CapXon

CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED
凱普松國際電子有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 469

Annual Report 07

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lin Chin Tsun *(Chairman and President)*
Ms. Chou Chiu Yueh *(Vice President)*
Mr. Lin Yuan Yu *(Chief Executive Officer)*

Non-Executive Directors

Ms. Lin I Chu
Ms. Liu Fang Chun

Independent Non-Executive Directors

Mr. Lai Chung Ching
Mr. Lu Hong Te
Mr. Tung Chin Chuan

AUDIT COMMITTEE

Mr. Lai Chung Ching *(Chairman)*
Mr. Lu Hong Te
Mr. Tung Chin Chuan

REMUNERATION COMMITTEE

Mr. Lin Chin Tsun *(Chairman)*
Ms. Chou Chiu Yueh
Mr. Lai Chung Ching
Mr. Lu Hong Te
Mr. Tung Chin Chuan

CHIEF FINANCIAL OFFICER

Ms. Hu Szu Jung, Carol

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Ms. Chan Yin Fung

AUDITORS

Ernst & Young, CPA
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

LEGAL ADVISER

Jones Day
29th Floor
Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

PRINCIPAL BANKERS

Hua Nan Commercial Bank
Mega International Commercial Bank Co., Ltd
Bank of Communications Co., Ltd
China Construction Bank Corporation
Agricultural Bank of China
Nanyang Commercial Bank Ltd
Taipei Fubon Commercial Bank
Taishin International Bank
The Hongkong and Shanghai Banking Corporation Limited
Bank of China Limited

REGISTERED OFFICE

Scotia Centre
4th Floor
P. O. Box 2804
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Cayman Islands

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Taipei County
Taiwan
R.O.C.

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 4207, 42nd Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor
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WEBSITE

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STOCK CODE

00469

CHAIRMAN'S STATEMENT

Dear Shareholders,

I am pleased to report to you that during the financial year ended 31 December 2007, the Group achieved steady growth in various aspects, and completed its capacity and business expansion plans and was successfully listed in Hong Kong as part of its strategy to go global. The Group fully utilised the proceeds from the listing to actively invest in the expansion of its production technology research and development capacity, as well as its production lines in Mainland China. As a strategic move, the production chain for anode foils and aluminum electrolytic capacitors have been vertically integrated to facilitate better cost and quality control. Besides, efforts were made to further explore external sales for the anode foils business and to realise the high value added by the processing of aluminum foils. In respect of the electrolytic capacitors, the solid-state conductive polymer series was successfully developed, and new products of the SMD electrolytic capacitor series were developed to satisfy the diverse customer needs. Apart from product development, the Group has obtained the ISO/TS 16949 certification, paving way for the entry of its products in the automotive electronic devices supply market.

Since its listing in Hong Kong in May 2007, the Group has invested a substantial part of the listing proceeds in the expansion of its production facilities and capacity to strengthen its production capability for etched foils and formed foils. Currently, the Group has plants in Shenzhen, Yichang and Baotou. Vertical integration in raw materials supply supports the development of the Group's aluminum electrolytic capacitors business. In compliance with the environmental protection and energy conservation policy in Mainland China, the Group has strategically expanded its plant in Baotou to accommodate formed foils production lines, which are highly energy consuming. Discharge facilities have been established there and the production processes have been designed in compliance with the Restriction of Hazardous Substances (RoHS) directive.

Diversification is the current trend in electronic products. To satisfy consumers' demand, the standards of passive components, such as electrolytic capacitors, have been raised in terms of product features, specifications and quality. The market potential is particularly impressive for consumer electronics and automotive electronics. The Group supplies aluminum electrolytic capacitors of a complete range of specifications to answer the customisation needs of its customers. Besides, the Group is also actively scaling up its operations of SMD type electrolytic capacitors and solid-state conductive polymer capacitors, which feature higher technology content, to enlarge its market share and profit margin. The Group has obtained international certifications for the design and production standards of its automotive capacitors, making gradual progress down its roadmap in the automotive electronic market.

In the future, the underlying demand for the electrolytic capacitor market is expected to continue to look good. Currently, the Group is getting more and more orders. Still, in view of the increasing diversified applications and variations in electronic products, the Group's sales department is actively exploring new business sources in addition to consolidating the existing customer base and maintaining sound product quality and reputation. The aim is to extend the Group's market reach to Europe and the US. To this end, the Group took part in the electronic trade fairs in Hong Kong and Japan in October 2007 to secure its regular contacts, as well as to attract new customers. It is believed that such occasions will help enhance both the existing and new customers' understanding of the products developed and manufactured by the Group, leading to more business opportunities.

The rapid expansion of the electronic product market in China has accelerated the growth in demand for aluminum electrolytic capacitors. This has indeed driven the development of the market for aluminum foils along a fast growth track. To satisfy the demand for different electronic equipment as the technology sector keeps evolving, aluminum electrolytic capacitors must be constantly enhanced and upgraded to deliver the best performance. The trends for smaller size, multi-layers, low ESR, high capacitance, long duration and lead-free, as well as the popularity of solid-state conductive polymer capacitors, are driving capacitors manufacturers forward on the innovation path to keep up with the technology sector. As a result, the application scope of aluminum electrolytic capacitors expands further and further. In the foreseeable future, the demand of the electronic market for electrolytic capacitors is expected to run higher. This reflects the growing demand for various PC products since the launch of Intel Vista. Indeed, the growth potential of the aluminum electrolytic capacitor market can also be predicted by the vagaries of automotive electronics, 3C and communications products. It is estimated that by 2008, the value of the global capacitors market will reach US$18.5 billion, of which approximately 34%, or around US$6 billion, is attributed to aluminum electrolytic capacitors. Currently, major manufacturers in Japan take up approximately 70% of the market, and the rest is shared by Taiwanese, Mainland and Korean manufacturers. The competitive advantage of Japanese manufacturers lies in their fully integrated production chains, which allow them to upgrade their products along with current technology standards and to secure a stable supply of raw materials. As such, we believe that industry scale, supply chain, vertical integration, research and development are the keys to success for capacitor suppliers in the future.

I would like to take this opportunity to express my gratitude to members of the Board, senior management and the staff for their hard work and dedication towards driving ahead various business operations of the Group during the year. Likewise, I would like to extend my heartfelt thanks to all shareholders for their support.

Lin Chin Tsun
Chairman

Hong Kong, 15 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's financial results for the year ended 31 December 2007 (the "Year") are summarised as follows:

- Revenue rose by 20.5% to RMB1,016,533,000
- Gross profit increased by 23.2% to RMB247,371,000
- Profit attributable to equity holders of the parent decreased by 12.8% to RMB64,446,000
- Basic and diluted earnings per share were RMB8.35 cents and RMB8.32 cents respectively

Based on the review of the Group's results for the Year, the Group's revenue for the Year rose by 20.5% over the 2006 financial year (the "Previous Year"). The increase in revenue was mainly contributed by the boost in sales from the two major products of the Group, aluminum electrolytic capacitors and anode foils, which grew by approximately 10.0% and 138.0% respectively from the Previous Year.

The Group's gross profit margin rose from 23.8% for the Previous Year to 24.3% for the Year. The higher gross profit was on the one hand attributable to the Group's sufficient capacity to supply all the aluminum foils needed for its production of capacitors, which realised a lower cost of production. On the other hand, it was due to the strategic adjustment of its product mix. The gross profit margin for the Year rose as the Group undertook a multi-pronged approach to enhance the proportion of sales from large-size aluminum electrolytic capacitors, which require more aluminium foils, and from aluminum foils with a strong market demand.

Although there was a remarkable growth in Group's revenue for the Year, the Group's profit for the Year was lower compared with the Previous Year due to an increase in operating expenses. Administrative expenses for the Year rose 93.7% to RMB71,523,000, primarily as a result of the one-off listing fee of approximately RMB9,975,000 paid by the Group; the inclusion of the administrative expenses of Capxon Baotou, which commenced production in February 2007; the increase in Directors' remuneration; and the increase of the number of executives after the listing. The selling and distribution costs accounted for 3.7% of revenue for the Year, which fell slightly as compared with 4.2% of Previous Year. Besides, the bank loans secured by the Group during the Year were mainly offered by banks in Mainland China. In 2007, the lending rates in Mainland China were raised by several times and the additional loans raised by the Group led to an increase in its finance costs for the Year. Further, the appreciation of the Renminbi meant a depreciation of the US dollar and New Taiwan Dollar, the major currencies in which the revenues of the Group are settled, which led to an increase in the exchange loss of the Group.

BUSINESS REVIEW

Manufacture and sale of aluminum foils

During the Year, external sales of aluminum foils after satisfying the Group's in-house consumption amounted to RMB163,751,000, representing 16.1% of the Group's total external sales. Compared with the RMB68,803,000 aluminum foils external sales for the Previous Year, the segment sales rose by 138.0%, while the segment's external sales as a percentage of the Group's total external sales rose by 96.3% over 8.2% for the Previous Year.

Aluminum foils are the major raw materials of electrolytic capacitors, and the manufacture and sale of aluminum foils is one of the major businesses of the Group. Given the impressive gross profit margin of aluminum foils and the huge demand from both the domestic and overseas markets, as well as the high demands for quality, the Group has made high quality anode foils a major product focus in its sales strategy. On the one hand, the anode foils can be used as a source of quality raw materials to reduce the Group's production costs and enhance product quality in the manufacturing of electrolytic capacitors. On the other hand, the anode foils can be sold to domestic and overseas electrolytic capacitors manufacturers to enhance the Group's revenues and gross profits.

Compared with the production process of electrolytic capacitors, the technology standard for the manufacture of anode foils is more demanding. In 2003, the Group invested substantially in labour and capital in building up its foundation for the research and development of anode foils. So far, the capital expenditure in this area has already paid off. With its anode foils production technology surpassing the requirements of downstream customers, the Group has become one of the few leading anode foil manufacturers in Mainland China. Besides, its anode foil research and development technology has also reached a standard close to Japanese manufacturers, who used to monopolise the market. The Group has successfully increased the capacitance of its standard middle- and high-voltage anode foils from 2.0μF/cm^2 and 0.75μF/cm^2 to 2.2μF/cm^2 and 0.8μF/cm^2, respectively. The capacitance of its low-voltage anode foils has also reached the market standard of 85μF/cm^2. In the production of anode foils, the Group has a high technology standard and robust production capacity.

Manufacture and sale of aluminum electrolytic capacitors

External sales of aluminum electrolytic capacitors reached RMB852,782,000, representing approximately 83.9% of the Group's total external sales during the Year and an increase of 10.0% over the Previous Year.

Currently, the Group's aluminum electrolytic capacitor production technology has also reached a very high standard. In response to the demand from electronic products for diverse applications, the Group's aluminum electrolytic capacitors feature a complete range of sizes, long duration, high capacitance, low resistance, high tolerance to heat and high voltage. The Group's various major products all share these characteristics. They include the SMD electrolytic capacitors, for which the EV, JV, MV and TV series were launched during the Year; the solid-state conductive polymers, for which the PL, PS, PU, PX, PM, PD and PV series were launched during the Year, and the newly innovated products which have the features of being flame retardant and with safety vent construction design, for which the MF, WF and LF series were launched during the Year. In addition, the Group also successfully developed certain products which meet the requirements of the automotive industry for heat resistance, shock-proof, high ripple rejection and low resistance, and obtained the ISO/TS 16949 certification for such products, thereby becoming a qualified supplier for the related electronic devices for the automobile industry.

Green production system

Restriction of Hazardous Substances Directive 2002/95/EC ("RoHS") is an environmental protection directive enacted by the European Union in 2003 and came into force from July 2006. It mainly regulates the standards for raw materials and production techniques for electronic products. The Group's raw materials inspection is in compliance with the RoHS directive and the related equipment and apparatuses have been added to support quality control in the entire production process, thereby winning the trust of customers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash flow needs mainly arise from the acquisition of property, plant and equipment, the cost and expenses related to operating activities and the repayment of bank borrowings. During the Year, the Group obtained its cash resources from short- and long-term borrowings, operating activities and the proceeds from the initial public offering.

During the Year, the Group had net cash inflow of RMB51,868,000 from operating, investing and financing activities before exchange alignment, the details of which are set out below:

Cash inflows from operating activities were RMB42,356,000, which mainly comprised profit before tax of RMB80,235,000 for the Year and the change in cash position as a result of the adjustments of finance costs and depreciation, movements in stocks, accounts receivable and accounts payable.

Cash outflows from investing activities were RMB223,624,000, which mainly comprised the payment of RMB156,356,000 for the acquisition of plant and equipment for the new production plants or expansion of existing production capacity in Shenzhen, Yichang and Baotou; and RMB47,087,000 for the acquisition of minority interests in certain subsidiaries.

Cash inflows from financing activities were RMB233,136,000, which mainly comprised RMB216,499,000 from the proceeds from the issue of shares of the Company, the addition of RMB878,122,000 in bank finance, payment of RMB798,216,000 for bank loans and payment of RMB38,280,000 for loan interest.

As at 31 December 2007, the Group had cash and cash equivalents of RMB115,164,000 (31 December 2006: RMB88,939,000), which were mainly denominated in the Renminbi and the US dollar. The increase in cash and cash equivalents during the Year was mainly contributed by the proceeds from the initial public offer.

Borrowings

As at 31 December 2007, the Group had interest-bearing bank borrowings of RMB670,381,000 (31 December 2006: RMB596,922,000), which were mainly denominated in the Renminbi and the US dollar. Such borrowings were mainly subject to fixed interest rates. Set out below is an analysis of the repayment profile of the interest-bearing bank borrowings:

	31 December 2007	31 December 2006
	RMB'000	*RMB'000*
Within one year or on demand	**397,596**	357,717
In the second year	**26,993**	62,982
In the third to fifth years, inclusive	**243,489**	171,909
Beyond five years	**2,303**	4,314
	670,381	596,922

CHARGE ON ASSETS

The following assets have been pledged as security for certain bank borrowings and bills payable of the Group:

	31 December 2007	31 December 2006
	RMB'000	*RMB'000*
Deposits	**94,268**	58,864
Bills receivable	**5,072**	4,382
Investment properties	**7,523**	12,340
Property, plant and equipment	**195,098**	214,111
	301,961	289,697

FINANCIAL RATIOS

The Group's gearing ratio (net debts divided by equity attributable to equity holders of the parent plus net debts) decreased from 61.0% as at 31 December 2006 to 51.1% as at 31 December 2007. The decrease was mainly due to the Group's reorganisation and the increase in capital as a result of the Company's public offering of new shares at a premium during the Year.

Set out below is the turnover (days) of the inventories, bills and accounts payable, and bills and accounts receivable during the Year:

	For the year ended 31 December	
	2007	2006
Inventory turnover	**100 days**	94 days
Bills and accounts payable turnover	**70 days**	73 days
Bills and accounts receivable turnover	**119 days**	118 days

Compared with the Previous Year, the Group's inventory, bills and accounts payable turnovers and bills and accounts receivable turnovers were 6 days longer, 3 days shorter and 1 day longer respectively. The Group will continue to improve the management of its inventories, accounts payable and accounts receivable in order to achieve better utilisation of available funds.

CAPITAL COMMITMENTS

As at 31 December 2007, the Group had capital commitments contracted but not provided for amounting to RMB5,395,000 (31 December 2006: RMB19,650,000).

CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not have any material contingent liabilities (31 December 2006: nil).

