing center and a flow laboratory authorized by the provincial institute, and has successively introduced Hexagon Scanning CMM, German Marl Cylindricity/Profilometer, Netherlands GFO standard meter method gas flow standard devices, Netherlands iMeter standard meter method gas flow standard devices, 0.25 large flow sonic nozzle method gas flow standard devices, gear testing center and other international first-class domestic advanced testing equipment.



#### Air tightness

The Group's air tightness testing equipment mainly uses hydraulic valve test benches (wet type) and intelligent leak detectors (dry type), which are reasonably selected according to product conditions, with high detection resolution and meet the requirements of relevant technical standards.



## Environmental, Social and Governance Report

### *Optimization of production processes*

The Group closely monitors the production process, explores room for improvement of existing product processes, and continues to optimize production processes and improve processing equipment to enhance product quality performance. Some of the process improvement measures in 2020 include:

### *2020 Process Improvements*

- When processing the synchronous gears, the boring process is added, that is, the inner holes of the synchronous gears are further processed to improve the processing accuracy, reduce the surface roughness, and correct the possible deviation of the hole axis.
- When processing the Roots wheel of LLQ gas Roots flow meter, the original method of directly pressing the finished shaft is changed to pressing the rough shaft and grinding the outer circle and cone to improve the coaxiality of the two holes of the Roots wheel.
- Realize the automatic processing of NGR02 valve body, use the indexing chuck and the robot's motorized loading and unloading construction method, realize the automatic turning processing of three faces in one clamping, and improve the production efficiency.

### *Continuous optimization of systematic quality management*

In order to continuously optimize the quality management system, the Group undergoes external audits such as ISO9001 quality management system every year to formulate and implement quality improvement measures in response to the problems found and to strengthen the systematic quality management capability. The Group conducts an internal audit and a management review every year. Through the internal audit and management review, we identify and improve the implementation problems of the internal management system in a timely manner to ensure the appropriateness and effectiveness of the enterprise management system.

The internal and external audits and problem rectification of the Group in 2020 are as follows:



A total of 35 external audits and continuous improvement projects were completed this year.

This Year, 34 issues were summarized in the internal audit of the management system, and 8 rectification measures were proposed and implemented.

## Environmental, Social and Governance Report

### Case: Quality loss measurement

In order to strengthen the management's quality management decision-making ability, the Group formulated the "Quality Loss Management Measures (質量損失管理辦法)" in 2020, formulated and implemented scientific quality cost accounting and "quality loss rate" statistical accounting methods, so as to incorporate quality costs into factors to consider in management's quality decision-making to promote the research and implementation of quality measures such as product production technology and quality inspection process. In 2020, the Group completed the input of all incoming inspection criteria items in the "Quality Inspection" module of the ERP system, and began to use the data of the "Quality Traceability" module to try to carry out internal statistics on "quality loss" data, and traced the source and cause of quality loss based on the analysis results.

### *Non-conforming product management*

To fulfill the quality commitment to customers, the Group strictly implements the "Control Procedures for Corrective Measures for Non-Conforming Products (《不合格品糾正措施控制程序》)" for the non-conforming products detected in the production process and customer's return process, requiring rework or scrap operation for the non-conforming products in accordance with the regulations, and strictly prohibiting the flow of non-conforming products to the next stage; and supervising the relevant departments to analyze and improve in order to effectively improve product quality.

## Environmental, Social and Governance Report

The Group's non-conforming product control process is shown below:



Meanwhile, the Group has continuously strengthened the construction of product traceability system, and has formulated and implemented the Procedures for Product Identification and Traceability Control 《產品標識與可追溯控制程序》, introduced advanced information-based barcode management system to effectively link information islands, and incorporated information related to market services, inspection certificates and certificates of conformity into the barcode management system to build a complete product information chain from raw materials to finished products, which facilitates the traceability of problems.

During the financial year, there was no product of the Group sold or shipped subject to recalls for safety and health reasons.

## Environmental, Social and Governance Report

### Quality Management Team

#### *Compound quality management personnel training*

In 2020, in order to cultivate compound talents with a variety of inspection and testing technology levels and comprehensive management capabilities, the Group implements a multi-skilled talent training program to promote advanced mathematical statistics management methods such as SPC (Statistical Process Control Method) and MSA (Measurement System Analysis), the learning and practical application of tools, and the implementation of an internal job rotation mechanism to enhance the combined knowledge reserve and operational capabilities of quality management personnel. As of the end of 2020, the number of personnel who have rotated more than 5 positions and mastered relevant operational skills has reached 45% of the personnel in the quality management department. At the same time, the Group encourages quality management employees to go beyond the quality inspection work itself, with reference to the internationally recognized excellent performance model, to carry out quality innovation research activities based on customer satisfaction, to cultivate comprehensive problem analysis and resolution capabilities, and to help comprehensively improve quality management.



Performance Excellence Standard  
Interpretation and Implementation Training



Staff Quality Knowledge Training

## Environmental, Social and Governance Report

### QC team activities

Continuous research and improvement of quality issues are essential to maintain quality leadership. The Group implemented the “Quality Improvement Management System” (《質量改進管理制度》) and “QC Activity Management System” (《QC活動管理制度》) in 2020 to carry out research and analysis on various quality improvement topics to promote employees to seek opportunities to improve the effectiveness and efficiency of products, production processes and management systems, and to take improvement or corrective preventive measures, thereby reducing ineffective losses and improving product quality.

The Group’s Quality Department takes the lead in setting up quality control teams to carry out themed activities related to product quality improvement. Up to now, QC teams the Group has registered include “Cangnan Instrument Zhongzhi QC Team”, “Cangnan Instrument Zhongxing QC Team” and “Cangnan Instrument Jinying QC Team”. The Group has organized some urgent quality themed activities, and guided the backbone of staff in each department to actively participate in quality issues discussion.

#### Cangnan Instrument Zhongxing QC Team

Aiming to solve the electronic problem, the team carried out a research on “reducing the failure rate of inconsistency between the indication and the pulse accumulation of mechanical counters” in 2020. After several months of repeated tests and experiments, the main cause of the failure was determined, and corrective measures such as corresponding software adjustments were taken. After the correction, no similar failure has been found so far.

#### Cangnan Instrument Zhongzhi QC Team

Aiming to solve the problems related to key parts, the team carried out a research on “improving the processing stability of RM50G65 Roots wheel coaxiality” in 2020. The team measured, collected and analyzed a large amount of production data. Finally, through the improvement of the measurement method and the application of SPC quality tools, the process stability and process capability were monitored, and the processing stability of RM50G65 Roots wheel coaxiality was improved.

## Environmental, Social and Governance Report

### Promote Industry Communication and Exchange

At a time when new technologies such as artificial intelligence, big data and cloud computing are driving rapid changes in the gas meter industry, metering and testing technologies also require continuous innovation and improvement. The Group values the opportunity to exchange and communicate with external experts, universities and other enterprises, and actively participates in industry activities to keep abreast of industry information and developments, so as to improve its own technology and management level and continuously promote the application and development of new metering technologies together with fellow enterprises.

#### **Case: The Group became the director unit of the National Accreditation Alliance of Chinese Society of Measurement**

In August 2020, the National Accreditation Alliance of Chinese Society of Measurement (the "Alliance") was established. The Group became the first director unit of the Alliance, aiming to leverage the Alliance as a platform for exchange and cooperation so as to joint hands with our peers to work together on standard setting, talent pooling and joint laboratory establishment in the metrology industry to enhance the level of metrology technology and promote the standardization and prosperous development of the metrology market.

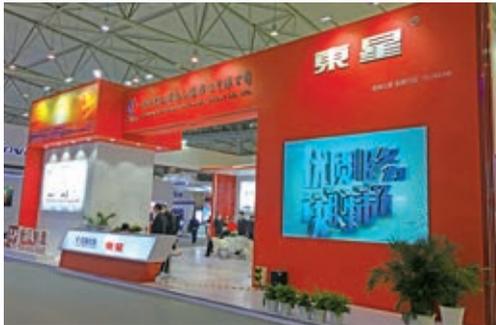


Conference for Founding of National Flow Instrument Evaluation and Accreditation Alliance, Chinese Society of Measurement

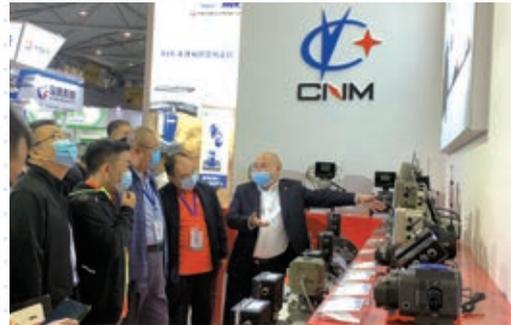
## Environmental, Social and Governance Report

### **Cangnan Instrument Group exhibited at 2020 (23rd Session) China International Gas, Heating Technology and Equipment Exhibition**

From 4 to 6 November 2020, “2020 (23rd Session) China International Gas, Heating Technology and Equipment Exhibition” was held in Chengdu Century City New International Convention and Exhibition Center, and the Group, as a leading company in the flow instrument industry, participated in this grand event. In the exhibition, our Group displayed various series of cutting-edge products and supporting equipment with excellent performance, highlighting our technical achievements in recent years, and had in-depth and extensive exchanges with customers and peer companies, bringing opportunities for future cooperation.



Exhibition booths of the Group



The Group gave product explanations to visitors at the exhibition

## Environmental, Social and Governance Report

### *Participation in industry standard development*

Relying on its experience and technical advantages, the Group actively participates in the formulation of national industry standards with the aim of promoting the standardized development of the industry. In 2020, the national standards that the Group (including its subsidiaries Dongxing Intelligent Instrument and Dongxing Energy Technology) participated in the preparation of are shown below:

<b>Standard number</b>	<b>Standard name</b>	<b>Current progress</b>
T/CGAS011-2020	Diaphragm gas meters with electronic temperature and pressure compensation	Completed
GB/T38530-2020	Town liquefied natural gas (LNG) gasification supply installations	Completed
T/ZZB 1550-2020	Straight wing propeller system	Completed
GB/T27790	City gas pressure regulators	Reporting Stage
GB/T27791	City gas pressure regulating installation	Reporting Stage
–	Safety shut-off values for city gas transmission and distribution system	Reporting Stage
–	Technical specification for application of building gas pressure regulating installation	Preparation Stage
–	Basic technical requirements for the safety of gas transmission and distribution equipment (燃氣輸配 設備安全基本技術要求)	Preparation Stage
–	City gas buried pressure regulating station (城鎮燃氣埋地式調壓箱)	Preparation Stage
–	Technical regulations for the application of prefabricated stainless steel piping for town gas plants (城鎮燃氣用工廠預製不銹鋼管道應用技術規程)	Preparation Stage

## Environmental, Social and Governance Report

### 2. Innovation-Driven Development

As the main body of enterprise technology innovation, the Group insists on serving market demand as the guideline, and continues to promote product transformation and technology innovation through independent innovation and cooperative research and development to enhance the core competitive advantages of our products. In recent years, the Group's product development direction has extended the industrial chain from commercial and residential gas metering equipment to products with high precision, wide range, high pressure resistance, high temperature resistance or other special environments, and we are committed to overcoming technical difficulties.

#### Encourage R&D Innovation

In 2020, the Group merged its existing R&D departments to form a provincial-level enterprise research institute for the Company, aiming to enhance its independent innovation capability and further develop products with high technological content and high added value to meet market demand. As an important part of the national technological innovation system, the enterprise research institute will help form an industry cluster and drive effect, and help the Group and peer enterprises to jointly overcome technical problems of products.

The Group's provincial research institute has the following key advantages:

#### **A team of high, elite and advanced technological innovators**

The research institute team of the Group was selected as one of the first batch of 50 key scientific and technological innovation teams in Zhejiang Province. The innovation team members specialize in mechanical design and manufacturing and automation, electromechanical engineering, measurement and control technology, automation instrumentation, electronic information engineering, information and computer science and software engineering, etc. Team members have the characteristics of interdisciplinary, diverse majors and complementary abilities.

#### **Have relatively complete infrastructures**

The R&D site includes office, fluid test room, program debugging room, electromagnetic compatibility laboratory, physical and chemical laboratory, standard measurement room and sample production room. The equipment has high precision and high automation procedures, and is at the leading level in the same industry in China. It can ensure the completion of the company's research and development of new products for pattern surveying, experimental testing, sample production and other needs, providing an important basis and guarantee for the research and development of new products.

## Environmental, Social and Governance Report

In 2020, the Group continued to implement the Incentive Rule for Technology Innovation (《技術創新激勵制度》) in depth, managed and assessed projects in strict accordance with the ISO9001 design and development control procedures, implemented the R&D responsibility system, provided adequate support to internal R&D projects, and fully mobilized the enthusiasm and initiative of R&D personnel in the form of financial incentives in order to continuously improve the quality and effectiveness of innovation.

The Group's cutting-edge R&D achievements in commercial gas instrumentation products are as follows:

### **RM series high-precision gas (intelligent) Roots flowmeter**

**Using high-precision metering technology**, the gas Roots flowmeter high-precision metering technology has been developed to improve the measurement accuracy and measurement range and reduce the pressure loss; and combined with the flow measurement device and its flow correction method to avoid the impact of leakage phenomenon on the measurement accuracy.

**Use the body anti-theft gas technology**, to enhance the mechanical counter anti-damage ability, flowmeter resistance to strong magnetic capacity, volume correction meter anti-tampering ability. Through the design of the fault removal circuit and the uninterrupted power supply circuit, the cumulative amount of the corrector during the power-off period can be accumulated normally, which effectively prevents damage to the meter and gas theft.

## Environmental, Social and Governance Report

**Use reliability technology** (anti-disturbance, anti-clogging technology and correction instrument connection structure) is adopted to prolong the service life of the flowmeter, reduce working noise, and facilitate installation and maintenance.

**Adopt intelligent technology** to realize intelligent detection, self-diagnosis, automatic alarm, Internet of Things communication, data storage, intelligent control and cloud monitoring, etc.

The product has passed the **Netherlands NMI laboratory testing, EU PED (Pressure Equipment Directive) and Zhejiang manufacturing certification**, the product's comprehensive performance is at the international advanced level and can replace imported advanced products. The product has obtained **5 invention patents, 19 utility model patents, published 9 papers**, and won the **second prize of scientific and technological progress of China Instrument and Control Society**.



RM series high-precision gas (intelligent) Roots flowmeter

## Environmental, Social and Governance Report

### TM Series Wide Range Gas Turbine Flowmeter

**Using built-in rectification technology**, an innovative structure with built-in multi-stage rectifiers and impellers installed at the back of the watch core, to effectively eliminate various airflow disturbances that may exist in the natural gas pipeline, and ensure the high accuracy and stronger adaptability of the flowmeter.

**Adopting modular technology**. Based on the concept of an integrated detachable watch core, the user or operator can change the metering characteristics of the meter.

**Using balanced axial load technology**. The structural design of optimized bearing and balanced axial load can effectively offset the axial load acting on the front bearing of the flowmeter and prolong the service life of the bearing.

**Turbine antimagnetic structure design**. The transmission coupling part of the flowmeter is designed with a non-magnetic 304 stainless steel anti-magnetic isolator structure, which effectively avoids the influence of external magnetic field interference on the magnetic transmission components.

The product has passed the **Netherlands NMI laboratory testing, EU PED (Pressure Equipment Directive) and Zhejiang manufacturing certification**, the product's comprehensive performance is at the international advanced level and can replace imported advanced products. The product has obtained **1 invention patent, 15 utility model patents, published 3 papers, and won the third prize of science and technology progress of Zhejiang Province**.



TM Series Wide Range Gas Turbine Flowmeter

## Environmental, Social and Governance Report

### R&D Cooperation and Exchange

In order to expand the source of innovation theory, the Group has established cooperation with universities, research institutes and enterprises, and has built “Zhejiang University-Cangnan Instrument Technology R&D Center”, “National Demonstration Base for Joint Training of Graduates for Professional Engineering Degree”, “Demonstration Base for Educational Innovation for Postgraduates Majoring in Instrument Science in China Jiliang University”, and “Key Laboratory in Flow Measurement Technology Research in Zhejiang Province”, etc., with market demand as the guide, leveraging the high-end scientific and technological personnel strength and academic research heritage of universities to enhance the technical research capability and accumulate technical theory for future product development. On 1 June 2019, the Group signed a technology development (entrusted) contract with China Jiliang University, entrusting it to conduct research on the structure and performance optimization of gas turbine flowmeters from 1 June 2019 to 31 December 2020.

The Group’s Technology R&D Center continues to deepen theoretical research and publish the relevant results. In 2020, the Group (including its subsidiaries Zhejiang Dongxing Intelligent Instrument Limited and Zhejiang Dongxing Energy Technology Co., Ltd.) published papers and conducted research projects as follows:

No.	Paper name	Publications	Date of publication
1	Study on pressure loss measurement of gas Roots flowmeter (氣體羅茨流量計的壓損測量研究)	Machine China	February 2020
2	Sonic nozzle gas flow standard device technology modification application (音速噴嘴氣體流量標準裝置技術改造應用)	Urban Gas	May 2020
3	Universal design study of gas flowmeter (氣體流量計的通用化設計研究)	Industrial Metrology	July 2020
4	G2.5 Simulation and experimental study of ultrasonic gas meters (G2.5超聲波燃氣表的仿真與實驗研究)	Technical Acoustics	October 2020
5	Design and Application of Algorithm Architecture of Gas-liquid Two-phase Flow during Velocity String Operation	China Petroleum Machinery	November 2020
6	Research on the Lever Type and Internal Balance Bar Type Low to Low Gas Pressure Regulating Installation Performance Difference	Mechanical Engineering and Technology	September 2020

## Environmental, Social and Governance Report

### Intellectual Property Protection

The Group strictly abides by the Intellectual Property Law of the People's Republic of China (《中華人民共和國知識產權法》), Patent Law of the People's Republic of China (《中華人民共和國專利法》), Copyright Law of the People's Republic of China (《中華人民共和國著作權法》), Trademark Law of the People's Republic of China (《中華人民共和國商標法》), Anti-Unfair Competition Law of the People's Republic of China (《中華人民共和國反不正當競爭法》) and other laws and regulations. Internally, the Group formulates and implements 13 management systems for the management and protection of intellectual property including the Management Regulations for Enterprise Intellectual Property (《企業知識產權管理規範》), General Rules for Intellectual Property Management (《知識產權管理總則》) and Patent Management System (《專利管理制度》), so as to standardize the acquisition, application and confidentiality of intellectual property and to avoid infringement of intellectual property rights of others.

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

During this Year, the Group obtained 1 authorized invention patents, 3 utility model patents and 1 design patents, with 4 invention patents, 6 utility model patents and 2 design patents pending approval.

## Environmental, Social and Governance Report

### 3. Serving Customers Attentively

Under the service principle of “Cangnan Instrument always stays by its customers and customers are always at the heart of us”, the Group scientifically arranges the service network, improves the customer service mechanism, and strives to provide proactive, convenient and timely customer service. In 2020, in order to improve service quality, the Group strengthened the publicity and implementation of the Management Rules for Market Services 《市場服務工作管理細則》, Procedures for Management and Control of Customer Satisfaction 《顧客滿意管理控制程序》 and other systems, promoted the convenience, intelligence, and professionalization of services, and strengthened the “Cangnan Instrument” brand reputation.

#### Building A Convenient Customer Service Network

In order to provide convenient after-sales service, the Group has set up 36 sales and service outlets and 4 service sub-centers across the country to build a fast and flexible sales and service network to provide comprehensive technical support services for the installation, commissioning and use of products. In order to guarantee the timeliness of the service, we set the following time requirements for the maintenance and service personnel to arrive at the service site, and if there are difficulties in arriving on time, we must make a clear explanation to the user.



The Group’s marketing center has set up a dedicated service hotline for market services to provide consultations on instrument maintenance and to listen carefully and patiently to users’ valuable opinions. At the same time, the Group receives gas companies to come to study and exchange every year, and arrange professional training personnel to go out to visit gas companies for technical exchanges, provide customers with gas flow meter equipment application and maintenance theoretical training and practical operation demonstrations, and maintain friendly and mutually beneficial long-term cooperation relationship.

## Environmental, Social and Governance Report

The Group obtains customers' suggestions and expectations for the Group's products and services through diversified channels such as return visits to customers and satisfaction surveys annually, and understands customers' evaluations on product appearance, performance, quality, application software use and after-sales service, etc., and gives feedback about relevant opinions in a timely manner to relevant departments for follow-up, so as to better improve product quality and service satisfaction.

On 8 September 2020, the Group cooperated with ENN Energy to successfully hold ENN Energy's 2020 Metering Technology and Management Training Practice Operation Cangnan Instrument Conference Event, earnestly imparting technical knowledge on the installation, use, and maintenance of our products, which was well received and affirmed by ENN Energy Group.

