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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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL AND OPERATION HIGHLIGHTS

- For the year ended 31 December 2019, the revenue of the Group amounted to RMB484.3 million, representing a decrease of 23.2% as compared with last year.
- For the year ended 31 December 2019, the gross profit of the Group amounted to RMB337.9 million and the gross profit margin of the Group amounted to 69.8%, representing a decrease of 26.8% and 3.4% respectively as compared with last year.
- For the year ended 31 December 2019, the total profit attributable to equity holders of the Company amounted to RMB136.5 million, representing a decrease of 38.0% as compared with last year.
- The Board of Directors proposed to distribute the final dividend of RMB0.6 per share (before tax) for the year ended 31 December 2019.

The board (the "**Board**") of directors (the "**Directors**" and each a "**Director**") of Zhejiang Cangnan Instrument Group Company Limited (the "**Company**") hereby announces the audited consolidated financial results of the Company and its subsidiaries (the "**Group**" or "**we**" or "**us**" or "**our**") for the year ended 31 December 2019, together with the comparative figures of 2018. The Group's financial data for the year ended 31 December 2019 set out by the Company in this results announcement is based on the consolidated financial statements prepared according to the International Financial Reporting Standards ("**IFRSs**") issued by the International Accounting Standards Board ("**IASB**") and the disclosure requirements under the Hong Kong Companies Ordinance.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Assets			
Non-current assets			
Land use rights		**5,898**	6,094
Property, plant and equipment		**71,567**	63,978
Intangible assets		**–**	155
Right-of-use assets		**354**	–
Deferred income tax assets		**23,014**	26,022
Financial assets at fair value through other comprehensive income		**100**	100
Restricted cash		**19,268**	24,047
		120,201	120,396
Current assets			
Trade receivables and other financial assets at amortised cost and prepayments	*10*	**524,124**	643,741
Inventories		**127,741**	98,937
Restricted cash		**25,879**	27,614
Cash and cash equivalents		**593,279**	260,026
		1,271,023	1,030,318
Total assets		**1,391,224**	1,150,714
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital		**69,791**	51,890
Other reserves		**499,822**	339,676
Retained earnings		**461,335**	380,636
		1,030,948	772,202
Non-controlling interests		**15,171**	13,656
Total equity		**1,046,119**	785,858

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2019	2018
	Note	***RMB'000***	*RMB'000*
Liabilities			
Non-current liabilities			
Deferred income		**305**	485
Current liabilities			
Trade and other payables	*11*	**153,280**	152,020
Current income tax liabilities		**39,748**	47,850
Borrowings		**66,650**	69,650
Lease liabilities		**363**	–
Deferred income		**180**	180
Warranties provision		**6,042**	9,452
Provisions for other liabilities and charges		**78,537**	85,219
		344,800	364,371
Total liabilities		**345,105**	364,856
Total equity and liabilities		**1,391,224**	1,150,714

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

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

The Company was incorporated on September 15, 1982 in the People's Republic of China (the "PRC") with limited liability under the Company Law of the PRC. The address of its registered office is Industrial Zone, Cangnan County, Wenzhou City, Zhejiang Province, the PRC.

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

The Company was listed on the Main Board of The Stock Exchange of Hong Kong Limited on 4 January 2019. During the year ended 31 December 2019, the Company issued 17,901,167 H Shares at an offer price of HK$15.80 per share. As of the date of this report, the registered share capital of the Company is RMB69,791,167.

The Company does not have any controlling shareholders.

2 BASIS OF PREPARATION

(i) Compliance with IFRS

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

(ii) Historical cost convention

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

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

(iii) New and amended standards adopted by the Group

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

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

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in note 3. Most of the other amendments did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(iv) New standards and interpretations not yet adopted

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

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

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

3 CHANGES IN ACCOUNTING POLICIES

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

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

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

(i) Practical expedients applied

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

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

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

(ii) Measurement of lease liabilities

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

(iii) Measurement of right-of-use assets

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

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

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

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

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

4 REVENUE AND SEGMENT INFORMATION

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker (the "CODM"), who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions. The Group's internal reporting does not distinguish financial results between segments and reports financial results of the Group as a whole. Hence, the Group has only one reporting segment.