FOREIGN EXCHANGE FLUCTUATIONS

The Group earns revenue principally in the US dollar and New Taiwan dollar. Its expenses are mainly denominated in the Japanese Yen, Renminbi, US dollar and New Taiwan dollar. As the revenue and expenses are denominated in different currencies, exposure to exchange risks was managed with natural hedges. In addition, the sales department also made appropriate adjustments to product prices in order to reflect the exchange rate effect. However, in the event that the value of Renminbi appreciates, the Group will be indirectly affected.

For the time being, the Renminbi is not a freely convertible currency. The PRC government may adopt relevant measures to revalue the currency and contain the pressure from inflation, which may result in a difference between the exchange rate of the Renminbi in the future and that prevailing or in the past.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2007, the Group had approximately 3,690 employees and its staff costs including Directors' remuneration of RMB10,548,000 were approximately RMB99,137,000. Salary, bonus and other benefits are determined based on market terms and individual performance, qualification and experience.

PROSPECTS

As mentioned in the Chairman's Statement, as far as the manufacture and sale of electrolytic capacitors is concerned, the key to maintaining the Group's competitiveness lies in establishing a solid business scale and complete supply chain. The focus is on the integration of the production processes of anode foils and aluminum electrolytic capacitors, with production technology research and development as back up. Capital creation, investments and strategic mergers are also important overall profit making strategies. The Group's short-term plans are:

1. Continuous addition of production equipment for the manufacture of aluminum foils and electrolytic capacitors in order to expand production capacity

In 2008, the Group plans to add etched foils production lines and formed foils production lines in Yichang and Baotou to expand the monthly production capacity of the two plants to 1,000,000 square metres each respectively. On the other hand, the Shenzhen plant includes SMD type capacitor production lines and solid-state conductive polymer capacitor production lines. The expansion is expected to raise the Group's operating income for 2008 above that recorded in 2007.

2. Exploring new sales channels for anode foils and new markets for electrolytic capacitors

Currently, the anode foils manufactured in house can fully satisfy the Group's demand for internal consumption, resulting in lower production costs for electrolytic capacitors. Yet, apart from cost control, the management is even more eager to explore new markets in order to extend the reach of the Group's high quality anode foil products in the vast market of Mainland China; and in expanding its sales channels in order to make a profit from the high value added aluminum foils.

In respect of the Group's operations in the electrolytic capacitor supply market, the research, development, manufacture and sale of SMD electrolytic capacitors and solid-state conductive polymer capacitors will be a major direction for the Group. In terms of research and development results, the Group successfully launched a smaller size SMD type solid-state conductive polymer capacitor (with the diameter (ØD) shrunk from 8~10Ø to 4~6.3Ø). In respect of sales channels, the Group extended its reach to the Taiwanese and Japanese markets. It is forecast that in 2008, the production and sales of the solid-state conductive polymer capacitors will perform well.

EXECUTIVE DIRECTORS

Mr. Lin Chin Tsun (林金村), aged 60, is the chairman and president of the Group and is responsible for the strategic planning and major decision-making of the Group. Mr. Lin established Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), a subsidiary of the Company, in June 1980 and has been the chairman since then. Mr. Lin possesses over 25 years of technical and management experience in the aluminum electrolytic capacitors industry and was appointed as an executive director of the Company on 15 April 2007.

Ms. Chou Chiu Yueh (周秋月), aged 56, is an executive director of the Company and the vice-president of the Group and is responsible for the management, strategic planning and major decision making of Capxon Taiwan. Ms. Chou is the spouse of Mr. Lin Chin Tsun. She joined Capxon Taiwan in June 1980 and has been the executive director of Capxon Taiwan since then. Ms. Chou was appointed as an executive director of the Company on 15 April 2007.

Mr. Lin Yuan Yu (林元瑜), aged 31, is an executive director of the Company and chief executive officer of the Group and is responsible for the overall management and strategic planning of the Group's anode foils business. Mr. Lin Yuan Yu is the son of Mr. Lin Chin Tsun. He obtained a bachelor's degree in chemical engineering from the National Taiwan University (國立台灣大學) in 1999 and joined Capxon Taiwan as an engineer in May 2001. Mr. Lin joined Capxon Electronic Technology (Yichang Sanxia) Co. Ltd. ("Capxon Yichang"), a subsidiary of the Company, in April 2003 and has been the chairman of Capxon Yichang since then. Mr. Lin was appointed as an executive director of the Company on 15 April 2007.

NON-EXECUTIVE DIRECTORS

Ms. Liu Fang Chun (劉芳均), aged 29, is a non-executive director of the Company. Ms. Liu is the spouse of Mr. Lin Yuan Yu. Ms. Liu graduated from the National Taipei Teachers College (國立台北師範學院). She joined the Group in July 2005 as the chairman's assistant at Capxon Yichang. She was appointed as a non-executive director of the Company on 15 April 2007.

Ms. Lin I Chu (林薏竹), aged 29, is a non-executive director of the Company. Ms. Lin is the daughter of Mr. Lin Chin Tsun. She obtained a bachelor's degree in international trading from Soochow University (東吳大學) and a master's degree in business administration from Meiji University (日本明治大學) in Japan. She joined the Group in April 2006 as the Japanese operations executive. Ms. Lin was appointed as a non-executive director of the Company on 15 April 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lu Hong Te (**呂鴻德**), aged 47, obtained his doctorate degree in business from the National Taiwan University (國立台灣大學) and is currently appointed as an economics analyst of the Taiwan National Policy Foundation (財團法人國家政策研究基金會). Mr. Lu obtained the lecturer qualification from Chung Yuan Christian University (中原大學) and is currently the visiting professor of Chung Yuan Christian University. He was appointed as secretary of the Chinese Society for Training and Development (中華民國訓練協會) in 1990; as consultant of Taiwan Institute of Economic Research (台灣經濟研究院) and Taiwan Entrepreneurs Society Taipei/Toronto (多倫多台商會) respectively in 2001; as expert consultant of Chinese Association for Industrial Technology Advancement (中華民國產業科技發展協進會) in 2003; as member of the appraisal committee of the Chinese Management Association (社團法人中華民國管理科學學會) in 2003 and as consultant of the China Trading Committee (大陸經貿委員會) of the Taiwan Electrical and Electronic Manufacturers Association (台灣區電機電子工業同業公會) in 2004. In addition, Mr. Lu is an external director (外部董事) of four companies including Everlight Chemical Industrial Corporation (1711) (台灣永光化學工業股份有限公司), AIPTEK International Inc. (6225) (天瀚科技股份有限公司), Firich Enterprise Co., Ltd. (8076) (伍豐科技股份有限公司) and Lanner Electronics Inc. (6245) (立端科技股份有限公司), all of which are listed in Taiwan. Mr. Lu was appointed as an independent non-executive director of the Company on 15 April 2007.

Mr. Lai Chung Ching (**賴崇慶**), aged 72, obtained his bachelor's degree in accounting from the National Taipei University (國立台北大學) (formerly known as National Chung Hsing University (國立中興大學)) and has over 44 years' experience in accounting, auditing, taxation, finance and corporate management. Since 1967, Mr. Lai has been the member of the executive committee of the Taiwan CPA Association (台北市會計師公會). From 1977 to 1980, he was the vice-president and in 1983, Mr. Lai was elected as the president of the Taiwan CPA Association (台北市會計師公會) and the president of the National Federal CPA Association (中華民國會計師公會全國聯合會) in 1991 and was awarded an outstanding alumni corporate management award by National Taipei University. In addition, Mr. Lai was awarded the Golden Peak Award of Outstanding Corporation Leaders in R.O.C. (傑出企業領導人金峰獎) in 2001. In 2002, he was appointed as the chairman of the Education Foundation of Deloitte Touche Tohmatsu (財團法人台北市眾信教育基金會). Mr. Lai is currently a director of 科園育樂事業股份有限公司. Mr. Lai was appointed as an independent non-executive director of the Company on 15 April 2007.

Mr. Tung Chin Chuan (**董清銓**), aged 55, obtained his bachelor's degree in electrical engineering from the National Taiwan University (國立台灣大學) and his master's degree in business administration from the National Chiao Tung University (國立交通大學). Mr. Tung has been the manager of Hewlett-Packard Development Company, L.P. (惠普科技股份有限公司), and was also the vice-general manager and is a supervisor of Behavior Tech Computer Corporation (英群企業科技股份有限公司). He was once the general manager and director of Walton Chaintech Corporation (華東承啟科技股份有限公司), as well as the general manager and consultant of Premier Capital Management Corporation (首席財務管理顧問股份有限公司). In addition, Mr. Tung is an independent non-executive director of Tai Tien Electronics Co., Ltd. (泰藝電子股份有限公司). Mr. Tung was appointed as an independent non-executive director of the Company on 15 April 2007.

SENIOR MANAGEMENT

Ms. Lee Feng Mei (**李鳳美**), aged 35, is the chief of Capxon Taiwan's overall operations. Ms. Lee obtained her international business degree from the Chungyu Institute of Technology (崇佑技術學院) and joined Capxon Taiwan in September 1992 as an operations engineer and was appointed as the head of the sales department in June 2002.

Ms. Hu Szu Jung, Carol (**胡思蓉**), aged 47, is the chief financial officer of the Group and the chief of Capxon Taiwan's finance operations. Ms. Hu obtained her bachelor's degree in corporate management from the Private Chinese Culture University (中國文化大學). She worked at Soyo Computer Inc. (梅捷企業股份有限公司) as the assistant vice president of the administration department from 1991 to 2001 and joined Capxon Taiwan in July 2003. She is principally responsible for the financial advisory and overall financial operations of Capxon Taiwan.

Mr. Lu Yen Chen, Denson (**呂晏丞**), aged 38, is the chief of Capxon Taiwan's research and development. Mr. Lu obtained his bachelor's degree in chemical engineering from the National Chung Hsing University (國立中興大學). He joined Capxon Taiwan in July 2000 and is responsible for the research and development of Capxon Taiwan.

Ms. Chan Yin Fung (**陳燕鳳**), aged 36, is the qualified accountant and company secretary of the Company. Ms. Chan holds a master's degree in corporate governance and a bachelor's degree in business administration majoring in accounting. Ms. Chan is a certified public accountant of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She has over 13 years of experience in the field of accounting, auditing, finance and corporate compliance. She joined the Group in July 2007.

CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company treasure the confidence and trust of the shareholders of the Company in the ability and vision of the management team and have pledged to maintain an open and responsive attitude in shareholders' communications that are on a par with other leading corporations in the industry. The Board has been adamant in upholding best practice in corporate governance to ensure the timeliness, transparency and fairness of disclosure to maximize the Group's corporate values and will continue to enhance its disclosure practices to display an exemplary corporate governance practice.

It is the Board's belief that a sound corporate governance system has been and will remain as an instrumental element to the healthy growth of the Group.

Compliance with the CG Code

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") and the rules on the Corporate Governance Report (the "CG Rules") as set out respectively in Appendices 14 and 23 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") from the date of listing of its shares on the Stock Exchange on 7 May 2007 (the "Listing Date") to 31 December 2007.

The following outlines how the Company has adopted and complied with the CG Code and the CG Rules to achieve good corporate governance.

A. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules.

All directors have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code since the Listing Date to 31 December 2007.

B. BOARD OF DIRECTORS

The Board comprises three executive directors who are the Chairman and President, Vice-President and Chief Executive Officer respectively, two non-executive directors and three independent non-executive directors. One of the independent non-executive directors possesses appropriate professional qualifications as required by the Listing Rules. The following sets out the composition of the Board, by category of directors, and the date of appointment of each director:

Executive directors:

Mr. LIN Chin Tsun	(*Chairman and President*)	(appointed on 14 December 2005)
Ms. CHOU Chiu Yueh	(*Vice-President*)	(appointed on 14 December 2005)
Mr. LIN Yuan Yu	(*Chief Executive Officer*)	(appointed on 3 April 2007)

Non-executive directors:

Ms. LIN I Chu	(appointed on 3 April 2007)
Ms. LIU Fang Chun	(appointed on 3 April 2007)

Independent non-executive directors:

Mr. LAI Chung Ching	(appointed on 3 April 2007)
Mr. LU Hong Te	(appointed on 3 April 2007)
Mr. TUNG Chin Chuan	(appointed on 3 April 2007)

The Board, led by the Chairman, sets the overall directions, strategies and policies of the Group. The Board has a balance of skills and experience appropriate for the requirements of the business of the Group. The executive directors have extensive management experience in the aluminium electrolytic capacitor and aluminium foil manufacturing industry. The Board has the required knowledge, experience and capabilities to operate and develop the Group's business and implement its business strategies. The biographical details and experience of the directors and senior management are set out on pages 11 to 13.

Each director has a duty to act in good faith in the best interests of the Company. The directors, individually and collectively, are aware of their responsibilities and accountability to shareholders for the manner in which the affairs of the Company are managed and operated.

Directors can attend Board meetings either in person or by electronic means of communication. Details of attendance of Board meetings held in 2007 of each of the members of the Board are set out in "Attendance of Individual Directors at Meetings" below.

Directors have timely access to relevant information prior to each Board meeting to enable them to make an informed decision and to discharge their duties and responsibilities.

Apart from the family relationships among the members of the Board as set out below, there are no other financial, business, family or other material/relevant relationships among members of the Board:

- Mr. LIN Yuan Yu (*Chief Executive Officer*) is the son of Mr. LIN Chin Tsun (*Chairman and President*) and Ms. CHOU Chiu Yueh (*Vice-President*);
- Ms. CHOU Chiu Yueh (*Vice-President*) is the spouse of Mr. LIN Chin Tsun (Chairman and President);
- Ms. LIU Fang Chun (*non-executive director*) is the spouse of Mr. LIN Yuan Yu (*Chief Executive Officer*); and
- Ms. LIN I Chu (*non-executive director*) is the daughter of Mr. LIN Chin Tsun (Chairman and President) and Ms. CHOU Chiu Yueh (*Vice-President*).

Under the leadership of the Chief Executive Officer, the management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Group. The Board delegates appropriate aspects of its management and administration functions to the management who shall report to the Board. The Board reviews on a periodic basis such delegations to ensure that they remain appropriate.

Chairman and Chief Executive Officer

The role of the Chairman is separate from that of the Chief Executive Officer so as to delineate their respective areas of responsibility. They receive significant support from the directors and the senior management team.

The Chairman is responsible for the strategic planning and major decision-making of the Group as well as for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. The Chief Executive Officer is responsible for the overall management and strategic planning of the Group's anode foils business.

Non-Executive Directors

The independent non-executive directors of the Company have diversified backgrounds and industries and one member has an appropriate accounting qualification as required by the Listing Rules. With their expertise, they offer experience, independent judgement and advice on the overall management of the Company. Their responsibilities include maintaining a balance between the interests of all shareholders of the Company as a whole. They are also members of the audit and remuneration committees.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and considers them to be independent.

The term of appointment of all the non-executive directors of the Company is three years. Under the Company's Articles, one-third of all directors (whether executive or non-executive) is subject to retirement by rotation and re-election at each annual general meeting provided that every director shall be subject to retirement at least once every three years.

C. REMUNERATION OF DIRECTORS

The Board established the remuneration committee on 15 April 2007 with specific written terms of reference which deal clearly with its authority and responsibilities. The committee is responsible for formulating and reviewing the remuneration policy and specific remuneration packages of all executive directors. In formulating the remuneration policy, the committee takes into consideration factors such as salaries paid by comparable companies, employment conditions and responsibilities, and individual performance of the directors, senior management, and the general staff. The committee can seek independent professional advice to complement its own resources to discharge its duties.

The remuneration committee comprises Mr. Lin Chin Tsun, who is the chairman of the committee, Ms. Chou Chiu Yueh, an executive director, and all the independent non-executive directors.

