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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

2020 INTERIM RESULTS HIGHLIGHTS

- Revenue: RMB142.9 million, representing a decrease of 28.5% over the corresponding period of last year.
- Profit before taxation: RMB31.1 million, representing a decrease of 58.3% over the corresponding period of last year.
- Profit attributable to the equity holders of the Company: RMB28.2 million, representing a decrease of 55.5% over the corresponding period of last year.
- Earnings per share: RMB0.4, representing a decrease of 56.0% over the corresponding period of last year.

The Board of Directors (the "**Board**") of Zhejiang Cangnan Instrument Group Company Limited (the "**Company**") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (together, the "**Group**", "**we**" or "**our**") for the six months ended 30 June 2020, together with comparative figures for the six months ended 30 June 2019 (the "**corresponding period of 2019**" or the "**corresponding period of last year**"). The Company's financial information for the six months ended 30 June 2020 in this results announcement was based on the unaudited interim condensed consolidated financial information, which was prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, issued by the International Accounting Standards Board, and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Assets			
Non-current assets			
Land use rights		**16,881**	5,898
Property, plant and equipment		**69,811**	71,567
Intangible assets		**214**	–
Right-of-use assets		**1,670**	354
Deferred income tax assets		**24,008**	23,014
Financial assets at fair value through other comprehensive income		**100**	100
Restricted cash		**19,270**	19,268
		131,954	120,201
Current assets			
Trade receivables and other financial assets at amortised cost and prepayments	*10*	**507,447**	524,124
Inventories		**139,250**	127,741
Restricted cash		**23,805**	25,879
Bank deposit	*11*	**101,687**	–
Cash and cash equivalents		**453,081**	593,279
		1,225,270	1,271,023
Total assets		**1,357,224**	1,391,224
Equity and liabilities			
Equity attributable to equity holders of the Company			
Share capital		**69,791**	69,791
Other reserves		**499,822**	499,822
Retained earnings		**447,626**	461,335
		1,017,239	1,030,948
Non-controlling interests		**14,052**	15,171
Total equity		**1,031,291**	1,046,119

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**As at 30 June 2020** ***RMB'000*** **(Unaudited)**	31 December 2019 *RMB'000* (Audited)
Liabilities			
Non-current liabilities			
Deferred income		**215**	305
Current liabilities			
Trade and other payables	*12*	**154,841**	153,280
Current income tax liabilities		**27,467**	39,748
Borrowings		**57,400**	66,650
Lease liabilities		**1,521**	363
Deferred income		**180**	180
Warranties provision		**6,003**	6,042
Provisions for other liabilities and charges		**78,306**	78,537
		325,718	344,800
Total liabilities		**325,933**	345,105
Total equity and liabilities		**1,357,224**	1,391,224

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

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

The Company does not have any controlling shareholders.

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

This interim condensed consolidated financial information has not been audited.

2 BASIS OF PREPARATION

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

3 ACCOUNTING POLICIES

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

(a) New and amended standards adopted by the Group

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

3 ACCOUNTING POLICIES (CONTINUED)

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

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

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

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:

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

Revenue by geographical areas are analysed as below:

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

4 REVENUE AND SEGMENT INFORMATION (CONTINUED)

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

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

* less than 10%

5 EXPENSES BY NATURE

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

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

6 FINANCE INCOME – NET

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

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

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

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

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

9 DIVIDENDS

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

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

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

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

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

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

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

As at 30 June 2020 and 31 December 2019, the carrying amounts of trade receivables and other financial assets at amortised cost approximated their fair values due to short maturity.

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

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

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

10 TRADE RECEIVABLES AND OTHER FINANCIAL ASSETS AT AMORTISED COST AND PREPAYMENTS (CONTINUED)

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

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

11 BANK DEPOSIT

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

12 TRADE AND OTHER PAYABLES

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

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

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

(a) Trade payables

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

I. INDUSTRY OVERVIEW

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

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

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

II. BUSINESS OVERVIEW

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

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

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

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

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

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

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

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

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

1. *Overview*

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

2. *Operating Results*

2.1. Revenue

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

2.2. Cost of sales

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

2.3. Gross profit

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

2.4. Selling and distribution expenses

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

2.5. Administrative expenses

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

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

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

2.7. Research and development expenses

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

2.8. Other income

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

2.9. Other gains/(losses) – net

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

2.10. Operating profit

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

2.11. Finance income – net

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

2.12. Income tax expenses

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

2.13. Profit for the current period

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

3. Cash and Cash Equivalents

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

4. Current Assets and Liabilities

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

5. Indebtedness

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

6. *Financial Ratio*

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

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

Notes:

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

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

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

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

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

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

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

7. *Significant Investment*

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

8. *Material Acquisition and Disposal*

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

9. *Contingent Liabilities*

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

10. Employees and Remuneration Policy

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

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

The Group did not have any share option scheme.