On 21 August 2020, at the invitation of Bengbu ENN, the Group went to Bengbu ENN to conduct training and exchange activities on gas instrumentation and measurement technology, and earnestly taught the technical knowledge of installation, use and maintenance of our products, which was well received and affirmed by Bengbu ENN. In this event, Bengbu Xiniao sent a total of 70 personnel to participate in the training.

In 2020, the Group has provided on-site technical guidance to customers for 39 times.

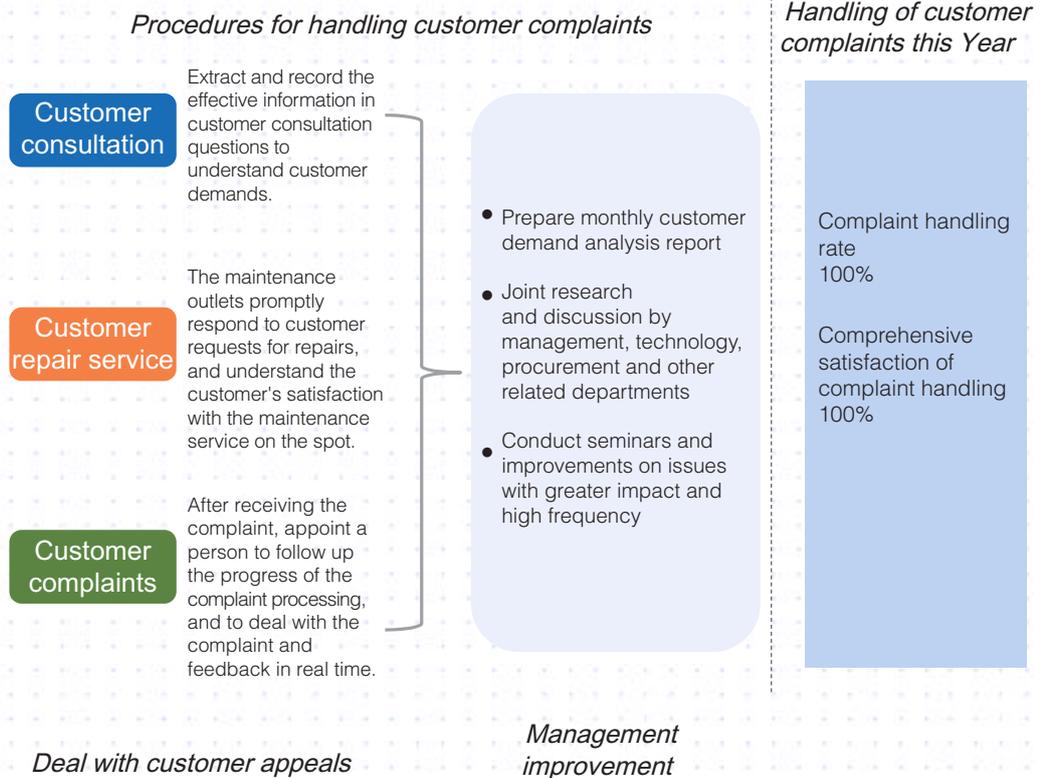


## Environmental, Social and Governance Report

### Efficient Complaint Feedback

In order to ensure the effective handling of customer complaints and service demands, the Group has established procedures for handling customer complaints, and set up such channels as telephone, email and fax to receive customer complaints, so as to timely learn about and handle the problems fed back by customers and protect their rights and interests. In response to customer complaints concerning problems about product quality, the Group requires the Quality Department to investigate and analyze the problems and propose solutions, and to work with the Production Department to develop a long-term mechanism for product optimization and service improvement, so as to win the trust from customers.

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



## Environmental, Social and Governance Report

### Enhancement of Service Capacity

The Group arranges annual training for market service personnel in respect of product knowledge, maintenance technology, service awareness and other aspects, so as to improve the professional skills of market service personnel. Market service personnel are required to provide on-site service in strict accordance with the Management Rules for Market Services 《市場服務工作管理細則》), follow the operating procedures, dress properly, behave appropriately and enthusiastically, fill in the maintenance service record in a standardized manner to meet customer expectations.



Product knowledge training class for market service personnel



Market service training assessment

## Environmental, Social and Governance Report

In order to manage the after-sales service system in a more standardized manner, the Group commissioned an external professional certification body to audit and certify the after-sales service system with reference to the national standard GB/T 27922 “National After-sales Service Meritorious Enterprise” (《商品售後服務評價體系》) in 2020, and finally obtained the highest level – 5-star certification. The Group continues to improve its after-sales service management system with reference to the after-sales service system standard to strengthen its after-sales service management capability and enhance customers’ confidence in the Group’s products and services.



Five-star certification for after-sales service system

### Intelligent Management and Services

To assist customers in managing the metering data of flowmeters, the Group has developed a cloud service management platform that supports the management of smart gas meters. Using Internet of Things and Internet technology, it provides cost management services such as remote meter reading, online price adjustment, wireless valve control, security inspection, inspection and other equipment control services; at the same time, it provides services such as self-service top-up and real-time query of gas consumption for end-users through the WeChat public account or cell phone APP.

## Environmental, Social and Governance Report

The Group continues to upgrade and improve related functions such as IoT communication and data analysis of the cloud service management platform. In 2020, the Group completed the release of the latest version of its cloud service management platform, adding new functions such as big data analysis and gas consumption forecasting, realizing 11 kinds of analysis functions such as zone measurement analysis, gas consumption comparison, meter monitoring, meter coefficients, instantaneous flow of working conditions, user monitoring, abnormal gas consumption analysis, abnormal situation analysis, gas consumption forecasting, user portrait and transmission difference analysis, which helps gas companies analyze customer data to make better business decisions. By the end of this Year, the cloud management service platform was used by more than 260 gas companies online, managing about 18,000 industrial flow meters.



Big data analysis function of cloud management platform

## Environmental, Social and Governance Report

### Respect for Basic Customer Rights

#### *Integrity compliance marketing*

The Group strictly complies with the provisions of the Tendering and Bidding Law of the People's Republic of China 《中華人民共和國招標投標法》, the Advertising Law of the People's Republic of China 《中華人民共和國廣告法》 and other laws and regulations on the preparation of bidding documents and marketing and publicity, and when participating in customer bidding, participating in national product exhibitions and promotional meetings, and publishing articles on its official website and public account, the technical, legal, marketing and other related departments will strictly review the Group's business introduction, product introduction and other materials to ensure the authenticity and accuracy of the information and to avoid exaggerating the product performance and service capability and other inaccurate descriptions. At the same time, the chief engineer of the technical department of our Group will conduct technical verification and description audit of the product manuals and product selection samples sent to customers with the products to ensure that there are no omissions or inaccurate descriptions and to ensure compliance in marketing and publicity.

#### *Protecting customers' information security and privacy*

Protecting customers' information security and privacy is the basis for maintaining long-term cooperative relationships. The Group strictly follows the requirements of the Cybersecurity Law of the People's Republic of China 《中華人民共和國網絡安全法》 and adopts Alibaba Cloud's anti-attack system, access restrictions, data encryption and other means to prevent system user information in the cloud management platform from being attacked or illegally accessed; and adopts the "one machine, one code" registration code to install the software mechanism to ensure that users use genuine software and avoid loss and disclosure of customer information due to software failures.

Besides, the Group sets content viewing permissions for employees who contact customer information such as users of cloud service platform, marketing personnel, market service staff in daily information security management, and sets the user interface information corresponding to the intended purpose and opens the corresponding function permissions according to the type of customers and the areas they locate, so as to avoid unauthorized access to information and reduce the possibility of information leakage; by signing confidentiality agreements, information security training, etc., enhances employees' awareness of information security protection, strengthens the operational standardization of customer information collection, storage and disposal processes, and prevents customer information leakage.

## Environmental, Social and Governance Report

### V. Putting People First and Growing Together

Talent resource is the first resource, and talent advantage is the biggest advantage. The long-term development of Cangnan Instrument is attributed to the employment policy of “employees bring into full play of their talents and abilities”, paying close attention to the introduction, cultivation, evaluation, motivation and care of talents, striving to mobilize the enthusiasm and creativity of employees, providing talent guarantee and strong support for the scientific development, effective development and sustainable development of the enterprise.

#### 1. Recruitment of Employees and Their Rights

The Group strictly implements the relevant provisions in the Labor Law of the PRC 《中華人民共和國勞動法》, the Labor Contract Law of the PRC 《中華人民共和國勞動合同法》 and other laws and regulations, respects and protects the legitimate rights and interests of employees, and strives to provide employees with a diversified and non-discriminatory working environment as well as good remuneration and benefits, so as to conclude a harmonious labor relationship with one mind, joint efforts and sharing.

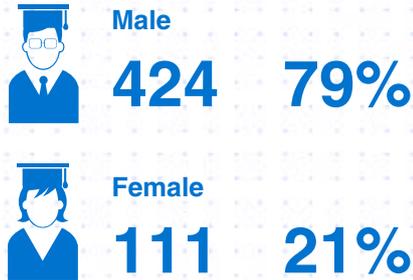
##### Fair Recruitment

The Group strictly implements the Recruitment Management Rule 《招聘管理制度》 and strictly regulates the recruitment process in accordance with the recruitment principles of “open recruitment, fair competition and person-post matching” to ensure fairness, impartiality and transparency in the process of recruitment planning, resume collection and screening, interview evaluation and hiring approval, and to eliminate any differentiation in recruitment based on gender, age, ethnicity, faith and other factors, so as to provide every employee with equal employment opportunities.

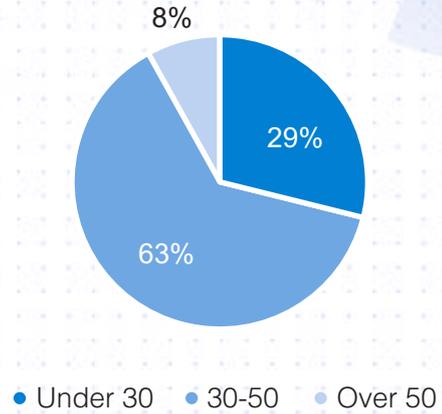
We insist on multi-level, multi-channel and multi-directional recruitment work. Depending on the positions and talent levels, we flexibly choose campus recruitment, online recruitment, on-site recruitment and internal competitive recruitment channels, and cooperate deeply with major universities and headhunters to do a good job of introducing key talents. As of 31 December 2020, the Group has a total of 535 employees, all of whom are from Mainland China. Details of the age structure, gender structure and type of employees are as follows:

## Environmental, Social and Governance Report

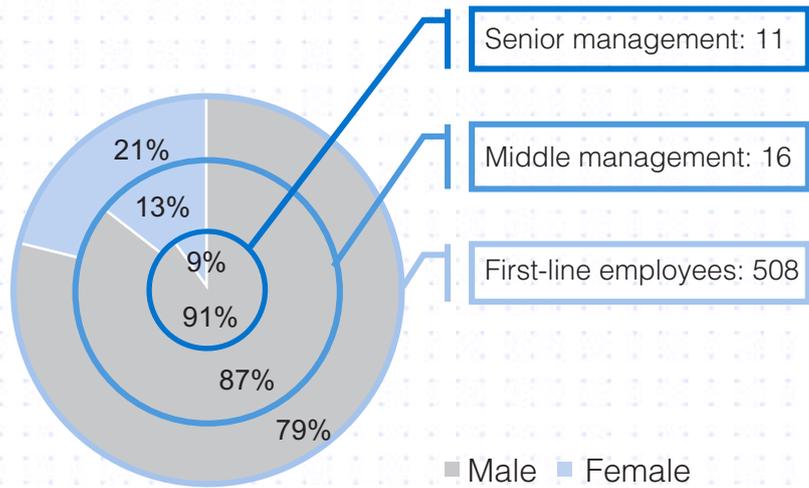
Statistics of employees by gender



Statistics of employees by age



Statistics of employees by gender and function level



## Environmental, Social and Governance Report

### Compensation and Benefits

In compliance with the Labor Law of the PRC (《中華人民共和國勞動法》), the Regulations on Minimum Wage of the Ministry of Labor and Social Security of the PRC (《中華人民共和國勞動和社會保障部最低工資規定》) and other laws and regulations, the Group adheres to equal pay for equal work and scientific distribution, and builds and improves a scientific and reasonable salary management system. We regularly adjust remuneration based on national policies, price levels, industry remuneration levels, the Group's strategy and overall efficiency, and give full play to the incentive role of remuneration, provide employees with fair, reasonable and competitive remuneration packages, and stimulate their enthusiasm and cohesion. In addition, in accordance with relevant national regulations, we pay employees' five social insurances and one housing fund and other statutory welfare guarantees on time and in full, and add a variety of additional benefits to enable employees to have a happy and high-quality life and enhance their sense of belonging.



#### State statutory benefits

- Five social insurance and one housing fund: pension insurance, medical insurance, unemployment insurance, industrial and commercial insurance and maternity insurance, housing provident fund
- Holiday benefits: statutory holidays, annual leave, wedding and funeral leave, maternity leave, work injury leave, etc.



#### Enterprise extra benefits

- Subsidies and benefits: holiday meal expenses, high temperature expenses, factory anniversary subsidies, outpatient expenses, lunch expenses, festival expenses, Mid-Autumn Festival moon cakes, New Year goods, etc.
- Guarantee benefits: annual physical examination, accidental injury insurance, accidental medical insurance and other commercial insurances

## Environmental, Social and Governance Report

### Employee Rights Protection

The Group puts the rights and interests of employees in the first place, strictly fulfills the relevant requirements of the Labor Law of the PRC (《中華人民共和國勞動法》) and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), signs labor contracts with employees, strictly prohibits any form of forced labor and employment of child labor, and discriminatory behavior arising from differences in employees' gender, ethnicity, faith and nationality, etc., and creates an equal and fair, diversified and inclusive working atmosphere.

We continue to promote the democratic management of enterprises, and actively build a communication platform between employees and enterprises. Employees elect employee representatives, who will widely collect the opinions and voices of employees, and communicate and negotiate with the management on behalf of all employees to effectively safeguard the legitimate rights and interests of employees, so as to achieve the goal of working together to promote development.

The Group attaches great importance to protecting the rights and interests of female employees and explicitly prohibits lowering female employees' wages or dismissing them because of their pregnancy, childbirth and breastfeeding to ensure the physical and mental health of female employees during pregnancy; we provide paid prenatal check-up leave, maternity leave and other holidays as well as birth allowances for female employees according to the regulations of the place of operation, and provide additional protection for the safety and health of female employees at work. The Women's Federation of the Group also creates a humane working environment for female employees through activities such as the March 8 Women's Day and women's health seminars, and encourages female employees to actively demonstrate their feminine style and contribute to the growth and development of the Company.

## Environmental, Social and Governance Report

### Case: Health seminar for female workers

On 29 July 2020, the Group held a seminar on caring for women's health and invited experts from the Maternity and Child Health Hospital to explain to all female employees the knowledge of female physiological characteristics, common gynecological diseases, prevention and treatment of frequently-occurring diseases, etc., to help female employees learn how to maintain physical and mental health, guide everyone away from bad living habits, walk out of the misunderstandings and blind areas of female health care, invest in life and work with a positive attitude, and realize the harmonious, healthy and all-round development of body and mind and career and family, which stimulated the confidence and determination of female employees to stand on their jobs.



Health seminar for female workers

## Environmental, Social and Governance Report

### 2. Employee Training and Development

The Group continuously strengthens the construction of talent team, forms a talent training system with the characteristics of Cangnan Instrument, builds a healthy development platform for talent training, assessment and promotion, and creates promising career opportunities for employees.

#### Employee Training

The Group pays attention to the training and improvement of employees' ability, knowledge and skills, and formulates and implements the Training Rule (《培訓制度》) to regulate the person responsible for training, training planning, training rewards and punishments, etc., and organizes various training activities by the human resources department in strict accordance with the relevant requirements, in order to create a team of highly qualified personnel with "expertise and sincerity in pursuit of excellence".

The Group's training includes five categories: orientation training for new employees, corporate culture training, special position training, multi-skilled worker training, and improvement training, aiming to improve the professional skills and overall quality of employees from various aspects. In addition, the Group has formulated and implemented the Workshop Rotation Training Rule (《車間輪訓制度》), which allows workers to learn from teachers during the rotation training through the method of "apprentices guided by teachers", so as to inherit and accumulate excellent experience and technology, and better improve the operating skills of young front-line employees; at the same time, we actively carry out technical training, technical competitions and other knowledge competition activities to encourage employees to move towards the goal of all-round and professional talents.

#### New employee orientation training

The maintenance outlets promptly respond to customer requests for repairs, and understand the customer's satisfaction with the maintenance service on the spot.

#### Corporate culture training

All employees are required to participate in corporate culture training activities to strengthen their understanding and recognition of corporate culture.



#### Special position training

According to the requirements of relevant national laws and regulations and internal job skills, training is provided to employees in special positions such as inspectors, welders, metrologists and electricians.

#### Multi-skilled worker training

Through training, employees on the front line of production will be proficient in multiple skills; employees who can teach the skills they have learned will be awarded the qualification of training technicians under the conditions of qualification.

#### Improvement training

Training courses to improve the comprehensive ability of management.

## Environmental, Social and Governance Report

The summary of training of the Group in 2020 is as follows:

Category		Average training hour of each employee (hour per staff)	Percentage of employee with training
By gender	Male	18.58	94%
	Female	13.28	96%
By employment type	Senior management	51.73	91%
	Middle management	61.44	81%
	First-line employee	15.36	95%

*Note: the calculation formula of average training hour and percentage of employee with trainings are as follows:*

*Average training hour of each employee =  $\sum(\text{number of participants in each training class} * \text{training hours in each class}) / \text{number of employee at the end of the year}$*

*Percentage of employee with training =  $\text{number of employee with training} / \text{number of employee at the end of the year}$*

## Environmental, Social and Governance Report

### Case: Vocational skills level theoretical knowledge training

On 24 October 2020, in order to better help employees master the theoretical knowledge and operational skills required for relevant types of work, the Group carried out theoretical knowledge training on vocational skill levels in accordance with the theoretical knowledge requirements for intermediate and senior technicians in the National Vocational Standards (《國家職業標準》), invited external professional lecturers to explain professional ethics standards and related laws and regulations to employees, as well as professional skills such as drawing, processing technology, equipment maintenance, so as to continuously improve the skill level of professional employees and meet the needs of enterprise development.



Vocational skills level theoretical knowledge training

## Environmental, Social and Governance Report

### Case: R&D staff innovation knowledge training

On 13 August 2020, the Group held a four-hour-long training on innovation knowledge for R&D staff. By organizing staff to watch the documentary The Pillars of a Great Power and share their thoughts after the viewing, the training helped staff learn how innovation drive helps Chinese enterprises step by step towards the world's high-end manufacturing field and deeply understand that technological innovation is the core importance of long-term development of enterprises, thereby promoted staff to establish the concept and awareness of innovation.



Innovation knowledge training

## Environmental, Social and Governance Report

### Employee Assessment and Development

The Group continues to improve the appraisal and promotion mechanism to enhance the fairness and motivation of the appraisal, help employees improve their performance and promote corporate development. We strictly follow the Performance Appraisal Standards (《績效考核標準》) and use both quantitative performance indicators and qualitative behavioral indicators to conduct annual, semi-annual, quarterly and monthly appraisals to achieve a comprehensive assessment of employee performance and help employees identify strengths and weaknesses and subsequent room for improvement in a timely manner.

The Group also makes the ranking assessment of skilled workers one of the assessment priorities, and conducts assessment and analysis of workers' daily work performance, written test results, and practical work appraisal to explore the technical production backbone and implement positive incentives for workers to improve in technology to promote the overall improvement of production efficiency and product quality.

The Group insists on playing the main role in the cultivation and evaluation of skilled personnel, and we have successfully passed the evaluation of the pilot enterprise of enterprise skill level recognition in Zhejiang Province this Year, becoming the first pilot enterprise of occupational skill level recognition in Cangnan County. As a pilot enterprise, the Group can independently adopt a combination of theoretical examinations and practical operations, as well as work performance evaluation, on-site operation evaluation and vocational skills competition to evaluate technical workers. Employees who pass the assessment will be issued a vocational skill level certificate by the enterprise, which has the same equivalent function as the national vocational qualification certificate. The holder can enjoy policy treatments regarding vocational training, employment and entrepreneurship, and skilled personnel.

## Environmental, Social and Governance Report

### Case: Front-line worker title assessment and recognition

At the beginning of November 2020, the Group organized the vocational skill level recognition assessment for the first time. The assessment covered 4 types of work (such as turner, miller, assembly fitter, electronic instrument and meter installer) and 10 skill levels, and a total of 52 technicians participated in the assessment. After the theoretical examination, practical examination, software examination and comprehensive evaluation, finally 40 technicians passed the examination and obtained the vocational skill level certificate issued by the Group.