Following the establishment of the committee on 15 April 2007, two meetings were held in 2007 to discuss remuneration related matters including a review of the remuneration policy of the Group and the review and revision of the Directors' remuneration. Details of attendance of remuneration committee meetings of each of the members of the remuneration committee are set out in "Attendance of Individual Directors at Meetings" below.

Details of the emoluments and options of each director, on a named basis, are set out in note 9 to the financial statements and in the section headed "Share Options" in the directors' report respectively.

D. AUDIT COMMITTEE

The Board established the audit committee pursuant to a resolution of the Directors passed on 15 April 2007 with specific written terms of reference which deal clearly with its authority and responsibilities. The committee is primarily responsible for reviewing the financial reporting process and internal control procedures of the Group. The committee is also responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors. The committee can seek independent professional advice to complement its own resources to discharge its duties.

The committee comprises all the independent non-executive directors. Mr. Lai Chung Ching is the chairman of the committee.

Following the establishment of the audit committee on 15 April 2007, two meetings were held in 2007. The committee reviewed, together with the senior management and the external auditors, the financial statements for the six months ended 30 June 2007, the accounting principles and practices adopted by the Group and statutory compliance. The committee also reviewed the independence of the external auditors, approved the remuneration and terms of engagement of the external auditors and made recommendation on the appointment of a consultant to undertake a review of the Group's internal controls and risk management system. Details of attendance of audit committee meetings of each of the members of the audit committee are set out in "Attendance of Individual Directors at Meetings" below.

E. NOMINATION OF DIRECTORS

The Company does not have a nomination committee. Currently all new appointments and re-appointments to the Board are considered by the Board whose deliberations are based on the following criteria:

- independent mind and has integrity;
- possession of core competencies, including but not limited to financial literacy, that meet the current needs of the Company and complement the skills and competencies of the existing directors on the Board;
- ability to commit time and effort to carry out duties and responsibilities effectively; and
- possession of a good track record of experience at a senior level in corporations/organizations.

F. AUDITORS' REMUNERATION

Ernst & Young, the external auditors of the Company, acted as the reporting accountants of the Company for the listing of the Company's shares on the Stock Exchange in 2007. Ernst & Young were also responsible for providing audit services in connection with annual financial statements of the Group for the year ended 31 December 2007.

For the year ended 31 December 2007, the total remuneration in respect of services as reporting accountants and statutory audit services provided by Ernst & Young for the Group amounted to approximately RMB6,161,000 and in respect of non-audit services provided by Ernst & Young amounted to approximately RMB191,000.

The audit committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Ernst & Young be re-appointed as the external auditors of the Company for 2008.

G. ATTENDANCE OF INDIVIDUAL DIRECTORS AT MEETINGS

The attendance of individual directors at meetings of the Board, remuneration committee and audit committee is set out in the table below:

	Meetings attended/Meetings held in 2007		
Name of director	**Board**	**Remuneration Committee**	**Audit Committee**
Mr. LIN Chin Tsun	4/4	2/2	N/A
Ms. CHOU Chiu Yueh	4/4	2/2	N/A
Mr. LIN Yuan Yu	4/4	N/A	N/A
Ms. LIN I Chu	2/4	N/A	N/A
Ms. LIU Fang Chun	3/4	N/A	N/A
Mr. LAI Chung Ching	2/4	2/2	2/2
Mr. LU Hong Te	2/4	2/2	2/2
Mr. TUNG Chin Chuan	2/4	2/2	2/2

H. FINANCIAL REPORTING

The Board aims at presenting a comprehensive, balanced and understandable assessment of the Group's performance, position and prospects. Management provides such explanation and information to enable the Board to make an informed assessment of the matters put before the Board for approval.

The directors acknowledge their responsibilities for preparing the financial statements for the Group.

The statement of the external auditors of the Company regarding their responsibilities for the financial statements of the Group is set out in the report of the auditors on pages 30 and 31.

I. INTERNAL CONTROLS

The Board has overall responsibility for maintaining a sound and effective system of internal control and for reviewing its effectiveness, particularly in respect of the controls on financial, operational, compliance and risk management, to safeguard shareholders' investment and the Group's assets.

During the year, the Board appointed an external consultant Grant Thornton Specialist Services Limited to conduct a review of the corporate governance and internal control system of the Group and the results of the corporate governance and internal control reviews were submitted to the audit committee for consideration after the year end. The audit committee has reviewed the results of the corporate governance and internal control reviews and is satisfied with the adequacy of the corporate governance and the system of internal control of the Group.

The directors of the Company (the "Directors") are pleased to present their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Principal activities and particulars of the Company's subsidiaries are set out in note 19 to the consolidated financial statements.

An analysis of the Group's sales and operating results for the year by principal activities is set out in note 4 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for less than 30% of the sales of the Group for the year.

The percentages of purchases for the year attributable to the Group's largest supplier and the Group's five largest suppliers were 20.46% and 49.73%, respectively.

Save for the association with certain related companies as set out in note 36 to the consolidated financial statements, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) has a beneficial interest in the Group's five largest suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 32.

The board of Directors (the "Board") does not recommend the payment of a final dividend. The Board has declared an interim dividend of HK$0.03 per ordinary share, totalling approximately RMB24,748,000 which was paid on 8 October 2007.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 15 to the consolidated financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties during the year and particulars of investment properties are set out in note 16 to the consolidated financial statements and on page 104, respectively.

BORROWINGS

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the long-term borrowings are set out in note 29 to the consolidated financial statements.

PENSION SCHEMES

Details of the pension schemes are set out in note 30 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 26 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 35 and in note 28 to the consolidated financial statements, respectively.

As at 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB7,947,000.

FOUR-YEAR FINANCIAL SUMMARY

A four-year financial summary of the Group is set out on page 103.

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors

Mr. LIN Chin Tsun (*Chairman and President*)	(appointed on 14 December 2005)
Ms. CHOU Chiu Yueh (*Vice-President*)	(appointed on 14 December 2005)
Mr. LIN Yuan Yu (*Chief Executive Officer*)	(appointed on 3 April 2007)

Non-Executive Directors

Ms. LIN I Chu	(appointed on 3 April 2007)
Ms. LIU Fang Chun	(appointed on 3 April 2007)

Independent Non-Executive Directors

Mr. LAI Chung Ching	(appointed on 3 April 2007)
Mr. LU Hong Te	(appointed on 3 April 2007)
Mr. TUNG Chin Chuan	(appointed on 3 April 2007)

In accordance with the Company's Articles of Association, Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh and Ms. Lin I Chu retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company or any of its subsidiaries which is not terminable within one year without payment of compensation other than statutory compensation.

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received independence confirmation from each of the independent non-executive Directors and considers them to be independent.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the paragraph headed "Connected Transactions" and in note 36 to the consolidated financial statements, no contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the following connected transactions require disclosure in the annual report of the Company. The connected transactions which also constitute related party transactions are set out in note 36 to the consolidated financial statements.

1. Non-exempt continuing connected transactions subject to the reporting and announcement requirements

Subcontracting arrangement

The Group subcontracts its low voltage forming process to Fung Yue Technology Limited and its subsidiary, namely Capxon Electronic Technology (Renhua) Co., Ltd. (collectively, the "Renhua Group"). On 12 April 2007, the Company (for itself and on behalf of its subsidiaries) entered into a subcontracting agreement (the "Renhua Agreement") with Fung Yue Technology Limited pursuant to which the Group will, on and after 7 May 2007 (the "Listing Date"), engage the Renhua Group to process low voltage formed foils (the "Renhua Group Transaction"). The Renhua Agreement will expire on 31 December 2008.

Fung Yue Technology Limited is beneficially wholly owned by Mr. Lin Chin Tsun, Chairman and President of the Company, and therefore, the Renhua Group Transaction constitutes a continuing connected transaction of the Company under Chapter 14A.34 of the Listing Rules and is subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirement.

The Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 14A.42(3) of the Listing Rules and the Stock Exchange has agreed to grant such waiver to the Company from strict compliance with the announcement requirement in respect of the Renhua Group Transaction.

The amount of subcontracting fees payable by the Group to the Renhua Group for processing low voltage formed foils shall be determined by the parties after arm's length negotiation and by reference to the market rate and therefore, shall be no less favourble than those obtainable from third parties.

For the year ended 31 December 2007, the total subcontracting fees charged to the Group by the Renhua Group amounted to approximately RMB14,983,000 which have not exceeded the maximum aggregate annual amounts for the Renhua Group Transaction in respect of the year ended 31 December 2007 as disclosed in the prospectus issued by the Company on 24 April 2007 (the "Prospectus").

2. Non-exempt continuing connected transaction subject to reporting, announcement and independent shareholders' approval requirements

Purchase of raw materials from Ele Con Co., Ltd. ("Ele Con")

Ele Con supplies cathode foils to the Group. On 12 April 2007, the Company (for itself and on behalf of its subsidiaries) entered into a purchase agreement with Ele Con (the "Ele Con Agreement") pursuant to which the Group will, on and after the Listing Date, purchase cathode foils from Ele Con (the "Ele Con Transaction"). The Ele Con Agreement will expire on 31 December 2009.

Ele Con is owned as to 30% by Ms. Liu Fang Chun who is a non-executive Director and therefore, the Ele Con Transaction constitutes a continuing connected transaction of the Company under Chapter 14A.35 of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements.

The Company has applied to The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for a waiver from strict compliance with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules and the Stock Exchange has agreed to grant such a waiver to the Company from compliance with the announcement and independent shareholders' approval requirements in respect of the Ele Con Transaction.

The amount of purchase prices payable by the Group to Ele Con for supplying cathode foils to the Group shall be determined by the parties after arm's length negotiation and by reference to the market rate and therefore, shall be no less favourable than those obtainable from third parties.

For the year ended 31 December 2007, the total purchases of raw materials from Ele Con by the Group amounted to approximately RMB34,834,000 which have not exceeded the maximum aggregate annual amounts for the Ele Con Transaction in respect of the year ended 31 December 2007 as disclosed in the Prospectus.

The independent non-executive Directors have reviewed the Renhua Group Transaction and the Ele Con Transaction (the "Continuing Connected Transactions") and were of the opinion that the Continuing Connected Transactions had been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available from independent third parties; and

(iii) in accordance with the terms of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the Continuing Connected Transactions and confirmed to the Directors that the Continuing Connected Transactions (a) were approved by the Board; (b) have been entered into accordance with the relevant agreements governing such transactions. During the review, the auditors noted that subcontracting fee paid to the Renhua Group does not have prescribed rates from third parties, the prices of these transactions were mutually agreed between the Renhua Group and the Group; and (c) have not exceeded the caps disclosed in the Prospectus.

3. Connected transaction

Disposal of property

On 14 November 2007, Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), which is owned as to 96.54% by the Company, entered into a disposal agreement with Mr. Lin Yuan Yu, an executive Director and the Chief Executive Officer of the Company, pursuant to which Capxon Taiwan agreed to sell and Mr. Lin Yuan Yu agreed to buy the property situated in No.2, Lane 146, Section 1, Datong Road, Sijhih City, Taipei County in Taiwan and the relevant land at a consideration of NT$25 million (equivalent to approximately RMB5,807,201) payable in cash (the "Property Disposal"). Completion of the Property Disposal took place before 31 December 2007.

As Mr. Lin Yuan Yu is a Director, the Property Disposal constitutes a connected transaction of the Company under Rule 14A.13(1) of the Listing Rules and is subject to the reporting and announcement requirements set out in Rules 14A.45 and 14A.47 of the Listing Rules but exempted from the independent shareholders' approval requirement of the Listing Rules.

In respect of all continuing connected transactions and connected transactions, the Company has complied with the disclosure requirements under the Listing Rules in force from time to time.

Since the Listing Date, certain mechanisms have been in place to ensure that the terms of the Group's existing and future connected transactions are in the best interests of the Company and the shareholders as a whole. Such mechanisms include review of the transactions entered into or proposed to be entered into between the Group and the Renhua Group/Ele Con and any related parties by the independent non-executive Directors, review of the connected transactions by the compliance adviser of the Company and all executive and non-executive Directors are not counted in the quorum and shall abstain from voting at the meetings at which resolutions on any connected transactions are being decided.

SHARE OPTIONS

Share Option Scheme

On 3 April 2007, the Company adopted a share option scheme (the "Share Option Scheme"). No options have been granted under the Share Option Scheme since its adoption.

A summary of the Share Option Scheme is set below:

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to recognize and acknowledge the contributions of the participants to the Group by granting options to them as incentives or rewards.

2. Participants of the Share Option Scheme

(i) any executive and employee of the Group; or

(ii) any director (including non-executive directors and independent non-executive directors) of the Group; or

(iii) any consultant, adviser and/or agent of the Group.

3. *Total number of shares available for issue under the Share Option Scheme and % of issued share capital at 15 April 2008*

   The maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Group must not in aggregate exceed 84,455,984 shares (approximately 10% of the issued share capital of the Company).

4. *Maximum entitlement of each participant under the Share Option Scheme*

   The maximum entitlement for each participant is that the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the Share Option Scheme.

5. *The period within which the shares must be taken up under an option*

   The period commencing from the date of grant and expiring at 5:00 p.m. on the business day (being a day on which the Stock Exchange is open for the business of dealing in securities ("Business Day") (i) preceding the fifth anniversary of the date of grant or (ii) preceding the expiry of the Share Option Scheme, whichever is the earlier.

6. *The minimum period for which an option must be held before it can be exercised*

   No option may be exercised until the expiry of 12 months after the date of grant.

7. *The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid*

   Nil.

8. *The basis of determining the exercise price*

   The exercise price is determined by the Board and shall at least be the higher of:

   (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a Business Day; and

   (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of offer.

   or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme.

9. *The remaining life of the Share Option Scheme*

   The Share Option Scheme is valid and effective for a period of 10 years commencing on 3 April 2007 and will expire at 5:00 p.m. on the Business Day preceding the tenth anniversary thereof.

Pre-IPO Share Option Scheme

On 3 April 2007, the Company also approved and adopted a share option scheme entitling the Board to grant share options at its discretion before the listing of the shares (the "Pre-IPO Share Option Scheme"). A summary of the Pre-IPO Share Option Scheme is set out below:

1. *Purpose of the Pre-IPO Share Option Scheme*

   The purpose of the Pre-IPO Share Option Scheme is to recognize and acknowledge the contributions of the participants to the growth of the Group by granting options to them as incentives or rewards.

2. *Participants of the Pre-IPO Share Option Scheme*

   Any executive, director and/or employee of the Group who is in full-time employment of the Group at the time when an option is granted.

3. *Total number of shares available for issue under the Pre-IPO Share Option Scheme and % of issued shared capital at 15 April 2008*

   15,500,000 shares being the maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme and 14,900,000 of which have been granted (representing respectively 1.84% and 1.76% of the issued share capital of the Company). During the year, a total of 600,000 options so granted have lapsed.

4. *Maximum entitlement of each participant under the Pre-IPO Share Option Scheme*

   There is no restriction on the number of shares of the Company issued and to be issued upon exercise of the options granted to each participant in any 12-month period.

5. *The period within which the shares must be taken up under an option*

   The period commencing from the date of grant and ending on such date as determined by the Board but in any event not exceeding 5 years from the date of grant.

6. *The minimum period for which an option must be held before it can be exercised and the exercise price*

   No option may be exercised until the expiry of 12 months after the date of vesting.

