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 2008

CONTENTS

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

COMPANY SECRETARY

Ms. CHAN Yin Fung

AUDITORS

Ernst & Young
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

COMPLIANCE ADVISER

Mega Capital (Asia) Company Limited
Units 2213-2214, 22nd Floor
Cosco Tower
183 Queen's Road Central
Sheung Wan
Hong Kong

PRINCIPAL BANKERS

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

REGISTERED OFFICE

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

HEAD OFFICE IN TAIWAN

5th Floor
No. 165, Sec. 2, Datong Road
Sijhih City
Taipei County
Taiwan
R.O.C.

CORPORATE INFORMATION

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

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Butterfield House
68 Fort Street
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Grand Cayman KY1-1107
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor
Hopewell Centre
183 Queen's Road East
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www.capxongroup.com

STOCK CODE

469

CHAIRMAN'S STATEMENT

Dear our valued Shareholders,

INTRODUCTION

Owing to the economic downturn as a result of the financial tsunami, the turnover for the financial year ended 31 December 2008 (the "Year") declined approximately 10% as compared to that of 2007. This was also attributable to a number of factors such as the implementation of Labour Contract Law in the PRC and the sluggish market sentiment. Under such environment, the Group's operating performances in the second half of 2008 did not realize as expected. We regret to announce that we recorded the first loss since the inception of the Group.

FINANCIAL RESULTS

During the financial year of 2008, the revenue of the Group reached RMB912,642,000, representing a decrease of 10.22% over the financial year of 2007 (the "Previous Year"), while the gross profit margin dropped from 24.33% to 14.43%. In the first half of the Year, the impact of global inflation has resulted in climbing raw materials price, increased electricity tariff in the PRC and rising labour costs. In addition, the impact of the exchange fluctuation of Renminbi against the US dollars has led to an increase in the costs of production and therefore a decline in gross profits. In the latter half of the Year, we suffered from a loss of orders during peak seasons following the shrinking market consumption demand in the electronics sector. Accordingly, the Group's results experienced a turnaround from recording a profit for the Previous Year to a loss for the Year.

MARKET AND BUSINESS REVIEW

Since the Company's listing in Hong Kong in May 2007, the Group has made significant investments for expanding its production facilities and capacity and strengthening its self-production systems of etched foils and formed foils. The Group also capitalized on its strength through vertical integration of raw materials supply to support the development of its established electrolytic capacitors business. In response to the PRC government's policies on environmental protection and energy conservation, the Group has strategically expanded the production capacity in Baotou and established additional formed foils production lines (which are high energy consuming) in Baotou Plant. It is equipped with sewage discharge facilities and the production processes are designed in compliance with the RoHS directive. Currently, the Group has production plants in Shenzhen, Yichang and Baotou and has completed the configuration of all planned production lines, so as to provide a stable production capacity to satisfy market demand. It also focuses on technology Research & Development ("R&D") and innovation featuring product properties, product quality enhancements and substantial reduction in overall production costs to maintain the competitiveness of the Group in the industry.

In facing diversification in the design of electronic products, the standards in terms of product features, specifications and quality of passive components such as electrolytic capacitors are raised to satisfy consumers' demand. The Group supplies electrolytic capacitors of a complete range of specifications to customize and cater the needs of its customers. Besides, the Group also actively develops the operations of SMD type electrolytic capacitors and solid-state conductive polymer capacitors, which feature higher technology content, to increase its market share in product supply as well as to enhance profit margin. The Group has obtained international certifications for the design and manufacturing of the related capacitance products designated for automotive electronics, and is gradually tapping into a new market and becoming a supplier of the automotive electronic channel business players.

CHAIRMAN'S STATEMENT

FUTURE PROSPECTS

In the near term, the general market demand for electrolytic capacitors is likely to remain unchanged or fall. Hence, in addition to continuing its strategy of new product R&D, various cost controls and new material development are also crucial to the Group. In the long term, the PRC's electronics market, particularly the consumer products market, still exhibits growth potentials due to the huge domestic demand. Due to the introduction of home appliances strategy in the countryside in the PRC and the widespread low quality manufacturing, there will still be ongoing market demand for passive components. Comparing to other industries, the passive components industry as a whole will remain stable or show slight growth. Thanks to the ever-changing technology, in order to satisfy the demand for the needs of different electronic equipments, the aluminum electrolytic capacitors must undergo constant properties enhancement and upgrade to deliver the best performance. To keep abreast of the R&D trends for miniaturization, multi-layers, low ESR, high capacitance, long duration, lead-free, and even the solid-state conductive polymer capacitors, which are well-received by the market, the capacitor manufacturers will gradually progress its technology innovation to expand the application areas of the aluminum electrolytic capacitors. Meanwhile, as a result of the slumping demand for electrode foils, the demand and supply mechanism continues to drag down the product profit margins. The key to achieve sustainable and stable profitability lies only in mastering high and new production technologies.

In 2008, the electronics industry was smashed under the ripples of economic collapses as a result of the financial tsunami. Coupled with the market downturn in the US and Europe, the impact on manufacturers was multiplied. Amid the shrinking global consumption market, the electronics industry faced challenges in such poor market sentiments. Looking forward, prior to a general market rebound or an extraordinary demand, we will swiftly adjust our production utilization according to market demand and orders. In respect of the capital deployment, the Group will adopt an intensive cost-saving approach to reduce cash outflows and maintain a low gearing ratio.

Encountering the rising costs of production, pressure on increasing product prices, together with the policy reform in the PRC, manufacturers have to consider shifting its focus to the development of high value-added products, in addition to striving for a low-cost and large scale production. As such, we believe that the industry size expansion, supply chain improvement, vertical integration of upstream and downstream sectors, technology R&D as well as capturing the market demand upon economic recovery, are the key factors for the Group to dominate in the electrolytic capacitors and aluminum foils market in the future.

APPRECIATION

I would like to take this opportunity to express my gratitude to our Board, senior management and staff at all levels, for their hard work and dedication towards driving ahead various business operations of the Company during the year. Meanwhile, I would like to extend my heartfelt thanks to all Shareholders for their support.

LIN Chin Tsun
Chairman

Hong Kong, 17 April 2009

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's financial results for the year ended 31 December 2008 (the "Year") are summarised as follows:

- Revenue fell by 10.22% to RMB912,642,000
- Gross profit fell by 46.76% to RMB131,703,000
- Loss attributable to equity holders of the parent was RMB24,485,000 (2007: Profit attributable of RMB64,446,000)

Based on the review of the Group's results for the Year, the Group's revenue fell by 10.22% over the year ended 31 December 2007 (the "Previous Year"). The sales from the two major products of the Group, aluminum electrolytic capacitors and anode foils, decreased by 23.99% and increased by 61.49% respectively from the Previous Year.

The Group's gross profit margin dropped from 24.33% for the Previous Year to 14.43% for the Year. Such lower gross profit margin was attributable to the surge in production costs resulting from the rising of raw materials price and labour costs, and the RMB/USD exchange rate fluctuations. The combined factors including, among others, the drop in gross profit, the decline in sales led by the global financial tsunami started in the fourth quarter of 2008 and the increase in the finance costs due to the higher interest rates promulgated by the People's Bank of China, caused the turnaround in the results of the Group from recording a profit for the Previous Year to a loss for the Year.

BUSINESS REVIEW

Manufacture and sale of aluminum foils

During the Year, external sales of aluminum foils after satisfying the Group's internal consumption amounted to RMB264,449,000, representing an increase of 61.49% as compared to that of the Previous Year of RMB163,751,000; while the segment's external sales as a percentage of the Group's total external sales grew from 16.11% for the Previous Year to 28.98% for the Year.

Aluminum foils are the major raw materials of electrolytic capacitors, and the manufacture and sale of high quality anode foils is one of the major businesses of the Group. In view of the impressive gross profit margin of aluminum foils and the huge demand from both the domestic and overseas markets, as well as the high demand 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 manufacture of electrolytic capacitors; moreover, 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 required for the manufacture of anode foils is more demanding. Since 2003, the Group has invested substantially in human resources and capital in building up its foundation for the research and development ("R&D") 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 the PRC; its anode foil research and development technology has also reached a standard which is close to that of the Japanese manufacturers, who used to monopolise the market. The Group has also attained a high technology standard and robust production capacity in the production of anode foils. It has successfully increased the capacitance of its standard middle- and high-voltage anode foils 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Manufacture and sale of aluminum electrolytic capacitors

External sales of aluminum electrolytic capacitors reached RMB648,193,000, representing approximately 71.02% of the Group's total external sales and a decrease of 23.99% as compared to the external sales for the Previous Year of RMB852,782,000.

Currently, the Group's capacitor production technology has also reached a very high standard. To satisfy the demand from electronic products for diverse applications, the Group's capacitors feature a complete range of sizes, long duration, high capacitance, low ESR, 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 DV series featuring heat endurance and low ESR was launched during the Year; the conductive polymers, for which the PE series featuring ultra-low ESR and miniaturization was launched during the Year, and the newly innovated series featuring flame retardant and a safety vent construction design. In addition, the Group also successfully developed certain products which meet the requirements of the automotive industry for heat endurance, shock-proof, high ripple rejection and low resistance, and obtained the ISO/TS 16949 certification for such products in 2007. Since then, the Group has become 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 in 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

Cash flows

The Group's cash flow requirements mainly arise from the acquisition of property, plant and equipment, the cost and expenses related to operating activities and the repayment of bank interests and borrowings. During the Year, the Group obtained its cash resources from operating activities and borrowings.

During the Year, the Group had net cash outflow of RMB20,907,000 from operating, investing and financing activities before exchange alignment, the details of which are set out below:

Cash inflows from operating activities were RMB213,340,000, which mainly comprised loss before tax of RMB17,212,000 for the Year and the change in cash position as a result of the adjustments of finance costs and depreciation, movements in inventory, accounts receivable and accounts payable.

Cash outflows from investing activities were RMB16,069,000, which was mainly attributable to cash outflows for the acquisition of plant and equipment for the production plants in Shenzhen, Yichang and Baotou of RMB53,192,000.