Vocational skill level recognition assessment

We promote diversified internal promotion opportunities for employees, and determine candidates by means of self-declaration and competition for posts. At the same time, the Group adheres to the principle of “be able to go up and down”, selects key personnel in various departments and professional lines for key training such as rotation, and conducts job rotation or multi-job training for ordinary employees to improve the overall quality of employees and at the same time strengthen the construction of talent echelon, to realize an efficient and sufficient talent supply within the enterprise.

## Environmental, Social and Governance Report

### 3. Health and Safety of Employees

The Group strictly complies with and enforces laws and regulations such as the Safety Production Law of the People's Republic of China 《中華人民共和國安全生產法》 and the Fire Protection Law of the People's Republic of China 《中華人民共和國消防法》, takes workplace safety and employees' safety and health as red line requirements for operation management, continuously improves safety management mechanisms, conscientiously implements various safety measures and enhances occupational health and safety performance to protect the steady development of the enterprise.

#### Management System Construction

Occupational Health and Safety Policy



The Group is committed to establishing an integrated and comprehensive occupational health and safety management system, which focuses on the needs and safety of employees and creates a safe and comfortable working environment for employees through standardized safety practices, effective safety trainings, implementation of safety management responsibilities, and enhanced safety supervision and inspection. Over the years, the Group has achieved the core objectives of “two zeros and two nos” in occupational health and safety, including zero mortality rate and zero serious injury rate; no major production accidents and fire accidents; no major occupational health and safety complaints and accidents and no occupational diseases among employees.

We actively introduce international and domestic management system related management methods and standards, and continue to promote scientific, standardized and systematic occupational health and safety management.

## Environmental, Social and Governance Report

This Year, we successfully completed the system change from the OHSAS18001 Occupational Health and Safety System to the ISO 45001 Occupational Health and Safety Management System, and comprehensively improved the overall management level of the Group in terms of occupational health and safety.

The Group has carried out a number of tasks to support the smooth progress of the system change, including adding and revising relevant system management documents, realizing all-round management and control of hazards, occupational health risks and opportunities, and strengthening managers' leadership of the occupational health and safety management system and commitment; we also have strengthened occupational safety and health training, enhance employees' awareness of occupational health and safety, guided employees to participate in health and safety management, and effectively avoided health and safety hazards.

Up to now, the Group has obtained the Safety Production Standardization Class II Standard (Mechanical) Enterprise Certificate issued by the Department of Emergency Management of Zhejiang Province. This certification is a recognition of the Group's achievements in production safety and will further promote the Group's scientific and standardized management of production safety.



ISO 45001 Occupational Health and Safety Management System Certification Certificate



Safety Production Standardization Class II Standard (Mechanical) Enterprise Certificate

## Environmental, Social and Governance Report

In order to ensure the normal order of production and operation, our Group has formulated a series of safety management systems, including Occupational Health Management Standards (《職業健康管理標準》), Safety Manual for Employees (《員工安全手冊》), Safety Production Inspection System (《安全生產檢查制度》), Safety Accident Emergency Response System (《安全事故應急處理制度》), etc., which are constantly improved on the basis of strict implementation to ensure that every link in production and operation is covered and that no dead corner is left in safety management. We sign a letter of responsibility for safety production with each employee, requiring each employee to effectively fulfill their respective safety responsibilities and realize full participation in the whole process of safety production management.

### Safe Production Environment

The Group continued to strengthen safety management in the production environment this Year, and continued to improve the working conditions of employees and create a healthy and safe production environment by conducting regular inspections, replacing and maintaining firefighting and emergency equipment, posting safety signage instructions, organizing occupational health examinations and providing various protective equipment.

## Environmental, Social and Governance Report

### *6S site management*

The Group actively promotes 6S<sup>4</sup> management in production workshops, and develops and implements the 6S Management Manual (《6S管理手册》) to ensure effective use of space and accurate use of goods, and to create a clean and tidy, standardized and orderly working environment to ensure safety. The production department of the Group conducts 6S inspection of each workshop at least once a week, and each workshop director inspects its workshop from time to time, announces the inspection and assessment results on the workshop signboard in time and rectifies the problems found in time to ensure the maintenance of a safe and orderly production work environment.



6S management: fixed-point placement for tools



6S management: production environment management

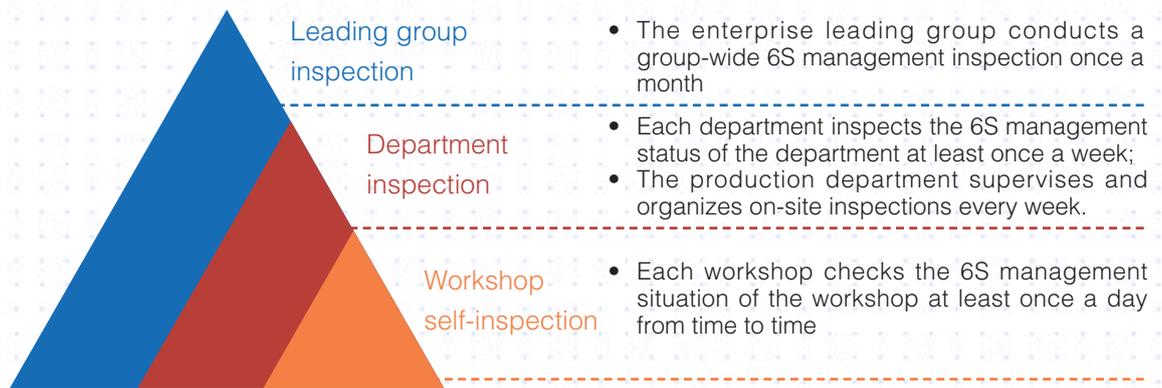


6S management: bulletin board in the workshop

## Environmental, Social and Governance Report

In addition, in order to increase employees' emphasis on 6S management at the production site, the Group actively carried out workshop 6S on-site management competitions, 6S management training and other related activities, and linked the 6S management inspection and appraisal results with employee performance work, and employees who have performed well in the 6S management every month will be rewarded to stimulate employees' enthusiasm in 6S on-site management.

### 6S管理——三級檢查機制



## Environmental, Social and Governance Report

### *On-site safety inspection*

The Group implements the Equipment Safety Management Rule (《設備安全管理制度》), and regularly checks the performance and safety of production equipment; conducts safety inspection on fire-fighting equipment, wires, sockets, gas pipes, safety channels, etc. on a monthly basis. Any potential hazards found in the inspection are subject to immediate rectification, and a responsible person is specially assigned to track the rectification to ensure potential hazards no longer exist. Regular inspections are carried out for places where dust, noise, toxic and hazardous materials exist, and the sanitary standards of the workplace are strictly controlled. In addition, the Group's safe and civilized production team conducts quarterly comprehensive and detailed inspections of key links, key parts and key equipment in the workshop's safety production to prevent and reduce all kinds of safety accidents.

### *Sampling and testing of occupational hazards*

The Group regularly entrusts a third-party testing company to conduct on-site sampling every year, identify possible occupational hazards in the plant and issue analysis reports. This Year, compared to the previous year, the scope of sampling and testing of occupational hazards continued to expand, covering a total of 25 types with 95 designated testing points in place. During this inspection, it was found that the noise generated by certain machinery and equipment during operation may have an impact on employees' health, while certain positions in permanent operation also have summer heat health risks. In response to such situations, the Group further optimizes the provision and use of labor supplies such as anti-noise earplugs, and reasonably arranges production activities during the high temperature season to reduce the hazards of noise and high temperature to the health of employees.

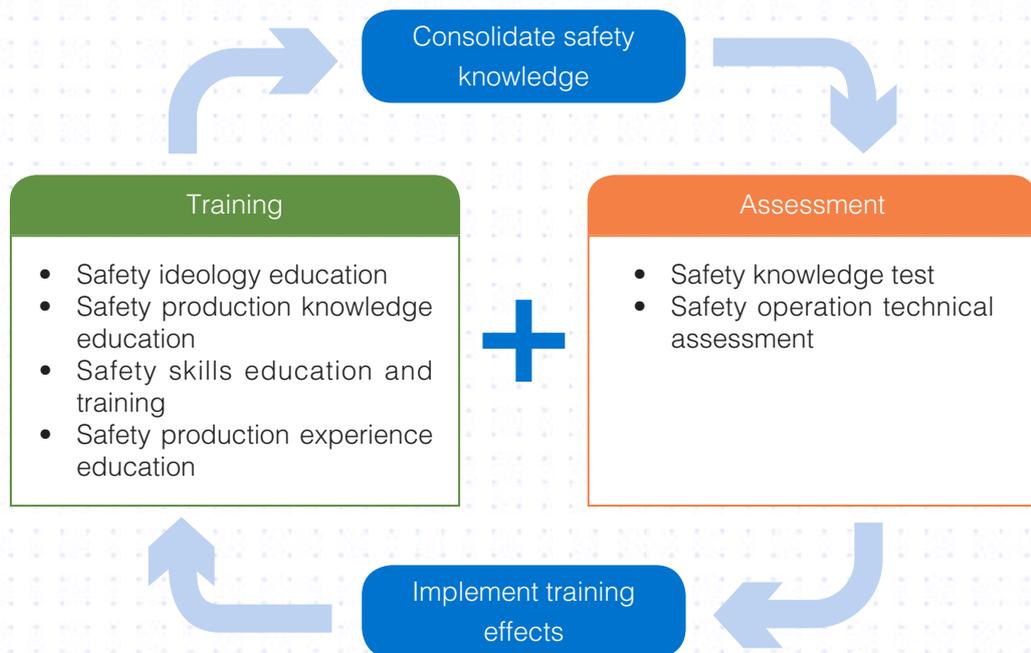
During the Reporting Period, no work-related fatalities occurred in the Group.

## Environmental, Social and Governance Report

### Safety Education and Promotion

In order to strengthen employees' safety awareness and achieve safe production throughout the year, the Group formulates and implements the relevant requirements of the Safety Education and Training System (《安全教育培训制度》), carries out occupational health and safety education for employees through training classes, safety lectures and intellectual competitions to raise employees' awareness of safety work prevention and promote the enterprise safety production construction.

Our safety education contains four dimensions: safety ideology education, safety production knowledge education, safety skills education and training, and safety production experience education. For new entrants, employees who change positions and employees of special work types, the Group requires them to receive safety production knowledge and operation skills education and training first, and only after passing the training and assessment can they start working in order to avoid safety accidents.



## Environmental, Social and Governance Report

Our Group actively responds to the call of local government to carry out safety production month activities and promote safety knowledge through TV viewing boards and wall posters. In addition, we set safety themes every month and produce and distribute promotional materials, including occupational health knowledge, safety in the use of labor protection products, epidemic prevention guidelines, safety instruction signs, etc. Through daily publicity that can be seen everywhere, safety knowledge is deeply rooted in the hearts of the people.



Workshop safety production bulletin board



Poster of the safety production month at the theme of "Eliminate hidden dangers of accidents and build a strong line of defense"

## Environmental, Social and Governance Report

### Case: Safety training and fire drills

On 2 June 2020, the Group organized a fire drill for fire fighting, escape and environmental emergencies. Through this fire drill, employees mastered the operation steps and methods of using dry powder fire extinguisher, carbon dioxide fire extinguisher and fire hydrant, understood various general knowledge of fire safety, with ability of emergency protection and self-rescue and escape being effectively improved, and the awareness of fire fighting being further strengthened.



Fire drill

## Environmental, Social and Governance Report

### Case: Traffic safety training session

On 18 June 2020, the Group held a traffic safety training session to explain the knowledge of car safety, road safety driving knowledge, road traffic safety laws and regulations, etc. Through vivid image animation demonstration and accident video playback, the safety concept of safety and compliance, accidents and law-breaking were accurately elaborated, thereby enhancing employees' awareness of the importance of safe driving and preventive measures to further enhance safety responsibility awareness.



Traffic safety training session

## Environmental, Social and Governance Report

### Epidemic Prevention and Control

The Group attaches great importance to the epidemic prevention and control, builds a brick wall of epidemic prevention and control to protect the lives and health of employees. In the face of the raging COVID-19, we quickly set up an epidemic prevention and control working group, formulated an epidemic prevention and control work plan and an emergency plan, and conducted daily health monitoring and management. We strengthened personnel control, strictly controlled the entry of outsiders into the factory, set up temperature measurement points at the entrance. Outsiders who want to enter the factory need to register, take body temperature, and show their health code. Special personnel were designed for business trips, and record management and control are implemented. Abnormalities would be reported to the Group's epidemic prevention and control working group as soon as possible once found.

The Group continues to implement normalized epidemic control measures, regularly disinfects workshops, offices and other areas where people gather; strengthens the management of staff commuter cars to ensure regular disinfection in the cars and interval rides for employees; timely communication and coordination are conducted among relevant departments to ensure sufficient epidemic prevention materials in place; strengthens epidemic prevention and control propaganda, urges all employees to do a good job of personal protection such as washing their hands and ventilating diligently, maintaining a safe distance and keeping a safe distance, avoiding piling up and gathering, advocating a healthy lifestyle so as to resolutely win the battle of epidemic prevention and control.



Commuter car disinfection



Volunteers for temperature measurement

## Environmental, Social and Governance Report

The physical examination of the Group in 2020 are as follows:

Name of indicator	Unit	Data
Number of common physical examination for the year	Person	522
Number of occupational physical examination for the year	Person	31

### 4. Employee Care and Communication

The Group upholds the concept of “people-oriented”, puts humanistic care into practice, provides employees with a number of care benefits, organizes various leisure activities on a regular basis to enrich employees’ spare time, relieve their work pressure, and give them a sense of cohesion and happiness. We also pay attention to the communication with the staff, set up diversified staff communication channels, listen carefully to the valuable opinions of the staff through staff seminars, satisfaction surveys, general manager opinion box, bulletin boards, weekly meetings, etc., and respond actively to build a bridge of harmonious relationship between the staff and the enterprise.

#### Employee satisfaction surveys

The Human Resources Department of the Group conducts employee satisfaction surveys on management systems, working environment and atmosphere, remuneration and benefits, personal job identity, corporate culture and other aspects every year to fully understand employees’ true thoughts and suggestions for corporate management.

The results of this Year’s survey show that employees are generally satisfied with the Group’s open and transparent working atmosphere, reasonable and efficient systems and procedures, and strict safety management. Through comprehensive analysis, we formulate an implementation plan to improve employee satisfaction. We will continue to improve the management level of employee communication and teamwork in the future, so as to continuously enhance employees’ centripetal force, cohesion and loyalty to the Company. Thanks to our continuous efforts, the Group’s employee satisfaction survey scores have been increasing year after year. In 2020, we achieved an excellent score of 90 points.

## Environmental, Social and Governance Report

### Case: Subsidies for epidemic, a timely help in the difficult times

During the epidemic period, the labour union of the Group actively made efforts to pacify employees in difficulties in life, and effectively cared for the lives of employees. After visiting and investigating, on 30 April 2020, the labour union granted a living allowance of RMB6,000 to each of the four employees who had difficulties in family life to relieve their financial pressure and tide over the difficulties together.



Epidemic assistance activities for employees in need

## Environmental, Social and Governance Report

### Case: Soldier-supporting symposium on the “1 August” Military Day

In order to pay tribute to the people’s heroes and express our gratitude to our veteran comrades for their contribution to the enterprise, on the eve of the “1 August” Military Day, the Group organized the Soldier-supporting symposium for the veteran employees. The veteran workers had an interactive exchange on the development and construction of the enterprise, the current situation of the veteran’s life and the military life during the service period. During the meeting, the veterans expressed that they would continue to carry forward the glorious tradition of hard work and good style of the army, study diligently, love their work and make new achievements for the development of the Company.



Soldier-supporting symposium

## Environmental, Social and Governance Report

### VI. Low-carbon Emission Reduction, Ecological Protection

The Group adheres to the concept of green development and is committed to conducting its business and production in an environmentally friendly manner to maintain a harmonious relationship between the enterprise and nature. The Group strictly abides by the relevant environmental laws and regulations in the place where it operates, including but not limited to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), the Atmospheric Pollution Prevention and Control Law of the PRC (《中華人民共和國大氣污染防治法》), the Water Pollution Prevention and Control Law of the PRC (《中華人民共和國水污染防治法》), the Law on the Prevention and Control of Solid Waste Pollution of the PRC (《中華人民共和國固體廢物污染環境防治法》) and the Noise Pollution Prevention Law of the PRC (《中華人民共和國環境噪音防治法》). The Group has formulated and implemented the Administrative Measures on Environmental Protection (《環境保護管理辦法》) and other systems to conduct regular monitoring and control of sewage discharge, exhaust gas discharge, noise, waste, etc. in strict accordance with policy documents, specifications and procedures, to ensure the compliance of corporate operations in environmental management.

At the same time, the Group also promotes the environmental protection concept of “resource saving, emission reduction and recycling” in the production process, and strives to achieve a win-win situation for both the economy and the environment through process and equipment optimization, reasonable production planning and strict management regulations, etc. to reduce the impact of operations on the environment.

#### 1. Waste Management

The Group actively responds to the national advocacy of “promoting the green development mode, promoting clean production and circular economy development” and strictly follows the relevant provisions of laws and regulations and local policies such as the Law on the Prevention and Control of Solid Waste Pollution of the PRC (《中華人民共和國固體廢物污染環境防治法》), the Regulations on Promotion of Comprehensive Utilization of Resources in Zhejiang Province (《浙江省資源綜合利用促進條例》) and the Wenzhou Implementation Plan of Clean Up Action (《溫州市清廢行動實施方案》), actively takes measures to reduce the amount of waste generation, promote the comprehensive use of waste, reduce the harm of waste, prevent waste pollution, protect and improve the ecological environment.

The Group has formulated and implemented the Waste Management Measures (《廢棄物管理辦法》), the Hazardous Wastes Management System (《危險廢物管理制度》) and other policies, and set up the following waste management goals:

- ✓ The solid waste disposal rate reaches 100%, and the comprehensive utilization rate is not less than 80%
- ✓ Strictly implement the rule of combined forms for transfer of hazardous wastes, and the safe disposal rate of hazardous waste reaches 100%

## Environmental, Social and Governance Report

The Group continuously improves management measures to reduce the amount of raw material waste and enhance the efficiency of resource use through raw material consumption control, equipment maintenance and repair, process optimization and recycling.

**Raw material consumption control:** The Group has established a leading group for cost control to carry out activities to increase revenue and reduce expenditure, regularly take stock of material consumption and analyze the input and output of materials in workshops on a monthly basis, and urges each workshop to strengthen the management of remaining and waste materials.

**Equipment maintenance and repair:** The Group regularly maintains and repairs production equipment, cleans equipment surfaces, replaces aging tools, adds lubricants, etc. to ensure normal operation of equipment, and helps production staff to operate production facilities and equipment proficiently by means of “apprentices guided by teachers”, so as to reduce the scrap rate of each production process and reduce the scrapping of raw materials.



Meeting of leading group for cost control



Production equipment maintenance

## Environmental, Social and Governance Report

**Process optimization:** While ensuring the quality of products, the Group introduces profiles (i.e., materials casted according to the shape of the parts to be produced) to replace the original materials such as aluminium ingots. Given such advantage of profiles as can be used after simple cutting, scrap generation during the processing, casting and grinding of the parts can be reduced and, in turn, the use efficiency of raw materials can be further improved.

**Recycling:** For products returned from the market for repair, the Group will reuse certain materials that have passed inspections to improve the reuse rate of materials.

The Group understands that hazardous waste, if not properly managed and disposed, will have serious impact on the environment and even human body. For the hazardous waste generated in the production process, including waste emulsion and sludge, the Group sets up special storage locations and special containers for centralized storage, and establishes a hazardous waste management ledger, arranges special personnel to be responsible for collection and management, and regularly commissions qualified hazardous waste disposal units for unified transportation and treatment. At the same time, the Group has introduced integrated equipment for turning, milling and drilling processing to reduce the use of hazardous waste such as emulsion and machine oil.

The Group's regulations for hazardous materials during storage and transportation are as follows:

Pollution prevention and accident prevention measures taken **during storage:**

- According to environmental protection requirements, separate collection and stacking.
- The waste pickling sludge is sealed with a large woven bag to prevent residual substances from floating in the air, and the waste emulsion and waste mineral oil are packed in oil drums and marked.
- Check the hazardous waste warehouse every day to meet the requirements of rainproof, anti-sack and anti-leakage.
- Stacked neatly and kept tidy.