   (i) 20% of the options shall vest on each of the first and second anniversary of the date of grant at a price of HK$0.465 representing 50% of HK$0.93 being the price of the Company's shares offered under the Prospectus (the "Offer Price"); and

   (ii) 60% of the options shall vest on the third anniversary of the date of grant at a price of HK$0.465 representing 50% of the Offer Price.

7. *The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be paid*

Nil.

8. *The remaining life of the Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme was valid and effective for the period commencing on 3 April 2007 and expired on the Business Day preceding the Listing Date.

Details of the share options granted on 17 April 2007 pursuant to the Pre-IPO Share Option Scheme which remained outstanding as at 31 December 2007 are as follows:

	Date of grant	Options outstanding as at 1 January 2007	Options granted during the year	Options lapsed during the year	Options held as at 31 December 2007
Employees	17 April 2007	–	4,800,000	(600,000)	4,200,000
Director					
Mr. LIN Chin Tsun	17 April 2007	–	3,200,000	–	3,200,000
Ms. CHOU Chiu Yueh	17 April 2007	–	2,300,000	–	2,300,000
Mr. LIN Yuan Yu	17 April 2007	–	1,900,000	–	1,900,000
Ms. LIU Fang Chun	17 April 2007	–	900,000	–	900,000
Ms. LIN I Chu	17 April 2007	–	900,000	–	900,000
Chief Financial Officer					
Ms. HU Szu Jung, Carol	17 April 2007	–	900,000	–	900,000
		–	14,900,000	(600,000)	14,300,000

Notes:

1. Pursuant to the rules of the Pre-IPO Share Option Scheme, 20% of the options shall vest on the first anniversary of the date of grant at an exercise price of HK$0.465 per share (the "First Tranche"), 20% of the options shall vest on the second anniversary of the date of grant (the "Second Tranche") at an exercise price of HK$0.465 per share, and 60% of the options shall vest on the third anniversary of the date of grant at an option price of HK$0.465 per share. The Board may at its absolute discretion adjust the number of the options to be vested in the First Tranche and the Second Tranche either upwards or downwards based on the performance of the relevant grantees in the year immediately preceding the vesting of the options in the relevant tranches as determined by the Directors.

2. Pursuant to the rules of the Pre-IPO Share Option Scheme, options may be exercised by a participant, in whole or in part, at any time during the period commencing from 17 April 2007 to 16 April 2012 except that no options may be exercised until the expiry of 12 months after the date of vesting in accordance with note 1 above.

3. No option granted under the Pre-IPO Share Option Scheme was exercised or cancelled during the year ended 31 December 2007.

4. Save as disclosed above, during the year ended 31 December 2007, no option has been granted under the Pre-IPO Share Option Scheme or the Share Option Scheme.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ chief executive	Capacity and nature of interest	Number of issued shares held (a) and approximate percentage of shares in issue (b)[(1)]		Interest in underlying shares[(3)]	Total interest (a) and approximate percentage of shares in issue (b)[(1)]	
		(a)	(b)		(a)	(b)
Mr. LIN Chin Tsun	Beneficial owner	101,657,378	66.90	3,200,000	570,473,947	67.55
	Interest of controlled corporation	395,360,783[(2)]		–		
	Interest of spouse	67,955,786		2,300,000		
Ms. CHOU Chiu Yueh	Beneficial owner	67,955,786	66.90	2,300,000	570,473,947	67.55
	Interest of controlled corporation	395,360,783[(2)]		–		
	Interest of spouse	101,657,378		3,200,000		
Mr. LIN Yuan Yu	Beneficial owner	13,161,622	2.38	1,900,000	22,890,615	2.71
	Interest of spouse	6,928,993		900,000		
Mr. LIN I Chu	Beneficial owner	9,429,777	1.12	900,000	10,329,777	1.22
Ms. LIU Fang Chun	Beneficial owner	6,928,993	2.38	900,000	22,890,615	2.71
	Interest of spouse	13,161,622		1,900,000		
Mr. TUNG Chin Chuan	Beneficial owner	1,726,000	0.20	–	1,726,000	0.20
Ms. HU Szu Jung, Carol	Beneficial owner	243,991	0.03	900,000	1,143,991	0.14

Notes:

(1) This percentage has been compiled based on the total number of shares (i.e. 844,559,841 shares) of the Company in issue as at 31 December 2007.

(2) Each of Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh is deemed to be interested in an aggregate of 395,360,783 shares which are held by Superior Skill International Limited, Union Glory Management Limited, Jet Link Group Limited and Hung Yu Investment Co., Ltd. Such corporations are controlled by Mr. Lin Chin Tsun and/or Ms. Chou Chiu Yueh.

(3) These represent interests in underlying shares in respect of share options granted by the Company, the details of which are set out in the paragraph headed "Share Options" in this report.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executives of the Company and their associates had any personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Apart from the foregoing, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and no Directors or chief executives or their respective spouses or children under 18 years of age had been granted any right to subscribe for equity or debt securities of the Company nor exercised any such right.

SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, as at 31 December 2007, according to the register of interests kept by the Company under section 336 of the SFO, the following entities had interests or short positions in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Capacity and nature of interest	Number of issued shares held	Approximate percentage of shares in issue[1]
Superior Skill International Limited	Beneficial owner	296,495,623	35.11%
Jet Link Group Limited	Beneficial owner	69,722,663	8.26%
Geng Yang Investment Limited[2]	Interest of controlled corporation	69,722,663	8.26%
Ci Peng Investment Limited[2]	Interest of controlled corporation	69,722,663	8.26%

Notes:

(1) This percentage has been compiled based on the total number of shares (i.e. 844,559,841 shares) of the Company in issue as at 31 December 2007.

(2) Jet Link Group Limited is owned by Geng Yang Investment Limited and Ci Peng Investment Limited as to 60% and 40% respectively. Accordingly, each of Geng Yang Investment Limited and Ci Peng Investment Limited is deemed to be interested in 69,722,663 shares held by Jet Link Group Limited under the SFO.

Save as disclosed above, the Directors are not aware of any other persons who, as at 31 December 2007, had interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

REMUNERATION POLICY

The remuneration policy of the employees of the Group is formulated by the Remuneration Committee which takes into account individual performance, qualifications and competence.

The remuneration packages of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted the Pre-IPO Share Option Scheme and the Share Option Scheme to provide incentive to the directors and eligible employees of the Group, details of the said schemes are set out in the paragraph headed "Share Options" above.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities since the Listing Date to 31 December 2007.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in the Company's Articles of Association or in the Companies Law of the Cayman Islands, being the jurisdiction in which the Company is incorporated.

AUDIT COMMITTEE

The Company's Audit Committee is composed of all the three Independent non-executive Directors. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited consolidated financial statements for the year ended 31 December 2007.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained since the Listing Date the amount of public float as required under the Listing Rules.

AUDITORS

The consolidated financial statements for the year have been audited by Ernst & Young. A resolution for the re-appointment of Ernst & Young as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board
Lin Chin Tsun
Chairman

Hong Kong, 15 April 2008

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永會計師事務所

To the shareholders of
Capxon International Electronic Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements of Capxon International Electronic Company Limited set out on pages 32 to 102 which comprise the consolidated and company balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
15 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	**1,016,533**	843,856
Cost of sales		**(769,162)**	(643,117)
Gross profit		**247,371**	200,739
Other income	5	**8,813**	4,565
Selling and distribution costs		**(37,196)**	(35,586)
Administrative expenses		**(71,523)**	(36,930)
Other expenses		**(15,080)**	(10,663)
Finance revenue	6	**4,983**	2,352
Finance costs	7	**(38,280)**	(28,452)
Exchange loss, net		**(18,853)**	(4,662)
PROFIT BEFORE TAX	8	**80,235**	91,363
Tax	11	**(12,665)**	(7,787)
PROFIT FOR THE YEAR		**67,570**	83,576
Attributable to:			
Equity holders of the parent		**64,446**	73,872
Minority interests		**3,124**	9,704
		67,570	83,576
DIVIDENDS			
Interim	13	**24,748**	6,209
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	14		
– Basic (RMB cents)		**8.35**	11.70
– Diluted (RMB cents)		**8.32**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	**743,163**	648,632
Investment properties	16	**10,462**	12,340
Intangible assets	17	**12,942**	14,201
Prepaid land lease payments	18	**27,343**	23,511
Pledged deposits	25	**–**	7,450
		793,910	706,134
CURRENT ASSETS			
Inventories	20	**246,500**	174,882
Trade receivables	21	**360,908**	269,370
Bills receivable	22	**21,410**	10,686
Prepayments, deposits and other receivables	23	**52,801**	54,260
Due from related parties	36	**3,417**	34,927
Deferred tax assets	24	**683**	481
Pledged deposits	25	**94,268**	51,414
Cash and cash equivalents	25	**98,784**	77,105
		878,771	673,125
TOTAL ASSETS		**1,672,681**	1,379,259
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital	26	**82,244**	–
Reserves	28	**674,691**	469,240
		756,935	469,240
Minority interests		**9,227**	73,648
Total equity		**766,162**	542,888
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	29	**272,785**	239,205
Pension liability	30	**6,471**	6,499
		279,256	245,704
CURRENT LIABILITIES			
Trade and bills payables	31	**162,190**	132,161
Interest-bearing loans and borrowings	29	**397,596**	357,717
Other payables and accruals	32	**42,508**	37,466
Due to related parties	36	**15,113**	57,503
Income tax payable		**9,856**	5,820
		627,263	590,667
Total liabilities		**906,519**	836,371
TOTAL EQUITY AND LIABILITIES		**1,672,681**	1,379,259

Lin Chin Tsun
Director

Chou Chiu Yueh
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the parent									
	Issued share capital	Share premium	Capital reserve	Share option reserve	Statutory reserve fund	Exchange translation reserve	Retained profits	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(note 26)	*(note 26)*		*(note 27)*	*(note 28)*					
As at 1 January 2006	–	–	210,335	–	38,772	15,372	125,385	389,864	71,141	461,005
Profit for the year	–	–	–	–	–	–	73,872	73,872	9,704	83,576
Capital contributions	–	–	8,627	–	–	–	–	8,627	–	8,627
Dividends declared	–	–	–	–	–	–	(8,988)	(8,988)	(3,920)	(12,908)
Appropriations to statutory reserve	–	–	–	–	11,263	–	(11,263)	–	–	–
Transfer	–	–	29,562	–	–	–	(29,562)	–	–	–
Foreign currency translation difference	–	–	–	–	(369)	2,345	–	1,976	612	2,588
Acquisition of minority interests	–	–	3,889	–	–	–	–	3,889	(3,889)	–
At 31 December 2006	–	–	252,413	–	49,666	17,717	149,444	469,240	73,648	542,888

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the parent									
	Issued capital *RMB'000* *(note 26)*	Share premium *RMB'000* *(note 26)*	Capital reserve *RMB'000*	Share option reserve *RMB'000* *(note 27)*	Statutory reserve fund *RMB'000* *(note 28)*	Exchange translation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2007	**–**	**–**	**252,413**	**–**	**49,666**	**17,717**	**149,444**	**469,240**	**73,648**	**542,888**
Profit for the year	–	–	–	–	–	–	64,446	64,446	3,124	67,570
Acquisition of minority interests	–	–	–	–	–	–	–	–	(66,910)	(66,910)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(299)	(299)
Issue of shares	82,244	447,776	–	–	–	–	–	530,020	–	530,020
Share issue expenses	–	(11,150)	–	–	–	–	–	(11,150)	–	(11,150)
Share-based payments	–	–	–	2,525	–	–	–	2,525	–	2,525
Reversal of paid-up capital of the subsidiaries upon completion of share exchange	–	–	(282,702)	–	–	–	–	(282,702)	–	(282,702)
Interim 2007 dividend	–	–	–	–	–	–	(24,748)	(24,748)	–	(24,748)
Appropriations to statutory reserve	–	–	–	–	12,771	–	(12,771)	–	–	–
Foreign currency translation difference	–	–	–	–	–	9,304	–	9,304	(336)	8,968
At 31 December 2007	**82,244**	**436,626**	**(30,289)***	**2,525**	**62,437**	**27,021**	**176,371**	**756,935**	**9,227**	**766,162**

* The capital reserve represents the aggregate of the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's ordinary shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's ordinary shares on The Stock Exchange of Hong Kong Limited.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**80,235**	91,363
Adjustments for:			
Finance costs	7	**38,280**	28,452
Exchange loss, net		**18,853**	4,662
Interest income	6	**(4,983)**	(2,352)
Loss on disposal of items of property, plant and equipment	8	**1,476**	3,593
Gain on disposal of investment properties	8	**(4,116)**	––
Depreciation and impairment of property, plant and equipment	8	**54,992**	42,198
Depreciation of investment properties	8	**101**	109
Amortisation of intangible assets	8	**1,580**	1,598
Amortisation of prepaid land lease payments	8	**586**	466
Share issue expenses		**9,975**	––
Equity-settled share option	8	**2,525**	––
Movements in pension liability		**(28)**	253
		199,476	170,342
Increase in inventories		**(71,618)**	(16,975)
Increase in trade and bills receivables		**(102,262)**	(13,252)
Decrease/(increase) in prepayments, deposits and other receivables		**1,459**	(16,850)
Decrease/(increase) in amounts due from related parties		**31,510**	(13,304)
Increase in trade and bills payables		**30,029**	6,933
Increase in other payables and accruals		**4,983**	2,052
Decrease in amounts due to related parties		**(42,390)**	(57,673)
Cash generated from operations		**51,187**	61,273
Income taxes paid		**(8,831)**	(6,321)
Net cash flows from operating activities		**42,356**	54,952

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Notes	2007 *RMB'000*	2006 *RMB'000*
Net cash flows from operating activities		**42,356**	54,952
INVESTING ACTIVITIES			
Interest received		**4,983**	2,352
Proceeds from disposal of items of property, plant and equipment		**4,332**	12,692
Proceeds from disposal of investment properties		**5,146**	–
Purchases of items of property, plant and equipment		**(156,356)**	(181,601)
Additions to prepaid land lease payments		**(4,418)**	(3,942)
Additions to intangible assets		**(321)**	(7,229)
Acquisition of minority interests		**(47,087)**	(2,224)
Receipt of government grants and subsidy income		**955**	506
Increase in pledged deposits with original maturity of over three months when acquired		**(30,858)**	(19,912)
Net cash flows used in investing activities		**(223,624)**	(199,358)
FINANCING ACTIVITIES			
Proceeds from issue of shares		**366,472**	–
Capital contributions		**–**	8,627
Share issue expenses		**(21,125)**	–
Deemed distribution		**(128,848)**	–
Proceeds from loans and borrowings		**878,122**	971,054
Repayment of loans and borrowings		**(798,216)**	(811,172)
Interest paid		**(38,280)**	(28,452)
Dividends paid to equity holders of the parent		**(24,690)**	(8,988)
Dividends paid to minority interests		**(299)**	(3,920)
Net cash flows from financing activities		**233,136**	127,149
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**51,868**	(17,257)
Exchange realignment		**(25,643)**	1,079
Cash and cash equivalents at beginning of year		**88,939**	105,117
CASH AND CASH EQUIVALENTS AT END OF YEAR		**115,164**	88,939
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*25*	**98,784**	77,105
Pledged deposits with original maturity of less than three months when acquired	*25*	**16,380**	11,834
		115,164	88,939

BALANCE SHEET

As at 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries	19	**508,900**	59,849
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**482**	10,568
Due from subsidiaries	19	**14,333**	–
Cash and bank balances	25	**8,809**	215
		23,624	10,783
TOTAL ASSETS		**532,524**	70,632
EQUITY			
Issued capital	26	**82,244**	–
Reserves	28	**447,924**	(351)
		530,168	(351)
CURRENT LIABILITIES			
Other payables	32	**1,469**	17,613
Due to subsidiaries	19	**887**	6,129
Due to related parties		**–**	47,241
		2,356	70,983
TOTAL EQUITY AND LIABILITIES		**532,524**	70,632

Lin Chin Tsun
Director

Chou Chiu Yueh
Director

1. CORPORATE INFORMATION AND REORGANISATION

The registered office of the Company is located at Scotia Centre, 4th Floor, P.O.Box 2804, George Town, Grand Cayman, Cayman Islands.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the production and sales of aluminum electrolytic capacitors and aluminum foils, the major raw materials for the manufacturing of electrolytic capacitors.