Cash outflows from financing activities were RMB218,178,000, which mainly comprised bank facilities of RMB481,861,000, repayment of bank borrowings of RMB652,538,000 and payment of loan interests of RMB47,257,000.

As at 31 December 2008, the Group had cash and cash equivalents of RMB56,090,000 (31 December 2007: RMB98,784,000), which were mainly denominated in Renminbi and US dollars.

MANAGEMENT DISCUSSION AND ANALYSIS

Borrowings

As at 31 December 2008, the Group had interest-bearing loans and borrowings of RMB487,981,000 (31 December 2007: RMB670,381,000), which were mainly denominated in Renminbi and US dollars. Such borrowings were mainly subject to variable interest rates. Set out below is an analysis of the repayment profile of the interest-bearing loans and borrowings:

	31 December 2008	31 December 2007
	RMB'000	*RMB'000*
Within one year or on demand	**447,653**	397,596
In the second year	**11,615**	26,993
In the third to fifth year, inclusive	**27,673**	243,489
Beyond five years	**1,040**	2,303
	487,981	670,381

CHARGE ON ASSETS

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

	31 December 2008	31 December 2007
	RMB'000	*RMB'000*
Deposits	**71,107**	94,268
Bills receivable	**–**	5,072
Investment properties	**9,591**	10,462
Property, plant and equipment	**325,247**	195,098
	405,945	304,900

FINANCIAL RATIOS

The Group's gearing ratio (net debts divided by equity attributable to equity holders of the parent plus net debts) stood at 44.5%, representing a decline of 6.6% as compared to 51.1% as at 31 December 2007. Such decline was mainly attributable to the decrease of RMB204,836,000 in the net debts of the Group over the corresponding period of the Previous 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	
	2008	2007
Inventory turnover	**111 days**	100 days
Bills and accounts receivable turnover	**127 days**	119 days
Bills and accounts payable turnover	**57 days**	70 days

Compared with the Previous Year, the Group's inventory, bills and accounts receivable turnovers were 11 days and 8 days longer; whilst the bills and accounts payable turnover was 13 days shorter. The Group will continue to improve the management of its inventories, accounts receivable and accounts payable in order to achieve better utilisation of available funds.

CAPITAL COMMITMENTS

As at 31 December 2008, the Group had capital commitments contracted but not provided for amounting to RMB2,750,000 (31 December 2007: RMB5,395,000).

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any material contingent liabilities (31 December 2007: nil).

FOREIGN EXCHANGE FLUCTUATIONS

The revenue of the Group is predominately denominated in US dollars and New Taiwan dollars; while its expenses are mainly denominated in the Japanese Yen, Renminbi, US dollars and New Taiwan dollars. As the revenue and expenses are denominated in different currencies, exposure to exchange risks has been managed with natural hedges. However, in the event of steeper Renminbi appreciation, the Group will also be indirectly affected.

Currently, Renminbi is not a freely convertible currency. The PRC government may adopt measures which may cause the future exchange rate of Renminbi to differ materially from the prevailing or the past exchange rates of Renminbi.

EMPLOYMENT AND REMUNERATION POLICY

During the Year, the Group had approximately 2,683 employees and its staff costs, including Directors' remuneration, were approximately RMB104,104,000. Salary, bonus and other benefits are determined based on market terms and individual performance, qualification and experience.

PROSPECTS

As far as the manufacture and sale of capacitors is concerned, the key to maintaining the Group's competitiveness lies in establishing a solid business scale and a comprehensive supply chain; integrating the production processes of anode foils and aluminum electrolytic capacitors, as complemented by production technology research and development. In addition, capital creation, investments and strategic mergers are also important strategies. The Group's short-term plans are:

I. To research and develop cost-saving measures, and improve design and planning of the production facilities for aluminum foils and capacitors to stabilize production lines

In 2008, the Group revamped the entire configuration of its established production lines in order to increase the production capacity of anode foils and capacitors. The R&D department of the Group will continue its technology development and innovation with a view to improve product quality and significantly reduce the overall costs of production so as to maintain the Group's competitiveness in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

II. To explore new sales channels for anode foils and new markets for capacitors

The anode foils manufactured by the Group can fully satisfy its internal consumption, which lowers the cost to manufacture electrolytic capacitors. Besides reducing the costs of production, the management wishes to expand its sources of income to capture the profits arising from the sale of high value-added aluminum foils. In this regard, apart from serving the PRC market, the Group has been actively expanding its sales channels and is in the process of negotiating with major international manufacturers for possible cooperations.

For the operations in the capacitor supply market, the R&D, production and sales of SMD capacitors and conductive polymers are the major directions for the Group's development in such business in recent years. In order to customize and cater for the needs of various customers and provide a full range of capacitors with complete specifications, the Group will specialize in and continues its efforts on the miniaturization, heat resistance, power longevity and working voltage of capacitors through R&D. For sales channels expansion, in spite of the stagnant economy, shrinking consumer demand in the electronics market and slumping orders, the Group will strengthen its customer services to stabilize productivity and to provide products with complete specifications to meet the customers' needs so as to maintain steady growth amid such challenging conditions. Meanwhile, the Group will equip itself to provide the most comprehensive services to customers swiftly upon economic turnaround in the future.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

DIRECTORS

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 extensive 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 32, 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. Lin I Chu (**林薏竹**), aged 29, is a non-executive director of the Company and is a director of various subsidiaries 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 and has been promoted as the head of the sales department of the Company's subsidiary Capxon Electronic (Shenzhen) Company Limited ("Capxon Shenzhen") since January 2009. Ms. Lin was appointed as a non-executive director of the Company on 15 April 2007.

Ms. Liu Fang Chun (**劉芳均**), aged 30, 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

Independent Non-Executive Directors

Mr. Lai Chung Ching (**賴崇慶**), aged 73, 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 extensive 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. Lu Hong Te (**呂鴻德**), aged 48, obtained his doctorate degree in business from the National Taiwan University (國立台灣大學) and is currently the professor of Chung Yuan Christian University. He was appointed as Secretary General 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 is also currently an independent non-executive director of ANTA Sports Products Limited (2020) whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Lu was appointed as an independent non-executive director of the Company on 15 April 2007.

Mr. Tung Chin Chuan (**董清銓**), aged 56, 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 36, 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 48, 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 39, 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.

Mr. Lin Jen Te, Matt (**林仁德**), aged 40, is the chief of the operations of Capxon Shenzhen. Mr. Lin obtained his bachelor's degree in accounting at Shih Chien University (實踐大學). Prior to joining the Group, Mr. Lin was the vice president of Sunrise CPA Limited (日正聯合會計師事務所). He joined Capxon Shenzhen in November 2002 and is responsible for the financial operations of Capxon Shenzhen.

Mr. Long Chung Hsin, Andrew (**龍中興**), aged 50, is the chief of Capxon Yichang's operations. Mr. Long obtained his bachelor's degree in accounting at Fu Jen Catholic University (輔仁大學). Prior to joining the Group, Mr. Long was the vice president of 深圳市聯動技術科技有限公司 and the financial controller of Shanghai Metersbonwe Fashion & Accessories Co., Ltd. He joined, left and rejoined Capxon Yichang in August 2005, August 2007 and January 2009 respectively, and is responsible for the operations of Capxon Yichang.

Ms. Chan Yin Fung (**陳燕鳳**), aged 37, is the financial controller 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 Fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an Associate of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She has extensive experience in the field of accounting, auditing, finance and corporate compliance. She joined the Group in July 2007.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors (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") during the year ended 31 December 2008.

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 during the year ended 31 December 2008.

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 accounting and related financial management expertise as required by the Listing Rules. The following sets out the composition of the Board, by category 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

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 aluminum electrolytic capacitor and aluminum 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 and 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. Four Board meetings were held during the year ended 31 December 2008. Details of attendance of Board meetings 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:

- Ms. Chou Chiu Yueh *(Vice-President)* is the spouse of Mr. Lin Chin Tsun *(Chairman and President)*;
- 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. 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 experience in different industries, and one of them 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 Group. 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 of Association, 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.

During the year ended 31 December 2008, two meetings were held by the remuneration committee to discuss remuneration related matters including reviewing the remuneration policy of, and approving the bonus payments for, the directors and senior management, and considering an amendment to the terms of the options granted under the Pre-IPO Share Option Scheme of the Company. 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 8 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.

Three meetings were held by the audit committee during the year ended 31 December 2008. The committee reviewed, together with the management and the external auditors, the consolidated financial statements for the year ended 31 December 2007 and for the six months ended 30 June 2008, the accounting principles and practices adopted by the Group and statutory compliance. In addition to reviewing the Group's internal control system, the committee also reviewed the independence of the external auditors and approved the remuneration and terms of engagement of the external auditors. 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, were responsible for providing services in connection with the review of the Group's financial statements for the six months ended 30 June 2008 and the audit of the financial statements of the Group for the year ended 31 December 2008.

For the year ended 31 December 2008, the total remuneration in respect of review and audit services provided by Ernst & Young for the Group amounted to approximately RMB1,426,000 and in respect of non-audit services provided by Ernst & Young amounted to approximately RMB44,000.

G. ATTENDANCE OF INDIVIDUAL DIRECTORS AT MEETINGS

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

	Meetings attended/Meetings held in 2008		
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	3/4	N/A	N/A
Ms. LIN I Chu	1/4	N/A	N/A
Ms. LIU Fang Chun	4/4	N/A	N/A
Mr. LAI Chung Ching	4/4	2/2	3/3
Mr. LU Hong Te	3/4	2/2	2/3
Mr. TUNG Chin Chuan	4/4	2/2	3/3

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 of 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 internal control system of the Group and the results of the internal control review were submitted to the audit committee for consideration after the year end. The audit committee has reviewed the results of the internal control review and is satisfied with the adequacy of the system of internal control of the Group.

DIRECTORS' REPORT

The directors of the Company (the "Directors") are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2008.

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 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 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 18.35% and 36.48%, respectively.

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 2008 are set out in the consolidated income statement on page 32.

The board of Directors (the "Board") does not recommend the payment of any final dividend for the year ended 31 December 2008.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

Details of the movements in investment properties during the year and particulars of investment properties are set out in note 15 to the financial statements and on page 102, 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 27 to the financial statements.