## Environmental, Social and Governance Report

Comply with the regulations of dangerous goods transportation management **during transportation:**

- Classified and transported according to the characteristics of hazardous waste.
- Entrust a company with professional hazardous waste transportation qualifications for transportation.
- The goods should be placed reasonably when loading, super height and width are strictly prohibited, so as to prevent them from falling during transportation, and the load should be packed and fixed to prevent it from falling.
- Send personnel to supervise when loading the vehicle, and during transportation, the entire vehicle is sealed to strictly prevent the spillage, scattering and leakage of hazardous waste.

The amount of waste produced by the Group in 2020 is as follows:

Name of indicator	Unit	The amount produced in 2020
<b>Hazardous waste</b>	Tonne	21.15
Sludge	Tonne	8.39
Waste oil	Tonne	1.44
Waste batteries	Tonne	0.17
Waste cutting fluids	Tonne	10.80
Waste packaging barrels	Tonne	0.35
<b>Non-hazardous waste</b>	Tonne	124.68
Production waste	Tonne	121.49
Office waste	Tonne	1.04
Plant household waste	Tonne	2.15

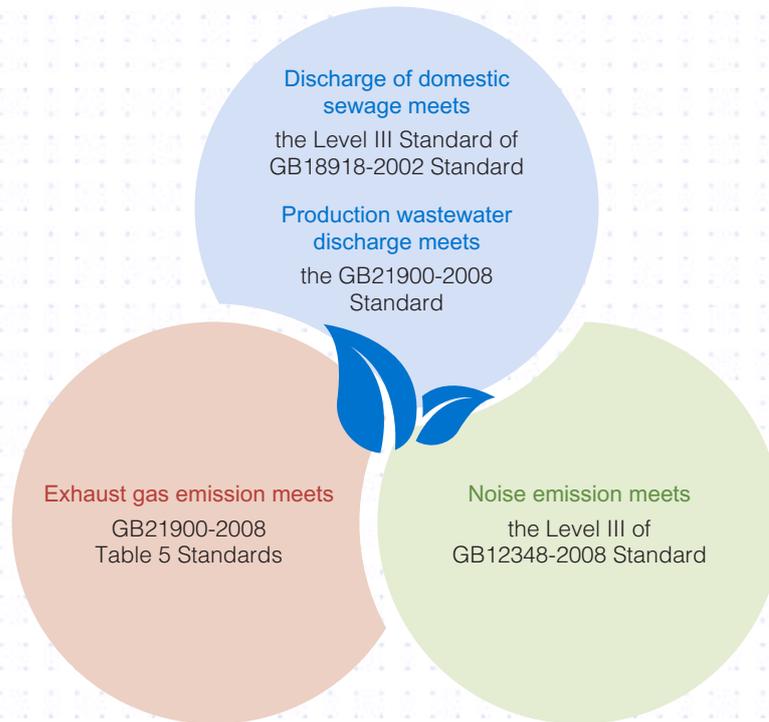
## Environmental, Social and Governance Report

### 2. Wastewater, Exhaust Gas and Noise Management

The Group strictly manages production wastewater, exhaust gas and noise, and strictly complies with the national and operating location emission standards for production wastewater, exhaust gas and noise. For production wastewater, the Group implements the Sewage Management Measures (《污水管理辦法》) and other systems, and installs wastewater treatment systems to precipitate and neutralize the harmful wastewater generated in production to ensure that it meets the production wastewater discharge standards before being discharged through the wastewater pipeline. In May 2020, Zhejiang Dongxing Energy Technology Limited, a subsidiary of the Group, signed a Contract for Maintenance of Wastewater Treatment Facilities to upgrade the existing simple wastewater treatment facilities and further enhance the wastewater treatment capacity of the Company. The Group installed exhaust gas adsorption and treatment devices on the production equipment generating exhaust gas to ensure the emission of exhaust gas meets the standards. In order to avoid noise nuisance, the Group strengthened the maintenance of equipment, replaced old equipment that broke down, reduced the vibration of machinery and equipment, and adopted sound insulation materials for the walls of the plant that emits equipment noise and implemented closed operation to effectively control production noise.

## Environmental, Social and Governance Report

The Group's wastewater, waste gas, and noise emissions follow the following national standards:



In order to monitor the compliance of wastewater, exhaust gas and noise emissions in real time, the Group installs monitoring equipment in the production processes that may generate exhaust gas, wastewater and noise according to the national control requirements, and monitors the emission indicators of wastewater, exhaust gas and noise in the production process in real time to ensure the compliance with the emission standards; clearly stipulates that each department is responsible for the emission compliance of its department, and requires the quality management personnel to conduct quarterly inspections on the emissions of wastewater, exhaust gas and noise, and promptly supervise the discovery and rectification of problems to ensure emission compliance. At the same time, the Group also commissions external professional monitoring organizations such as the Environmental Protection Bureau to monitor the emission compliance of wastewater, exhaust gas and noise every year to ensure that the emission indicators meet the requirements and the standards of the state and the place of operation.

## Environmental, Social and Governance Report

The exhaust gas of the Group in 2020 is as follows:

<b>Name of indicator</b>	<b>Unit</b>	<b>Emission in 2020</b>
SOx emissions	Kg	0.77
NOx emissions	Kg	147.21
Particulate matter emissions	Kg	12.31

### 3. Use of Environmentally Friendly Packaging Materials

In consideration of the quality and safety of product transportation, the Group pushes forward to enhance the environmental friendliness of packaging materials. Traditional packaging materials such as foam boxes have disadvantages such as non-degradability after disposal and high disposal costs. In order to enhance the environmental performance of product packaging, the Group uses a combination of air column bags and corrugated cardboard boxes for Roots meter, and air column bags and EPE pearl cotton for Turbo meter. The packaging materials such as corrugated cardboard boxes, air column bags and EPE do not contain any heavy metals, are non-toxic in combustion, naturally degradable and recyclable, which will effectively reduce the negative impact of using packaging materials on the environment. In addition, the Group does not print on the cartons used in order to reduce printing pollution and enhance the recycling rate of product packaging.

Use of packaging materials by the Group in 2020 is as follows:

<b>Name of Indicator</b>	<b>Unit</b>	<b>Consumption in 2020</b>
Packaging materials consumption	Tonne	325.70
Packaging materials consumption per unit of product	Tonne/Piece	0.0013

## Environmental, Social and Governance Report

### 4. Energy and Carbon Emission Management

Climate change is bringing about significant changes to the human social and economic situation worldwide. On the one hand, climate change brings about more frequent extreme weather phenomena and other issues that have a negative impact on production and operation; on the other hand, the relevant policies formulated by government agencies in response to climate change also have direct or indirect impacts on enterprises' access to resources or their ability to maintain operations. The Group actively responds to the call of the national development plan in terms of energy consumption and emission reduction, strengthens production energy management, improves energy efficiency per unit of output value, reduces greenhouse gas emissions and helps maintain a harmonious relationship between economic development and environmental protection.

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

#### Production planning

**Making reasonable construction schedules:** Process products in batches and adopt uninterrupted mode to reduce the power consumption of equipment preheating or waste caused by idling of equipment;

**Process improvement:** Optimize the material flow path to reduce the number of loading and unloading, promote automation improvement, and realize the simultaneous processing of multiple surfaces with one clamping in some processes, improving production efficiency and energy consumption.

#### Equipment management

**Green equipment procurement:** Priority is given to equipment with low energy consumption and advanced technology to reduce energy consumption when purchasing equipment;

**Fine management of equipment:** Regularly inspecting production equipment and weeding out old equipment with low capacity and high power consumption; setting an accurate time for running the constant temperature and humidity machine so as to reduce equipment energy consumption.

#### Vehicle use

**Green business travel:** Strictly manage the use of employee shuttle buses, trucks and official vehicles to reduce unnecessary use of vehicles;

**Vehicle maintenance:** Regularly maintain and repair vehicles and timely eliminates vehicles with higher fuel consumption to reduce the fuel consumption of the vehicles.

## Environmental, Social and Governance Report

The Group's energy consumption and greenhouse gas emissions in 2020 are as follows:

Name of Indicator	Unit	Consumption/ Emission in 2020
Total energy consumption	MWh	3,419.78
#Direct energy consumption	MWh	676.64
Gasoline consumption	Liter	34,598.44
Diesel consumption	Liter	16,664.83
Liquefied petroleum gas consumption	Kg	15,186.00
#Indirect energy consumption	MWh	2,743.14
Electricity	MWh	2,743.14
Energy consumption density	kWh/Piece	13.41
Total greenhouse gas emissions	tonne of CO <sub>2</sub> equivalent	2,391.66
#Greenhouse gas emissions (Scope I)	tonne of CO <sub>2</sub> equivalent	184.53
#Greenhouse gas emissions (Scope II)	tonne of CO <sub>2</sub> equivalent	2,207.13
Greenhouse gas emission intensity	tonne of CO <sub>2</sub> equivalent/Piece	0.01

Note: 1) The unit conversion coefficient for energy consumption refers to GB/T 2589-2020 General Principles of Comprehensive Energy Consumption Calculation (《GB/T 2589-2020綜合能耗計算通則》); 2) greenhouse gas emissions (Scope I) mainly come from the liquefied petroleum gas consumption of stationary sources equipment and gasoline and diesel consumption of official vehicles, while greenhouse gas emissions (Scope II) mainly come from outsourced power. The greenhouse gas emission factors of outsourced power are based on China Regional Power Grid Baseline Emission Factor for Emission Reduction Project for 2017 (《2017年度減排項目中國區域電網基準線排放因子》) published by the Ministry of Ecology and Environment; the greenhouse gas emission factors of gasoline used by stationary machine refer to the National Greenhouse Gas Inventory (《國家溫室氣體清單指南》) by IPCC; other greenhouse gas emission factors refer to the ESG Reporting Guide of the Stock Exchange(《ESG報告指引》); 3) the denominator used to calculate energy consumption intensity and greenhouse gas emission intensity is the number of products produced in 2020.

## Environmental, Social and Governance Report

### 5. Water Resource Consumption

The Group's water consumption includes a small amount of production water and daily office water, which is mainly taken from the municipal pipeline network. The Group recycles the water used in the production process multiple times, such as water for the cooling of parts, to improve the reuse rate of water resources. At the same time, the Group actively promotes the concept of "water conservation" in its daily offices, using water-saving faucets and appliances, posting water-saving signs in water-using places and recycling landscape water to reduce the consumption of precious water resources.

The Group's water resource consumption in 2020 is as follows:

<b>Name of Indicator</b>	<b>Unit</b>	<b>Consumption in 2020</b>
Total water consumption	m <sup>3</sup>	36,915.00
Water consumption per unit of product	m <sup>3</sup> /Piece	0.14

## Environmental, Social and Governance Report

### VII. Create An Upright and Clean Atmosphere with Integrity First

Integrity and compliance are the guiding beacon for enterprises to achieve healthy development. The Group has established and gradually improved its internal compliance management system on the basis of strict compliance with laws and regulations such as the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), the Interim Provisions on Banning Commercial Bribery (《關於禁止商業賄賂行為的暫行規定》) and the Anti-Monopoly Law of the PRC (《中華人民共和國反壟斷法》), to eliminate abuse of power, corruption and bribery and other improper business practices and to promote the clean enterprise construction.

#### 1. Integrity Management

The Group has formulated Code of Ethics (《廉政行為準則》) and Regulations on Accountability of Cadres (《幹部問責條例》) to promote the effective implementation of the management and supervision mechanism of leading cadres, requiring employees at all levels to comply with national laws and regulations and corporate rules and regulations, operate in accordance with the law, operate with integrity, be honest and trustworthy, and be diligent and dedicated to their work; and has included integrity in the assessment of cadres. If the leading cadres abuse their power, seek personal benefits and other acts that harm the interests of the enterprise and the order of the industry, the Group will seriously investigate and hold them responsible in accordance with the relevant regulations. In addition, the Group prohibits the management or the Board from authorizing, instructing or forcing the accounting staff to engage in activities that violate the financial system, and does not allow employees to use public funds for entertainment or to use improper means such as bribery or fraud in business activities such as procurement.

## Environmental, Social and Governance Report

In order to strengthen internal integrity supervision, the Group established a new Disciplinary Inspection Committee during this Year to perform the functions of supervision, education, protection and punishment to effectively and efficiently supervise the performance of duties and exercise of power by party leaders, so as to strengthen the construction of party integrity, gradually improve the internal supervision and self-restraint mechanism of the enterprise and deepen the construction of party integrity and anti-corruption management.



Election of Disciplinary Inspection Committee

To encourage external monitoring mechanism, we also encourage all stakeholders to report any suspicious behavior through various channels such as email, hotline, letters, etc. We will assign special personnel to investigate and handle the reported clues immediately after receiving them, and ensure that the whistleblower's personal privacy information is protected during the investigation process, and seriously deal with the leakage of case information or retaliation against the whistleblower. If the relevant reports are found to be major disciplinary incidents, the Group will give the relevant personnel administrative or economic penalties and strengthen internal rectification; those suspected of illegal crimes will be transferred to judicial organs for investigation of criminal responsibility in accordance with the law.

During the Reporting Period, there were no concluded legal cases regarding corrupt practices brought against the Group or its employees.

## Environmental, Social and Governance Report

### 2. Integrity Promotion Culture Education

The Group takes “clean enterprise” as a carrier to build up the ideological line of defense of cadres and workers, actively carries out integrity publicity and education from the whole group level, effectively strengthens the awareness of clean practice of employees, and creates and consolidates an upright and clean atmosphere. This Year, the Group opened a special column of “Clean Cangnan Instrument, Clean and Honest (清廉蒼儀·清正廉明)” in the corridor of the office building to promote the culture of clean enterprise and to show the results of the Group’s clean governance work.



Propaganda column for clean enterprise

#### Case: Study of Regulations on Accountability of Cadres 《幹部問責條例》

On 13 April 2020, the Group organized a study of the Regulations on Accountability of Cadres for leading cadres above the level of workshop director and members of the accountability investigation team. The study aims to promote and improve the cadre management and supervision mechanism, release a strong signal of “accountability must be accountable and accountability must be strict”, and strengthen the responsibility of leading cadres in the governance of integrity, which is of great significance to achieve the steady and orderly development of the enterprise.

## Environmental, Social and Governance Report

### VIII. Overcoming Challenges and Win-Win Cooperation

Building an excellent supplier team is of great significance to the survival and development of the enterprise. The Group strictly complies with the requirements of the Tendering and Bidding Law of the People's Republic of China (《中華人民共和國招投標法》) and the Government Procurement Law of the People's Republic of China (《中華人民共和國政府採購法》) and other regulations, continuously improves the supplier management system, strengthens the unified management of the supplier file database, regularly conducts supplier audits and assessments, and strives to improve the overall efficiency and sustainability of the supply chain to provide customers with safer, higher quality, more efficient and environmentally friendly products and services.

As of 31 December 2020, the Group had a total of 369 suppliers. Data of suppliers by category are as follows:

<b>Category of suppliers</b>	<b>Number of suppliers</b>	<b>Percentage of total quantity</b>
Raw materials suppliers (including aluminium ingots, steel, external processing, electronic components, etc.)	311	84%
Production testing equipment suppliers	17	5%
Packaging materials suppliers	13	3%
Logistics suppliers	6	2%
Other suppliers	22	6%
<b>Total</b>	<b>369</b>	<b>100%</b>

## Environmental, Social and Governance Report

Regional distribution of non-logistics suppliers is as follows:



Note: 1. The distribution is based on the principal operating location of suppliers.

2. There are 6 logistics suppliers this Year. Because the logistics suppliers operate at multiple locations, they are not counted according to their regions.

## Environmental, Social and Governance Report

### 1. Supplier Management

The Group upholds the concept of win-win cooperation with suppliers and continues to promote the construction of the supplier management system. During the Year, the Group reorganized the Procurement Management Rule (《採購管理制度》) and continued to improve the regulation process in the procurement control procedures based on the original procurement system, added internal management documents such as Procurement Plan Management (《採購計劃管理》) and Definition of Procurement Methods (《採購方式界定》), and continuously standardized the management process of supplier access and supplier evaluation, so as to lay a solid foundation for improving the Group's supply chain management capability and product quality. In addition, the Group actively promotes the construction of clean procurement, strengthens the awareness of internal procurement personnel of their responsibility for integrity, and ensures the openness and transparency of the procurement process.

#### Supplier access management

The Group implements strict supplier access standards, conducts scientific evaluation of supplier qualifications and capabilities, and continuously enriches the content of supplier investigations to achieve fairness and impartiality in the procurement process and reduce supply chain risks in the access process. Process of the Group's access assessment is as follows:

##### *Supplier evaluation*

Investigate the supplier's quality assurance ability, delivery date and service status, quality management system, etc. by means of visits, audits, etc., and divide the suppliers into production and procurement categories and traders, and prepare the supplier questionnaire.

##### *Sample test*

Conduct sample inspections and tests on suppliers that initially meet the requirements to form an incoming inspection report and summarize the inspection conclusions.

##### *Supplier assessment*

Organize the quality and production departments to analyze the technical capability and quality assurance capability of the candidate suppliers, and give opinions in the supplier assessment form.

##### *Warehouse-in examination and approval*

Prepare the list of qualified suppliers according to the evaluation opinions, and report to the relevant leaders for review and approval before warehouse-in.

## Environmental, Social and Governance Report

### Supplier evaluation management

#### *Supplier annual review*

The Group conducts a comprehensive evaluation of suppliers from the aspects of timely supply rate, product qualification rate, after-sales service, production management, etc. and divides them into excellent, good, general and poor grades according to their scores. A system where the one who ranks the last will be eliminated is adopted and suppliers are urged to take the initiative to improve contract performance capabilities.

#### *Qualified supplier review*

The Group organizes a review of qualified suppliers once a year to review the qualification rate, timeliness, price rationality and service status of suppliers' purchase, and puts forward requirements and suggestions for improvement to suppliers with problems.

#### *Supplier information management*

Record the supplier's investigation, assessment, review results, and daily supply information in a timely manner to the qualified supplier's file to support continuous supervision and dynamic management of the supplier.

This Year, the Group strengthened the management and coordination of suppliers and categorized and registered each visiting supplier to ensure that there was no loss of supplier information. In addition, we gradually strengthened the management of price information of materials and parts, etc., and made copies of every procurement plan, price inquiry and centralized procurement to ensure the integrity of procurement information, so as to strengthen the data and information integration of the supplier database and improve the efficiency of supplier management.

## Environmental, Social and Governance Report

### Responsible supply chain

The Group is committed to building a responsible supply chain, integrating the concept of sustainable development into every aspect of supply chain management and guiding suppliers to fulfill their social responsibility through fair and rigorous audits and assessments.

For supplier access, the Group requires suppliers to specify their quality, environment and other management system certifications and other industry qualifications such as safety production license and special equipment manufacturing license, and encourages suppliers to actively carry out improvements in product service quality, production environment management and other aspects. Meanwhile, the Group prepares the form for reviewing occupational health and safety of suppliers to supervise suppliers' occupational health and safety management by means of on-site review, on-site review on an appointed third party or self-feedback for different types of suppliers.

As of 31 December 2020, the numbers of suppliers in the Group's supplier base who have obtained relevant management system certifications are as follows:

- 73 suppliers certified by ISO 9001 quality management system, up by 6 from the previous year.
- 36 suppliers certified by ISO 14001 environmental management system, up by 1 from the previous year.

## Environmental, Social and Governance Report

### 2. Communication and Exchanges with Suppliers

The Group is committed to establishing a partnership of mutual trust and mutual assistance with suppliers. We exchange business conditions and market information with suppliers through on-site visits, online communication, industry exhibitions and other channels, and actively participate in supplier support activities to further strengthen cooperation in areas such as resource integration and efficiency enhancement, so as to jointly promote the flow meter industry to a new level.

#### Case: Supplier pairing assistance activities

The Group actively responded to the call of the provincial and municipal associations of industry and commerce and participated in the “100 leading private enterprises pairing service” activities, and carried out pairing service activities with an upstream supporting production and supply manufacturer to help the development of enterprises in the industry chain and to expand and strengthen the flow meter industry. In 2019, the Group gave priority to the purchase of supporting products and the settlement and payment of purchase and sales. In January 2020, the Group encouraged the manufacturer to implement “machine for human” to reduce the labor intensity of workers and improve processing efficiency, and provided financial support of RMB80,000 by making use of the experience of the enterprise in successfully installing robot hands.



Supplier pairing assistance

## Environmental, Social and Governance Report

### IX. Devote to Public Welfare and Give Warmth to the Community

We actively participate in social welfare projects and continuously strengthen the positive interaction with the community. We focus on epidemic, education, helping the needy, respecting the elderly and charity projects, and actively transmit the power of goodness to the society with our little actions and long-term persistence. In 2020, the Group has donated a total of approximately RMB1.43 million to charity.