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 14 December 2005. The Company's shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 7 May 2007 (the "Listing Date").

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. The Reorganisation principally involved the acquisition of companies directly or indirectly owned by members of the Lin family who are directors of the Company, namely Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh, Mr. Lin Yuan Yu, Ms. Liu Fang Chun and Ms. Lin I Chu. Details of the Reorganisation are set out in the prospectus dated 24 April 2007 issued by the Company (the "Prospectus").

The Group is regarded as a continuing group resulting from the reorganisation of entities under common control. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of companies comprising the Group throughout the year, rather than from the date on which the Reorganisation was completed. The comparative figures as at 31 December 2006 and for the year ended 31 December 2006 have been prepared on the same basis.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board and the International Accounting Standards and Standing Interpretations Committee, as well as interpretations approved by the International Accounting Standards Committee that remain in effect and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain financial assets, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

IFRS 7	*Financial Instruments: Disclosures*
IAS 1 Amendment	*Capital Disclosures*
IFRIC-Int 8	*Scope of IFRS 2*
IFRIC-Int 9	*Reassessment of Embedded Derivatives*
IFRIC-Int 10	*Interim Financial Reporting and Impairment*

The principal effects of adopting these new and revised IFRSs are as follows:

(a) IFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

(b) Amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 37 to the financial statements.

(c) IFRIC-Int 8 *Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

(d) IFRIC-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivatives, the interpretation has had no effect on these financial statements.

(e) IFRIC-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 8	*Operating Segments*[1]
IAS 23 (Revised)	*Borrowing Costs*[1]
IFRIC-Int 11	*Group and Treasury Share Transactions*[2]
IFRIC-Int 12	*Service Concession Arrangements*[4]
IFRIC-Int 13	*Customer Loyalty Programmes*[3]
IFRIC-Int 14	*IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction*[4]
IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IFRS 3 (Revised)	*Business Combinations*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[5]
IFRS 2 (Amended)	*Share-based Payment – Vesting Conditions and Cancellations*[1]
IAS 1 and IAS 32 (Amended)	*Presentation of Financial Statements and Financial Instruments: Presentation*[1]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 July 2009

IFRS 8, which will replace IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt IFRS 8 from 1 January 2009.

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

IFRIC-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IFRIC-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. IFRIC-Int 12 also addresses how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

IFRIC-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no such arrangments, the interpretation is unlikely to have any financial impact on the Group.

IFRIC-Int 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. The Group is in the process of making an assessment of the impact of the new IFRIC upon initial application.

The revised IAS 1 requires an entity to include a statement of financial position as at the beginning of the earliest comparative period whenever the entity retrospectively applies an accounting policy and makes a retrospective restatement or reclassification of items in its financial statements. The Group expects to adopt the revised IAS 1 from 1 January 2009 and will need to consider whether to present the statement of comprehensive income as a single statement or as two statements.

IFRS 3 and IAS 27 will have a significant impact on the profit or loss reported in the period of an acquisition and the future periods, as well as the amount of goodwill recognised in a business combination. The revisions to accounting for contingent consideration and the requirements to consider the amounts transferred to employees should be taken into account when negotiating the terms of the contract, to avoid reporting transaction amounts that are different to the ones intended. Greater time and effort will be required at the time of the acquisition to identify and measure the elements in the transaction, with much greater involvement of experts which will add cost to any transaction. Additional disclosure requirements will need to be considered by Group in advance.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS *(continued)*

IFRS 2 indicates that vesting conditions are of two types: either service conditions or performance conditions. The Amendments restrict the definition of "vesting condition" to conditions that include an explicit or implicit requirement to provide services. Therefore, any condition that does not have such a requirement is a non-vesting condition. The Amendments generally require "non-vesting" conditions to be treated similarly to market conditions. Non-vesting conditions, like market conditions, are only taken into account to determine the fair value of the equity instruments granted.

A failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as a cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation. The Group will need to consider share-based payment schemes in which employees are still within the vesting period, as at the opening balance sheet date, to determine whether any conditions need to be reclassified between vesting and non-vesting conditions.

The amended IAS 32 will now permit a range of entities to recognise their capital as equity (if all of the features and conditions specified in the amendments are met) rather than as financial liabilities, as currently required by IAS 32.

IAS 1 has also been amended to require additional disclosures for puttable financial instruments classified as equity, which mirror those currently required for financial liabilities (in accordance with IFRS 7 Financial Instruments: Disclosures) and for capital (in accordance with IAS 1 Presentation of Financial Statements).The Group could adopt amended IAS 1 and 32 currently on the condition that all the related amendments to IAS 1, IAS 32, IAS 39, IFRS 7 and IFRIC 12 are applied at the same time.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IAS1 (Revised) and IFRS 8 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the combined income statements in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statements in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is a member of the key management personnel of the Group or its parent;

(c) the party is a close member of the family of any individual referred to in (a) or (b); or

(d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c);

(e) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group; or

(f) the party is an associate or a jointly-controlled entity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statements in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	1.80%
Plant and machinery	9.00%
Office and other equipment	18.00%
Motor vehicles	18.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statements in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the items of property, plant and equipment under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investment properties

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are stated at cost, including transaction costs, less accumulated depreciation and any impairment losses.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statements in the year of the retirement or disposal.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statements on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statements on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 to 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statements when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statements.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, the securities are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statements, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction cost and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statements when the liabilities are derecognised as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Purchase cost on the weighted average basis
Finished goods and work in progress	Cost of direct materials and labour and an appropriate proportion of overheads

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in the income statements.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholder's right to receive payment has been established.

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payment transactions *(continued)*

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of IFRS 2 in respect of equity-settled awards and has applied IFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits

The Group's companies registered in Mainland China participate in defined contribution pension schemes managed by the local municipal governments in Mainland China in regions in which they operate. The Group has no obligations for payment of retirement benefits beyond the monthly contributions at fixed percentages of wages and salaries of the existing full-time employees in Mainland China. The contributions made under the defined contribution pension scheme are charged as an expense to the income statement as incurred.

The Company's subsidiary incorporated in Taiwan currently participates in two kinds of government-regulated pension plans for the provision of pension benefits to its employees. Employees who were recruited before the implementation of the Employee Pension Act on 1 July 2005 are under a defined benefit pension plan. As detailed in note 30 below, pension payables under the defined benefit pension plan were assessed using the projected unit credit method; the cost of providing these pensions is charged to the income statement so as to spread the service cost over the average service lives of the employees, in accordance with the actuarial reports which contained full valuations of the obligations for each of the relevant accounting periods. These obligations are measured at the present value of the estimated future cash outflows using interest rates of the government securities which have terms to maturity similar to the terms of the related liability. Actuarial gains and losses are recognised in the period in which they are incurred. Employees who are recruited after the implementation of the Employee Pension Act on 1 July 2005 are under a government-regulated defined contribution pension scheme under which the subsidiary makes contributions to the pension scheme at a fixed percentage of not less than 6% of the wages and salaries of the employees. Employees who joined the subsidiary before 1 July 2005 may elect to participate in this defined contribution pension scheme instead of the aforesaid defined benefit pension plan upon the implementation of the Employee Pension Act with effect from 1 July 2005.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheets, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

The Company and other investment holding subsidiaries incorporated in the Cayman Islands, Hong Kong and Taiwan have their functional currencies in Hong Kong dollars ("HK$"), US dollars ("US$") and New Taiwan dollars ("NTD"). The functional currency of the PRC subsidiaries is Renminbi ("RMB"). As the Group mainly operates in the PRC, RMB is used as the presentation currency of the Group. All financial information presented in Renminbi ("RMB") has been rounded to the nearest thousand.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company which is RMB at the exchange rates ruling at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of the Company and its overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the Company and its overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATES

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Write-down of inventories

The write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The assessment of the write-down required involves management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying value of the inventories and the write-down charged/write-back in the period in which such estimate has been changed.

(ii) Impairment of trade receivables

The impairment of trade receivables is made based on the assessment of the recoverability of the trade receivables and other receivables. The identification of doubtful debts requires management judgements and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will have impact on the carrying amounts of the receivables and the doubtful debt expenses/write-back in the period in which the estimate has been changed.

3. SIGNIFICANT ACCOUNTING ESTIMATES *(continued)*

(iii) Impairment of items of property, plant and equipment

The carrying amounts of the items of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable in accordance with the accounting policy as disclosed in Section 2. The recoverable amount of the property, plant and equipment is the higher of net selling price and value in use, and the calculations of which involve the use of estimates.

(iv) Deferred tax

Deferred tax is provided using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised.

Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2007 was RMB683,000 (2006: RMB481,000). The amount of unrecognised tax losses at 31 December 2007 was RMB2,732,000 (2006: RMB1,924,000). Further details are contained in note 24.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(i) the capacitors segment engages in the manufacture and sale of capacitors; and

(ii) the aluminum foils segment engages in the manufacture and sale of aluminum foils;

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION *(continued)*

a. Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

Year ended 31 December 2007

	Capacitors *RMB'000*	Aluminum foils *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	852,782	163,751	–	1,016,533
Intersegment sales	–	437,563	(437,563)	–
Other revenue		2,012	–	2,012
Total	852,782	603,326	(437,563)	1,018,545
Segment results	103,894	59,502	(2,002)	161,394
Interest income and unallocated gains				11,784
Corporate and other unallocated expenses				(35,810)
Finance costs				(38,280)
Exchange loss, net				(18,853)
Profit before tax				80,235
Income tax expense				(12,665)
Profit for the year				67,570
Assets and liabilities				
Segment assets	1,004,244	700,880	(41,734)	1,663,390
Unallocated assets	–	–	–	9,291
Total assets				1,672,681
Segment liabilities	589,340	357,445	(41,734)	905,051
Unallocated liabilities	–	–	–	1,468
Total liabilities				906,519
Other segment information				
Depreciation and amortisation	33,727	23,532	–	57,259
Capital expenditure	66,501	94,594	–	161,095

4. SEGMENT INFORMATION *(continued)*

a. Business segments *(continued)*

Year ended 31 December 2006

	Capacitors RMB'000	Aluminum foils RMB'000	Eliminations RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	775,053	68,803	–	843,856
Intersegment sales	–	358,883	(358,883)	–
Other revenue	1,813	899	–	2,712
Total	776,866	428,585	(358,883)	846,568
Segment results	80,011	52,882	(1,958)	130,935
Interest income and unallocated gains				4,205
Corporate and other unallocated expenses				(10,663)
Finance costs				(28,452)
Exchange loss, net				(4,662)
Profit before tax				91,363
Income tax expense				(7,787)
Profit for the year				83,576
Assets and liabilities				
Segment assets	845,662	533,597	–	1,379,259
Total assets				1,379,259
Segment liabilities	537,208	299,163	–	836,371
Total liabilities				836,371
Other segment information				
Depreciation and amortisation	28,727	15,164	–-	43,891
Capital expenditure	72,849	119,923	–-	192,772

4. SEGMENT INFORMATION *(continued)*

b. Geographical segments

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2007 and 2006. Over 90% of the Group's assets are located in the Mainland China. Accordingly, no analysis of the assets and capital expenditure by geographical segment is presented.

	2007	2006
	RMB'000	*RMB'000*
Sales to external customers:		
Mainland China	**702,770**	633,682
Taiwan	**120,840**	24,164
Other Asian countries	**146,195**	142,512
Europe	**38,783**	36,236
United States of America	**7,945**	7,262
	1,016,533	843,856

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and discounts; and the value of services rendered, net of business taxes and surcharges during the year.

An analysis of revenue and other income is as follows:

	2007	2006
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**1,016,533**	843,856
Other income		
Gain on disposal of investment properties *(note (i))*	**4,116**	–
Sale of raw materials	**2,012**	2,712
Subsidy income	**955**	506
Rental income	**596**	836
Others	**1,134**	511
	8,813	4,565

Notes:

(i) Capxon Electronic Industrial Co., Ltd., a subsidiary of the Company, disposed of certain investment properties to the Company's director, Mr. Lin Yuan Yu during the year. Further details are included in note 36(2)(d).

6. FINANCE REVENUE

Finance revenue represents bank interest income earned during the year.

7. FINANCE COSTS

	2007	2006
	RMB'000	*RMB'000*
Interest on bank loans and other loans wholly repayable within five years	**38,186**	28,289
Interest on other loans	**94**	163
	38,280	28,452

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		2007	2006
	Notes	***RMB'000***	*RMB'000*
Cost of inventories sold		**769,162**	643,117
Depreciation of property, plant and equipment	*15*	**54,992**	41,718
Depreciation of items of investment properties	*16*	**101**	109
Amortisation of intangible assets	*17*	**1,580**	1,598
Amortisation of prepaid land lease payments	*18*	**586**	466
Write-down of inventories to net realisable value		**–**	178
Minimum lease payments under operating leases:			
Land and buildings		**731**	819
Auditors' remuneration		**2,651**	1,941
Employee benefits expenses (including directors' remuneration – note (9) below):			
Wages, salaries and allowances		**92,972**	67,642
Defined contribution pension scheme		**3,017**	2,546
Defined benefit pension plan	*30*	**623**	697
Equity-settled share option expense	*27*	**2,525**	–
		99,137	70,885
Exchange loss, net		**18,853**	4,662
Impairment/(reversal of impairment) of trade receivables*	*21*	**6,340**	(3,321)
Impairment of items of property, plant and equipment	*15*	**–**	480
Loss on disposal of items of property, plant and equipment*		**1,476**	3,593
Gain on disposal of investment properties		**(4,116)**	–
Bank interest income	*6*	**(4,983)**	(2,352)

* These items are included in "Other expenses" on the face of the consolidated income statement.

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007	2006
	RMB'000	*RMB'000*
Fees	**441**	169
Other emoluments:		
Salaries, allowances and benefits in kind	**5,368**	1,871
Discretionary bonuses	**2,951**	1,264
Employee share option benefits	**1,673**	–
Pension scheme contributions	**115**	144
	10,548	3,448

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 27 to the financial statements. The fair value of these options which has been recognised in the income statement over the vesting periods, was determined as at the date of grant and the amount included in the financial statements for the current year is included in this directors' remuneration disclosure.