PENSION SCHEMES

Details of the pension schemes are set out in note 28 to the financial statements.

DIRECTORS' REPORT

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 to the 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 36 and in note 31 to the financial statements, respectively.

As at 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB439,293,000.

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 101.

DIRECTORS

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

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

In accordance with Article no. 87 of the Company's Articles of Association, Mr. Lin Yuan Yu, Ms. Liu Fang Chun and Mr. Lai Chung Ching 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 35 to the 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 35 to the financial statements.

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

Subcontracting arrangement

The Group had subcontracted its low voltage forming process to Fung Yue Technology Limited and its subsidiary, namely Capxon Electronic Technology (Renhua) Co., Ltd. ("Capxon Renhua" and together with Fung Yue Technology Limited, 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 expired 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 of Hong Kong Limited (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 favourable than those obtainable from third parties.

For the year ended 31 December 2008, there was no subcontracting fee charged to the Group by the Renhua Group.

DIRECTORS' REPORT

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 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 2008, the total purchases of raw materials from Ele Con by the Group amounted to approximately RMB12,078,000 which have not exceeded the maximum aggregate annual amounts for the Ele Con Transaction in respect of the year ended 31 December 2008 as disclosed in the prospectus issued by the Company on 24 April 2007 (the "Prospectus").

The independent non-executive Directors have reviewed the Ele Con Transaction and were of the opinion that the Ele Con Transaction 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 it is 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 agreement governing it 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 Ele Con Transaction and confirmed to the Directors that the Ele Con Transaction (a) was approved by the Board; (b) has been entered into accordance with the terms of the relevant agreement governing such transaction; and (c) has not exceeded the cap disclosed in the Prospectus.

3. Discloseable and connected transaction

Acquisition of Assets

On 1 December 2008, the Group entered into the assets purchase agreement with Capxon Renhua pursuant to which the Group agreed to acquire the machinery and equipment forming 20 production lines including the foil forming assembly lines, electrical distribution systems and other ancillary equipment from Capxon Renhua at a consideration of RMB8,448,000 (equivalent to HK$9,600,000) (the "Acquisition of Assets") which will be funded by the Group's internal resources and shall be made within one year after completion of the Acquisition of Assets. Completion of the Acquisition of Assets took place on 31 December 2008.

Capxon Renhua is a wholly-owned subsidiary of Fung Yue Technology Limited which is in turn wholly owned by Mr. Lin Chin Tsun. Accordingly, Capxon Renhua is a connected person of the Company under the Listing Rules and the transaction constitutes a connected transaction of the Company. As one of the applicable percentage ratios of the transaction exceeds 2.5% but is less than 25% and the consideration is less than HK$10,000,000, the transaction is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Rule 14A.32 of the Listing Rules. As one of the applicable percentage ratios of the transaction exceeds 5% but is less than 25%, the transaction also constitutes a discloseable transaction of the Company under Chapter 14 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

The Company adopted a share option scheme (the "Share Option Scheme") on 3 April 2007. 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.

DIRECTORS' REPORT

3. *Total number of shares available for issue under the Share Option Scheme and percent of issued share capital at 17 April 2009*

   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 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 percent of issued shared capital at 17 April 2009*

   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).

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*

   Pursuant to the terms of the Pre-IPO Share Option Scheme, 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 per share 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 per share representing 50% of the Offer Price.

   At the annual general meeting of the Company held on 5 June 2008, the shareholders of the Company approved an amendment to the terms of the outstanding options granted under the Pre-IPO Share Option Scheme such that the holders may exercise such options at any time during the option period from 17 April 2007 to 16 April 2012 after the respective dates of vesting.

DIRECTORS' REPORT

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 2008 are as follows:

	Date of grant	Exercise price per share	Number of options outstanding as at 1 January 2008 and 31 December 2008
Employees	17 April 2007	HK$0.465	4,200,000
Directors			
Mr. LIN Chin Tsun	17 April 2007	HK$0.465	3,200,000
Ms. CHOU Chiu Yueh	17 April 2007	HK$0.465	2,300,000
Mr. LIN Yuan Yu	17 April 2007	HK$0.465	1,900,000
Ms. LIU Fang Chun	17 April 2007	HK$0.465	900,000
Ms. LIN I Chu	17 April 2007	HK$0.465	900,000
Chief Financial Officer			
Ms. HU Szu Jung, Carol	17 April 2007	HK$0.465	900,000
			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. Following an amendment to the terms of the outstanding options granted under the Pre-IPO Share Option Scheme on 5 June 2008, 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 after the respective dates of vesting in accordance with note 1 above.

3. No option granted under the Pre-IPO Share Option Scheme was exercised, cancelled or lapsed during the year ended 31 December 2008.

4. The Pre-IPO Share Option Scheme has expired at the close of business on 4 May 2007 and no further options may be granted thereunder.

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

As at 31 December 2008, 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 interests	Number of issued shares held (a) and approximate percentage of shareholding (b)(1)		Interest in underlying shares(3)	Total interest (a) and approximate percentage of shareholding (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		
Ms. 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	3,386,000	0.40	–	3,386,000	0.40
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 issued shares (i.e. 844,559,841 shares) of the Company as at 31 December 2008.

(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.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2008, 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 2008, 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 interests	Number of issued shares held directly or indirectly	Approximate percentage of shareholding[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 issued shares (i.e. 844,559,841 shares) of the Company as at 31 December 2008.

(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 2008, 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 during the year ended 31 December 2008.

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 the Group's audited financial statements for the year ended 31 December 2008 with the management of the Company, including the accounting principles and practices, internal controls and financial reporting matters.

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 throughout the year ended 31 December 2008 the amount of public float as required under the Listing Rules.

On behalf of the Board
LIN Chin Tsun
Chairman

Hong Kong, 17 April 2009

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 100, which comprise the consolidated and company balance sheets as at 31 December 2008, and 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.

INDEPENDENT AUDITORS' REPORT

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 2008 and of the Group's loss 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
18th Floor, Two International Finance Centre
8 Finance Street, Central
Hong Kong
17 April 2009

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2008

	Notes	2008 *RMB'000*	2007 *RMB'000*
REVENUE	*5*	**912,642**	1,016,533
Cost of sales		**(780,939)**	(769,162)
Gross profit		**131,703**	247,371
Other income and gains	*5*	**18,724**	13,796
Selling and distribution costs		**(38,156)**	(37,196)
Administrative expenses		**(66,202)**	(71,523)
Other expenses		**(11,935)**	(15,080)
Finance costs	*7*	**(47,257)**	(38,280)
Exchange loss, net		**(4,089)**	(18,853)
(LOSS)/PROFIT BEFORE TAX	*6*	**(17,212)**	80,235
Tax	*10*	**(7,529)**	(12,665)
(LOSS)/PROFIT FOR THE YEAR		**(24,741)**	67,570
Attributable to:			
Equity holders of the parent		**(24,485)**	64,446
Minority interests		**(256)**	3,124
		(24,741)	67,570
DIVIDENDS	*12*		
Interim		**–**	24,748
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	*13*		
– Basic *(RMB cents)*		**(2.90)**	8.35
– Diluted *(RMB cents)*		**N/A**	8.32

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**724,328**	743,163
Investment properties	15	**9,591**	10,462
Prepaid land lease payments	16	**26,757**	27,343
Intangible assets	17	**11,209**	12,942
Deferred tax assets	18	**1,755**	683
Total non-current assets		**773,640**	794,593
CURRENT ASSETS			
Inventories	20	**227,399**	246,500
Trade receivables	21	**238,692**	360,908
Bills receivables	22	**12,564**	21,410
Prepayments, deposits and other receivables	23	**13,115**	52,801
Due from related parties	34	**167**	3,417
Pledged deposits	24	**71,107**	94,268
Cash and cash equivalents	24	**56,090**	98,784
Total current assets		**619,134**	878,088
CURRENT LIABILITIES			
Trade and bills payables	25	**82,282**	162,190
Other payables and accruals	26	**35,817**	42,508
Interest-bearing bank borrowings	27	**447,653**	397,596
Due to related parties	34	**36,582**	15,113
Tax payable		**5,572**	9,856
Total current liabilities		**607,906**	627,263
NET CURRENT ASSETS		**11,228**	250,825
TOTAL ASSETS LESS CURRENT LIABILITIES		**784,868**	1,045,418
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**40,328**	272,785
Defined benefit obligations	28	**5,426**	6,471
Total non-current liabilities		**45,754**	279,256
Net assets		**739,114**	766,162

CONSOLIDATED BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	29	**82,244**	82,244
Reserves	31	**648,080**	674,691
		730,324	756,935
Minority interests		**8,790**	9,227
Total equity		**739,114**	766,162

LIN Chin Tsun
Director

CHOU Chiu Yueh
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Attributable to equity holders of the parent									
	Issued capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Share option reserve RMB'000 (note 30)	Reserve fund RMB'000 (note 31)	Exchange fluctuation 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)
Equity-settled share option arrangements	–	–	–	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)	–	–	–
Exchange realignment	–	–	–	–	–	9,304	–	9,304	(336)	8,968
At 31December 2007	82,244	436,626*	(30,289)*	2,525*	62,437*	27,021*	176,371*	756,935	9,227	766,162

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

	Attributable to equity holders of the parent									
	Issued capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Share option reserve *RMB'000* *(note 30)*	Reserve fund *RMB'000* *(note 31)*	Exchange fluctuation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
As at 1 January 2008	**82,244**	**436,626**	**(30,289)**	**2,525**	**62,437**	**27,021**	**176,371**	**756,935**	**9,227**	**766,162**
Loss for the year	–	–	–	–	–	–	(24,485)	(24,485)	(256)	(24,741)
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	(244)	(244)
Equity-settled share option arrangements	–	–	–	2,366	–	–	–	2,366	–	2,366
Strike-off of subsidiaries	–	–	(464)	–	–	–	–	(464)	–	(464)
Appropriations to statutory reserve	–	–	–	–	6,377	–	(6,377)	–	–	–
Exchange realignment	–	–	–	–	–	(4,028)	–	(4,028)	63	(3,965)
At 31 December 2008	**82,244**	**436,626***	**(30,753)***	**4,891***	**68,814***	**22,993***	**145,509***	**730,324**	**8,790**	**739,114**