We strive to fulfill corporate social responsibility. In May 2011, the Group established a “Naming Sponsorship Charity Fund” with Cangnan Charity Federation pursuant to which the Group agreed to pay RMB600,000 every year to support public welfare and charity undertakings in Cangnan County. In recognition of the Group’s long-term contribution to charity in Cangnan County, the Cangnan Charity Federation specially awarded us the title of “Charity Star (慈善福星)” in 2020.



Medal of “Charity Star”

## Environmental, Social and Governance Report

### Case: Educational public welfare of respecting teachers and education

It is the common responsibility of the whole society to run a good education. Since 2017, the Group has been strongly supporting the educational public welfare activities of Cangnan County Education Promotion Association (蒼南縣尊師重教促進會), rewarding outstanding teachers and students, giving financial assistance to teachers with family difficulties and extremely poor students with outstanding academic performance, and motivating teachers and students to work actively and study diligently with awards for teaching, scholarships and grants. In October 2020, the Group again donated RMB150,000 to the Cangnan County Education Promotion Association to promote the virtue of respecting teachers and education and to help the development of the new Cangnan education.

### Case: Elderly home visit activity

In order to truly implement the care and help for the elderly, we visit the elderly people in the nursing home in Mazhan Town every year when the Chinese New Year comes without interruption. In January 2020, the party secretary, deputy general manager, and labor union chairman of the Group came to the nursing home in Mazhan Town again to send gifts, financial aids special and greetings for the Spring Festival to the elderly people in the nursing home in Mazhan Town. At the same time, they purchased TVs for the elderly activity room of the nursing home in Mazhan Town and other entertainment products, used practical actions to convey warmth and fulfill the original intention and mission of public welfare.

## Environmental, Social and Governance Report

The virus is ruthless, but there is love in the world. In this Year's battle against the epidemic, our Group attached great importance to it, took up the responsibility, gave full play to its own advantages and actively fulfilled its social responsibility. On 20 February 2020, we donated RMB600,000 to Cangnan Charity Federation, and our general manager, Huang Youliang, donated RMB100,000 to Cangnan Charity Federation in his personal name to contribute to winning the battle of epidemic prevention and control. In May 2020, the Group was awarded the title of "Outstanding Contributor to the Fight against the Epidemic" by the Cangnan Charity Federation to express the recognition of Cangnan Instrument's active participation in the fight against epidemic.



Medal of "Outstanding Contributor to the Fight against the Epidemic"

## Environmental, Social and Governance Report

### Blood donation campaign “Prevention and Control of the Epidemic for Love”

When we learned that the blood bank in Cangnan County was in an emergency due to the COVID-19, the Group actively responded to the call of the community and launched a voluntary blood donation activity with the theme of “Prevention and Control of the Epidemic for Love” for two consecutive days from 28 to 29 April 2020, mobilizing the Group’s young staff to actively participate in blood donation activities and contribute to the fight against COVID-19 and save lives. A total of 44 employees successfully donated blood in two days, with a total blood donation volume of over 10,000 ml.



Blood donation campaign “Prevention and Control of the Epidemic for Love”

## Environmental, Social and Governance Report

### Appendix I Content Index of ESG Reporting Guide

	ESG Index	Disclosure Status	Corresponding Chapter
<b>A1 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A1.1</b>	The types of emissions and respective emissions data.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A1.2</b>	Greenhouse gas emissions in total and, where appropriate, intensity.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A1.3</b>	Total hazardous waste produced and, where appropriate, intensity.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A1.4</b>	Total non-hazardous waste produced and, where appropriate, intensity.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A1.5</b>	Description of measures to mitigate emissions and results achieved.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A1.6</b>	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A2 General Disclosure</b>	Policies on the efficient use of resources, including energy, water and other raw materials.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A2.1</b>	Direct or indirect energy consumption by type in total and intensity.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A2.2</b>	Water consumption in total and intensity.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A2.3</b>	Description of energy use efficiency initiatives and results achieved.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A2.4</b>	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Disclosed	Low-carbon Emission Reduction, Ecological Protection

## Environmental, Social and Governance Report

ESG Index		Disclosure Status	Corresponding Chapter
<b>A2.5</b>	Total packaging material used for finished products and, if applicable, with reference to per unit produced.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A3 General Disclosure</b>	Policies on minimizing the issuer's significant impact on the environment and natural resources.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>A3.1</b>	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Disclosed	Low-carbon Emission Reduction, Ecological Protection
<b>B1 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Disclosed	Putting People First and Growing Together
<b>B1.1</b>	Total workforce by gender, employment type, age group and geographical region.	Disclosed	Putting People First and Growing Together
<b>B1.2</b>	Employee turnover rate by gender, age group and geographical region.	–	–
<b>B2 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Disclosed	Putting People First and Growing Together
<b>B2.1</b>	Number and rate of work-related fatalities.	Disclosed	Putting People First and Growing Together
<b>B2.2</b>	Lost days due to work injury.	–	–
<b>B2.3</b>	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Disclosed	Putting People First and Growing Together

## Environmental, Social and Governance Report

	ESG Index	Disclosure Status	Corresponding Chapter
<b>B3 General Disclosure</b>	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Disclosed	Putting People First and Growing Together
<b>B3.1</b>	The percentage of employees trained by gender and employee category (e.g. senior management, middle management).	Disclosed	Putting People First and Growing Together
<b>B3.2</b>	The average training hours completed per employee by gender and employee category.	Disclosed	Putting People First and Growing Together
<b>B4 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	Disclosed	Putting People First and Growing Together
<b>B4.1</b>	Description of measures to review employment practices to avoid child and forced labor.	Disclosed	Putting People First and Growing Together
<b>B4.2</b>	Description of steps taken to eliminate such practices when discovered.	Disclosed	Putting People First and Growing Together
<b>B5 General Disclosure</b>	Policies on managing environmental and social risks of the supply chain.	Disclosed	Overcoming Challenges and Win-Win Cooperation
<b>B5.1</b>	Number of suppliers by geographical region.	Disclosed	Overcoming Challenges and Win-Win Cooperation
<b>B5.2</b>	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Disclosed	Overcoming Challenges and Win-Win Cooperation
<b>B6 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labeling and privacy matters relating to products and services provided and methods of redress.	Disclosed	Based on Quality, Focus on Innovation
<b>B6.1</b>	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Disclosed	Based on Quality, Focus on Innovation

## Environmental, Social and Governance Report

	ESG Index	Disclosure Status	Corresponding Chapter
<b>B6.2</b>	Number of products and service related complaints received and how they are dealt with.	Disclosed	Based on Quality, Focus on Innovation
<b>B6.3</b>	Description of practices relating to observing and protecting intellectual property rights.	Disclosed	Based on Quality, Focus on Innovation
<b>B6.4</b>	Description of quality assurance process and recall procedures.	Disclosed	Based on Quality, Focus on Innovation
<b>B6.5</b>	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Disclosed	Based on Quality, Focus on Innovation
<b>B7 General Disclosure</b>	Information on the policies and compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Disclosed	Create An Upright and Clean Atmosphere with Integrity First
<b>B7.1</b>	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	Disclosed	Create An Upright and Clean Atmosphere with Integrity First
<b>B7.2</b>	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Disclosed	Create An Upright and Clean Atmosphere with Integrity First
<b>B8 General Disclosure</b>	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Disclosed	Devote to Public Welfare and Give Warmth to the Community
<b>B8.1</b>	Focus areas of contribution (e.g. education, environmental concerns, labor needs, health, culture, sport).	Disclosed	Devote to Public Welfare and Give Warmth to the Community
<b>B8.2</b>	Resources contributed (e.g. money or time) to the focus area.	Disclosed	Devote to Public Welfare and Give Warmth to the Community

## Environmental, Social and Governance Report

### Appendix II List of Laws and Regulations Observed

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

## Environmental, Social and Governance Report

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

## Environmental, Social and Governance Report

### ESG Index

#### B6 Product Responsibility

#### Major laws and regulations observed

Anti-Monopoly Law of the PRC 《中華人民共和國反壟斷法》

Tort Liability Law of the PRC 《中華人民共和國侵權責任法》

Advertising Law of the PRC 《中華人民共和國廣告法》

Product Quality Law of the PRC 《中華人民共和國產品質量法》

Law on Protection of the Rights and Interests of Consumers of the PRC 《中華人民共和國消費者權益保護法》

Certification and Accreditation Regulation of the PRC 《中華人民共和國認證認可條例》

Law on the Protection of Intellectual Property Rights of the PRC 《中華人民共和國知識產權法》

Patent Law of the PRC 《中華人民共和國專利法》

Copyright Law of the PRC 《中華人民共和國著作權法》

Trademark Law of the PRC 《中華人民共和國商標法》

#### Major relevant policies of the Group

Quality Management Rule 《質量管理制度》

Quality Reward and Punishment Rule 《質量獎懲制度》

Quality Improvement Management Rule 《質量改進管理制度》

Quality Loss Management Measures 《質量損失管理辦法》

Procedure Documents for QEO Management System 《QEO管理體系程序文件》

QEO Management Manual 《QEO管理手冊》

QC Activity Management System 《QC活動管理制度》

Regulations for Archiving Quality Records of the Quality Department 《品質部質量記錄存檔規定》

Regulations for Filling in the Quantity in the Quality Record of the Quality Department 《品質部質量記錄填寫數量規定》

Regulations for Three-Coordinate System Management 《三坐標系統管理規定》

Management Rule for Physical and Chemical Laboratories 《理化實驗室管理制度》

Management Rule for Testing Centers 《檢測中心管理制度》

Standards for Inspection and Acceptance of Purchased Materials 《採購物資檢驗接收標準》

Standards for Physical and Chemical Inspections of Castings and Raw Materials 《鑄件及原材理化檢驗標準》

Standards for Inspection of Aluminium Alloy Castings 《鋁合金鑄件檢驗標準》

Standards for Sampling Inspection and Acceptance of Parts and Components 《零部件抽樣檢驗接收標準》

## Environmental, Social and Governance Report

### ESG Index

### Major laws and regulations observed

### Major relevant policies of the Group

- Standards for Three-Coordinate Inspection and Acceptance (《三坐標檢驗接收標準》)
- Standards for Inspection and Acceptance of Semi-Finished Products (《半成品檢驗接收標準》)
- Standards for Inspection and Acceptance of Finished Products (《成品檢驗接收標準》)
- Standards for Delivery Inspection of Products (《產品出廠核檢檢驗標準》)
- Standards for Inspection and Acceptance of Welded Pressure Pipeline (《壓力管道焊縫檢驗接收標準》)
- Standards for Inspection of Gas Filters (《燃氣過濾器檢驗標準》)
- Procedures for Ultrasonic Flaw Detection (《超聲波探傷檢測規程》)
- Regulations on Inspection, Testing and Management of Furnace's Lot Number and Sample (《爐批號試樣檢驗試驗及管理規定》)
- Procedures for Management and Control of Customer Satisfaction (《顧客滿意度管理控制程序》)
- Control Procedures for Corrective Measures for Non-Conforming Products (《不合格品糾正措施控制程序》)
- Measurement Management System Manual (《測量管理體系手冊》)
- Procedure Documents for Measurement Management System (《測量管理體系程序文件》)
- Procedures for Product Identification and Traceability Control (《產品標識與可追溯控制程序》)

## Environmental, Social and Governance Report

### ESG Index

### Major laws and regulations observed

### Major relevant policies of the Group

Incentive Rule for Technology Innovation 《技術創新激勵制度》

Management Regulations for Enterprise Intellectual Property 《(企業知識產權管理規範)》

General Rules for Intellectual Property Management 《知識產權管理總則》

Patent Management Rule 《專利管理制度》

Trademark Management Rule 《商標管理制度》

Enterprise Copyright Management Rule 《企業著作權管理制度》

Trade Secret Management Rule 《商業秘密管理制度》

Rule of Rewards and Penalties for Intellectual Property 《知識產權獎懲制度》

Emergency Plan for Intellectual Property 《知識產權應急方案》

Control Procedures for Application of Intellectual Property 《知識產權申請控制程序》

Control Procedures for Search of Intellectual Property 《知識產權檢索控制程序》

Control Procedures for Change and Abandonment of Intellectual Property 《知識產權變更、放棄控制程序》

Control Procedures for Information Distribution of Intellectual Property 《知識產權信息發佈控制程序》

Confidentiality Contract 《保密合同》

Non-Competition Agreement 《競業禁止協議書》

Marketing Management Rule 《市場營銷管理制度》

## Environmental, Social and Governance Report

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

# Independent Auditor's Report

## To the Shareholders of Zhejiang Cangnan Instrument Group Company Limited

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

### Opinion

#### What we have audited

The consolidated financial statements of Zhejiang Cangnan Instrument Group Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 168 to 246, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

## Independent Auditor's Report

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Opinion

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

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

### Independence

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

## Independent Auditor's Report

### Key Audit Matters

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

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

#### Key Audit Matter

#### How our audit addressed the Key Audit Matter

##### Loss allowance of trade receivables

Refer to Note 2.10.3, Note 2.13, Note 4(b) and Note 18 to the consolidated financial statements.

As at 31 December 2020, the net carrying amount of trade receivables of the Group was RMB430.8 million against which accumulated loss allowance of RMB62.7 million was recorded. For the year ended 31 December 2020, net impairment losses on financial assets related to impairment loss of trade receivables was RMB12.6 million.

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

We obtained an understanding of the management's internal control and assessment process of the loss allowance of trade receivables and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud. Our procedures included:

We understood, evaluated and tested management's key controls over the Group's assessment in relation to the recoverability of trade receivables balance and the loss allowance of trade receivables on a sample basis, including periodic review of aging, periodic review of historical loss rates and approval of provisions made.

We compared the historical data, including sales and bad debts, on a sample basis, used in the calculation of historical loss rates of different groups of trade receivables to actual sales and bad debts losses in a defined period.

## Independent Auditor's Report

### Key Audit Matters (Continued)

Key Audit Matter (Continued)	How our audit addressed the Key Audit Matter (Continued)
<b>Loss allowance of trade receivables (Continued)</b>	
<p>The loss allowance of trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and uses historical data to calculate the historical loss rates, based on the Group's historical credit loss experience, with an adjustment to reflect existing market conditions as well as forward looking information. To measure the expected credit losses, trade receivables have been grouped by considering shared credit risk characteristics and the days past due.</p>	<p>We challenged and assessed management's assessment of current market conditions and forward-looking information by comparing the data used by management against publicly available information and industry information.</p>
<p>We focused on this area due to its significance to the consolidated financial statements and significant management's estimates and judgements involved in the assessment of loss allowance of trade receivables.</p>	<p>We checked management's aging analysis of trade receivable balances as at 31 December 2020, on a sample basis, to supporting documents including sales invoices and other supporting evidence.</p>
	<p>We checked the mathematical accuracy of management's calculation for loss allowance of trade receivables.</p>
	<p>Based on the above, we found that management's estimates and judgements involved in the assessment of loss allowance on trade receivables were supported by available evidence.</p>

### Other Information

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

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

## Independent Auditor's Report

### Other Information (Continued)

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

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

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

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

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

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

## Independent Auditor's Report

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

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

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

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

## Independent Auditor's Report

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

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

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

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

## Independent Auditor's Report

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

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

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

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 25 March 2021

## Consolidated Statement of Profit or Loss

For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020 RMB' 000	2019 RMB' 000
Revenue	5	<b>409,682</b>	484,260
Cost of sales	8	<b>(150,430)</b>	(146,379)
<b>Gross profit</b>		<b>259,252</b>	337,881
Selling and distribution expenses	8	<b>(92,143)</b>	(124,223)
Administrative expenses	8	<b>(62,655)</b>	(76,395)
Net (impairment losses)/reversal of impairment losses on financial assets	18	<b>(12,607)</b>	1,160
Research and development expenses	8	<b>(33,867)</b>	(39,691)
Other income	6	<b>20,083</b>	45,127
Other gains – net	7	<b>4,283</b>	8,138
<b>Operating profit</b>		<b>82,346</b>	151,997
Finance income	10	<b>11,907</b>	13,126
Finance expenses	10	<b>(1,801)</b>	(4,164)
Finance income – net		<b>10,106</b>	8,962
<b>Profit before income tax</b>		<b>92,452</b>	160,959
Income tax expenses	11	<b>(10,899)</b>	(20,979)
<b>Profit for the year</b>		<b>81,553</b>	139,980
<b>Attributable to:</b>			
Equity holders of the Company		<b>79,986</b>	136,532
Non-controlling interests		<b>1,567</b>	3,448
		<b>81,553</b>	139,980
<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	<b>1.15</b>	1.96

The notes on page 175 to 246 are an integral part of these consolidated financial statements.

## Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
<b>Profit for the year</b>	<b>81,553</b>	139,980
<b>Other comprehensive income:</b>	<b>–</b>	–
<b>Total comprehensive income for the year</b>	<b>81,553</b>	139,980
<b>Attributable to:</b>		
Equity holders of the Company	<b>79,986</b>	136,532
Non-controlling interests	<b>1,567</b>	3,448
	<b>81,553</b>	139,980

The notes on page 175 to 246 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

As at 31 December 2020

	Note	As at 31 December	
		2020 RMB' 000	2019 RMB' 000
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights	13	31,838	5,898
Property, plant and equipment	14	84,934	71,567
Intangible assets	16	190	–
Right-of-use assets	15	1,235	354
Deferred income tax assets	29	24,164	23,014
Prepayment	18	100,000	–
Financial assets at fair value through other comprehensive income		100	100
Restricted cash	20	26,318	19,268
		<b>268,779</b>	120,201
<b>Current assets</b>			
Trade receivables and other financial assets at amortised cost and prepayments	18	448,191	524,124
Inventories	19	115,387	127,741
Restricted cash	20	28,558	25,879
Term deposits	21	50,000	–
Cash and cash equivalents	22	503,767	593,279
		<b>1,145,903</b>	1,271,023
<b>Total assets</b>		<b>1,414,682</b>	1,391,224
<b>Equity and liabilities</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital	23	69,791	69,791
Other reserves	24	499,822	499,822
Retained earnings	25	499,446	461,335
		<b>1,069,059</b>	1,030,948
<b>Non-controlling interests</b>		<b>15,310</b>	15,171
<b>Total equity</b>		<b>1,084,369</b>	1,046,119

**Consolidated Balance Sheet**

As at 31 December 2020

		<b>As at 31 December</b>	
	Note	<b>2020</b>	2019
		<b>RMB' 000</b>	RMB' 000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Deferred income	28	<b>125</b>	305
<b>Current liabilities</b>			
Trade and other payables	26	<b>133,976</b>	153,280
Current income tax liabilities		<b>32,496</b>	39,748
Borrowings	27	<b>76,800</b>	66,650
Lease liabilities	15	<b>1,252</b>	363
Deferred income	28	<b>180</b>	180
Warranties provision	30	<b>5,560</b>	6,042
Provisions for other liabilities and charges	30	<b>79,924</b>	78,537
		<b>330,188</b>	344,800
<b>Total liabilities</b>		<b>330,313</b>	345,105
<b>Total equity and liabilities</b>		<b>1,414,682</b>	1,391,224

The notes on page 175 to 246 are an integral part of these consolidated financial statements.

The financial statements on pages 168 to 246 were approved by the Board of Directors on 25 March 2021 and were signed on its behalf:

Hong Zuobin

*Director*

Huang Youliang

*Director*

## Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB' 000 (Note 23)	RMB' 000 (Note 24)	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<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 year	–	–	136,532	136,532	3,448	139,980
<b>Total comprehensive income</b>	–	–	136,532	136,532	3,448	139,980
<b>Transactions with owners</b>						
Issuance of ordinary shares	17,901	160,146	–	178,047	–	178,047
Dividends (Note 31)	–	–	(55,833)	(55,833)	–	(55,833)
Dividends to non-controlling interests	–	–	–	–	(1,933)	(1,933)
<b>Total transactions with owners, recognised directly in equity</b>	17,901	160,146	(55,833)	122,214	(1,933)	120,281
<b>Balance at 31 December 2019</b>	69,791	499,822	461,335	1,030,948	15,171	1,046,119
<b>Balance at 1 January 2020</b>	<b>69,791</b>	<b>499,822</b>	<b>461,335</b>	<b>1,030,948</b>	<b>15,171</b>	<b>1,046,119</b>
<b>Comprehensive income</b>						
Profit for the year	–	–	79,986	79,986	1,567	81,553
<b>Total comprehensive income</b>	–	–	79,986	79,986	1,567	81,553
<b>Transactions with owners</b>						
Dividends (Note 31)	–	–	(41,875)	(41,875)	–	(41,875)
Dividends to non-controlling interests	–	–	–	–	(1,428)	(1,428)
<b>Total transactions with owners, recognised directly in equity</b>	–	–	(41,875)	(41,875)	(1,428)	(43,303)
<b>Balance at 31 December 2020</b>	<b>69,791</b>	<b>499,822</b>	<b>499,446</b>	<b>1,069,059</b>	<b>15,310</b>	<b>1,084,369</b>

The notes on page 175 to 246 are an integral part of these consolidated financial statements.