9. DIRECTORS' REMUNERATION *(continued)*

The remuneration of each of the directors during the year is set out below:

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Discretionary bonuses *RMB'000*	Employee share option benefits *RMB'000*	Pension scheme contributions *RMB'000*	Total *RMB'000*
2007						
Executive directors:						
Lin Chin Tsun	–	2,198	1,359	582	–	4,139
Chou Chiu Yueh	–	1,158	763	418	48	2,387
Lin Yuan Yu	–	970	620	345	24	1,959
	–	4,326	2,742	1,345	72	8,485
Non-executive directors:						
Liu Fang Chun	–	541	84	164	–	789
Lin I Chu	–	501	78	164	43	786
	–	1,042	162	328	43	1,575
Independent non-executive directors:						
Lai Chung Ching	180	–	12	–	–	192
Lu Hong Te	142	–	35	–	–	177
Tung Chin Chuan	119	–	–	–	–	119
	441	–	47	–	–	488
	441	5,368	2,951	1,673	115	10,548

9. DIRECTORS' REMUNERATION *(continued)*

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Employee share option benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2006						
Executive directors:						
Lin Chin Tsun	–	923	638	–	–	1,561
Chou Chiu Yueh	–	481	442	–	89	1,012
Lin Yuan Yu	–	235	159	–	38	432
	–	1,639	1,239	–	127	3,005
Non-executive directors:						
Lin I Chu	–	85	–	–	17	102
Liu Fang Chun	–	147	25	–	–	172
	–	232	25	–	17	274
Independent non-executive directors:						
Lai Chung Ching	89	–	–	–	–	89
Lu Hong Te	41	–	–	–	–	41
Tung Chin Chuan	39	–	–	–	–	39
	169	–	–	–	–	169
	169	1,871	1,264	–	144	3,448

During the year, no director waived or agreed to waive any emolument and no emoluments were paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all directors, details of whose remuneration are set out in note 9 above.

11. TAX

The income tax rates for the Company and its subsidiaries are detailed as follows:

Name of company	Place of incorporation	Details of tax rates and concessions
Capxon International Electronic Company Limited	Cayman Islands	No income tax is chargeable to the Company. However, according to the relevant tax laws in Taiwan, as the Company was not located in Taiwan but received dividend income in Taiwan, corporate income tax was charged back to the Company based on 20% of dividend income received in 2007.
Capxon Electronic Industrial Co.Ltd. ("Capxon Taiwan")	Taiwan	The income tax rate is 25%.
Lancom Ltd.("Lancom"), Easy Chance Ltd. ("Easy Chance"), Mega Tender Ltd. ("Mega Tender")	Hong Kong	The income tax rate is 17.5%.
Gold Wish Ltd. ("Gold Wish"), Waystech Trading Ltd. ("Waystech") and Multiple Investments Ltd.("Multiple")	British Virgin Islands	No income tax is chargeable to the companies.
Capxon Electronic (Shenzhen) Co. Ltd. ("Capxon Shenzhen")	Mainland China	Capxon Shenzhen is entitled to a preferential income tax rate of 15% as it is registered in Shenzhen, Mainland China. The income tax rate applicable to Capxon Shenzhen is 10% for the years ended 31 December 2005, 2006 and 2007. Pursuant to the "Detailed Rules and Regulations for the Implementation of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" (《外商投資企業和外國企業所得稅法實施細則》), and the approval from Shenzhen Local Tax Bureau, Capxon Shenzhen is entitled to the lower tax rate of 10% as its export sales account for over 70% of the total sales.

11. TAX *(continued)*

The income tax rates for the Company and its subsidiaries are detailed as follows: *(continued)*

Name of company	**Place of incorporation**	**Details of tax rates and concessions**
Capxon Trading (Shenzhen) Co.Ltd ("Capxon Trading (Shenzhen)")	Mainland China	Capxon Trading (Shenzhen) is entitled to a preferential income tax rate of 15% as it is registered in Shenzhen, Mainland China.
Capxon Electronic Technology (Yichang Sanxia) Co.Ltd. ("Capxon Yichang")	Mainland China	Capxon Yichang is entitled to an income tax rate of 24% as it is registered in Yichang, Mainland China. It is entitled to an exemption from income tax for the two years ended 31 December 2005 and a 50% reduction in the applicable rate for income tax for the three years ending 31 December 2008. The income tax rate applicable to Capxon Yichang is 12% (i.e. a 50% reduction in the Corporate Income Tax rate of 24%) for the year ended 31 December 2006. Pursuant to the tax document Cai Sui Zi 2000 No. 49, "Circular of the Ministry of Finance and the State Administration of Tax Concerning the Issue of Tax Credit for Corporate Income Tax for Domestic Purchases of Equipment by Enterprises with Foreign Investment and Foreign Enterprises" ("財政部、國家稅務總局關於外商投資企業和外國企業購買國產設備投資抵免企業所得稅有關問題的通知"), issued by the State Administration of Taxation and Yi Shi Guo Shui Wai Fa 2004 No. 13 and Yi Shi Guo Shui Wai Han 2006 No. 1, issued by Yichang State Tax Bureau, Capxon Yichang is entitled to the deduction of the excess amount of the current year income tax over the prior year income tax by an approved amount equal to 40% of the domestically purchased equipment.

11. TAX *(continued)*

The income tax rates for the Company and its subsidiaries are detailed as follows: *(continued)*

Name of company	Place of incorporation	Details of tax rates and concessions
Yichang Fengshuo Equipment Co.Ltd. ("Yichang Fengshuo")	Mainland China	Yichang Fengshuo is entitled to an income tax rate of 24% as it is registered in Yichang, Mainland China. It is entitled to an exemption from income tax for the year ended 31 December 2004 and a 50% reduction in the applicable rate for income tax for the three years ending 31 December 2007.
Capxon Electronic Technology (Baotao) Co.Ltd. ("Capxon Baotou")	Mainland China	The income tax rate is 30%. It is entitled to "Two years exempt and subsequent three years with 50% reduction" tax holiday starting from its first profit-making year. Capxon Baotou has been in loss since its operation.
Main Crown Management Ltd ("Main Crown")	Samoa	No income tax is chargeable to Main Crown.
Kai Pu Jie Investment Co.Ltd ("Kai Pu Jie"), Song Kun Investment Co.Ltd. ("Song Kun") and Feng Lwo Investment Co.Ltd. ("Feng Lwo")	Taiwan	The income tax rate is 25%.

The major components of the income tax expense for the years are as follows:

Group

	2007	2006
	RMB'000	*RMB'000*
Current		
– Taiwan	**4,404**	2,273
– Mainland China	**7,145**	5,494
– The Company	**1,318**	–
Deferred *(note 24)*	**(202)**	20
Total tax charge for the year	**12,665**	7,787

11. TAX *(continued)*

A reconciliation of the income tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and the majority of its subsidiaries are domiciled to the income tax expense at the effective tax rates is as follow:

Group – 2007

	Mainland China		Taiwan		Hong Kong		Others		Total	
	RMB'000	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*	%
Profit/(loss) before tax	93,461		8,322		(3,051)		(18,497)		80,235	
Tax at the statutory rates	30,842	33.0	2,080	25.0	(534)	17.5	–	–	32,388	40.4
Lower tax rate for specific districts or concessions	(21,053)	(22.5)	–	–	–	–	–	–	(21,053)	(26.2)
Domestic purchases of fixed assets deductible for corporate income tax	(4,499)	(4.8)	–	–	–	–	–	–	(4,499)	(5.6)
Expenses not deductible for tax	1,510	1.6	1,059	12.7	–	–	–	–	2,569	3.2
Tax losses not recognised	345	0.4	26	0.3	534	(17.5)	–	–	905	1.1
Additional charges for the unallocated profit in Capxon Taiwan	–	–	1,816	21.8	–	–	–	–	1,816	2.3
Adjustments in respect to current income tax of previous year	–	–	242	2.9	–	–	–	–	242	0.3
Gain on disposal of land in Capxon Taiwan exempt from tax	–	–	(1,021)	(12.3)	–	–	–	–	(1,021)	(1.3)
Withholding tax for the divided income received from Capxon Taiwan	–	–	–	–	–	–	1,318	(7.1)	1,318	1.6
Income tax expense reported in the consolidated income statement at the Group's effective rate	7,145	7.6	4,202	50.5	–	–	1,318	(7.1)	12,665	15.8

11. TAX *(continued)*

Group – 2006

	Mainland China		Taiwan		Hong Kong		Others		Total	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Profit before tax	90,844		519		–		–		91,363	
Tax at the statutory rates	29,979	33.0	130	25.0	–	17.5	–	–	30,109	33.0
Lower tax rate for specific districts or concessions	(16,122)	(17.7)	–	–	–	–	–	–	(16,122)	(17.6)
Domestic purchases of fixed assets deductible for corporate income tax	(8,968)	(9.9)	–	–	–	–	–	–	(8,968)	(9.8)
Expenses not deductible for tax	236	0.2	2,164	417	–	–	–	–	2,400	2.6
Tax losses not recognised	368	0.4	–	–	–	–	–	–	368	0.4
Income tax expense reported in the consolidated income statement at the Group's effective rate	5,493	6.0	2,294	442.0	–	–	–	–	7,787	8.5

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Pursuant to the State Council Circular on the Implementation of the Transitional Concession Policies for Corporate Income Tax (Guo Fa 2007 No. 39), enterprises previously entitled to concession the new policies of tax rate reductions shall have a grace period of 5 years to comply with the new statutory tax rates, commencing 1 January 2008 after the implementation of the new tax law. Enterprises entitled to a 15% corporate income tax rate will be subject to a 18% tax rate in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012. The Group is subject to the transitional tax rate for the current year in the calculation of deferred taxation.

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB33,054,000 (2006: RMB5,850,000) which has been dealt with in the financial statements of the Company (note 28).

13. DIVIDENDS

	2007	2006
	RMB'000	*RMB'000*
Interim – HK 3 cents (2006: HK$39,801.28) per ordinary share	**24,748**	6,209

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the profit for the year attributable to equity holders of the parent, and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the shares issued pursuant to the share offering. The calculation of basic earnings per share for 2006 was based on the profit attributable to equity holders of the parent and on the assumption that 633,359,841 shares of HK$0.1 each in issue as a result of the Reorganisation.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2007	2006
	RMB'000	*RMB'000*
Earnings		
Profit attributable to equity holders of the parent for use in the basic and diluted earnings per share calculation	**64,446**	73,872

	Number of shares	
Shares	**2007**	2006
Weighted average number of shares in issue during the year used in the basic earnings per share calculation	**771,652,444**	633,359,841
Effect of dilution – weighted average number of ordinary shares		
Share options	**3,120,501**	–
	774,772,945	633,359,841

No diluted earnings per share for 2006 was presented as there were no dilutive potential shares in existence during that year.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Freehold land and buildings RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007						
At 31 December 2006 and 1 January 2007:						
Cost	227,078	460,103	26,329	8,834	113,228	835,572
Accumulated depreciation	(10,402)	(156,584)	(14,717)	(4,757)	–	(186,460)
Impairment	–	–	–	–	(480)	(480)
Net carrying amount	216,676	303,519	11,612	4,077	112,748	648,632
At 1 January 2007, net of accumulated depreciation	216,676	303,519	11,612	4,077	112,748	648,632
Additions	2,104	96,095	7,653	2,336	48,168	156,356
Disposals	–	(1,962)	(188)	(13)	(3,645)	(5,808)
Transfers	11,905	127,428	–	–	(139,333)	–
Exchange realignment	(906)	(6)	(34)	(79)	–	(1,025)
Depreciation provided during the year	(5,049)	(45,300)	(3,359)	(1,284)	–	(54,992)
At 31 December 2007, net of accumulated depreciation and impairment	224,730	479,774	15,684	5,037	17,938	743,163
At 31 December 2007:						
Cost	240,038	676,045	33,150	11,012	18,418	978,663
Accumulated depreciation	(15,308)	(196,271)	(17,466)	(5,975)	–	(235,020)
Impairment	–	–	–	–	(480)	(480)
Net carrying amount	224,730	479,774	15,684	5,037	17,938	743,163

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Group

	Freehold land and buildings *RMB'000*	Plant and machinery *RMB'000*	Office and other equipment *RMB'000*	Motor vehicles *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
31 December 2006						
At 1 January 2006:						
Cost	161,400	392,034	23,015	8,044	95,220	679,713
Accumulated depreciation	(10,104)	(125,841)	(12,849)	(4,300)	–	(153,094)
Net carrying amount	151,296	266,193	10,166	3,744	95,220	526,619
At 1 January 2006, net of accumulated depreciation	151,296	266,193	10,166	3,744	95,220	526,619
Additions	2,060	55,851	4,765	1,465	117,460	181,601
Disposals	(15,056)	(772)	(299)	(79)	(79)	(16,285)
Transfers	82,280	17,093	–	–	(99,373)	–
Exchange realignment	(800)	(240)	(20)	(45)	–	(1,105)
Depreciation provided during the year	(3,104)	(34,606)	(3,000)	(1,008)	–	(41,718)
Impairment	–	–	–	–	(480)	(480)
At 31 December 2006, net of accumulated depreciation and impairment	216,676	303,519	11,612	4,077	112,748	648,632
At 31 December 2006:						
Cost	227,078	460,103	26,329	8,834	113,228	835,572
Accumulated depreciation	(10,402)	(156,584)	(14,717)	(4,757)	–	(186,460)
Impairment	–	–	–	–	(480)	(480)
Net carrying amount	216,676	303,519	11,612	4,077	112,748	648,632

15. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group's land and buildings, included above at cost and the prepaid land lease payments (note 18), were valued at RMB297,850,000 as at 31 January 2007 in the Prospectus. Had the Group's land and buildings been included in these financial statements at this valuation amount throughout the year ended 31 December 2007, an additional depreciation charge and amortisation of approximately RMB1,153,000 would have been charged to the consolidated income statement for the year ended 31 December 2007.

As at 31 December 2007, certain of the Group's property, plant and equipment with a net book value of approximately RMB195,098,000 (2006: RMB214,111,000) were pledged to secure certain of the Group's bank borrowings (note 29).

As at 31 December 2007, the Group had not obtained building ownership certificates for buildings located in Shenzhen and Baotou with net carrying amounts of approximately RMB87,649,000 (2006: RMB85,294,000) and RMB36,054,000 (2006: RMB33,249,000), respectively. The directors of the Company expect the building ownership certificates for the buildings to be obtained in 2008.

16. INVESTMENT PROPERTIES

Group

	2007	2006
	RMB'000	*RMB'000*
Cost at 1 January, net of accumulated depreciation	**12,340**	12,779
Exchange realignment	**(747)**	(330)
Disposal during the year	**(1,030)**	–
Depreciation provided during the year	**(101)**	(109)
Cost at 31 December, net of accumulated depreciation	**10,462**	12,340
At 31 December		
Cost (gross carrying amount)	**11,790**	14,369
Accumulated depreciation	**(1,328)**	(2,029)
Net carrying amount	**10,462**	12,340

The Group's investment properties are situated in Taiwan and held under the following lease terms:

	2007	2006
	RMB'000	*RMB'000*
Freehold	**11,790**	14,369

At 31 December 2007, the Group's investment properties with a value of RMB7,523,000 (2006: RMB12,340,000) were pledged to secure bank borrowings (note 29).

16. INVESTMENT PROPERTIES *(continued)*

The Group's investment properties were revalued on 31 December 2007 by CCIS Real Estate Appraisers Firm, independent professionally qualified valuers, at NTD43,740,870 (equivalent to approximately RMB9,842,000) on an open market, existing basis. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(i) to the financial statements.