* *These reserve accounts comprise the consolidated reserves of RMB648,080,000 (2007: RMB674,691,000) in the consolidated balance sheet*

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax		**(17,212)**	80,235
Adjustments for:			
Finance costs	7	**47,257**	38,280
Exchange loss, net		**4,089**	18,853
Bank interest income	5	**(3,288)**	(4,983)
Government grants	5	**(8,595)**	(955)
Gain on disposal of investment properties	5	**–**	(4,116)
Loss on disposal of items of property, plant and equipment	6	**159**	1,476
Depreciation of property, plant and equipment	6	**67,967**	54,992
Depreciation of investment properties	6	**75**	101
Amortisation of prepaid land lease payments	6	**586**	586
Amortisation of intangible assets	6	**1,806**	1,580
Share issue expenses		**–**	9,975
Equity-settled share option expenses	6	**2,366**	2,525
Movements in pension liability		**(1,045)**	(28)
		94,165	198,521
Decrease/(increase) in inventories		**20,797**	(71,618)
Decrease/(increase) in trade and bills receivables		**136,234**	(102,262)
Decrease in prepayments, deposits and other receivables		**39,993**	1,459
Decrease in amounts due from related parties		**2,183**	31,510
(Decrease)/increase in trade and bills payables		**(81,058)**	30,029
(Decrease)/increase in other payables and accruals		**(7,558)**	5,938
Increase/(decrease) in amounts due to related parties		**21,469**	(42,390)
Cash generated from operations		**226,225**	51,187
Income taxes paid		**(12,885)**	(8,831)
Net cash inflow from operating activities		**213,340**	42,356

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Net cash inflow from operating activities		**213,340**	42,356
CASH FLOW FROM INVESTING ACTIVITIES			
Interest received		**3,288**	4,983
Proceeds from disposal of items of property, plant and equipment		**2,743**	4,332
Proceeds from disposal of investment properties		**–**	5,146
Purchases of items of property, plant and equipment		**(53,192)**	(156,356)
Additions to prepaid land lease payments		**–**	(4,418)
Additions to intangible assets		**(73)**	(321)
Acquisition of minority interests		**–**	(47,087)
Receipt of government grants		**8,595**	955
Decrease/(increase) in pledged deposits with original maturity of over three months when acquired		**22,570**	(47,238)
Net cash outflow from investing activities		**(16,069)**	(240,004)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceed from issue of shares		**–**	366,472
Share issue expenses		**–**	(21,125)
Deemed distribution		**–**	(128,848)
Proceeds from bank borrowings		**481,861**	878,122
Repayment of bank borrowings		**(652,538)**	(798,216)
Interest paid		**(47,257)**	(38,280)
Dividends paid to equity holders of the parent		**–**	(24,690)
Dividends paid to minority interests		**(244)**	(299)
Net cash (outflow)/inflow from financing activities		**(218,178)**	233,136
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(20,907)**	35,488
Exchange realignment		**(21,787)**	(25,643)
Cash and cash equivalents at beginning of year		**98,784**	88,939
CASH AND CASH EQUIVALENTS AT END OF YEAR		**56,090**	98,784
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**56,090**	98,784

BALANCE SHEET

31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Investments in subsidiaries	19	**504,673**	508,900
Total non-current assets		**504,673**	508,900
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**324**	482
Due from subsidiaries	19	**41,093**	14,333
Cash and bank balances	24	**4,217**	8,809
Total current assets		**45,634**	23,624
CURRENT LIABILITIES			
Interest-bearing bank borrowings	27	**27,293**	–
Other payables	26	**1,173**	1,469
Due to subsidiaries	19	**–**	887
Total current liabilities		**28,466**	2,356
NET CURRENT ASSETS		**17,168**	21,268
TOTAL ASSETS LESS CURRENT LIABILITIES		**521,841**	530,168
Net assets		**521,841**	530,168
EQUITY			
Issued capital	29	**82,244**	82,244
Reserves	31	**439,597**	447,924
Total equity		**521,841**	530,168

LIN Chin Tsun
Director

CHOU Chiu Yueh
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2008

1. CORPORATE INFORMATION

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 of aluminum electrolytic capacitors and aluminum foil, which is the major raw material for the manufacture 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").

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 ("IASB") 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.2 IMPACT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to 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, the adoption of these new interpretations and amendments has had no significant effect on these financial statements.

IAS 39 and IFRS 7 Amendments	Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
IFRIC 11	*IFRS 2 – Group and Treasury Share Transactions*
IFRIC 12	*Service Concession Arrangements*
IFRIC 14	*IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

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

(a) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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

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

(b) IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*

IFRIC 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 buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The Group has not issued instruments caught by this interpretation.

(c) IFRIC 12 *Service Concession Arrangements*

IFRIC 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has no impact on the Group.

(d) IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC 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, including situations when a minimum funding requirement exists. The Group's defined benefit schemes have been in deficit, therefore the adoption of this interpretation had no impact on the financial position or performance 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 1 and IAS 27 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*[1]
IFRS 3 (Revised)	*Business Combinations*[2]
IFRS 8	*Operating Segments*[1]
IAS 1 (Revised)	*Presentation of Financial Statements*[1]
IAS 23 (Revised)	*Borrowing Costs*[1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[2]
IAS 32 and IAS 1 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[2]
IFRIC 13	*Customer Loyalty Programmes*[3]
IFRIC 15	*Agreements for the Construction of Real Estate*[1]
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*[4]
IFRIC 17	*Distribution of Non-cash Assets to Owners*[2]

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

Apart from the above, the IASB has issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. Except for the amendment to IFRS 5 which is effective for the annual periods on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 July 2008
[4] Effective for annual periods beginning on or after 1 October 2008

* *Improvements to IFRSs* contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The IFRS 1 Amendment allows a first-time adopter of IFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The Group expects to adopt the IAS 27 Amendment from 1 January 2009. The amendments have no impact on the consolidated financial statements. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, the amendments are unlikely to have any significant implications on its accounting for share-based payments.

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The Group expects to adopt IFRS 3 (Revised) and IAS 27 (Revised) from 1 January 2010. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

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

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 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group expects to adopt IAS 1 (Revised) 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.

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments are unlikely to have any financial impact on the Group.

The amendment to IAS 39 addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. As the Group has not entered into any such hedges, the amendment is unlikely to have any financial impact on the Group.

IFRIC 13 requires that customer loyalty award credits granted to customers as part of a sales transaction are to be accounted for as a separate component of the sales transaction in which they are granted. 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 customer loyalty award scheme, the interpretation is not applicable to the Group and therefore is unlikely to have any financial impact on the Group.

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, 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 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the income statement as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation is unlikely to have any financial impact on the Group.

IFRIC 17 standardises practice in the accounting for non-reciprocal distributions of non-cash assets to owners. The Group expects to apply the interpretation from 1 January 2010 prospectively. The interpretation clarifies that (i) a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity; (ii) an entity should measure the dividend payable at the fair value of the net assets to be distributed; and (iii) an entity should recognise the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. Other consequential amendments were made to IAS 10 *Events after the Balance Sheet Date* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. While the adoption of the interpretation may result in changes in certain accounting policies, the interpretation is unlikely to have any material financial impact on the Group.

In May 2008, the IASB issued its first *Improvements to IFRSs* which sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2009. There are separate transitional provisions for each standard. Those amendments that are expected to have a significant impact on the Group are as follows:

(a) IFRS 7 *Financial Instruments: Disclosures:* Removes the reference to "total interest income" as a component of finance costs.

(b) IAS 1 *Presentation of Financial Statements:* Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the balance sheet.

(c) IAS 16 *Property, Plant and Equipment:* Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is calculated as the higher of an asset's fair value less costs to sell and its value in use.

    In addition, items held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventory when rental ceases and they are held for sale.

(d) IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance:* Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with IAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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

(e) IAS 36 *Impairment of Assets:* When discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

(f) IAS 38 *Intangible Assets:* Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method of intangible assets other than a straight-line method has been removed.

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 losses.

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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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% – 4.50%
Plant and machinery	9.00%
Office and other equipment	18.00%
Motor vehicles	18.00%

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

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 least 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as loans and receivables 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, markets 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets *(continued)*

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 bank borrowings)

Financial liabilities including trade and other payables and interest-bearing bank 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.

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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

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 shareholders' right to receive payment has been established.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 30 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.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 schemes 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 28 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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 RMB. As the Group mainly operates in the Mainland China, RMB is used as the presentation currency of the Group. All financial information presented in RMB has been rounded to the nearest thousand.

Foreign currency transactions are initially recorded using the functionality currency rates ruling at the dates 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 values 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 dates 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 note 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 2008 was RMB1,755,000 (2007: RMB683,000). Further details are contained in note 18. The amount of unrecognised tax losses at 31 December 2008 was RMB42,791,000 (2007: RMB2,732,000).

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.

NOTES TO FINANCIAL STATEMENTS

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4. SEGMENT INFORMATION *(continued)*

a. Business segments

The following tables present revenue, (loss)/profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008

	Capacitors *RMB'000*	Aluminum foils *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	648,193	264,449	–	912,642
Intersegment sales	–	310,915	(310,915)	–
Other revenue	7,202	199	–	7,401
Total	655,395	575,563	(310,915)	920,043
Segment results	16,823	17,250	12,488	46,561
Interest income and unallocated gains				11,323
Corporate and other unallocated expenses				(23,750)
Finance costs				(47,257)
Exchange loss, net				(4,089)
Loss before tax				(17,212)
Tax				(7,529)
Loss for the year				(24,741)
Assets and liabilities				
Segment assets	812,102	632,033	(56,050)	1,388,085
Unallocated assets				4,689
Total assets				1,392,774
Segment liabilities	371,552	309,545	(56,050)	625,047
Unallocated liabilities				28,613
Total liabilities				653,660
Other segment information				
Depreciation and amortisation	38,498	31,936	–	70,434
Capital expenditure	24,389	28,876	–	53,265

4. SEGMENT INFORMATION *(continued)*

a. Business segments *(continued)*

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
Tax				(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

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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 2008 and 2007. Over 90% of the Group's assets are located in Mainland China. Accordingly, no analysis of the Group's assets and capital expenditure by geographical segment is presented.