**Consolidated Statement of Cash Flows**

For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020 RMB' 000	2019 RMB' 000
<b>Cash flows from operating activities</b>			
Cash generated from operations	32(a)	<b>125,684</b>	253,025
Interest received		<b>13,548</b>	9,736
Income tax paid		<b>(19,301)</b>	(26,073)
Net cash generated from operating activities		<b>119,931</b>	236,688
<b>Cash flows from investing activities</b>			
Prepayment for investment		<b>(100,000)</b>	–
Purchases of property, plant and equipment		<b>(8,034)</b>	(19,167)
Payments for land use rights		<b>(20,738)</b>	(5,540)
Purchases of intangible assets		<b>(238)</b>	–
Proceeds from disposal of property, plant and equipment	32(b)	<b>83</b>	25
Payment for deposit for potential investments		<b>(95,665)</b>	–
Payment for term deposits		<b>(50,000)</b>	–
Placement of structured bank deposits		<b>(100,000)</b>	–
Payments for other financial assets at amortised cost		<b>(10,000)</b>	(31,166)
Repayment from other financial assets at amortised cost		<b>12,000</b>	12,000
Repayment for structured bank deposits		<b>100,000</b>	–
Repayment for deposit for potential investments		<b>95,665</b>	–
Interest received on other financial assets at amortised cost		<b>1,543</b>	1,124
Gains received on structured bank deposits		<b>3,561</b>	–
Net cash used in investing activities		<b>(171,823)</b>	(42,724)

**Consolidated Statement of Cash Flows**

For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020 RMB' 000	2019 RMB' 000
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		<b>91,300</b>	66,650
Repayment of borrowings		<b>(81,150)</b>	(69,650)
Interest paid		<b>(2,515)</b>	(3,156)
Lease payments		<b>(901)</b>	(881)
Payments in relation to financial guarantees	30	<b>(77)</b>	(5,000)
Dividends paid to the Company's equity holders		<b>(41,875)</b>	(55,833)
Dividends paid to non-controlling interests		<b>(1,428)</b>	(1,933)
Listing expenses paid		–	(17,046)
Proceeds from issuance of ordinary shares		–	225,892
Net cash (used in)/generated from financing activities		<b>(36,646)</b>	139,043
<b>Net (decrease)/increase in cash and cash equivalents</b>			
Cash and cash equivalents at beginning of year		<b>593,279</b>	260,026
Exchange differences on translation of cash and cash equivalents		<b>(974)</b>	246
<b>Cash and cash equivalents at end of year</b>		<b>503,767</b>	593,279

The notes on page 175 to 246 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1 General Information

The Company was incorporated on September 15, 1982 in the People's Republic of China (the "PRC") with limited liability under the Company Law of the PRC. The address of its registered office is Industrial Zone, Cangnan County, Wenzhou City, Zhejiang Province, the PRC. The Company was originally incorporated under the name of Zhejiang Cangnan Instrument Group Limited (浙江蒼南儀錶集團有限公司) with registered capital of RMB51,890,000.

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

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 4 January 2019.

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 County, Zhejiang Province, the PRC.

The financial statements are presented in Renminbi Yuan (RMB), unless otherwise stated.

## 2 Summary of significant accounting policies

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

### 2.1 Basis of preparation

#### (i) Compliance with IFRS and HKCO

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

#### (ii) Historical cost convention

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

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

## Notes to the Consolidated Financial Statements

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

#### 2.1 Basis of preparation (Continued)

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material—amendments to IAS 1 and IAS 8
- Definition of a Business—amendments to IFRS 3
- Interest Rate Benchmark Reform—amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

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

Certain new accounting standards and amendments have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group.

		<b>Effective for annual periods beginning on or after</b>
Amendment to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined
Amendments to IFRS 3	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before intended use	1 January 2022
Amendments to IAS 37	Onerous Contracts—Cost to Fulfilling a Contract	1 January 2022
Amendments to Annual Improvements Project	Annual Improvements 2018—2020 Cycle	1 January 2022
IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of Liabilities as Current or Non-current	1 January 2023

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

## Notes to the Consolidated Financial Statements

## 2 Summary of significant accounting policies (Continued)

### 2.2 Principles of consolidation

#### 2.2.1 Subsidiaries

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

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

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

#### 2.2.2 Separate financial statements

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

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

### 2.3 Segment reporting

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

## Notes to the Consolidated Financial Statements

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

#### 2.4 Foreign currency translation

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

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

##### (b) Transactions and balances

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

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

##### (c) Group companies

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

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

#### 2.5 Land use rights

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

## Notes to the Consolidated Financial Statements

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

#### 2.6 Property, plant and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other gains—net' in the consolidated statement of profit or loss.

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

## Notes to the Consolidated Financial Statements

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

#### 2.7 Investment property

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

#### 2.8 Intangible assets

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

#### 2.9 Impairment of non-financial assets

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

#### 2.10 Financial assets

##### 2.10.1 Classification

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

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

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

## Notes to the Consolidated Financial Statements

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

#### 2.10 Financial assets (Continued)

##### 2.10.1 Classification (Continued)

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

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

##### 2.10.2 Measurement

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

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

###### (a) Debt instruments

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

###### (b) Equity instruments

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

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

## Notes to the Consolidated Financial Statements

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

#### 2.10 Financial assets (Continued)

##### 2.10.3 Impairment

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

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

#### 2.11 Offsetting financial instruments

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

#### 2.12 Inventories

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

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

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

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

## Notes to the Consolidated Financial Statements

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

#### 2.14 Cash and cash equivalents

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

#### 2.15 Share capital

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

#### 2.16 Trade payables

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

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

#### 2.17 Borrowings

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

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

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

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

## Notes to the Consolidated Financial Statements

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

#### 2.18 Borrowing costs

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

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

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

Borrowing costs include interest expense and finance charges.

#### 2.19 Current and deferred income tax

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

##### (a) Current income tax

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

## Notes to the Consolidated Financial Statements

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

#### 2.19 Current and deferred income tax (Continued)

##### (b) Deferred income tax

###### *Inside basis differences*

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

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

##### (c) Offsetting

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

#### 2.20 Employee benefits

##### (a) Pension obligations

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

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

## Notes to the Consolidated Financial Statements

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

#### 2.20 Employee benefits (Continued)

##### (b) Employee leave entitlements

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

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

#### 2.21 Provisions

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

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

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

#### 2.22 Government grants

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

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

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

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

## Notes to the Consolidated Financial Statements

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

#### 2.23 Revenue recognition

##### (a) Sales of products

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

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

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

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

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

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

## Notes to the Consolidated Financial Statements

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

#### 2.23 Revenue recognition (Continued)

##### (b) Sales of services

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

#### 2.24 Interest income

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

#### 2.25 Research and development

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

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

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

## Notes to the Consolidated Financial Statements

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

#### 2.26 Financial guarantee contracts

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

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

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

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

#### 2.27 Leases

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

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

## Notes to the Consolidated Financial Statements

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

#### 2.27 Leases (Continued)

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

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

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

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

To determine the incremental borrowing rate, the Group:

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

## Notes to the Consolidated Financial Statements

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

#### 2.27 Leases (Continued)

If a readily observable amortising loan rate is available to the individual lessee (through recent financing or market data) which has a similar payment profile to the lease, then the group entities use that rate as a starting point to determine the incremental borrowing rate.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

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

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

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

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

#### 2.28 Dividend distribution

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

## Notes to the Consolidated Financial Statements

### 3 Financial risk management

#### 3.1 Financial risk factors

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

##### (a) Market risk

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

The Group's operations are predominantly conducted in Mainland China, and most of its transactions were denominated and settled in RMB, and therefore its foreign exchange risk is limited. Its exposure to foreign exchange risk is mainly arising from balances of cash and cash equivalents denominated in foreign currencies. The Group has not purchased any forward contracts to hedge its exposure to foreign exchange risk. The Group's trade receivables and other financial assets at amortised cost and cash and cash equivalents as at 31 December 2020 included foreign currencies denominated in either Euro ("EUR"), United States Dollars ("US\$") or Hong Kong Dollars ("HK\$"), which are disclosed in Note 18 and 22.

As at 31 December 2020, the Group did not have any significant foreign exchange risk from operation.

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

Except for cash and cash equivalents, restricted cash and term deposits (Notes 20, 21 and 22), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulting from the changes in interest rates as the interest rates of bank deposits are not expected to change significantly.

###### (iii) Cash flow and fair value interest rate risk

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

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk

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

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

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

As of 31 December 2020, other financial assets at amortised cost of RMB127,000 are in stage 3 under IFRS 9 as there is objective evidence of impairment for these receivables and therefore loss allowance is recognised based on lifetime expected credit loss (Note 18). Except for these stage 3 other financial assets at amortised cost, other financial assets at amortised cost have low risk of default and the counterparty has strong capacity to meet its contractual cash flow obligations in the near term, the Group considered them to have low credit risk, and the loss allowance is limited to 12 months expected losses.

The Company provided financial guarantees to third parties during the year ended 31 December 2020. As disclosed in Note 30, expected credit loss has been recognised for certain financial guarantees provided by the Company as the guarantor due to the defaults in payment from the third parties. In view of this, the Board of the Company has resolved that the Company will not provide any guarantees in favour of any parties, other than its subsidiaries in future.

## Notes to the Consolidated Financial Statements

## 3 Financial risk management (Continued)

## 3.1 Financial risk factors (Continued)

## (c) Liquidity risk

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

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

	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 5 years RMB' 000	Total RMB' 000
<b>At 31 December 2019</b>				
Borrowings	68,643	–	–	68,643
Interest payables for borrowings	79	–	–	79
Trade and other payables (Excluding tax payable, advances from customers, salaries and bonuses payable and interests payable)	114,269	–	–	114,269
Provisions for financial guarantee contracts	61,838	–	–	61,838
	244,829	–	–	244,829
<b>At 31 December 2020</b>				
Borrowings	<b>79,753</b>	–	–	<b>79,753</b>
Interest payables for borrowings	<b>108</b>	–	–	<b>108</b>
Trade and other payables (Excluding tax payable, advances from customers, salaries and bonuses payable and interests payable)	<b>89,551</b>	–	–	<b>89,551</b>
Provisions for financial guarantee contracts	<b>61,299</b>	–	–	<b>61,299</b>
	<b>230,711</b>	–	–	<b>230,711</b>

## Notes to the Consolidated Financial Statements

**3 Financial risk management (Continued)****3.2 Capital management**

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

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

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

The gearing ratios as at 31 December 2020 were as follows:

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
Total borrowings (Note 27)	<b>76,800</b>	66,650
Less: cash and cash equivalents (Note 22)	<b>(503,767)</b>	(593,279)
Net cash	<b>(426,967)</b>	(526,629)
Total equity attributable to equity holders of the Company	<b>1,069,059</b>	1,030,948
Total capital	<b>642,092</b>	504,319
Gearing ratio	<b>N/A</b>	N/A

## Notes to the Consolidated Financial Statements

### 3 Financial risk management (Continued)

#### 3.3 Fair value estimation

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

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

As at 31 December 2020, except for financial assets at fair value through other comprehensive income, the Group had no financial instruments that are measured at fair value.

The carrying amounts of the Group's financial assets, including trade receivables and other financial assets at amortised cost, cash and cash equivalents, restricted cash and short-term liabilities, including trade payables, other payables and borrowings are assumed to approximate their fair values due to their short-term maturities.

### 4 Critical accounting estimates and judgments

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

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

## Notes to the Consolidated Financial Statements

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

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

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

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

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

#### (b) Impairment of trade receivables

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

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

### 5 Revenue and segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker (the "CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions. The Group's internal reporting does not distinguish financial results between segments and reports financial results of the Group as a whole. Hence, the Group has only one reporting segment.

## Notes to the Consolidated Financial Statements

## 5 Revenue and segment information (Continued)

Revenue by product categories are analysed as below:

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Industrial and commercial gas flowmeter products	340,269	402,440
Residential gas meter products	44,356	56,687
Nuclear-related products	21,831	21,617
Maintenance services	3,226	3,516
	<b>409,682</b>	484,260

Revenue by geographical areas are analysed as below:

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
The PRC	407,677	480,847
Other countries	2,005	3,413
	<b>409,682</b>	484,260

No customer contributed more than 10% of the Group's total revenue for the year ended 31 December 2020.

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

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Customer 1	*	11%
Customer 2	*	10%

\* less than 10%

## Notes to the Consolidated Financial Statements

## 6 Other income

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Government grants	19,903	44,947
Amortization of deferred income related to government grants (a)	180	180
	<b>20,083</b>	45,127

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

## 7 Other gains – net

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Recoverable from guaranteed contract (Note 30)	3,651	3,710
Gains from structured bank deposits	3,561	–
Reversal of guarantee losses (Note 30)	462	5,998
Gains/(losses) on disposals of property, plant and equipment (Note 32)	55	(77)
Donation	(1,442)	(633)
Foreign exchange (losses)/gains – net	(1,251)	1,309
Litigation losses (Note 30)	(1,306)	(3,336)
Others	553	1,167
	<b>4,283</b>	8,138

## Notes to the Consolidated Financial Statements

### 8 Expenses by nature

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Changes in inventories of finished goods and work in progress	<b>26,383</b>	(40,047)
Raw materials and consumables used	<b>96,559</b>	150,125
Employee benefits expense (Note 9)	<b>77,345</b>	90,059
Sales service fee	<b>35,703</b>	67,407
Travel and office expenses	<b>11,493</b>	18,911
Depreciation and amortization (Note 13, 14, 15 and 16)	<b>12,298</b>	12,678
Utilities	<b>3,186</b>	3,500
Commission	<b>2,910</b>	5,782
Warranties provision (Note 30)	<b>8,357</b>	5,509
Transportation expenses	<b>4,929</b>	5,964
Costs for the moulds used in research and development and the design of new products	<b>6,812</b>	7,150
Promotion costs	<b>6,775</b>	6,665
Professional service fee	<b>9,121</b>	10,804
Real estate tax, stamp duty and other taxes	<b>272</b>	730
Auditor's remuneration		
– Audit service	<b>4,395</b>	4,767
Other expenses <sup>(*)</sup>	<b>32,557</b>	36,684
	<b>339,095</b>	386,688

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

## Notes to the Consolidated Financial Statements

**9 Employee benefits expense**

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Salaries, wages and bonuses	66,772	73,686
Pension	277	3,068
Housing fund, medical insurance and other social insurance	10,296	13,305
Total employee benefits expense	77,345	90,059

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

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

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group included four directors during the year ended 31 December 2020 (year ended 31 December 2019: five) whose emoluments are reflected in the analysis shown in Note 38.

The emoluments paid to the remaining one individual during the year ended 31 December 2020 were as follows:

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Wages, salaries and bonuses	857	–
Pension, housing fund, medical insurance and other social insurance	9	–
	865	–

## Notes to the Consolidated Financial Statements

## 9 Employee benefits expense (Continued)

## (b) Five highest paid individuals (Continued)

The number of highest paid non-director individuals, whose remuneration for the year ended 31 December 2020 fell within the following bands:

	Year ended 31 December	
	2020	2019
Emolument bands Nil to RMB1,000,000	1	–

## 10 Finance income – net

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Finance income:		
– Interest income	11,907	13,126
Finance expenses:		
– Interest expense on loans and provisions for legal claims	(3,164)	(3,593)
– Interest expense on leases	(47)	(39)
– Provisions: unwinding of discounts (Note 30)	–	(532)
Amount capitalised	1,410	–
Finance expenses expensed	(1,801)	(4,164)
Finance income – net	10,106	8,962

## Notes to the Consolidated Financial Statements

### 11 Income tax expenses

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Current income tax	12,049	17,971
Deferred income tax (Note 29)	(1,150)	3,008
Total income tax expenses	10,899	20,979

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

EIT is provided on the assessable income of entities within the Group incorporated in the PRC. The applicable EIT tax rate is 25% for the year ended 31 December 2020 (2019: 25%) except for the entities eligible for HNTE as discussed above.

## Notes to the Consolidated Financial Statements

## 11 Income tax expenses (Continued)

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

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

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Profit before income tax	92,452	160,959
Applicable tax rates	25%	25%
Tax calculated at applicable tax rate	23,113	40,240
Tax effects of:		
Expenses not deductible for tax purposes	1,164	2,227
Additional deduction of research and development expenses <sup>(*)</sup>	(6,111)	(7,501)
Tax effect from HNTE qualification	(7,267)	(13,987)
Income tax expenses	10,899	20,979

\* According to a policy promulgated by the State Tax Bureau of the PRC, enterprises engaged in research and development activities are entitled to claim 175% of the research and development expenses so incurred in a year as tax deductible expenses in determining its taxable profits for that year (“Super Deduction”). The Company and its subsidiaries are entitled to claim the Super Deduction in ascertaining the taxable profit for the year ended 31 December 2020 (2019: same).

## Notes to the Consolidated Financial Statements

### 12 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of shares in issue or deemed to be in issue during the year ended 31 December 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 year ended 31 December 2020 (2019: same) is the same as the basic earnings per share as there is no dilutive potential share during the year ended 31 December 2020.

	Year ended 31 December	
	2020	2019
Profit attributable to the equity holders of the Company (RMB'000)	<b>79,986</b>	136,532
Weighted average number of shares in issue or deemed to be in issue (in thousands)	<b>69,791</b>	69,601
Basic and diluted earnings per share (RMB)	<b>1.15</b>	1.96

## Notes to the Consolidated Financial Statements

**13 Land use rights**

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

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
At beginning of year	5,898	6,094
Additions	26,278	–
Amortization	(338)	(196)
At end of year	31,838	5,898

Amortisation of the land use rights has been charged to profit or loss or capitalised in construction in progress as follows:

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Administrative expenses (Note 8)	196	196
Construction in progress	142	–
	338	196

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

As at 31 December 2020, certain land use rights of the Group were pledged to secure short-term bank borrowings as disclosed in Note 27.

## Notes to the Consolidated Financial Statements

## 14 Property, plant and equipment

	Plant	Machinery	Vehicles	Furniture, fittings and equipment	Construction in progress (Note a)	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>At 1 January 2019</b>						
Cost	66,425	74,666	11,884	2,750	–	155,725
Accumulated depreciation	(32,747)	(46,718)	(10,091)	(2,191)	–	(91,747)
<b>Net book amount</b>	<b>33,678</b>	<b>27,948</b>	<b>1,793</b>	<b>559</b>	<b>–</b>	<b>63,978</b>
<b>Year ended 31 December 2019</b>						
Opening net book amount	33,678	27,948	1,793	559	–	63,978
Additions	77	3,694	3,306	161	11,929	19,167
Disposals	–	(59)	(43)	–	–	(102)
Depreciation charge (Note 8)	(3,738)	(6,477)	(980)	(281)	–	(11,476)
<b>Closing net book amount</b>	<b>30,017</b>	<b>25,106</b>	<b>4,076</b>	<b>439</b>	<b>11,929</b>	<b>71,567</b>
<b>At 31 December 2019</b>						
Cost	66,502	78,230	14,325	2,911	11,929	173,897
Accumulated depreciation	(36,485)	(53,124)	(10,249)	(2,472)	–	(102,330)
<b>Net book amount</b>	<b>30,017</b>	<b>25,106</b>	<b>4,076</b>	<b>439</b>	<b>11,929</b>	<b>71,567</b>
<b>Year ended 31 December 2020</b>						
Opening net book amount	<b>30,017</b>	<b>25,106</b>	<b>4,076</b>	<b>439</b>	<b>11,929</b>	<b>71,567</b>
Additions	<b>208</b>	<b>321</b>	<b>793</b>	<b>77</b>	<b>23,187</b>	<b>24,586</b>
Disposals	–	<b>(28)</b>	–	–	–	<b>(28)</b>
Depreciation charge (Note 8)	<b>(3,533)</b>	<b>(5,475)</b>	<b>(1,931)</b>	<b>(252)</b>	–	<b>(11,191)</b>
<b>Closing net book amount</b>	<b>26,692</b>	<b>19,924</b>	<b>2,938</b>	<b>264</b>	<b>35,116</b>	<b>84,934</b>
<b>At 31 December 2020</b>						
Cost	<b>66,710</b>	<b>78,035</b>	<b>15,118</b>	<b>2,988</b>	<b>35,116</b>	<b>197,967</b>
Accumulated depreciation	<b>(40,018)</b>	<b>(58,111)</b>	<b>(12,180)</b>	<b>(2,724)</b>	–	<b>(113,033)</b>
<b>Net book amount</b>	<b>26,692</b>	<b>19,924</b>	<b>2,938</b>	<b>264</b>	<b>35,116</b>	<b>84,934</b>

(a) The amount mainly represented the construction cost for the Company's industrial park.