17. INTANGIBLE ASSETS

Group

	Patents and licences *RMB'000*
31 December 2007	
Cost at 1 January 2007, net of accumulated amortisation	14,201
Additions	321
Amortisation provided during the year	(1,580)
At 31 December 2007	12,942
At 31 December 2007:	
Cost	17,399
Accumulated amortisation	(4,457)
Net carrying amount	12,942
31 December 2006	
At 1 December 2006:	
Cost	9,849
Accumulated amortisation	(1,279)
Net carrying amount	8,570
Cost at 1 January 2006, net of accumulated amortisation	8,570
Additions	7,229
Amortisation provided during the year	(1,598)
At 31 December 2006	14,201
At 31 December 2006 and at 1 January 2007:	
Cost	17,078
Accumulated amortisation	(2,877)
Net carrying amount	14,201

18. PREPAID LAND LEASE PAYMENTS

Group

	2007	2006
	RMB'000	*RMB'000*
Cost at 1 January, net of accumulated amortisation	**23,511**	20,035
Additions	**4,418**	3,942
Amortisation for the year	**(586)**	(466)
Cost at 31 December, net of accumulated amortisation	**27,343**	23,511
At 31 December		
Cost (gross carrying amount)	**30,089**	25,671
Accumulated amortisation	**(2,746)**	(2,160)
Net carrying amount	**27,343**	23,511

The leasehold land is held under long-term leases and is situated in Mainland China.

19. INVESTMENTS IN SUBSIDIARIES

Company

	2007	2006
	RMB'000	*RMB'000*
Unlisted investments, at cost	**508,900**	59,849
Due from subsidiaries	**14,333**	–
Due to subsidiaries	**(887)**	(6,129)
	522,346	53,720

The amounts due from and to subsidiaries included in the Company's current assets and current liabilities respectively are unsecured, interest-free and are repayable on demand or within one year. The carrying amounts of the amounts due to subsidiaries approximate to their fair values.

19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/Registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Capxon Taiwan	Taiwan	NT$620,000,000	96.54%	–	Sale of capacitors
Lancom	Hong Kong	HK$85,137,200	–	96.54%	Trading and investment holding
Capxon Shenzhen*	PRC	US$39,150,000	–	97.58%	Manufacture and sale of capacitors
Gold Wish*	British Virgin Islands	US$30,000,000	100%	–	Investment holding
Easy Chance*	Hong Kong	HK$10,000	–	100%	Trading and investment holding
Capxon Yichang*	PRC	US$30,000,000	–	100%	Manufacture and sale of aluminum foil
Capxon Trading (Shenzhen)*	PRC	US$700,000	–	96.54%	Trading
Capxon Baotou*	PRC	RMB100,000,000	–	100%	Manufacture and sale of aluminum foil
Waystech*	British Virgin Islands	US$1,034,699	100%	–	Investment holding
Yichang Fengshuo*	PRC	HK$8,000,000	–	100%	Manufacture and sale of equipment
Main Crown*	Samoa	US$10,000,000	–	100%	Investment holding
Multiple*	British Virgin Islands	US$2,300,000	–	100%	Investment holding
Mega Tender*	Hong Kong	HK$10,000	100%	–	Trading
Kai Pu Jie*	Taiwan	NT$80,000,000	100%	–	Investment holding
Song Kun*	Taiwan	NT$80,000,000	100%	–	Investment holding
Feng Lwo*	Taiwan	NT$40,000,000	100%	–	Investment holding

* Not audited by Ernst & Young Hong Kong or any other member firm of the Ernst & Young global network.

20. INVENTORIES

Group

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**80,190**	65,539
Work in progress	**63,825**	26,674
Finished goods	**102,485**	82,669
	246,500	174,882

21. TRADE RECEIVABLES

Group

	2007	2006
	RMB'000	*RMB'000*
Trade receivables	**372,894**	275,016
Impairment	**(11,986)**	(5,646)
	360,908	269,370

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for 30 to 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by the management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

21. TRADE RECEIVABLES *(continued)*

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provisions, is as follows:

Group

	2007	2006
	RMB'000	*RMB'000*
Within 60 days	**145,272**	125,624
Over 60 days but within 90 days	**88,395**	55,159
Over 90 days but within 180 days	**103,761**	80,515
Over 180 days but within 270 days	**19,360**	6,765
Over 270 days but within 360 days	**3,734**	1,217
Over 360 days	**386**	90
	360,908	269,370

The movements in provision for impairment of trade receivables are as follows:

Group

	2007	2006
	RMB'000	*RMB'000*
At 1 January	**5,646**	8,967
Impairment losses recognised *(note 8)*	**6,340**	–
Impairment losses reversed *(note 8)*	**–**	(3,321)
Net book value	**11,986**	5,646

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB11,986,000 (2006: RMB5,646,000) with a carrying amount of RMB11,986,000 (2006: RMB5,646,000).

21. TRADE RECEIVABLES *(continued)*

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	2007	2006
	RMB'000	*RMB'000*
Neither past due nor impaired	**241,517**	207,465
One to six months past due	**103,208**	53,833
Over six months past due	**16,183**	8,072
	360,908	269,370

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

22. BILLS RECEIVABLE

At 31 December 2007, the Group's bills receivable of RMB5,072,000 (2006: RMB4,382,000) were pledged to secure the bank borrowings (note 29).

The bills receivable of the Group all mature within three months.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2007	2006
	RMB'000	*RMB'000*
Prepayments	**33,677**	34,015
Deposits and other receivables	**19,124**	20,245
	52,801	54,260

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(continued)*

Company

	2007	2006
	RMB'000	*RMB'000*
Deposits and other receivables	**482**	10,568

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

24. DEFERRED TAX ASSETS

The movements in deferred tax assets of the Group during the year are as follows:

Group

	Impairment losses, primarily for receivables and inventories
	RMB'000
At 31 December 2006	501
Debited to the consolidated income statement *(note 11)*	(20)
At 31 December 2006 and 1 January 2007	481
Credited to the consolidated income statement *(note 11)*	202
At 31 December 2007	683

Deferred tax assets have not been recognised in respect of the following items:

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Tax losses	**905**	368	**–**	–

25. CASH AND CASH EQUIVALENTS

Group

	2007	2006
	RMB'000	*RMB'000*
Cash and bank balances	**98,784**	77,105
Pledged deposits as security for bank loans	**77,888**	43,602
Pledged deposits as security for bills payable	**16,380**	15,262
	193,052	135,969
Less: Time deposits with original maturity of over three months when acquired, pledged as security for bank loans and bills payable *(note 29)*	**77,888**	47,030
Cash and cash equivalents	**115,164**	88,939

At the balance sheet date, the cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB123,539,000 (2006: RMB95,168,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, the Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods depending on the immediate cash requirements of the Group and the Company, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

Company

	2007	2006
	RMB'000	*RMB'000*
Cash and bank balances	**8,809**	215

26. SHARE CAPITAL

	Number of shares	Nominal value *RMB'000*
Authorised:		
Ordinary shares of HK$0.1 each		
Balance at 1 January 2007 and 31 December 2007	**1,500,000,000**	**146,071**
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
Balance at 1 January 2007	**156**	**–**
Issued on 4 April 2007	**486,326,189**	**47,359**
Issued on 9 April 2007	**42,449,502**	**4,134**
Issued on 13 April 2007	**104,583,994**	**10,184**
Issued on 7 May 2007	**211,200,000**	**20,567**
Balance at 31 December 2007	**844,559,841**	**82,244**

486,326,189, 42,449,502 and 104,583,994 shares with a nominal value of HK$0.1 each were issued by the Company to the members of the Lin family, companies held directly or indirectly by the Lin family and minority shareholders on 4 April 2007, 9 April 2007 and 13 April 2007 respectively at an aggregate subscription price of USD44,513,753.84.

Pursuant to the Company's share offering, the Company issued 211,200,000 shares of HK$0.1 each at a consideration of HK$0.93 per share on the Listing Date.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital *RMB'000*	Share premium *RMB'000*	Total *RMB'000*
Balance at 1 January 2006	–	–	–	–
Issue of shares	156	–	–	–
At 31 December 2006 and 1 January 2007	156	–	–	–
Issued before the Listing Date	633,359,685	61,677	277,072	338,749
Issued on the Listing Date	211,200,000	20,567	170,704	191,271
Share issue expenses	–	–	(11,150)	(11,150)
At 31 December 2007	844,559,841	82,244	436,626	518,870

27. SHARE-BASED PAYMENT

On 3 April 2007, the Company approved and adopted the Pre-IPO Share Option Scheme entitling the board of directors to grant share options at its discretion to any executive, director and/or employee of the Group who is in full time employment of the Group at the time when an option is granted before the listing of the shares. 14,900,000 options were granted to certain executives, employees and directors of the Group on 17 April 2007 (the "Date of Grant").

Under the Pre-IPO Share Option Scheme, the options granted shall vest to the relevant grantees in tranches, namely 20% of the options shall vest on the first anniversary of the Date of Grant at an exercise price of HK$0.465 per share; 20% of the options shall vest on the second anniversary of the Date of Grant (the "Second Tranche") at an exercise price of HK$0.465 per share; and 60% of the options shall vest on the third anniversary of the Date of Grant (the "Third Tranche") at an exercise price of HK$0.465 per share. The board of directors may at its absolute discretion adjust the percentage of the options to be vested in the Second Tranche and Third Tranche either upwards or downwards based on the performance of the relevant grantees in the year immediately preceding the vesting of the options in the relevant tranches as determined by the directors of the Company. The options may be exercised, in whole or in part, at any time during the option period from 17 April 2007 to 16 April 2012 except that no options may be exercised until the expiry of 12 months after the date of vesting.

Share options were granted under a service condition.

The fair value of the share options granted during the year was HK$7,799,000 (2006: Nil), of which the Group recognised a share option expense of RMB2,525,000 (2006: Nil) during the year ended 31 December 2007.

The fair value of the options at the Date of Grant is estimated using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of options granted under the Pre-IPO Share Option Scheme on the Date of Grant was estimated using the following assumptions:

Dividend yield *(%)*	3.4
Volatility *(%)*	50.86
Interest rate *(%)*	4.103
Maturity *(years)*	4.948
Strike price *(HK$)*	0.465
Suboptimal exercise factor	3

27. SHARE-BASED PAYMENT *(continued)*

On 3 April 2007, the Company also approved and adopted a share option scheme (the "Share Option Scheme") entitling the board of directors to grant share options at its discretion to any executive, employee, director (including non-executive directors and independent non-executive directors), consultant, adviser and/or agent of the Company or any subsidiary at the time when an option is granted to such a person. No options have been granted under the Share Option Scheme since its adoption.

The following share options were outstanding under the Pre-IPO Share Option Scheme during the year:

	2007		2006	
	Weighted average exercise price	**Number of options**	Weighted average exercise price	Number of options
	HK$ per share		*HK$ per share*	
At 1 January	**–**	**–**	–	–
Granted during the year	**0.465**	**14,900,000**	–	–
Forfeited during the year	**0.465**	**(600,000)**	–	–
Outstanding at 31 December	**0.465**	**14,300,000**	–	–

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

2007

Number of options	**Exercise price**	**Exercise period**
'000	***HK$***	
2,860	**0.465**	**17 April 2009 to 16 April 2012**
2,860	**0.465**	**17 April 2010 to 16 April 2012**
8,580	**0.465**	**17 April 2011 to 16 April 2012**
14,300		

2006

Number of options	Exercise price	Exercise period
'000	*HK$*	
–	–	–

At the balance sheet date, the Company had 14,300,000 share options outstanding under the Pre-IPO Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 14,300,000 additional ordinary shares of the Company and additional share capital of HK$1,430,000 and share premium of HK$5,219,500 (before issue expenses).

28. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statements of changes in equity on pages 34 to 35 of the financial statements.

The Company's subsidiaries located in Mainland China are required to comply with the laws and regulations of Mainland China and their articles of association to provide for certain statutory reserve funds during the year, which are appropriated from the profit after tax that is determined under PRC GAAP, but before any dividend distribution. The statutory reserve fund is provided for each entity at 10% of the profit determined under PRC GAAP until the balance of the fund has reached 50% of the entity's registered capital. The statutory reserve fund may only be used, upon approval by the relevant authority, to offset accumulated losses or to increase the capital.

Under the relevant regulations in Taiwan, Capxon Taiwan is required to make appropriation to the statutory reserve fund at 10% of its profit after tax based on its statutory financial statements until the balance of the statutory reserve fund reaches 100% of its share capital.

Company

	Share premium	Share option reserve	Exchange translation reserve	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2006	–	–	–	–	–
Profit for the year	–	–	–	5,850	5,850
2006 dividend	–	–	–	(6,209)	(6,209)
Exchange translation	–	–	8	–	8
At 31 December 2006	–	–	8	(359)	(351)
Profit for the year	–	–	–	33,054	33,054
Issue of shares	447,776	–	–	–	447,776
Share issue expenses	(11,150)	–	–	–	(11,150)
Equity-settled share option arrangements	–	2,525	–	–	2,525
Interim 2007 dividend	–	–	–	(24,748)	(24,748)
Exchange translation	–	–	818	–	818
At 31 December 2007	436,626	2,525	826	7,947	447,924

29. INTEREST-BEARING LOANS AND BORROWINGS

Group

	Effective interest rate (%)	Maturity	2007 RMB'000	2006 RMB'000
Current				
Bank loans				
– Secured	1.6% – 7.29%	2008	**277,596**	223,199
– Other	6.24% – 7.02%	2008	**120,000**	134,518
			397,596	357,717
Non-current				
Bank loans				
– Secured	3.22% – 7.65%	2009 – 2015	**272,785**	171,290
– Other			**–**	67,915
			272,785	239,205

	2007 RMB'000	2006 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**397,596**	357,717
In the second year	**26,993**	62,982
In the third to fifth years, inclusive	**243,489**	171,909
Beyond five years	**2,303**	4,314
	670,381	596,922

The carrying amounts of the Group's current borrowings approximate to their fair values.

29. INTEREST-BEARING LOANS AND BORROWINGS *(continued)*

The Group's bank borrowings were secured by the following asset items:

	2007	2006
	RMB'000	*RMB'000*
Deposits	**77,888**	43,602
Bills receivable	**5,072**	4,382
Investment properties	**7,523**	12,340
Property, plant and equipment	**195,098**	214,111
	285,581	274,435

30. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS

The Company's subsidiary, Capxon Taiwan, has a defined benefit pension plan, covering substantially all of its employees who were recruited by Capxon Taiwan before the implementation of the Employee Pension Act on 1 July 2005. The defined benefit pension plan requires contributions to be made to separately administered funds.

The following tables summarise the components of the net benefits expense recognised in the consolidated income statement and the amounts recognised in the consolidated balance sheet for the defined benefit pension plan.

Net benefits expense (recognised in cost of sales and expenses)

	2007	2006
	RMB'000	*RMB'000*
Current service cost	**249**	278
Interest cost on benefit obligation	**189**	230
Expected return on plan assets	**(25)**	(32)
Net actuarial losses recognised in the year	**210**	221
Net benefits expense	**623**	697

30. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS *(continued)*

Benefit liability

	2007 RMB'000	2006 RMB'000
Defined benefit obligation	6,579	7,326
Fair value of plan assets	(980)	(968)
	5,599	6,358
Unrecognised net actuarial losses	872	141
Benefit liability	6,471	6,499

Changes in the present value of the defined benefit obligation are as follows:

	2007 RMB'000	2006 RMB'000
Defined benefit obligation at 1 January	7,326	6,762
Interest cost	189	230
Actuarial(gains)/losses on obligation	(742)	231
Exchange realignment	(443)	(175)
Current service cost	249	278
Defined benefit obligation at 31 December	6,579	7,326

Changes in the fair value of plan assets are as follows:

	2007 RMB'000	2006 RMB'000
Fair value of plan assets at 1 January	968	912
Expected return	25	32
Contributions by employer	45	47
Exchange realignment	(58)	(23)
Fair value of plan assets at 31December	980	968

The Group expects to contribute RMB237,000 to its defined benefit pension plans in the year of 2008.