	2008	2007
	RMB'000	*RMB'000*
Sales to external customers:		
Mainland China	**624,862**	702,770
Taiwan	**145,611**	120,840
Other Asian countries	**109,115**	146,195
Europe	**24,788**	38,783
United States of America	**8,266**	7,945
	912,642	1,016,533

5. REVENUE, OTHER INCOME AND GAINS

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 during the year.

An analysis of revenue and other income and gains is as follows:

	2008	2007
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**912,642**	1,016,533
Other income		
Government grants*	**8,595**	955
Bank interest income	**3,288**	4,983
Rental income	**553**	596
Others	**4,170**	2,012
	16,606	8,546
Gains		
Gain on disposal of investment properties	**–**	4,116
Others	**2,118**	1,134
	18,724	13,796

* *Included in government grants was an amount of RMB7,202,000 related to income tax refunds on reinvestments. According to the tax regulations of Mainland China, income tax refund on reinvestments is available to foreign investors when they reinvest their dividends receivable before year 2007 from invested entities in Mainland China, instead of remitting overseas. The amount represented the income tax refund received by a PRC subsidiary of the Company for its foreign investors which are also the Company's subsidiaries.*

NOTES TO FINANCIAL STATEMENTS

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6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2008 RMB'000	2007 RMB'000
Cost of inventories sold		**780,939**	769,162
Depreciation of items of property, plant and equipment	*14*	**67,967**	54,992
Depreciation of items of investment properties	*15*	**75**	101
Amortisation of prepaid land lease payments	*16*	**586**	586
Amortisation of intangible assets	*17*	**1,806**	1,580
Research and development costs:			
Current year expenditure*		**6,382**	5,198
Minimum lease payments under operating leases:			
Land and buildings		**1,381**	731
Auditors' remuneration		**1,644**	2,651
Employee benefit expenses (including directors' remuneration – note (8) below):			
Wages, salaries and allowances		**96,217**	92,972
Equity-settled share option expense	*30*	**2,366**	2,525
Defined contribution pension schemes		**4,969**	3,017
Defined benefit pension plan	*28*	**552**	623
		104,104	99,137
Foreign exchange differences, net		**4,089**	18,853
Impairment of trade receivables*	*21*	**3,790**	6,340
Write-down of inventories to net realisable value		**9,688**	–
Loss on disposal of items of property, plant and equipment*		**159**	1,476
Gain on disposal of investment properties		**–**	(4,116)
Bank interest income		**(3,288)**	(4,983)

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

7. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on bank loans and other loans wholly repayable within five years	**47,007**	38,186
Interest on other loans	**250**	94
	47,257	38,280

NOTES TO FINANCIAL STATEMENTS

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8. 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:

	2008	2007
	RMB'000	*RMB'000*
Fees	**455**	441
Other emoluments:		
Salaries, allowances and benefits in kind	**6,551**	5,368
Discretionary bonuses	**545**	2,951
Equity-settled share option expense	**1,540**	1,673
Pension scheme contributions	**115**	115
	9,206	10,548

Certain directors have been granted share options, in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 30 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2008	2007
	RMB'000	*RMB'000*
Lai Chung Ching	**216**	180
Lu Hong Te	**119**	142
Tung Chin Chuan	**120**	119
	455	441

There were no other emoluments payable to the independent non-executive directors during the year (2007: discretionary bonuses of RMB47,000).

8. DIRECTORS' REMUNERATION *(continued)*

(b) Executive directors and non-executive directors

	Fees *RMB'000*	Salaries, allowances and benefits in kind *RMB'000*	Performance related bonuses *RMB'000*	Employee share option benefits *RMB'000*	Pension scheme contributions *RMB'000*	Total remuneration *RMB'000*
2008						
Executive directors:						
Lin Chin Tsun	–	2,672	223	535	–	3,430
Chou Chiu Yueh	–	1,337	111	385	45	1,878
Lin Yuan Yu	–	1,231	102	318	22	1,673
	–	5,240	436	1,238	67	6,981
Non-executive directors:						
Liu Fang Chun	–	669	56	151	8	884
Lin I Chu	–	642	53	151	40	886
	–	1,311	109	302	48	1,770
	–	6,551	545	1,540	115	8,751

	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 remuneration *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
	–	5,368	2,904	1,673	115	10,060

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year were all directors, details of whose remuneration are set out in note 8 above.

10. TAX

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

Name of company	Place of incorporation/ registration	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 is not located in Taiwan but receives dividend income in Taiwan, it should bear Taiwan income tax based on 20% of dividend income received in 2008.
Capxon Electronic Industrial Co. Ltd. ("Capxon Taiwan")	Taiwan	Corporate 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 16.5% (2007: 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 transitional income tax rate of 18% according to Circular Guo Fa【2007】No. 39 as it is a manufacturing Foreign Invested Enterprise ("FIE") registered in Shenzhen, Mainland China.
Capxon Trading (Shenzhen) Co. Ltd. ("Capxon Trading (Shenzhen)")	Mainland China	Capxon Trading (Shenzhen) is entitled to a transitional income tax rate of 18% according to Circular Guo Fa【2007】No. 39 as it is a manufacturing FIE registered in Shenzhen, Mainland China.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

10. TAX *(continued)*

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

Name of company	Place of incorporation/ registration	Details of tax rates and concessions
Capxon Electronic Technology (Yichang Sanxia) Co. Ltd. ("Capxon Yichang")	Mainland China	The income charge rate is 25%. It was entitled to "Two year exemption and subsequent three year with 50% reduction" tax holiday starting from its first profit-making year 2005. The applicable rate is 12.5% in the current year. 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. Though the preference treatment of 國產設備投資抵免 has been terminated starting from 2008, the unutilised amounts prior to 2008 are still allowed to be carried forward for no more than five years.
Yichang Fengshuo Equipment Co. Ltd. ("Yichang Fengshuo")	Mainland China	The income charge rate is 25%.
Capxon Electronic Technology (Baotao) Co. Ltd. ("Capxon Baotou")	Mainland China	The income tax rate is 25%. Capxon Baotou is entitled to "Two year exemption and subsequent three year with 50% reduction" tax holiday starting from its first profit-making year in 2008. Therefore, it is exempted from corporate income tax in the current year.

NOTES TO FINANCIAL STATEMENTS

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10. TAX *(continued)*

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

Group

	2008 RMB'000	2007 RMB'000
Current		
– Taiwan	**5,119**	5,722
– Mainland China	**3,482**	7,145
Deferred *(note 18)*	**(1,072)**	(202)
Total tax charge for the year	**7,529**	12,665

A reconciliation of the tax expense applicable to (loss)/profit before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the statutory rates to the effective tax rates, are as follows:

Group – 2008

	Mainland China		Taiwan		Hong Kong		Others		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(Loss)/profit before tax	(20,297)		500		7,919		(5,334)		(17,212)	
Tax at the statutory tax rate	(5,074)	25.0	125	25.0	1,307	16.5	–	–	(3,642)	21.2
Tax effect of:										
Lower tax rates for specific provinces or enacted by local authority	(1,586)	7.8	–	–	–	–	–	–	(1,586)	9.2
Expenses not deductible for tax	4,017	(19.8)	–	–	64	0.8	–	–	4,081	(23.7)
Tax losses not recognised	6,125	(30.2)	–	–	439	5.5	–	–	6,564	(38.1)
Additional charges for the unallocated profit in Capxon Taiwan	–	–	2,602	520.4	–	–	–	–	2,602	(15.1)
Adjustments in respect to current income tax of previous year	–	–	12	2.4	–	–	–	–	12	(0.1)
Income not subject to tax	–	–	–	–	(1,810)	(22.8)	–	–	(1,810)	10.5
Withholding tax for the divided income received from Capxon Taiwan	–	–	1,308	261.6	–	–	–	–	1,308	(7.6)
Income tax expense reported in the consolidated income statement at the Group's effective rate	3,482	(17.2)	4,047	809.4	–	–	–	–	7,529	(43.7)

10. TAX *(continued)*

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	(534)	17.5	–	–	32,388	40.4
Tax effect of:										
Lower tax rates for specific provinces or enacted by local authority	(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 exempted from tax	–	–	(1,021)	(12.3)	–	–	–	–	(1.021)	(1.3)
Withholding tax for the divided income received from Capxon Taiwan	–	–	1,318	15.8	–	–	–	–	1,318	1.6
Income tax expense reported in the consolidated income statement at the Group's effective rate	7,145	7.7	5,520	66.2	–	–	–	–	12,665	15.8

The Group has tax losses arising in Hong Kong and other jurisdictions of RMB6,564,000 (2007: RMB905,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets at 31 December 2008.

11. (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31 December 2008 included a loss of RMB5,280,000 (2007: a profit of RMB33,054,000) which has been dealt with in the financial statements of the Company (note 31).

NOTES TO FINANCIAL STATEMENTS

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12. DIVIDENDS

	2008 *RMB'000*	2007 *RMB'000*
Interim – Nil (2007: HK 3 cents per ordinary share)	–	24,748

The Board of the Company does not recommend the payment of any final dividend for the year ended 31 December 2008 (2007: Nil).

13. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share for the year ended 31 December 2008 is based on the loss for the year attributable to equity holders of the parent of approximately RMB24,485,000 (2007: profit of RMB64,446,000) and the weighted average number of ordinary shares in issue during the year of 844,559,841 (2007: 771,652,444).

No diluted loss per share amount was presented for the year ended 31 December 2008 as all share options are anti-dilutive.

The calculation of diluted earnings per share for the year ended 31 December 2007 was 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 was 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 ordinary shares into ordinary shares.