## Notes to the Consolidated Financial Statements

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

During the year ended 31 December 2020, the amounts of depreciation expense charged to cost of sales, administrative expenses and research and development expenses are as follows:

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Cost of sales	6,088	6,983
Administrative expenses	3,905	2,989
Research and development expenses	1,198	1,504
	<b>11,191</b>	11,476

As at 31 December 2020, certain plants of the Group classified as property, plant and equipment were pledged to secure short-term bank borrowings as disclosed in Note 27.

As at 31 December 2020, the Group has not obtained the title certificate of auxiliary buildings with a total net book value of RMB1,123,000 (2019: RMB1,307,000).

### 15 Leases

#### (i) Amounts recognised in the consolidated balance sheet

	31 December 2020 RMB' 000	31 December 2019 RMB' 000
Right-of-use assets:		
Properties	1,235	354
Lease liabilities:		
Current	1,252	363

The additions to the right-of-use assets during 2020 was RMB881,000.

## Notes to the Consolidated Financial Statements

### 15 Leases (Continued)

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Depreciation charge (Note 8)	863	851

The total cash outflow for leases in 2020 was RMB901,000 (2019: RMB881,000).

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

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

#### (iv) Land use rights

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

## Notes to the Consolidated Financial Statements

### 16 Intangible assets

	<b>Computer software</b> RMB' 000
<b>At 1 January 2019</b>	
Cost	1,318
Accumulated amortization and impairment	(1,163)
<b>Net book amount</b>	<b>155</b>
<b>Year ended 31 December 2019</b>	
Opening net book amount	155
Amortization charge (Note 8)	(155)
<b>Closing net book amount</b>	<b>–</b>
<b>At 31 December 2019</b>	
Cost	1,318
Accumulated amortization and impairment	(1,318)
<b>Net book amount</b>	<b>–</b>
<b>Year ended 31 December 2020</b>	
Opening net book amount	–
Additions	<b>238</b>
Amortization charge (Note 8)	<b>(48)</b>
<b>Closing net book amount</b>	<b>190</b>
<b>At 31 December 2020</b>	
Cost	<b>1,556</b>
Accumulated amortization and impairment	<b>(1,366)</b>
<b>Net book amount</b>	<b>190</b>

During the year ended 31 December 2020, the amounts of amortization expense are charged to Administrative expenses.

## Notes to the Consolidated Financial Statements

## 17 Subsidiaries

The Company's direct interests in its subsidiaries as at 31 December 2020 and 2019 are set out as below:

Company name	Date of incorporation	Country of incorporation, legal status	Registered capital	Issued and fully paid capital	Equity interest held		Principal activities
					31 December 2020	31 December 2019	
Zhejiang Dongxing Software Development Limited (浙江東星軟件開發有限公司)*	14 November 2012	The PRC, limited liability company	RMB 11,902,500	RMB 11,902,500	100%	100%	Development of software and hardware technologies; manufacturing and sales of intelligent instruments and meters (excluding measuring instruments and meters).
Dongxing Energy Technology Limited (浙江蒼南儀錶集團東星能源科技有限公司)*	4 May 2015	The PRC, limited liability company	RMB 20,000,000	RMB 20,000,000	65%	65%	Research, manufacturing and sales of instruments and meters of new energy, petrochemical and nuclear power related equipment, gas equipment and pressure vessel.
Dongxing Intelligence Instrument Limited (浙江蒼南儀錶集團東星智能儀錶有限公司)*	4 May 2015	The PRC, limited liability company	RMB 31,800,000	RMB 15,000,000	78.66%	78.66%	Research, manufacturing and sales of gas meters and ancillary products.

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

## Notes to the Consolidated Financial Statements

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

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Trade receivables—third parties	<b>430,820</b>	454,793
Less: Loss allowance	<b>(62,687)</b>	(50,101)
Trade receivables—net	<b>368,133</b>	404,692
Notes receivable (a)	<b>35,626</b>	60,441
Prepayments	<b>107,982</b>	18,091
Interest receivable	<b>2,200</b>	5,384
Other financial assets at amortised cost	<b>34,377</b>	35,622
Less: Loss allowance	<b>(127)</b>	(106)
Other financial assets at amortised cost—net	<b>34,250</b>	35,516
Total	<b>548,191</b>	524,124
Less: non-current portion of prepayments (b)	<b>(100,000)</b>	—
Current portion	<b>448,191</b>	524,124

(a) As at 31 December 2020 and 2019, no notes receivable of the Group were pledged to secure notes payable. As at 31 December 2020 and 2019, notes receivable of the Group were all within one year.

(b) The amount represented the prepayment made by the Group to invest in Wenzhou Yongrun Investment Partnership (Limited Partnership) ("Wenzhou Yongrun"). On 11 December 2020, the Company entered into a limited partnership agreement with other partners to invest in Wenzhou Yongrun. The contribution from the Company was RMB100,000,000. As of 31 December 2020, the requisite procedures of the capital contribution was still in progress and the Company did not obtain the rights and obligations of a limited partner of Wenzhou Yongrun. As a result, the Group recognised the payment for this investment as a prepayment as of 31 December 2020.

## Notes to the Consolidated Financial Statements

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

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

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
RMB	<b>433,474</b>	498,853
HK\$	<b>6,733</b>	7,166
US\$	<b>2</b>	14
	<b>440,209</b>	506,033

As at 31 December 2020 and 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 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
Within 1 year	<b>322,937</b>	360,518
1 year to 2 years	<b>44,149</b>	40,471
2 years to 3 years	<b>18,562</b>	12,174
Over 3 years	<b>45,172</b>	41,630
	<b>430,820</b>	454,793

## Notes to the Consolidated Financial Statements

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

#### Impairment of trade receivables

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

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

#### Forward-looking information

The determinations of 12 months and the lifetime exposure at default (“EAD”), lifetime possibility of default (“PD”) and loss given default (“LGD”) also incorporates forward-looking information. The Company has performed historical data analysis and identified the key macroeconomic variables associated with credit risk and expected credit losses for each portfolio. The Company has developed macroeconomic forward looking adjustment model by establishing a pool of macroeconomic indicators, preparing data, filtering model factors and adjusting forward-looking elements, and the indicators include GDP year on year percentage change, inflation rate year on year percentage change, and unemployment rate year on year percentage change. Through regression analysis, the relationship among these economic indicators in history with EAD, PD and LGD is determined, and the EAD, PD, LGD are then determined through forecasting economic indicator.

During the reporting period, the Company used the predicted rates of forward-looking economic indicators by statistical analysis to determine the relevant expected credit loss. The impact of these economic indicators on PD and LGD varies to different businesses. The Company comprehensively considers internal and external data and statistical analysis to determine the relationship between these economic indicators with PD and LGD. The Company evaluates and forecasts these economic indicators at least annually provides the best estimates for the future, and regularly evaluates the results. Similar to other economic forecasts, the estimates of economic indicators have high inherent uncertainties, actual results may have significant difference with estimates. The Company considered the estimates above represented the optimal estimation of possible outcomes.

## Notes to the Consolidated Financial Statements

**18 Trade receivables and other financial assets at amortised cost and prepayments (Continued)****Impairment of trade receivables (Continued)****Forward-looking information (Continued)**

In 2020, the key macroeconomic assumptions used by the Company to estimate expected credit losses are listed below:

GDP—year on year percentage change: the average predictive GDP growth rate of year 2021 to year 2024 is about 6.33%.

Inflation rate—year on year percentage change: the average predictive inflation rate of year 2021 to year 2024 is about 2.63%.

Unemployment rate—year on year percentage change: the average predictive unemployment rate of year 2021 to year 2024 is about 3.55%.

The Group's loss allowance for trade receivables as at 31 December 2020 and 2019 was as follows:

	Within 1 year RMB' 000	1 year to 2 years RMB' 000	2 years to 3 years RMB' 000	Over 3 years RMB' 000	Total RMB' 000
<b>At 31 December 2020</b>					
Expected loss rate	1.9%	19.2%	49.2%	86.0%	
Gross carrying amount	322,937	44,149	18,562	45,172	430,820
Loss allowance	6,238	8,462	9,126	38,861	62,687
	Within 1 year RMB' 000	1 year to 2 years RMB' 000	2 years to 3 years RMB' 000	Over 3 years RMB' 000	Total RMB' 000
<b>At 31 December 2019</b>					
Expected loss rate	1.2%	15.2%	44.4%	82.2%	
Gross carrying amount	360,518	40,471	12,174	41,630	454,793
Loss allowance	4,282	6,172	5,409	34,238	50,101

## Notes to the Consolidated Financial Statements

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

#### Impairment of trade receivables (Continued)

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

The closing loss allowances for trade receivables as at 31 December 2020 reconcile to the opening loss allowances of the Group was as follows:

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
At beginning of year	50,101	51,272
Increase in loss allowance recognised in profit or loss during the year	24,021	16,609
Unused amounts reversed	(11,435)	(17,780)
At end of year	62,687	50,101

## Notes to the Consolidated Financial Statements

**18 Trade receivables and other financial assets at amortised cost and prepayments (Continued)****Impairment of other financial assets at amortised cost**

Other financial assets at amortized cost include notes receivable, interest receivable, debt instruments at amortised cost and other receivables. As of 31 December 2020 and 2019, other receivables of RMB127,000 and RMB106,000 of the Group were in stage 3 under IFRS 9 respectively as there was objective evidence of impairment of these receivables and loss allowance was recognised based on lifetime expected credit loss. Except for these stage 3 other receivables, the Group's debt instruments at amortized cost were considered to have low credit risk, and the loss allowance was therefore limited to 12 months expected losses. The Group has assessed that the expected credit losses for these financial assets were not material under the 12 months expected losses method. Thus, no loss allowance was recognised during the years ended 31 December 2020 and 2019. Other instruments were considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

The closing loss allowances for the stage 3 other receivables as at 31 December 2020 reconcile to the opening loss allowances as follows:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
At beginning of year	<b>106</b>	95
Increase in loss allowance recognised in profit or loss during the year	<b>21</b>	12
Unused amounts reversed	<b>–</b>	(1)
At end of year	<b>127</b>	106

## Notes to the Consolidated Financial Statements

### 19 Inventories

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Raw materials	<b>48,140</b>	34,103
Work-in-progress	<b>31,197</b>	34,677
Finished goods	<b>35,774</b>	58,677
Packaging materials and consumables	<b>276</b>	284
	<b>115,387</b>	127,741

During the years ended 31 December 2020 and 2019, the cost of the Group's inventories recognised as an expense and included in "Cost of sales" was RMB116,478,000 and RMB100,478,000 respectively (Note 8).

During the years ended 31 December 2020 and 2019, the cost of the Group's inventories recognised as an expense and included in "Research and development expenses" RMB6,464,000 and RMB9,600,000 respectively (Note 8).

## Notes to the Consolidated Financial Statements

## 20 Restricted cash

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Restricted cash pledged for notes payable (Note 26)	–	1,765
Restricted cash pledged for financial guarantees provided to third parties (i)	<b>36,309</b>	32,770
Others	<b>18,567</b>	10,612
	<b>54,876</b>	45,147
Less: non-current portion of restricted cash	<b>(26,318)</b>	(19,268)
	<b>28,558</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>15,328</b>	8,278
	<b>26,318</b>	19,268

Restricted cash is all denominated in RMB.

- (i) Due to providing financial guarantees to third parties (Note 30), bank deposits amounting to RMB25,319,000 (2019: RMB21,780,000) with maturity of 5 years were pledged since 2015. Another additional bank deposit amounting to RMB10,990,000 with maturity of 3 years was pledged since 2019.

## Notes to the Consolidated Financial Statements

### 21 Term deposits

	As at 31 December	
	2020	2019
	RMB' 000	RMB' 000
Bank deposits <sup>(*)</sup>	50,000	–

\* Bank deposits as at 31 December 2020 represented deposits placed at a bank in the PRC with original maturity over 3 months but less than one year.

### 22 Cash and cash equivalents

	As at 31 December	
	2020	2019
	RMB' 000	RMB' 000
Cash on hand	18	47
Cash at bank	503,749	593,232
Cash and cash equivalents	503,767	593,279

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

	As at 31 December	
	2020	2019
	RMB' 000	RMB' 000
RMB	475,820	563,508
US\$	5,272	5,082
EUR	9,856	9,134
HK\$	12,819	15,555
	503,767	593,279

## Notes to the Consolidated Financial Statements

## 23 Share capital

	H shares		Domestic shares		Total
	Number of ordinary shares '000	Nominal value of ordinary shares RMB'000	Number of ordinary shares '000	Nominal value of ordinary shares RMB'000	Nominal value of ordinary shares RMB'000
<b>Balance at 1 January 2019</b>	–	–	51,890	51,890	51,890
Issuance of ordinary shares (a)	17,901	17,901	–	–	17,901
<b>Balance at 31 December 2019, 1 January and 31 December 2020</b>	<b>17,901</b>	<b>17,901</b>	<b>51,890</b>	<b>51,890</b>	<b>69,791</b>

(a) During the year ended 31 December 2019, the Company issued 17,901,167 H Shares at an offer price of HK\$15.80 per share. As of the date of this report, the share capital of the Company is RMB69,791,167 with 51,890,000 domestic shares and 17,901,167 H Shares in issue.

## 24 Other reserves

	Capital reserves RMB'000
<b>Balance at 1 January 2019</b>	339,676
Issuance of ordinary shares	160,146
<b>Balance at 31 December 2019, 1 January and 31 December 2020</b>	<b>499,822</b>

## Notes to the Consolidated Financial Statements

### 25 Retained earnings

	<b>RMB' 000</b>
<b>Balance at 1 January 2019</b>	380,636
Profit for the year	136,532
Dividends (Note 31)	(55,833)
<b>Balance at 31 December 2019</b>	461,335
<b>Balance at 1 January 2020</b>	<b>461,335</b>
Profit for the year	<b>79,986</b>
Dividends (Note 31)	<b>(41,875)</b>
<b>Balance at 31 December 2020</b>	<b>499,446</b>

### 26 Trade and other payables

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
Trade payables – third parties (a)	<b>49,486</b>	58,987
Taxes payable	<b>41,244</b>	33,664
Notes payable (b)	–	764
Advances from customers (c)	<b>2,622</b>	4,543
Salaries and bonuses payable	<b>451</b>	725
Interests payable	<b>108</b>	79
Advances from employees for sundry expenses	<b>4,452</b>	5,963
Sales service fee payable	<b>6,694</b>	32,694
Sales commission payable	<b>3,218</b>	4,319
Construction payable	<b>15,000</b>	–
Others	<b>10,701</b>	11,542
	<b>133,976</b>	153,280

## Notes to the Consolidated Financial Statements

**26 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 approximated their fair values.

**(a) Trade payables**

As at 31 December 2020, the aging analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Within 1 year	43,785	54,075
1 year to 2 years	2,169	2,487
2 years to 3 years	1,506	721
Over 3 years	2,026	1,704
	<b>49,486</b>	58,987

**(b) Notes payable**

The Group had no notes payable as at 31 December 2020.

The Group's notes payable as at 31 December 2019 was as follows:

Notes payable Amount (RMB' 000)	Type	Collateral net book value (RMB' 000)	
		Restricted Cash	Notes receivable
764	Pledged	1,765	–

## Notes to the Consolidated Financial Statements

### 26 Trade and other payables (Continued)

#### (c) Advances from customers

A contract liability is recorded as advances from customers for the cash received from customers before the delivery of goods. Revenue recognised in relation to advances from customers during the year ended 31 December 2020 was as below:

	Year ended 31 December	
	2020	2019
	RMB' 000	RMB' 000
Revenue recognised that was included in the advances from customers at the beginning of the period	<b>4,543</b>	5,895

### 27 Borrowings

	As at 31 December	
	2020	2019
	RMB' 000	RMB' 000
Short-term bank borrowings		
– Secured and guaranteed	<b>48,900</b>	46,900
– Secured and non-guaranteed	<b>27,900</b>	14,750
– Guaranteed and non-secured	–	5,000
Total borrowings	<b>76,800</b>	66,650

## Notes to the Consolidated Financial Statements

**27 Borrowings (Continued)****(a) Borrowings from banks**

The Group's bank borrowings as at 31 December 2020 was as follows:

Borrowing Amount (RMB' 000)	Type of Borrowings	Collateral net book value (RMB' 000)		Guarantor
		Plant	Land use rights	
44,900	Secured and guaranteed	6,670	1,092	Zhejiang Dongxing Software Development Limited, Dongxing Intelligence Instrument Limited
4,000	Secured and guaranteed <sup>(*)</sup>	—	—	Dongxing Intelligence Instrument Limited
27,900	Secured <sup>(*)</sup>	—	—	—
<b>76,800</b>		<b>6,670</b>	<b>1,092</b>	

\* These borrowings are secured by self-developed patents of the Group.

## Notes to the Consolidated Financial Statements

## 27 Borrowings (Continued)

## (a) Borrowings from banks (Continued)

The Group's bank borrowings as at 31 December 2019 was as follows:

Borrowing Amount (RMB'000)	Type of Borrowings	Collateral net book value (RMB'000)		Guarantor
		Plant	Land use rights	
44,900	Secured and guaranteed	8,124	1,138	Zhejiang Dongxing Software Development Limited, Dongxing Intelligence Instrument Limited, Dongxing Energy Technology Limited
1,000	Secured and guaranteed <sup>(*)</sup>	–	–	Dongxing Energy Technology Limited
1,000	Secured and guaranteed <sup>(*)</sup>	–	–	Dongxing Intelligence Instrument Limited
5,000	Guaranteed	–	–	Zhejiang Dongxing Software Development Limited
14,750	Secured	20,166	4,760	–
66,650		28,290	5,898	

\* These borrowings are secured by a self-developed patent of the Group.

## Notes to the Consolidated Financial Statements

**27 Borrowings (Continued)****(a) Borrowings from banks (Continued)**

As at 31 December 2020 and 2019, the weighted average effective interest rates on borrowings from banks were 4.18% 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.

**28 Deferred income**

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
Government grants relating to property, plant and equipment	<b>305</b>	485
Less: Current portion	<b>(180)</b>	(180)
Non-current portion	<b>125</b>	305

The government grants were subsidies received from local governments for purchases of property, plant and equipment. The amounts are amortized to the profit or loss on a straight-line basis over the expected useful lives of the related assets.

The movements of the above government grants during the year ended 31 December 2020 were as follows:

	<b>Year ended 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
At beginning of year	<b>485</b>	665
Amortized as income (Note 6)	<b>(180)</b>	(180)
At end of year	<b>305</b>	485

## Notes to the Consolidated Financial Statements

## 29 Deferred income tax assets

The analysis of deferred tax assets (net) was as follows:

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Deferred tax assets:		
– Deferred tax assets to be recovered after more than 12 months	9,421	7,531
– Deferred tax assets to be recovered within 12 months	14,743	15,483
Total deferred tax assets (net)	24,164	23,014

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

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
At beginning of year	23,014	26,022
Income statement credit/(charge) (Note 11)	1,150	(3,008)
At end of year	24,164	23,014

## Notes to the Consolidated Financial Statements

**29 Deferred income tax assets (Continued)**

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

	Impairment of assets RMB'000	Provisions for other liabilities and charges RMB'000	Warranties provision RMB'000	Tax loss RMB'000	Unrealized profits – sales of inventories RMB'000	Total RMB'000
<b>At 1 January 2019</b>	7,705	14,208	1,418	790	1,901	26,022
Charged to the consolidated statement of profit or loss	(174)	(1,347)	(512)	(790)	(185)	(3,008)
<b>At 31 December 2019</b>	7,531	12,861	906	–	1,716	23,014
Credited/(charged) to the consolidated statement of profit or loss	1,891	219	(72)	598	(1,486)	1,150
<b>At 31 December 2020</b>	<b>9,422</b>	<b>13,080</b>	<b>834</b>	<b>598</b>	<b>230</b>	<b>24,164</b>

## Notes to the Consolidated Financial Statements

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

#### (a) Warranties provision

	<b>Warranties provision</b> RMB' 000
<b>Balance at 1 January 2019</b>	9,452
Charged to profit or loss:	
Additional provisions	5,509
Utilized during year	(8,919)
<b>Balance at 31 December 2019</b>	<b>6,042</b>
<b>Balance at 1 January 2020</b>	<b>6,042</b>
Charged to profit or loss:	
Additional provisions	<b>8,357</b>
Utilized during year	<b>(8,839)</b>
<b>Balance at 31 December 2020</b>	<b>5,560</b>

Analysis of total warranties provision:

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
Current	<b>5,560</b>	6,042

The Group provides warranties for its products sold. Within the warranty period, customers are entitled to free repairs and maintenance services for the products sold. The Group makes provision for warranty claims based on historical experience and actual costs incurred in the past.