30. PENSIONS AND OTHER POST-EMPLOYMENT BENEFIT PLANS *(continued)*

Benefit liability *(continued)*

The principal assumptions used in determining the pension for the Group's plans are shown below:

	2007	2006
	%	%
Discount rate	**3**	2.75
Expected rate of return on assets	**3**	2.75
Future salary increases	**3**	2

31. TRADE AND BILLS PAYABLES

The trade payables are non-interest-bearing and are normally settled from 30 to 60 days. An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is as follows:

Group

	2007	2006
	RMB'000	*RMB'000*
Within 60 days	**98,983**	62,772
Over 60 days but within 90 days	**18,976**	14,588
Over 90 days but within 180 days	**30,322**	43,015
Over 180 days but with in 270 days	**4,960**	4,405
Over 270 days but within 360 days	**1,708**	1,479
Over 360 days but within 450 days	**1,524**	2,633
Over 450 days	**5,717**	3,269
	162,190	132,161

32. OTHER PAYABLES AND ACCRUALS

Group

	2007 RMB'000	2006 RMB'000
Advances from customers	**4,046**	1,721
Accruals	**7,154**	3,509
Payroll payables	**8,358**	6,074
Welfare payables	**91**	91
Other payables	**22,859**	26,071
	42,508	37,466

Company

	2007 RMB'000	2006 RMB'000
Other payables	**1,469**	17,613

Other payables are non-interest-bearing and have an average term of three months.

33. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

An agreement for the acquisition of shares in Gold Wish and the subscription for shares in the Company dated 4 April 2007 entered into between Superior Skill International Limited ("Superior Skill"), Union Glory Management Limited ("Union Glory") and the Company whereby the Company acquired from Superior Skill and Union Glory 12,400,000 shares and 400,000 shares in Gold Wish respectively in consideration for US$17,010,000 (equivalent to RMB129,453,000) and US$480,000 (equivalent to RMB3,653,000) respectively, the payment of both of which was discharged by the allotment and issuance by the Company of an aggregate of 304,862,343 fully paid shares.

An agreement for the acquisition of shares in Waystech and the subscription for shares in the Company dated 4 April 2007 entered into between Jet Link Group Limited ("Jet Link") and the Company whereby the Company acquired 1,034,699 shares in Waystech from Jet Link in consideration for US$4,000,000 (equivalent to RMB30,453,000), the payment of which was discharged by the allotment and issuance by the Company of 69,722,663 fully paid shares.

34. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases certain of its investment properties (note 16) under operating lease arrangements, with leases negotiated for a term of three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2007 RMB'000	2006 RMB'000
Within one year	556	644
In the second to fifth years, inclusive	1,157	77
	1,713	721

(ii) As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years, and those for office equipment are for a term of three years.

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	2007 RMB'000	2006 RMB'000
Within one year	385	467
In the second to fifth years, inclusive	52	293
	437	760

Company

	2007 RMB'000	2006 RMB'000
Within one year	227	216
In the second to fifth years, inclusive	52	126
	279	342

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital commitments at the balance sheet date:

Group

	2007 RMB'000	2006 RMB'000
Contracted, but not provided for:		
Acquisition of land and buildings	**1,260**	3,080
Acquisition of plant and machinery	**4,135**	16,570
	5,395	19,650

36. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the year:

(1) Recurring

Name of company	Nature of transactions	2007 RMB'000	2006 RMB'000
Ele Con Co., Ltd. (i)	Purchase of raw materials (a)	**34,834**	29,929
Fung Yue Technology Limited (ii)	Sub-contracting fee (b)	**9,578**	14,848
Capxon Electronic Technology (Renhua) Co., Ltd. (iii)	Sub-contracting fee (b)	**5,405**	11,324

Notes:

(i) Ms. Liu Fang Chun is a common shareholder of Ele Con Co., Ltd. and the Company.

(ii) The two directors of Fung Yue Technology Limited ("Fung Yue Technology") are directors of the Company.

(iii) Capxon Electronic Technology (Renhua) Co., Ltd. is a wholly-owned subsidiary of Fung Yue Technology.

(a) In the opinion of the directors, the purchase prices for the raw materials were mutually agreed between the Group and the related party under normal commercial terms.

(b) The subcontracting fees charged by the related parties were based on mutually agreed terms.

36. RELATED PARTY TRANSACTIONS *(continued)*

(2) Non-recurring

Name of company	Nature of transactions	**2007** **RMB'000**	2006 RMB'000
Chinese Creator Limited (i)	Purchase of raw materials	**–**	5,441
	Purchase return (b)	**2,635**	–
Shenzhen Capxon Electronic Co., Ltd. (ii)	Sale of goods	**–**	1,417
	Purchase of goods (b)	**1**	5,744
Asia Richly Limited (iii)	Sale of goods (c)	**8,382**	137,602
	Purchase of raw materials (a)	**7,010**	94,602
King Smarter Limited (iv)	Sale of goods	**–**	51,840
	Purchase of raw materials	**–**	52,447
Better Chance Limited (iv)	Purchase of raw materials	**–**	79,829
	Sale of goods	**–**	76,223
Hill Source Electron (Shenzhen) Co., Ltd. (iv)	Purchase of intangible assets	**–**	475
	Purchase of raw materials	**–**	57,958
Lin Yuan Yu (v)	Sale of investment properties (d)	**5,625**	–
Ele Con Co., Ltd.	Amount waived from purchase of raw materials (e)	**11,830**	–

36. RELATED PARTY TRANSACTIONS *(continued)*

(2) Non-recurring *(continued)*

Notes:

(i) A shareholder of Chinese Creator Limited is a director of the Company.

(ii) In the opinion of the directors, Shenzhen Capxon Electronic Co., Ltd., which was entirely owned by an employee of the Group, is significantly influenced by Lin Chin Tsun.

(iii) A shareholder of Asia Richly Limited ("Asia Richly") is also a director of the Company.

(iv) In the opinion of the directors, these companies are significantly influenced by Lin Chin Tsun.

(v) Lin Yuan Yu is a director of the Company.

(a) In the opinion of the directors, the purchases of raw materials were made based on mutually agreed terms which approximated to the costs of raw materials plus a 3% to 5% mark-up.

(b) In the opinion of the directors, the purchases of raw materials and goods were made based on mutually agreed terms.

(c) In the opinion of the directors, the sales of goods to the related parties were mutually agreed between the parties under normal commercial terms.

(d) In the opinion of the directors, the sale of investment properties to Lin Yuan Yu was at a price based on the fair value of the investment properties less a 4% discount.

(e) The amount represented amount waived for purchase of raw materials from Ele Con Co., Ltd. The term of waiver was based on mutually agreed terms.

36. RELATED PARTY TRANSACTIONS *(continued)*

(3) Guarantees provided by related parties of the Group

The Group's related parties and directors have provided guarantees in connection with bank borrowings obtained by the Group as follows:

	2007 *RMB'000*	2006 *RMB'000*
Guarantees provided to the Group by:		
Capxon Electronic Technology (Renhua) Co., Ltd.,		
Lin Chin Tsun	–	20,000
Lin Chin Tsun	60,447	27,256
Lin Chin Tsun, Chou Chiu Yueh	105,832	85,093
	166,279	132,349

The expiry dates of the above guarantees provided by the Group's related parties and directors vary from May 2008 to March 2015.

(4) The Group had balances due from/to related parties during the year:

(i) Balances due from related parties

Particulars of amount due from related parties, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	31 December 2007 *RMB'000*	Maximum amount outstanding during the year *RMB'000*	1 January 2007 *RMB'000*
Chinese Creator Limited	2,467	2,467	–
Capxon Electronic Technology (Renhua) Co., Ltd.	771	791	–
Shenzhen Capxon Electronic Co., Ltd.	179	9,085	9,085
Asia Richly Limited	–	25,842	25,842
	3,417		34,927

The balances with the related parties are unsecured, interest-free and have no fixed terms of repayment. The carrying amount of this balance approximates to its fair value.

36. RELATED PARTY TRANSACTIONS *(continued)*

(4) The Group had balances due from/to related parties during the year: *(continued)*

(ii) Balances due to related parties

	2007 RMB'000	2006 RMB'000
Ele Con Co., Ltd.	**8,681**	13,135
Fung Yue Technology	**4,890**	10,687
Better Chance Limited	**1,001**	9,745
Asia Richly Limited	**325**	–
Hill Source Electron (Shenzhen) Co., Ltd.	**200**	11,680
Chou Chiu Yueh	**16**	1,212
King Smarter Limited	**–**	3,327
Capxon Electronic Technology (Renhua) Co., Ltd.	**–**	2,303
Chinese Creator Limited	**–**	1,839
Lin Yuan Yu	**–**	1,387
First Planner International Limited	**–**	1,096
Lin Chin Tsun	**–**	1,092
	15,113	57,503

The balances due to the related parties are interest-free, unsecured and do not have fixed repayment terms.

(5) Compensation of key management personnel of the Group

	2007 RMB'000	2006 RMB'000
Short term employee benefits	**11,199**	6,015
Post-employment benefits	**201**	202
Share based payments	**2,272**	–
Total compensation paid to key management personnel	**13,672**	6,217

Further details of directors' emoluments are included in note 9.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, fair value risk, foreign currency risk, credit risk and liquidity risk.

The Group does not have written risk management policies and guidelines. However, management meets periodically to analyse and formulate measures to manage the Group's exposure to financial risks. Generally, the Group employs a conservative strategy regarding its risk management.

(i) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2007, approximately 66% (2006: 66%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The interest-bearing borrowings with floating interest rates are in US$, HK$ and NTD. If there would be a general increase/decrease in the interest rate of bank and other borrowings with floating interest rates by 25 basis points, with all other variable held constant, the profit before tax and owners' equity for the Group would have been decreased/increased by approximately RMB574,000 and RMB511,000 for the year ended 31 December 2007 and 2006 respectively.

(ii) Fair value risk

The carrying amounts of significant financial assets and liabilities approximate to their respective fair values as at 31 December 2007.

The following methods and assumptions were used to estimate the fair value for each class of financial instruments:

(a) *Bank deposits, cash and cash equivalents, trade and other receivables, trade and other payables, and amounts due from/(to) related companies*

The carrying values approximate to fair value because of the short maturities of these instruments.

(b) *Bank loans and derivative financial instruments*

The carrying amounts of short-term bank loans approximate to their fair value based on the nature or short-term maturity of these instruments.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(ii) Fair value risk *(continued)*

The following table presents the carrying amount and fair value of the Group's long-term bank loans at the balance sheet dates:

	Group			
	2007		2006	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Long-term bank loans	**128,669**	**124,241**	177,256	170,578

The derivate financial instruments are stated at their fair value based on quoted market price.

(iii) Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 83.7% (2006: 87.4%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale. The Group does not use any forward currency contracts to eliminate the foreign currency exposures and the Group also does not enter into any hedge derivatives.

The following table demonstrates the sensitivity at the balance date to a reasonably possible change in US$, HK$ and NTD exchange rate, with all other variables held constant, of the Group's before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in RMB rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in owner's equity**
	%	*RMB'000*	*RMB'000*
2007			
If RMB weakens against US$	**(5%)**	**20,607**	**20,607**
If RMB strengthens against US$	**5%**	**(20,607)**	**(20,607)**
If RMB weakens against HK$	**(5%)**	**6,200**	**6,200**
If RMB strengthens against HK$	**5%**	**(6,200)**	**(6,200)**
If RMB weakens against NTD	**(5%)**	**6,751**	**6,751**
If RMB strengthens against NTD	**5%**	**(6,751)**	**(6,751)**
2006			
If RMB weakens against US$	(5%)	19,391	19,391
If RMB strengthens against US$	5%	(19,391)	(19,391)
If RMB weakens against HK$	(5%)	7,745	7,745
If RMB strengthens against HK$	5%	(7,745)	(7,745)
If RMB weakens against NTD	(5%)	4,425	4,425
If RMB strengthens against NTD	5%	(4,425)	(4,425)

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(iv) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer, by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

(v) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans. 59.31% of the Group's debts would mature in less than one year as at 31 December 2007 (2006: 59.93%) based on the carrying value of borrowings reflected in the financial statements.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(v) Liquidity risk *(continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	2007		
	Less than 1 year	**Over 1 year**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Interest-bearing loans and borrowings	**397,596**	**272,785**	**670,381**
Trade and bills payables	**154,949**	**7,241**	**162,190**
Other payables and accruals	**42,508**	**–**	**42,508**
Due to related parties	**15,113**	**–**	**15,113**
	610,166	**280,026**	**890,192**

	2006		
	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000
Interest-bearing loans and borrowings	357,717	239,205	596,922
Trade and bills payables	126,259	5,902	132,161
Other payables and accruals	37,466	–	37,466
Due to related parties	57,503	–	57,503
	578,945	245,107	824,052

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(v) Liquidity risk *(continued)*

The maturity profile of the Company's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Company

	2007		
	Less than 1 year	**Over 1 year**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Other payables	**1,469**	**–**	**1,469**
Due to subsidiaries	**887**	**–**	**887**
	2,356	**–**	**2,356**

	2006		
	Less than 1 year	Over 1 year	Total
	RMB'000	RMB'000	RMB'000
Other payables	17,613	–	17,613
Due to subsidiaries	6,129	–	6,129
Due to related parties	47,241	–	47,241
	70,983	–	70,983

(vi) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debts divided by the total capital plus net debts. Net debts include interest-bearing loans and borrowings, amounts due to related parties, trade, bills and other payables, accruals, less cash and cash equivalents, and exclude discontinued operations. Capital includes equity attributable to equity holders of the parent.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(vi) Capital management *(continued)*

The gearing ratios as at the balance sheet dates were as follows:

Group

	2007	2006
	RMB'000	*RMB'000*
Interest-bearing loans and borrowings *(note 29)*	**670,381**	596,922
Trade and bills payables *(note 31)*	**162,190**	132,161
Other payables and accruals *(note 32)*	**42,508**	37,466
Due to related parties *(note 36)*	**15,113**	57,503
Less: Cash and cash equivalents	**(115,164)**	(88,939)
Net debts	**775,028**	735,113
Equity attributable to equity holders	**756,935**	469,240
Capital and net debts	**1,531,963**	1,204,353
Gearing ratio	**51%**	61%

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2008.

FOUR-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December			
	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,016,533**	843,856	789,910	737,290
Profit before tax	**80,235**	91,363	90,895	57,449
Tax	**(12,665)**	(7,787)	(5,535)	(8,409)
Profit for the year	**67,570**	83,576	85,360	49,040
Attributable to:				
Equity holders of the parent	**64,446**	73,872	77,918	40,794
Minority interests	**3,124**	9,704	7,442	8,246
	67,570	83,576	85,360	49,040

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December			
	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**1,672,681**	1,379,259	1,184,483	1,086,147
Total liabilities	**(906,519)**	(836,371)	(723,478)	(717,483)
	766,162	542,888	461,005	368,664
Minority interests	**(9,227)**	(73,648)	(71,141)	(68,613)
	756,935	469,240	389,864	300,051

PARTICULARS OF INVESTMENT PROPERTIES

Location	Type	Lease term
Unit on Level 5 No. 276, Sec. 1, Datong Road Sijhih City Taipei County Taiwan R.O.C.	Industrial office	Freehold
Unit on Level 5 No. 276-1, Sec. 1, Datong Road Sijhih City Taipei County Taiwan R.O.C.	Industrial office	Freehold
Carparking Space Nos. 41, 43, 44 and 49 on Underground Floor Level 1 No. 276, Sec. 1, Datong Road Sijhih City Taipei County Taiwan R.O.C.	Carpark	Freehold