The calculations of basic and diluted (loss)/earnings per share are based on:

	2008 *RMB'000*	2007 *RMB'000*
(Loss)/Earnings		
(Loss)/Profit attributable to equity holders of the parent for use in the basic and diluted (loss)/earnings per share calculations	**(24,485)**	64,446

	Number of shares	
	2008	2007
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic (loss)/earnings per share calculation	**844,559,841**	771,652,444
Effect of dilution – weighted average number of ordinary shares:		
Share options	–	3,120,501
	844,559,841	774,772,945

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14. 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 2008						
At 31 December 2007 and 1 January 2008:						
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
At 1 January 2008, net of accumulated depreciation and impairment	224,730	479,774	15,684	5,037	17,938	743,163
Additions	2,757	28,227	4,455	57	17,696	53,192
Disposals	–	(2,614)	(288)	–	–	(2,902)
Transfers	4,771	10,503	–	–	(15,274)	–
Exchange realignment	(1,042)	(5)	(40)	(71)	–	(1,158)
Depreciation provided during the year	(7,853)	(54,704)	(4,504)	(906)	–	(67,967)
At 31 December 2008, net of accumulated depreciation and impairment	223,363	461,181	15,307	4,117	20,360	724,328
At 31 December 2008:						
Cost	246,327	710,467	36,611	10,898	20,840	1,025,143
Accumulated depreciation	(22,964)	(249,286)	(21,304)	(6,781)	–	(300,335)
Impairment	–	–	–	–	(480)	(480)
Net carrying amount	223,363	461,181	15,307	4,117	20,360	724,328

NOTES TO FINANCIAL STATEMENTS

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14. 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 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 and impairment	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

As at 31 December 2008, certain of the Group's property, plant and equipment with a net book value of approximately RMB325,247,000 (2007: RMB195,098,000) were pledged to secure certain of the Group's bank borrowings (note 27).

As at 31 December 2008, the Group had not obtained building ownership certificates for buildings located in Baotou with a total net carrying amount of approximately RMB34,362,000 (2007: RMB36,054,000). The directors of the Company expect to obtain the building ownership certificates for the buildings in 2009.

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15. INVESTMENT PROPERTIES

Group

	2008	2007
	RMB'000	*RMB'000*
Carrying amount at 1 January, net of accumulated depreciation	**10,462**	12,340
Exchange realignment	**(796)**	(747)
Disposal during the year	**–**	(1,030)
Depreciation provided during the year	**(75)**	(101)
Cost at 31 December, net of accumulated depreciation	**9,591**	10,462
At 31 December:		
Cost	**10,893**	11,790
Accumulated depreciation	**(1,302)**	(1,328)
Net carrying amount	**9,591**	10,462

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

	2008	2007
	RMB'000	*RMB'000*
Freehold	**10,893**	11,790

At 31 December 2008, the Group's investment properties with a carrying value of RMB9,591,000 (2007: RMB10,462,000) were pledged to secure bank borrowings (note 27).

The Group's investment properties were revalued on 31 December 2008 by Zhonghua Huixin Real Estate Appraisers Firm, an independent professionally qualified firm of valuers, at NTD46,013,000 (equivalent to approximately RMB9,565,000) (2007: NTD43,741,000, equivalent to approximately RMB9,842,000) on an open market, existing basis. The investment properties are leased to third parties under operating leases, further details of which are included in note 33(i) to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

16. PREPAID LAND LEASE PAYMENTS

Group

	2008	2007
	RMB'000	*RMB'000*
Carrying amount at 1 January	**27,343**	23,511
Additions	**–**	4,418
Amortisation for the year	**(586)**	(586)
Cost at 31 December, net of accumulated amortisation	**26,757**	27,343
At 31 December:		
Cost	**30,089**	30,089
Accumulated amortisation	**(3,332)**	(2,746)
Net carrying amount	**26,757**	27,343

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

17. INTANGIBLE ASSETS

Group

	Patents and licences
	RMB'000
31 December 2008	
Cost at 1 January 2008, net of accumulated amortisation	**12,942**
Additions	**73**
Amortisation provided during the year	**(1,806)**
At 31 December 2008	**11,209**
At 31 December 2008:	
Cost	**17,472**
Accumulated amortisation	**(6,263)**
Net carrying amount	**11,209**

NOTES TO FINANCIAL STATEMENTS

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17. INTANGIBLE ASSETS *(continued)*

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

18. 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***	**Post-employee benefits pension** ***RMB'000***	**Total** ***RMB'000***
At 31 December 2007	481	–	481
Credited to the consolidated income statement *(note 10)*	202	–	202
At 31 December 2007 and 1 January 2008	683	–	683
Credited to the consolidated income statement *(note 10)*	944	128	1,072
At 31 December 2008	1,627	128	1,755

NOTES TO FINANCIAL STATEMENTS

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19. INVESTMENTS IN SUBSIDIARIES

Company

	2008	2007
	RMB'000	*RMB'000*
Unlisted investments, at cost	**504,673**	508,900
Due from subsidiaries	**41,093**	14,333
Due to subsidiaries	**–**	(887)
	545,766	522,346

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 from and to subsidiaries approximate to their fair values.

Particulars of the Company's subsidiaries as at 31 December 2008 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**		**Principal activities**
			Direct	**Indirect**	
Capxon Taiwan	Taiwan	NTD620,000,000	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	12.77%	84.81%	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

NOTES TO FINANCIAL STATEMENTS

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19. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
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
Multiple*	British Virgin Islands	US$2,300,000	100%	–	Investment holding
Mega Tender*	Hong Kong	HK$10,000	100%	–	Trading

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

20. INVENTORIES

Group

	2008	2007
	RMB'000	*RMB'000*
Raw materials	**83,552**	80,190
Work in progress	**56,937**	63,825
Finished goods	**86,910**	102,485
	227,399	246,500

21. TRADE RECEIVABLES

Group

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**254,468**	372,894
Impairment	**(15,776)**	(11,986)
	238,692	360,908

NOTES TO FINANCIAL STATEMENTS

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21. TRADE RECEIVABLES *(continued)*

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 between 30 to 180 days. Each customer is subject to 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.

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

	2008	2007
	RMB'000	*RMB'000*
Within 60 days	**86,162**	145,272
Over 60 days but within 90 days	**54,930**	88,395
Over 90 days but within 180 days	**75,831**	103,761
Over 180 days but within 270 days	**11,453**	19,360
Over 270 days but within 360 days	**1,797**	3,734
Over 360 days	**8,519**	386
	238,692	360,908

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

Group

	2008	2007
	RMB'000	*RMB'000*
At 1 January	**11,986**	5,646
Impairment losses recognised *(note 6)*	**3,790**	6,340
Net book value	**15,776**	11,986

NOTES TO FINANCIAL STATEMENTS

31 December 2008

21. TRADE RECEIVABLES *(continued)*

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

	2008	2007
	RMB'000	*RMB'000*
Neither past due nor impaired	**151,528**	206,066
One to six months past due	**32,117**	29,328
Over six months past due	**540**	1,105
	184,185	236,499

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 2008, none of the bills receivable of the Group (2007: RMB5,072,000) were pledged to secure certain of the Group's bank borrowings (note 27).

All bills receivable of the Group are to be mature within six months.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	2008	2007
	RMB'000	*RMB'000*
Prepayments	**4,553**	33,677
Deposits and other receivables	**8,562**	19,124
	13,115	52,801

Company

	2008	2007
	RMB'000	*RMB'000*
Deposits and other receivables	**324**	482

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.

NOTES TO FINANCIAL STATEMENTS

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24. CASH AND CASH EQUIVALENTS

Group

	2008	2007
	RMB'000	*RMB'000*
Cash and bank balances	**56,090**	98,784
Time deposits	**71,107**	94,268
	127,197	193,052
Less: Pledged time deposits as security for		
– Interest-bearing bank borrowings	**(65,887)**	(77,888)
– Bills payable	**(5,220)**	(16,380)
Cash and cash equivalents	**56,090**	98,784

At the balance sheet date, the cash and bank balances and pledged deposits of the Group denominated in RMB amounted to RMB81,347,000 (2007: RMB123,539,000). 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.

Company

	2008	2007
	RMB'000	*RMB'000*
Cash and bank balances	**4,217**	8,809

NOTES TO FINANCIAL STATEMENTS

31 December 2008

25. TRADE AND BILLS PAYABLES

The trade payables are non-interest-bearing and are normally settled within 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

	2008	2007
	RMB'000	*RMB'000*
Within 60 days	**12,706**	98,983
Over 60 days but within 90 days	**16,096**	18,976
Over 90 days but within 180 days	**30,422**	30,322
Over 180 days but within 270 days	**7,189**	4,960
Over 270 days but within 360 days	**2,367**	1,708
Over 360 days but within 450 days	**8,521**	1,524
Over 450 days	**4,981**	5,717
	82,282	162,190

26. OTHER PAYABLES AND ACCRUALS

Group

	2008	2007
	RMB'000	*RMB'000*
Advances from customers	**4,913**	4,046
Accruals	**5,897**	7,154
Payroll payables	**6,807**	8,449
Other payables	**18,200**	22,859
	35,817	42,508

Company

	2008	2007
	RMB'000	*RMB'000*
Other payables	**1,173**	1,469

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

NOTES TO FINANCIAL STATEMENTS

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27. INTEREST-BEARING BANK BORROWINGS

Group

	2008 Effective interest rate (%)	2008 Maturity	2008 *RMB'000*	2007 Effective interest rate (%)	2007 Maturity	2007 *RMB'000*
Current						
Bank loans						
– secured	**1.60 – 7.62**	**2009**	**195,525**	1.60 – 7.29	2008	259,756
– unsecured	**1.96 – 7.72**	**2009**	**93,680**	6.24 – 7.02	2008	120,000
Current portion of long term bank loans						
– secured	**3.00 – 7.56**	**2009**	**158,448**	3.22 – 4.01	2008	17,840
			447,653			397,596
Non-current						
Bank loans						
– secured	**3.00 – 8.32**	**2010 – 2015**	**40,328**	3.22 – 7.65	2009 – 2015	272,785
			487,981			670,381

Company

	2008 Effective interest rate (%)	2008 Maturity	2008 *RMB'000*	2007 Effective interest rate (%)	2007 Maturity	2007 *RMB'000*
Current						
Bank loans						
– unsecured	**1-month LIBOR + 2.5**	**2009**	**27,293**	–	–	–

NOTES TO FINANCIAL STATEMENTS

31 December 2008

27. INTEREST-BEARING BANK BORROWINGS *(continued)*

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Analysed into:				
Bank loans repayable:				
Within one year	**447,653**	397,596	**27,293**	–
In the second year	**11,615**	26,993	**–**	–
In the third to fifth years, inclusive	**27,673**	243,489	**–**	–
Beyond five years	**1,040**	2,303	**–**	–
	487,981	670,381	**27,293**	–

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

	2008	2007
	RMB'000	*RMB'000*
Deposits	**65,887**	77,888
Bills receivable	**–**	5,072
Investment properties	**9,591**	10,462
Property, plant and equipment	**325,247**	195,098
	400,725	288,520

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Floating rate bank loans	**40,328**	272,785	**41,237**	265,423

The fair value of Group's non-current borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates

NOTES TO FINANCIAL STATEMENTS

31 December 2008

28. DEFINED BENEFIT OBLIGATIONS

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 most recent actuarial valuations of the plan assets and the present value of the defined benefit obligations were carried out at 31 December 2008 by Greatfine Wealth Management Consulting Inc., a member of the Actuarial Society of Taiwan, using the projected unit credit actuarial valuation method.