## Notes to the Consolidated Financial Statements

**30 Warranties provision and provisions for other liabilities and charges  
(Continued)****(b) Provisions for other liabilities and charges****(i) Provisions for financial guarantee contracts**

	<b>Legal claims</b>
	RMB' 000
<b>Balance at 1 January 2019</b>	72,304
Charged to profit or loss:	
Unwinding of discount	532
Paid during year	(5,000)
Reversal of guarantee losses (Note 7)	(5,998)
<b>Balance at 31 December 2019</b>	<b>61,838</b>
<b>Balance at 1 January 2020</b>	<b>61,838</b>
Charged to profit or loss:	
Paid during year	<b>(77)</b>
Reversal of guarantee losses (Note 7)	<b>(462)</b>
<b>Balance at 31 December 2020</b>	<b>61,299</b>

Analysis of total provisions for financial guarantee contracts:

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB' 000</b>	RMB' 000
Current	<b>61,299</b>	61,838

## Notes to the Consolidated Financial Statements

### 30 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 recognised provisions for these financial guarantee contracts in 2014 and 2015.

During the year ended 31 December 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 year ended 31 December 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 (2019: RMB3,710,000).

The reversal of provision and recognition of the reimbursement receivable is recognised in profit or loss within 'Other gains—net'.

## Notes to the Consolidated Financial Statements

**30 Warranties provision and provisions for other liabilities and charges  
(Continued)****(b) Provisions for other liabilities and charges (Continued)****(ii) Provisions for litigation loss**

	<b>Legal claims</b>
	RMB'000
<b>Balance at 1 January 2019</b>	12,915
Charged to profit or loss:	
Additional provisions	
– Litigation claims (Note (a), Note 7)	3,336
– Interest accrual on litigation claims (Note (a))	448
<b>Balance at 31 December 2019</b>	16,699
<b>Balance at 1 January 2020</b>	<b>16,699</b>
Charged to profit or loss:	
Additional provisions	
– Litigation claims (Note (b), Note 7)	<b>1,306</b>
– Interest accrual on litigation claims (Note (a))	<b>620</b>
<b>Balance at 31 December 2020</b>	<b>18,625</b>

Analysis of total provisions for litigation loss:

	<b>As at 31 December</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	RMB'000
Current	<b>18,625</b>	16,699

## Notes to the Consolidated Financial Statements

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

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

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

- (a) In April and December 2014, the board of directors of the Company passed resolutions to retrieve and transfer the shareholding held by an ex-shareholder to a number of current employees of the Company as he carried out competing business activities in breach of the Company's then articles of association. The aggregate consideration for the transfer of RMB4.3 million was received in full from the current employees and recorded under "trade and other payables—others". Payment has not been made to the ex-shareholder pending the outcome of the legal claims brought against the Company by the ex-shareholder. The amounts provided under "provisions for litigation loss" represent provisions for two legal claims brought against the Company by the ex-shareholder for the unpaid dividend, and by Shanghai Zhongde Energy (Group) Co., Ltd. ("Zhongde"), of which the ex-shareholder was a shareholder and director, for a purchase transaction in dispute. Provision of RMB12.5 million has been made against these legal claims in 2017 considering the facts and circumstances and after seeking advice from legal counsel. In May 2019, a final court judgement on the legal claim of unpaid dividend was made by the Supreme Court of the PRC and the Company recognised an additional provision of RMB3.3 million accordingly. In the directors' opinion, the final outcome of these legal claims will not give rise to any significant loss beyond the amounts provided as at 31 December 2020.
- (b) In December 2020, the Company had a product quality dispute with one customer. Provision of RMB1.3 million has been made against the legal claims according to the court's judgement.

The provision charge is recognised in profit or loss within 'Other gains—net'.

## Notes to the Consolidated Financial Statements

### 31 Dividends

- (i) The dividends declared by the Company in the years ended 31 December 2020 and 2019 were RMB41,875,000 and RMB55,833,000 respectively.

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Dividends declared and paid	41,875	55,833

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

At the meeting of the directors of the Company held on 25 March 2021, the directors proposed that no final dividend shall be distributed for the year ended 31 December 2020 (2019: a final dividend of RMB0.6 per ordinary share), which is subject to the approval by the shareholders in general meeting. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 31 December 2020, but not recognised as a liability at year end, is around RMB0 (2019: RMB41,875,000).

## Notes to the Consolidated Financial Statements

**32 Cash generated from operations and reconciliation of liabilities arising from financing activities****(a) Reconciliation of profit before income tax to cash generated from operations**

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Profit before income tax	<b>92,452</b>	160,959
Adjustments for:		
– Depreciation of property, plant and equipment and right-of-use assets	<b>12,054</b>	12,327
– Amortization of intangible assets	<b>48</b>	155
– Amortization of land use rights	<b>196</b>	196
– (Gains)/Losses on disposals of property, plant and equipment	<b>(55)</b>	77
– Interest received on bank deposits	<b>(3,561)</b>	–
– Finance income – net	<b>(10,106)</b>	(8,962)
– Loss allowance/(Reversal of impairment losses) of trade receivables and other financial assets at amortised cost	<b>12,607</b>	(1,160)
– Litigation losses	<b>1,306</b>	3,336
– Reversal of provisions for other liabilities and charges	<b>(462)</b>	(5,998)
– Amortization of deferred income related to government grants	<b>(180)</b>	(180)
Changes in working capital		
– Inventories	<b>12,354</b>	(28,804)
– Trade receivables and other financial assets at amortised cost and prepayments	<b>52,600</b>	116,951
– Restricted cash	<b>(9,729)</b>	6,514
– Trade and other payables	<b>(33,358)</b>	1,024
– Warranties provision	<b>(482)</b>	(3,410)
<b>Cash generated from operations</b>	<b>125,684</b>	253,025

## Notes to the Consolidated Financial Statements

**32 Cash generated from operations and reconciliation of liabilities arising from financing activities (Continued)****(b) Proceeds from disposal of property, plant and equipment**

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Net book value (Note 14)	28	102
Gains/(losses) on disposal of property, plant and equipment (Note 7)	55	(77)
Proceeds from disposal of property, plant and equipment	83	25

**(c) Reconciliation of liabilities arising from financing activities**

	1 January 2019 RMB' 000	Reversal of provision RMB' 000	Unwinding of discount RMB' 000	Cash flows RMB' 000	Addition of lease liabilities RMB' 000	Interest expense on leases RMB' 000	31 December 2019 RMB' 000
Borrowings	69,650	-	-	(3,000)	-	-	66,650
Provisions for other liabilities and charges							
- financial guarantee contracts liabilities	72,304	(5,998)	532	(5,000)	-	-	61,838
Lease liabilities	1,205	-	-	(881)	-	39	363
Liabilities from financing activities	143,159	(5,998)	532	(8,881)	-	39	128,851

## Notes to the Consolidated Financial Statements

**32 Cash generated from operations and reconciliation of liabilities arising from financing activities (Continued)****(c) Reconciliation of liabilities arising from financing activities (Continued)**

	1 January 2020 RMB' 000	Reversal of provision RMB' 000	Unwinding of discount RMB' 000	Cash flows RMB' 000	Addition of lease liabilities RMB' 000	Interest expense on leases RMB' 000	31 December 2020 RMB' 000
Borrowings	66,650	-	-	10,150	-	-	76,800
Provisions for other liabilities and charges							
- financial guarantee contracts liabilities	61,838	(462)	-	(77)	-	-	61,299
Lease liabilities	363	-	-	(901)	1,743	47	1,252
Liabilities from financing activities	67,013	-	-	9,249	1,743	47	78,052

**33 Commitments****(a) Capital commitments**

Capital expenditure contracted but not yet incurred is as follows:

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
Land use right	-	5,540

## Notes to the Consolidated Financial Statements

### 34 Significant related party transactions

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

#### (a) Significant related party transactions

The following significant transactions were carried out between the Group and its related parties during the year ended 31 December 2020 and 2019. In the opinion of the directors of the Company, the related party transactions were carried out in the normal course of business and at terms negotiated between the Group and the respective related parties.

#### (i) Key management compensation

	Year ended 31 December	
	2020 RMB' 000	2019 RMB' 000
Short-term employee benefits		
– Wages, salaries and bonuses	8,299	9,589
– Pension, housing fund, medical insurance and other social insurance	88	115
	8,387	9,704

### 35 Contingencies

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

Provision for legal claims has been made for the guarantees provided to third parties and legal disputes with an individual and a company. Please refer to Note 30 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 recognised any contingent assets related to this legal proceeding in view of the uncertainty of the outcome at this stage.

Other than the matter as mentioned above, there are no other contingencies which might have a significant impact to the financial statements.

## Notes to the Consolidated Financial Statements

### 36 Events after the balance sheet date

#### (a) Construction contract related to Cangnan Instrument Industrial Park

In January 2021, the Company entered into a construction contract with a contractor for the construction of the Cangnan Instrument Industrial Park, in the normal course of the Company's expansion, with a total amount of RMB130,330,000.

#### (b) Possible H shares buy-back

On February 5, 2021, the Company held a board meeting, whereby the board of directors have resolved to repurchase all the issued H shares in the share capital of the Company (the "H Shares"), at a minimum indicative offer price of HK\$22.00 per H Share (the "Indicative Offer Price" (the "Possible Share Buy-back"). Such Indicative Offer Price is disclosed in accordance with the requirement of the local bureau of the State Administration of Foreign Exchange in the People's Republic of China ("SAFE").

The Possible Share Buy-back, which may or may not proceed, is subject to, among others, the registration to be made by the Company with the local SAFE and compliance with the applicable provisions under the Listing Rules, the Takeovers Code and The Code on Share Buy-backs (the "Share Buy-backs Code"), including but not limited to approval of shareholders of the Company. If the Possible Share Buy-back materializes, such H Shares will be repurchased by the Company and the Company will be delisted from the Stock Exchange. As a result, the Company will be privatized pursuant to the Takeovers Code and the Share Buy-backs Code.

#### (c) Cancellation of investment in Wenzhou Yongrun

On 17 March 2021, the Company entered into a cancellation agreement of investment to Wenzhou Yongrun with other partners, whereby the investment of Wenzhou Yongrun is withdrawn and the Company is entitled to receive its prepayment for investment of RMB100,000,000. Pursuant to the cancellation agreement, the Company received the prepayment for investment of RMB100,000,000 on 17 March 2021.

## Notes to the Consolidated Financial Statements

## 37 Balance sheet and reserve movement of the Company

## (a) Balance Sheet of the Company

	As at 31 December	
	2020 RMB'000	2019 RMB'000
<b>Assets</b>		
<b>Non-current assets</b>		
Land use rights	31,838	5,898
Property, plant and equipment	59,606	42,860
Investment properties	19,127	21,235
Intangible assets	190	–
Right-of-use assets	1,235	354
Investments in subsidiaries	36,703	36,703
Prepayment	100,000	–
Deferred income tax assets	21,628	20,158
Financial assets at fair value through other comprehensive income	100	100
Restricted cash	26,318	19,268
	<b>296,745</b>	146,576
<b>Current assets</b>		
Trade receivables and other financial assets at amortised cost and prepayments	388,444	476,335
Inventories	85,841	95,286
Restricted cash	28,558	25,879
Term deposits	50,000	–
Cash and cash equivalents	467,062	550,771
	<b>1,019,905</b>	1,148,271
<b>Total assets</b>	<b>1,316,650</b>	1,294,847

## Notes to the Consolidated Financial Statements

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

#### (a) Balance Sheet of the Company (Continued)

	As at 31 December	
	2020 RMB' 000	2019 RMB' 000
<b>Equity and liabilities</b>		
<b>Equity attributable to equity holders of the Company</b>		
Share capital	69,791	69,791
Other reserves (b)	498,675	498,675
Retained earnings (b)	468,612	425,822
<b>Total equity</b>	<b>1,037,078</b>	994,288
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Deferred income	125	305
<b>Current liabilities</b>		
Trade and other payables	96,968	126,412
Current income tax liabilities	23,787	25,266
Borrowings	72,800	64,650
Lease liabilities	1,252	363
Deferred income	180	180
Warranties provision	5,560	4,846
Provisions for other liabilities and charges	78,900	78,537
	<b>279,447</b>	300,254
<b>Total liabilities</b>	<b>279,572</b>	300,559
<b>Total equity and liabilities</b>	<b>1,316,650</b>	1,294,847

The balance sheet of the Company was approved by the Board of Directors on 25 March 2021 and was signed on its behalf:

\_\_\_\_\_  
Hong Zuobin  
Director

\_\_\_\_\_  
Huang Youliang  
Director

## Notes to the Consolidated Financial Statements

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

## (b) Reserve Movement of the Company

	Other reserves RMB' 000	Retained earnings RMB' 000
<b>Balance at 1 January 2019</b>	338,529	349,400
<b>Comprehensive income</b>		
Profit for the year	–	132,255
<b>Other comprehensive income</b>		
Currency translation differences	–	–
<b>Total comprehensive income</b>	–	132,255
<b>Transactions with owners</b>		
Issuance of ordinary shares	160,146	–
Dividends (Note 31)	–	(55,833)
<b>Total transactions with owners, recognised directly in equity</b>	160,146	(55,833)
<b>Balance at 31 December 2019</b>	498,675	425,822
<b>Balance at 1 January 2020</b>	<b>498,675</b>	<b>425,822</b>
<b>Comprehensive income</b>		
Profit for the year	–	<b>84,665</b>
<b>Other comprehensive income</b>		
Currency translation differences	–	–
<b>Total comprehensive income</b>	–	<b>84,665</b>
<b>Transactions with owners</b>		
Issuance of ordinary shares	–	–
Dividends (Note 31)	–	<b>(41,875)</b>
<b>Total transactions with owners, recognised directly in equity</b>	–	<b>(41,875)</b>
<b>Balance at 31 December 2020</b>	<b>498,675</b>	<b>468,612</b>

## Notes to the Consolidated Financial Statements

## 38 Benefits and interests of directors

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

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2020 is set out as follows:

	Fees RMB' 000	Salary RMB' 000	Discretionary bonuses RMB' 000	Allowances and benefits in kind RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking RMB' 000	Total RMB' 000
<b>Chairman</b>							
Mr. Hong Zuobin	-	579	719	-	-	-	1,298
<b>Executive Directors</b>							
Mr. Huang Youliang	-	604	606	-	9	-	1,219
Mr. Jin Wensheng (appointed on 10 June 2020)	-	342	509	-	9	-	860
Mr. Lin Jingdian (resigned on 10 June 2020)	-	92	-	-	4	-	96
Mr. Zhang Shengyi	-	331	512	-	9	-	852
Ms. Lin Zichan	-	342	501	-	9	-	852
Mr. Lin Zhongzhu	-	328	516	-	9	-	853
Mr. Yin Xingjing	-	331	516	-	9	-	856
<b>Non-executive Directors</b>							
Mr. Ye Xiaosen	-	144	-	-	-	-	144
Mr. Hou Zukuan	-	144	-	-	-	-	144
<b>Independent Non-executive Directors</b>							
Mr. Wong Hak Kun (i)	-	159	-	-	-	-	159
Mr. Ng Jack Ho Wan (i)	-	159	-	-	-	-	159
Mr. Wang Jingfu (i)	-	144	-	-	-	-	144
Mr. Li Jing (i)	-	144	-	-	-	-	144
Mr. Su Zhongdi (i)	-	144	-	-	-	-	144
<b>Supervisors</b>							
Mr. Huang Xijun	-	32	262	-	9	-	303
Mr. Ye Sigong	-	90	204	-	9	-	303
Mr. Zhou Xiaoding	-	312	100	-	9	-	421
Mr. Lin Jingdian (appointed on 10 June 2020)	-	128	243	-	5	-	376
Mr. Liu Jie (appointed on 10 June 2020)	-	84	196	-	9	-	289
	-	4,633	4,884	-	99	-	9,616

## Notes to the Consolidated Financial Statements

**38 Benefits and interests of directors (Continued)****(a) Directors' and the chief executive's emoluments (Continued)**

The remuneration of each director and the chief executive of the Company for the year ended 31 December 2019 is set out as follows:

	Fees RMB' 000	Salary RMB' 000	Discretionary bonuses RMB' 000	Allowances and benefits in kind RMB' 000	Employer's contribution to a retirement benefit scheme RMB' 000	Other emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the company or its subsidiary undertaking RMB' 000	Total RMB' 000
<b>Chairman</b>							
Mr. Hong Zuobin	-	579	1,143	-	-	-	1,722
<b>Executive Directors</b>							
Mr. Huang Youliang	-	604	1,042	-	14	-	1,660
Mr. Zhang Shengyi	-	331	768	-	14	-	1,113
Ms. Lin Zichan	-	342	757	-	14	-	1,113
Mr. Lin Zhongzhu	-	328	770	-	14	-	1,112
Mr. Yin Xingjing	-	331	768	-	14	-	1,113
Mr. Lin Jingdian	-	220	377	-	14	-	611
<b>Non-executive Directors</b>							
Mr. Ye Xiaosen	-	144	-	-	-	-	144
Mr. Hou Zukuan	-	144	-	-	-	-	144
<b>Independent Non-executive Directors</b>							
Mr. Wong Hak Kun (i)	-	159	-	-	-	-	159
Mr. Ng Jack Ho Wan (i)	-	159	-	-	-	-	159
Mr. Wang Jingfu (i)	-	144	-	-	-	-	144
Mr. Li Jing (i)	-	144	-	-	-	-	144
Mr. Su Zhongdi (i)	-	144	-	-	-	-	144
<b>Supervisors</b>							
Mr. Huang Xijun	-	32	276	-	14	-	322
Mr. Ye Sigong	-	90	255	-	14	-	359
Mr. Zhou Xiaoding	-	312	100	-	14	-	426
	-	4,207	6,256	-	126	-	10,589

## Notes to the Consolidated Financial Statements

### 38 Benefits and interests of directors (Continued)

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

- (i) The five independent non-executive directors were appointed on 21 June 2018.

There were no remuneration paid to the directors of the Company by the shareholders for the year ended 31 December 2020.

For the year ended 31 December 2020, no directors received emoluments from the Group as inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or had agreed to waive any emoluments.

For the year ended 31 December 2020, no consideration was provided to third parties for making available directors' services.

#### (b) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the year ended 31 December 2020 or at any time during the year.

#### (c) Retirement benefits of directors

During the year ended 31 December 2020, there were no additional retirement benefit received by the directors except for the contribution to a retirement benefit scheme as disclosed in the "Employer's contribution to a retirement benefit scheme" in the table in Note (a) above.

#### (d) Termination benefits of directors

During the year ended 31 December 2020, there were no termination benefits received by the directors.

#### (e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2020, there were no loans, quasi-loans and other dealings entered into by the Company or subsidiaries undertaking of the Company, where applicable, in favour of directors.

## Definition and Glossary of Technical Terms

“Director(s)”	the members of the Board
“Board”	the board of Directors of the Company
“the Company”	Zhejiang Cangnan Instrument Group Company Limited(浙江蒼南儀錶集團股份有限公司)
“Group”	the Company and its subsidiaries
“H Share Registrar”	Computershare Hong Kong Investor Services Limited
“H Shares”	overseas listed foreign invested ordinary shares in the ordinary share capital of the Company, with a nominal value of RMB1.00 each, which are to be subscribed and traded in Hong Kong dollars
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Dollars” or “HK\$”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“Hong Kong Listing Rules” or “Listing Rules”	the Rules Governing the Listing of Securities on The Hong Kong Stock Exchange (as amended from time to time)
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Huashi LP”	Cangnan County Huashi Investment Management Enterprise (LP) (蒼南縣華實投資管理企業(有限合夥)), a limited partnership established in the PRC on 14 February 2017, which is one of the Promoters of the Company
“Intelligent gas flowmeter”	a flowmeter with a correction function (for pressure, temperature or compression factor, etc.)
“Internet-of-Things” or “IoT”	an interconnected network that collects information from the physical world through the deployment of various devices with certain ability of perception, computing, execution and communication, and that enables information exchange between people and things and among different things by the transmission, synchronization and processing of information achieved through a network
“Listing Date”	the date, on which our H Shares were listed on the Main Board of Hong Kong Stock Exchange (being 4 January 2019)
“LNG”	liquefied natural gas

## Definition and Glossary of Technical Terms

“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the main board of the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM of the Stock Exchange
“North China”	mainly includes Beijing, Hebei, Shanxi, Tianjin and Inner Mongolia
“Northeast China”	mainly includes Liaoning and Heilongjiang
“Northwest China”	mainly includes Xinjiang, Gansu and Ningxia
“Reporting Period”	the period from 1 January 2020 to 31 December 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, supplemented 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
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“%”	per cent