Revenue by product categories are analysed as below:

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

Revenue by geographical areas are analysed as below:

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

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

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

* less than 10%

5 EXPENSES BY NATURE

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

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

6 FINANCE INCOME/(EXPENSES) – NET

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

7 INCOME TAX EXPENSES

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

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

(a) PRC enterprise income tax ("EIT")

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

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

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

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

8 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to the equity holders of the Company by the weighted average number of shares in issue or deemed to be in issue during the year ended 31 December 2019. Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The fully diluted earnings per share for the year ended 31 December 2019 and 2018 is the same as the basic earnings per share as there is no dilutive potential share during the year ended 31 December 2019.

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

9 DIVIDENDS

(i) The dividends declared by the Company in the years ended 31 December 2019 and 2018 were RMB55,833,000 and RMB41,512,000 respectively.

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Dividends declared and paid	**55,833**	41,512

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

At the meeting of the directors of the Company held on 27 March 2020, the directors proposed a final dividend of RMB0.6 per ordinary share for the year ended 31 December 2019 (2018: RMB0.8), which is subject to the approval by the shareholders in general meeting. The aggregate amount of the proposed dividend expected to be paid out of retained earnings at 31 December 2019, but not recognised as a liability at year end, is around RMB41,875,000 (2018: RMB55,833,000).

10 TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST AND PREPAYMENTS

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

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

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

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

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

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

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

11 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables – third parties (a)	**58,987**	54,017
Taxes payable	**33,664**	39,507
Notes payable	**764**	19,446
Advances from customers	**4,543**	5,895
Salaries and bonuses payable	**725**	694
Interests payable	**79**	90
Advances from employees for sundry expenses	**5,963**	7,199
Sales service fee payable	**32,694**	12,986
Sales commission payable	**4,319**	3,182
Others	**11,542**	9,004
	153,280	152,020

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

(a) Trade payables

As at 31 December 2019, the aging analysis of the trade payables based on invoice date was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 1 year	**54,075**	51,145
1 year to 2 years	**2,487**	1,010
2 years to 3 years	**721**	501
Over 3 years	**1,704**	1,361
	58,987	54,017

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY OVERVIEW

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

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

II. BUSINESS OVERVIEW

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

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

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

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

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

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

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

1. Overview

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

2. Operating Results

2.1. Revenue

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

2.2. Cost of sales

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

2.3. Gross profit

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

2.4. Selling and distribution expenses

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

2.5. Administrative expenses

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

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

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

2.7. Research and development expenses

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

2.8. Other income

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

2.9. Other gains/(losses) – net

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

2.10. Operating profit

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

2.11. Finance income/(expenses) – net

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

2.12. Income tax expenses

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

2.13. Profit for the year

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

3. Cash and Cash equivalents

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

4. Current Assets and Liabilities

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

5. Indebtedness

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

6. Financial Ratio

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

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

Notes:

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

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

(3) calculated by dividing our current assets minus inventories by our current liabilities as at the end of the respective year.

(4) equals our net profit for each of the year divided by the closing balance of our total equity as at the end of the respective year, multiplied by 100%.

(5) equals our net profit for the year divided by the closing balance of our total assets as at the end of the respective year, multiplied by 100%.

(6) calculated by dividing our net debt, being our total borrowings (all of which are short-term bank borrowings) net of cash and cash equivalents and restricted cash by total equity as at the respective year end date.

(7) equals our profit before finance expenses and tax for each of the year divided by our finance expenses.

7. Significant Investment

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

8. Material Acquisition and Disposal

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

9. Contingent Liabilities

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

10. Employees and Remuneration Policy

As at 31 December 2019, we had 533 full-time employees in China. We enter into individual labor contracts with our employees, with terms covering, among other things, positions, salaries, working hours, annual leave and other benefits. In 2019, we incurred employee benefits expenses (including salaries, wages and bonuses, pension and housing fund, medical insurance and other social insurances) of approximately RMB90.1 million, representing approximately 18.6% of our revenue in 2019.

The Group did not have any share option scheme.

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

11. Pledge of Assets

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

12. Liquidity and Sources of Capital

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

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

13. Capital Structure

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

IV. RISK FACTORS AND RISK MANAGEMENT

1. Foreign Exchange Risks

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

2. Competitive Risks

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

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

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 will any unforeseeable change in the market need give rise to our overcapacity, which in turn may result in material and adverse effect on our business, operating results and financial condition.