11. Pledge of Assets

The Group's borrowings are partially secured by property, plant and land use rights. As at 30 June 2020, the total net carrying value of assets pledged was RMB8.4 million. As at 31 December 2019, the total net carrying value of assets pledged was RMB34.2 million.

12. Liquidity and Sources of Capital

As at 30 June 2020, the Group's cash and cash equivalents decreased by 23.6% to RMB453.1 million as compared with RMB593.3 million as at 31 December 2019, primarily due to that the cash flow from investing activities was net cash outflow during the period, resulting in a decrease in cash and cash equivalents. The main sources of the Group's business capital come from operating activities.

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

13. Capital Structure

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

IV. RISK FACTORS AND RISK MANAGEMENT

1. Outbreak Risks

In the beginning of 2020, the sudden outbreak of COVID-19 put downward pressure on the Chinese economy which is in transition period. The spread of COVID-19 and its subsequent effects caused certain negative impacts on the Chinese economy, finance, trade, and the industrial chain, including delayed resumption of work of enterprise, delayed production, closure of restaurants, stagnant circulation, weak demand and global pandemics and other various risks. For the gas industry, the COVID-19 outbreak caused labor difficulties, rising costs, reduced orders, blocked logistics, and led it into a semi-stagnation state in the short term. In the longer term, the COVID-19 outbreak may continue to have negative impacts on industries such as tourism, catering, commerce, transportation, and exhibitions, thus affecting demand for natural gas from such industries. During the COVID-19 outbreak, the Company also experienced reduced orders, delayed procurement and supply, and delayed production and logistics. In view of the above factors, it may adversely affect our business, financial condition and results of operation.

2. Foreign Exchange Risks

For our operation in Mainland China, most of our transactions are denominated and settled in RMB. Therefore, our foreign exchange risk is limited. Our exposure to foreign exchange risk is mainly on our cash and cash equivalents. The Group has not purchased forward contracts to hedge the exposure to foreign exchange risk. The Group's trade and other receivables, cash and cash equivalents and trade and other payables in the first half of 2020 included Euro, US$ or other foreign currencies ("**Other Foreign Currencies**"). In the first half of 2020, the Group did not have any significant foreign exchange risk from operation.

3. Competitive Risks

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

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

4. *Expansion Risks*

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

5. *Price Risks*

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

V. OUTLOOK ON THE GROUP'S FUTURE DEVELOPMENT

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

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

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

(II) Development Strategy and Planning of the Company

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

(III) Business Plan for the Second Half of 2020

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

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

(II) To promote the construction of smart plant

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

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

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

(IV) To improve management level and promote management reform

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

H SHARE FULL CIRCULATION

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

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

OTHER INFORMATION

1. Interim Dividend

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

2. Compliance with the Corporate Governance Code and Report

As a company listed on the The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), the Company strives to maintain a high standard of corporate governance practices and complies with the code provisions as set out in the Corporate Governance Code and Report in Appendix 14 to the Listing Rules. During the six months ended 30 June 2020, the Company has complied with all code provisions as set out in Appendix 14 of the Listing Rules.

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

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the code of conduct and rules governing dealings by its Directors and Supervisors in the securities of the Company. Having made specific enquiry to the Directors and Supervisors of the Company, all Directors and Supervisors have confirmed that they have strictly complied with the required standard set out in the Model Code during the six months ended 30 June 2020. 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.

4. Directors' Responsibility for the Financial Statements

The Directors confirm that they shall assume the relevant responsibility in relation to the preparation of the financial statements of the Company, ensuring that the preparation of the financial statements of the Company complies with the relevant laws and regulations and the applicable accounting standards and also warranting that the financial statements of the Company will be published in a timely manner.

5. Purchase, Sale or Redemption of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2020.

USE OF NET PROCEED

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

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

RMB (million)

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

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

REVIEW OF FINANCIAL INFORMATION

The interim results of the Group for the six months ended 30 June 2020 were unaudited but have been reviewed by the Company's audit committee and the Company's auditor, PricewaterhouseCoopers, and approved by the Board.

PUBLICATION OF INTERIM RESULTS AND REPORT

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.zjcnyb.com. The Company's 2020 interim report with all the information required under the Listing Rules will be despatched to the shareholders of the Company and will be published on the websites of the Company and the Stock Exchange in due course.

EVENTS AFTER THE REPORTING PERIOD

Save for the above disclosures, there are no significant events affecting the Company upon 30 June 2020 and up to the date of this interim results announcement.

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

Hong Kong, 25 August 2020

As of the date of this announcement, the Board comprises Mr. Hong Zuobin, Mr. Huang Youliang, Mr. Jin Wensheng, Mr. Yin Xingjing, Mr. Zhang Shengyi, Ms. Lin Zichan and Mr. Lin Zhongzhu 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.