The principal actuarial assumptions used as at the balance sheet date were as follows:

	2008	2007
Discount rate *(%)*	**2.5**	3
Expected rate of return on plan assets *(%)*	**2.5**	3
Expected rate of salary increase *(%)*	**2**	3

The overall expected rate of return on plan assets is determined based on the market expectations prevailing as at the balance sheet date, applicable to the period over which the obligations are to be settled.

The total expenses recognised in the consolidated income statement in respect of the plan are as follows:

	2008	2007
	RMB'000	*RMB'000*
Current service cost	**219**	249
Interest cost	**182**	189
Expected return on plan assets	**(27)**	(25)
Actuarial losses	**178**	210
Net benefits expense	**552**	623
Recognised in administrative expenses	**552**	623

The Group expects to contribute RMB153,000 to its defined benefit plan in 2009.

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28. DEFINED BENEFIT OBLIGATIONS *(continued)*

The movements in the present value of the defined benefit obligations are as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	**6,579**	7,326
Current service cost	**219**	249
Interest cost	**182**	189
Actuarial losses on obligation	**(837)**	(742)
Benefits paid	**(1,276)**	–
Exchange differences on a foreign plan	**(500)**	(443)
At 31 December	**4,367**	6,579

The movements in the fair value of plan assets are as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	**980**	968
Expected return	**27**	25
Actuarial losses	**–**	(3)
Contributions by the Group	**910**	48
Contributions by plan participants	**–**	–
Benefits paid	**(1,276)**	–
Exchange differences on a foreign plan	**(75)**	(58)
At 31 December	**566**	980
Actual return on plan assets	**30**	21

A reconciliation of the fair value of the plan assets and the present value of the defined benefit obligations to the net value of liabilities recognised in the consolidated balance sheet is as follows:

	2008 RMB'000	2007 RMB'000
Fair value of plan assets	**(566)**	(980)
Present value of defined benefit obligations	**4,367**	6,579
	3,801	5,599
Unrecognised net actuarial lossess	**1,625**	872
Net liabilities arising from defined benefit obligations	**5,426**	6,471

NOTES TO FINANCIAL STATEMENTS

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28. DEFINED BENEFIT OBLIGATIONS *(continued)*

A five year summary of the present value of the defined benefit obligations, the fair value of the plan assets, the deficit in the plan and the experience adjustment arising on plan liabilities is as follows:

	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Present value of defined benefit obligations	**4,367**	6,579	7,326	6,762	6,229
Fair value of plan assets	**566**	980	(968)	(912)	(806)

29. ISSUED CAPITAL

	Number of shares	**Nominal value**
		RMB'000
Authorised:		
Ordinary shares of HK$0.1 each		
Balance at 1 January 2008 and 31 December 2008	1,500,000,000	146,071
Issued and fully paid:		
Ordinary shares of HK$0.1 each		
Balance at 1 January 2008 and 31 December 2008	844,559,841	82,244

30. 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 Company's shares. The maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme shall not exceed 15,500,000 shares. 14,900,000 options were granted to certain executives, employees and directors of the Group on 17 April 2007 (the "Date of Grant"). The Pre-IPO Share Option Scheme has expired at the close of business on 4 May 2007 and no further options may be granted thereunder.

Under the Pre-IPO Share Option Scheme, the options granted shall vest to the relevant grantees in tranches, namely 20% of the option 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 option shall vest on the second anniversary of the Date of Grant at an exercise price of HK$0.465 per share (the "Second Tranche"); and 60% of the option shall vest on the third anniversary of the Date of Grant at an exercise price of HK$0.465 per share. The board of directors may at its absolute discretion adjust the percentage of the option to be vested in the First Tranche and Second Tranche either upwards or downwards based on the performance of the relevant grantees in the year immediately preceding the vesting of the option in the relevant tranches as determined by the directors of the Company.

30. SHARE-BASED PAYMENT *(continued)*

Pursuant to the terms of the Pre-IPO Share Option Scheme, 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 respective dates of vesting. At the annual general meeting of the Company held on 5 June 2008, an ordinary resolution was passed by the shareholders of the Company approving the outstanding options granted under the Pre-IPO Share Option Scheme may be exercised by the holders at any time during the period commencing from 17 April 2007 and expiring on 16 April 2012 after the respective dates of vesting.

The fair value of the options granted at the Date of Grant was HK$7,799,000, of which the Group recognised a share option expense of RMB2,366,000 (2007: RMB2,525,000) during the year.

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

	2008		2007	
	Weighted average exercise price per share	**Number of options**	Weighted average exercise price per share	Number of options
	HK$		*HK$*	
At 1 January	**0.465**	**14,300,000**	–	–
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**	0.465	14,300,000

The exercise prices and exercise periods of the share options outstanding under the Pre-IPO Share Option Scheme as at the balance sheet date are as follows:

2008

Number of options	**Exercise price**	**Exercise period**
'000	***HK$***	
2,860	**0.465**	**18 April 2008 to 16 April 2012**
2,860	**0.465**	**18 April 2009 to 16 April 2012**
8,580	**0.465**	**18 April 2010 to 16 April 2012**
14,300		

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30. SHARE-BASED PAYMENT *(continued)*

2007

Number of options	Exercise price	Exercise period
'000	*HK$*	
2,860	0.465	18 April 2009 to 16 April 2012
2,860	0.465	18 April 2010 to 16 April 2012
8,580	0.465	18 April 2011 to 16 April 2012
14,300		

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).

31. 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 35 to 36 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 fund during the year, which is 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.

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31. RESERVES *(continued)*

Company

	Share premium *RMB'000*	Share option reserve *RMB'000*	Exchange translation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*
Balance at 1 January 2007	–	–	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
Loss for the year	–	–	–	(5,280)	(5,280)
Equity-settled share option arrangements	–	2,366	–	–	2,366
Exchange translation	–	–	(5,413)	–	(5,413)
At 31 December 2008	436,626	4,891	(4,587)	2,667	439,597

32. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

Company

	2008 *RMB'000*	2007 *RMB'000*
Guarantees given to banks in connection with banking facilities granted to subsidiaries	**121,638**	101,373

As at 31 December 2008, the banking facilities granted to the subsidiaries of the Company subject to guarantees given to the banks by the Company were utilised to the extent of approximately RMB32,959,000 (2007: RMB55,095,000).

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31 December 2008

33. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases its investment properties (note 15 to the financial statements) 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 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2008	2007
	RMB'000	*RMB'000*
Within one year	**582**	556
In the second to fifth years, inclusive	**631**	1,157
	1,213	1,713

(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 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

Group

	2008	2007
	RMB'000	*RMB'000*
Within one year	**1,224**	385
In the second to fifth years, inclusive	**1,185**	52
	2,409	437

Company

	2008	2007
	RMB'000	*RMB'000*
Within one year	**257**	227
In the second to fifth years, inclusive	**150**	52
	407	279

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34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the balance sheet date:

Group

	2008	2007
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Land and buildings	**919**	1,260
Plant and machinery	**1,831**	4,135
	2,750	5,395

35. RELATED PARTY TRANSACTIONS

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

(1) Recurring

Name of company	**Nature of transactions**	**2008**	2007
		RMB'000	*RMB'000*
Ele Con Co., Ltd. *(i)*	Purchase of raw materials *(a)*	**12,078**	34,834
Fung Yue Technology Limited *(ii)*	Sub-contracting fee *(b)*	**–**	9,578
Capxon Electronic Technology (Renhua) Co., Ltd. *(iii)*	Sub-contracting fee *(b)*	**–**	5,405

Notes:

(i) A director of Ele Con Co., Ltd. is also a director of 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.

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35. RELATED PARTY TRANSACTIONS *(continued)*

(2) Non-recurring

Name of company	Nature of transactions	**2008** **RMB'000**	2007 *RMB'000*
Chinese Creator Limited *(i)*	Purchase returns	**–**	2,635
Shenzhen Capxon Electronic Co., Ltd. *(ii)*	Purchase of goods *(a)*	**257**	1
Asia Richly Limited *(iii)*	Sales of goods	**–**	8,382
	Purchases of raw materials	**–**	7,010
Lin Yuan Yu *(iv)*	Sale of investment properties	**–**	5,625
Ele Con Co., Ltd.	Amount waived from purchase of raw materials *(b)*	**202**	11,830
Capxon Electronic Technology (Renhua) Co., Ltd.	Purchase of fixed assets *(c)*	**8,448**	–

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) Lin Yuan Yu is a director of the Company.

(a) In the opinion of the directors, the purchases of goods were made based on mutually agreed terms.

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

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

NOTES TO FINANCIAL STATEMENTS

31 December 2008

35. RELATED PARTY TRANSACTIONS *(continued)*

(3) Guarantees provided by related parties of the Group

Certain directors of the Company have provided guarantees to banks in connection with the banking facilities granted by those banks to the Group as follows:

	2008	2007
	RMB'000	*RMB'000*
Guarantees provided by:		
Lin Chin Tsun	39,643	60,447
Lin Chin Tsun, Chou Chiu Yueh	70,412	105,832
Lin Chin Tsun, Chou Chiu Yueh, Lin Yuan Yu, Liu Fang Chun, Lin I Chu	30,000	–
Lin Chin Tsun, Lin Yuan Yu	6,194	–
Lin Yuan Yu	41,557	–
	187,806	166,279

The expiry dates of the above guarantees provided by the Company's directors vary from June 2009 to March 2015.