4. *Price Risks*

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

5. *Outbreak Risks*

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

V. OUTLOOK ON THE GROUP'S FUTURE DEVELOPMENT

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

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

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

(II) Development Strategy and Planning of the Company

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

(III) Business Plan for 2020

1. *The Company will continue to value knowledge and creation and invest more in research and development under the principle of mastering core technologies so as to ensure that its featured products continue to keep the leading position nationwide.*

While paying close attention to the development trend of intelligent natural gas, the Company will accelerate the technological innovation and to promote the informationization, intelligence and networking of its products, thereby enhancing the competitive edge of its products. In view of the impact arising from current outbreak of COVID-19, the Company will make a comprehensive research and analysis on the shift of service mode of gas enterprises and adjust the direction for its products development, so as to improve the market adaptability of its products. In addition, the Company will introduce and adopt new technologies, new processes, new materials and new equipment to continuously seek for breakthrough of key technological bottleneck with an aim to continuously upgrade the product technologies and accumulate the technological reserve for development of new products. Moreover, the Company will strengthen its foundation of technical management, optimize and allocate research and development forces and continue to promote the extensive cooperation with various universities and institutes.

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

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

3. *Construct intelligent plants and achieve intelligent manufacturing*

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

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

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

OTHER INFORMATION

I. COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

As a company listed in Hong Kong Stock Exchange, the Company has been committed to maintaining the high standard of Corporate Governance Practice, and complies with the provisions of the Corporate Governance Code (the "**Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"),

For the year ended 31 December 2019, the Company was not involved in any material litigation liable by any Director. Each Director has the necessary qualification and experience required for performing his or her duty. The Company has purchased liability insurance for the Directors.

For the year ended 31 December 2019, the Company has complied with the principles and code provisions contained in the Code. Details of the corporate governance of the Company are set out in the 2019 annual report of the Company (the "**2019 Annual Report**") which will be published in due course.

II. COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as the code of conduct for dealing in the securities of the Company by all the Directors and supervisors. Having made specific enquiry of the Directors and supervisors of the Company, all Directors and supervisors have confirmed that they had strictly complied with the required standards of the Model Code for the year ended 31 December 2019.

III. REPURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2019.

IV. PROPOSED 2019 FINAL DIVIDEND

The Board recommended the distribution of a final dividend of RMB0.6 per share (before tax) in cash for the year ended 31 December 2019 to Shareholders. All dividends will be paid upon the approval by the Shareholders at the annual general meeting of the Company for the year 2019 ("**AGM**"). If the distribution proposal is approved by the Shareholders at the AGM, it is expected that the final dividend for the year ended 31 December 2019 will be paid on or around 20 July 2020 to the Shareholders of the Company.

As the Company is yet to confirm the date of the AGM, the record date for determining the eligibility to attend and vote at the AGM and the entitlement to the final dividend and the period for closure of register, the Company will upon confirmation thereof announce such details in the notice of the AGM.

V. SCOPE OF WORK ON THE RESULTS ANNOUNCEMENT BY AUDITORS

The figures in respect of the Group's consolidated balance sheet, consolidated statement of profit or loss, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this results announcement have been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this results announcement.

VI. AUDIT COMMITTEE

The Group's 2019 annual results and the consolidated financial statements for the year ended 31 December 2019 prepared in accordance with the IFRSs have been reviewed by the audit committee of the Company.

VII. SIGNIFICANT SUBSEQUENT EVENT

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be available on the websites of the Hong Kong Stock Exchange (**http://www.hkexnews.hk**) and the Company (**http://www.zjcnyb.com**).

The Company will dispatch in due course to Shareholders the 2019 Annual Report containing all the information as required by the Listing Rules, and publish it on the websites of the Company and the Hong Kong Stock Exchange.

By order of the Board
Zhejiang Cangnan Instrument Group Company Limited
Hong Zuobin
Chairman

Hong Kong, 27 March 2020

As of the date of this announcement, the Board comprises Mr. Hong Zuobin, Mr. Huang Youliang, Mr. Yin Xingjing, Mr. Zhang Shengyi, Ms. Lin Zichan, Mr. Lin Zhongzhu and Mr. Lin Jingdian as executive Directors, Mr. Ye Xiaosen and Mr. Hou Zukuan as non-executive Directors and Mr. Ng Jack Ho Wan, Mr. Wong Hak Kun, Mr. Wang Jingfu, Mr. Li Jing and Mr. Su Zhongdi as independent non-executive Directors.