(4) The Group's balances due from/to related parties during the year

(i) Balances due from related parties

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

Name	31 December 2008	Maximum amount outstanding during the year	1 January 2008
	RMB'000	*RMB'000*	*RMB'000*
Chinese Creator Limited	–	2,467	2,467
Capxon Electronic Technology (Renhua) Co., Ltd.	–	771	771
Shenzhen Capxon Electronic Co., Ltd.	167	179	179
	167	3,417	3,417

The balances due from related parties are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these balances approximate to their fair values.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

35. RELATED PARTY TRANSACTIONS *(continued)*

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

(ii) Balances due to related parties

	2008	2007
	RMB'000	*RMB'000*
Lin I Chu	**3,000**	–
Chou Chiu Yueh	**14,278**	16
Ele Con Co., Ltd.	**7,763**	8,681
Fung Yue Technology	**3,664**	4,890
Better Chance Limited	**–**	1,001
Asia Richly Limited	**–**	325
Hill Source Electron (Shenzhen) Co., Ltd.	**200**	200
Capxon Electronic Technology (Renhua) Co., Ltd.	**7,677**	–
	36,582	15,113

Except for the one-month unsecured loan from Lin I Chu which bears interest at 4.04% per annum and will expire on 3 January 2009, the balances due to related parties are interest-free, unsecured and do not have fixed repayment terms.

(5) Compensation of key management personnel of the Group

	2008	2007
	RMB'000	*RMB'000*
Short term employee benefits	**9,212**	11,199
Post-employment benefits	**735**	201
Share based payments	**2,064**	2,272
Total compensation paid to key management personnel	**12,011**	13,672

Further details of directors' emoluments are included in note 8.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

Financial assets

	2008 Loans and receivables *RMB'000*	2007 Loans and receivables *RMB'000*
Trade receivables	**238,692**	360,908
Bills receivables	**12,564**	21,410
Financial assets included in prepayments, deposits and other receivables *(note 23)*	**8,562**	19,124
Due from related parties	**167**	3,417
Pledged deposits	**71,107**	94,268
Cash and cash equivalents	**56,090**	98,784
	387,182	597,911

Financial liabilities

	2008 Financial liabilities at amortised cost *RMB'000*	2007 Financial liabilities at amortised cost *RMB'000*
Trade and bills payables	**82,282**	162,190
Financial liabilities included in other payables and accruals *(note 26)*	**25,007**	31,308
Interest-bearing bank borrowings	**487,981**	670,381
Due to related parties	**36,582**	15,113
	631,852	878,992

NOTES TO FINANCIAL STATEMENTS

31 December 2008

36. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(continued)*

Company

Financial assets

	2008 Loans and receivables *RMB'000*	2007 Loans and receivables *RMB'000*
Prepayments, deposits and other receivables *(note 23)*	**324**	482
Due from subsidiaries	**41,093**	14,333
Cash and cash equivalents	**4,217**	8,809
	45,634	23,624

Financial liabilities

	2008 Financial liabilities at amortised cost *RMB'000*	2007 Financial liabilities at amortised cost *RMB'000*
Financial liabilities included in other payables and accruals *(note 26)*	**1,173**	1,469
Interest-bearing bank borrowings	**27,293**	–
Due to subsidiaries	**–**	887
	28,466	2,356

NOTES TO FINANCIAL STATEMENTS

31 December 2008

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank 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, 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 rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. At 31 December 2008, approximately 23% (2007: 66%) of the Group's interest-bearing bank borrowings bear interest at fixed rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity.

		Group		Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
2008		*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
RMB	**25**	**517**	**–**	**–**	**–**
HK$	**25**	**85**	**–**	**68**	**–**
US$	**25**	**254**	**–**	**–**	**–**
NTD	**25**	**46**	**–**	**–**	**–**
Japanese yen	**25**	**31**	**–**	**–**	**–**
European dollars	**25**	**3**	**–**	**–**	**–**

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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

(i) Interest rate risk *(continued)*

		Group		Company	
2007	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity* *RMB'000*	Increase/ (decrease) in profit before tax *RMB'000*	Increase/ (decrease) in equity* *RMB'000*
RMB	25	740	–	–	–
HK$	25	22	–	–	–
US$	25	311	–	–	–
NTD	25	43	–	–	–
Japanese yen	25	31	–	–	–
European dollars	25	43	–	–	–

* Excluding retained profits

(ii) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 54.15% (2007: 83.7%) of the Group's sales are denominated in currencies other than the functional currencies of the operating units making the sale, whilst almost 60.96% (2007: 55.24%) of costs are denominated in the units' functional currencies. The Group does not use forward currency contracts to eliminate the foreign currency exposures and the Group also does not use hedge derivatives.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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

(ii) Foreign currency risk *(continued)*

	Increase/ (decrease) in foreign currency rate %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2008			
If RMB weakens against US$	**5**	**2,240**	**–**
If RMB strengthens against US$	**(5)**	**(2,240)**	**–**
If RMB weakens against HK$	**5**	**781**	**–**
If RMB strengthens against HK$	**(5)**	**(781)**	**–**
If HK$ weakens against US$	**5**	**(795)**	**–**
If HK$ strengthens against US$	**(5)**	**795**	**–**
If HK$ weakens against JPY	**5**	**(507)**	**–**
If HK$ strengthens against JPY	**(5)**	**507**	**–**
If NTD weakens against JPY	**5**	**(757)**	**–**
If NTD strengthens against JPY	**(5)**	**757**	**–**
If NTD weakens against US$	**5**	**1,019**	**–**
If NTD strengthens against US$	**(5)**	**(1,019)**	**–**
2007			
If RMB weakens against US$	5	20,607	–
If RMB strengthens against US$	(5)	(20,607)	–
If RMB weakens against HK$	5	6,200	–
If RMB strengthens against HK$	(5)	(6,200)	–
If RMB weakens against NTD	5	6,751	–
If RMB strengthens against NTD	(5)	(6,751)	–

* Excluding retained profits

(iii) 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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

(iii) Credit risk *(continued)*

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 and 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.

(iv) 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. 92% of the Group's debts would mature in less than one year as at 31 December 2008 (2007: 59%) based on the carrying values of borrowings reflected in the financial statements.

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

Group

	2008		
	Less than 1 year	**Over 1 year**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Interest-bearing bank borrowings	**447,653**	**40,328**	**487,981**
Trade and bills payables	**82,282**	**–**	**82,282**
Other payables and accruals	**35,817**	**–**	**35,817**
Due to related parties	**36,582**	**–**	**36,582**
	602,334	**40,328**	**642,662**

	2007		
	Less than 1 year	Over 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*
Interest-bearing bank borrowings	397,596	272,785	670,381
Trade and bills payables	162,190	–	162,190
Other payables and accruals	42,508	–	42,508
Due to related parties	15,113	–	15,113
	617,407	272,785	890,192

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

(iv) Liquidity risk *(continued)*

Company

	2008	2007
	Less than 1 year	Less than 1 year
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**27,293**	–
Other payables	**1,173**	1,469
Due to subsidiaries	**–**	887
	28,466	2,356

(v) Capital management

The primary objectives of the Group's capital management are 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 shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the 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 for managing capital during the years ended 31 December 2008 and 31 December 2007.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2008

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

(v) Capital management *(continued)*

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

Group

	2008	2007
	RMB'000	*RMB'000*
Interest-bearing bank borrowings	**487,981**	670,381
Trade and bills payables	**82,282**	162,190
Other payables and accruals	**35,817**	42,508
Due to related parties	**36,582**	15,113
Less: Cash and cash equivalents	**(56,090)**	(98,784)
Net debt	**586,572**	791,408
Equity attributable to equity holders of the parent	**730,324**	756,935
Capital and net debt	**1,316,896**	1,548,343
Gearing ratio	**45%**	51%

38. POST BALANCE SHEET EVENTS

On 2 March 2009, the Group entered into a credit facility contract of RMB150,000,000 to finance the Group's operation in Shenzhen. The maturity date of this facility is 2 March 2011. Certain of the Group's buildings with a net book value as at 31 December 2008 of approximately RMB85,832,000 were mortgaged to secure this facility.

On 12 March 2009, the Group entered into a long-term bank borrowings contract of RMB100,000,000 (the "long-term bank borrowings"). The long-term borrowings granted to the Group bear interest at 4.86% per annum, and will be repayable by quarterly instalments of RMB8,000,000 each and the balance hereof will be repayable on 13 March 2011.

On 18 March 2009, the Group entered into a short-term bank borrowings of RMB50,000,000 (the "short-term bank borrowings"). The short-term bank borrowings granted to the Group bear interest at 4.374% per annum, and are due to be repaid on 17 September 2009.

39. COMPARATIVE AMOUNTS

During the year, certain comparative amounts have been reclassified to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 17 April 2009.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**912,642**	1,016,533	843,856	789,910	737,290
(Loss)/Profit before tax	**(17,212)**	80,235	91,363	90,895	57,449
Tax	**(7,529)**	(12,665)	(7,787)	(5,535)	(8,409)
(Loss)/Profit for the year	**(24,741)**	67,570	83,576	85,360	49,040
Attributable to:					
Equity shareholders of the parent	**(24,485)**	64,446	73,872	77,918	40,794
Minority interests	**(256)**	3,124	9,704	7,442	8,246
	(24,741)	67,570	83,576	85,360	49,040

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**1,392,774**	1,672,681	1,379,259	1,184,483	1,086,147
Total liabilities	**(653,660)**	(906,519)	(836,371)	(723,478)	(717,483)
	739,114	766,162	542,888	461,005	368,664
Minority interests	**(8,790)**	(9,227)	(73,648)	(71,141)	(68,613)
	730,324	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	Industrial office	Freehold
Unit on Level 5 No. 276-1, Sec. 1, Datong Road Sijhih City Taipei County Taiwan	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	Carpark	Freehold