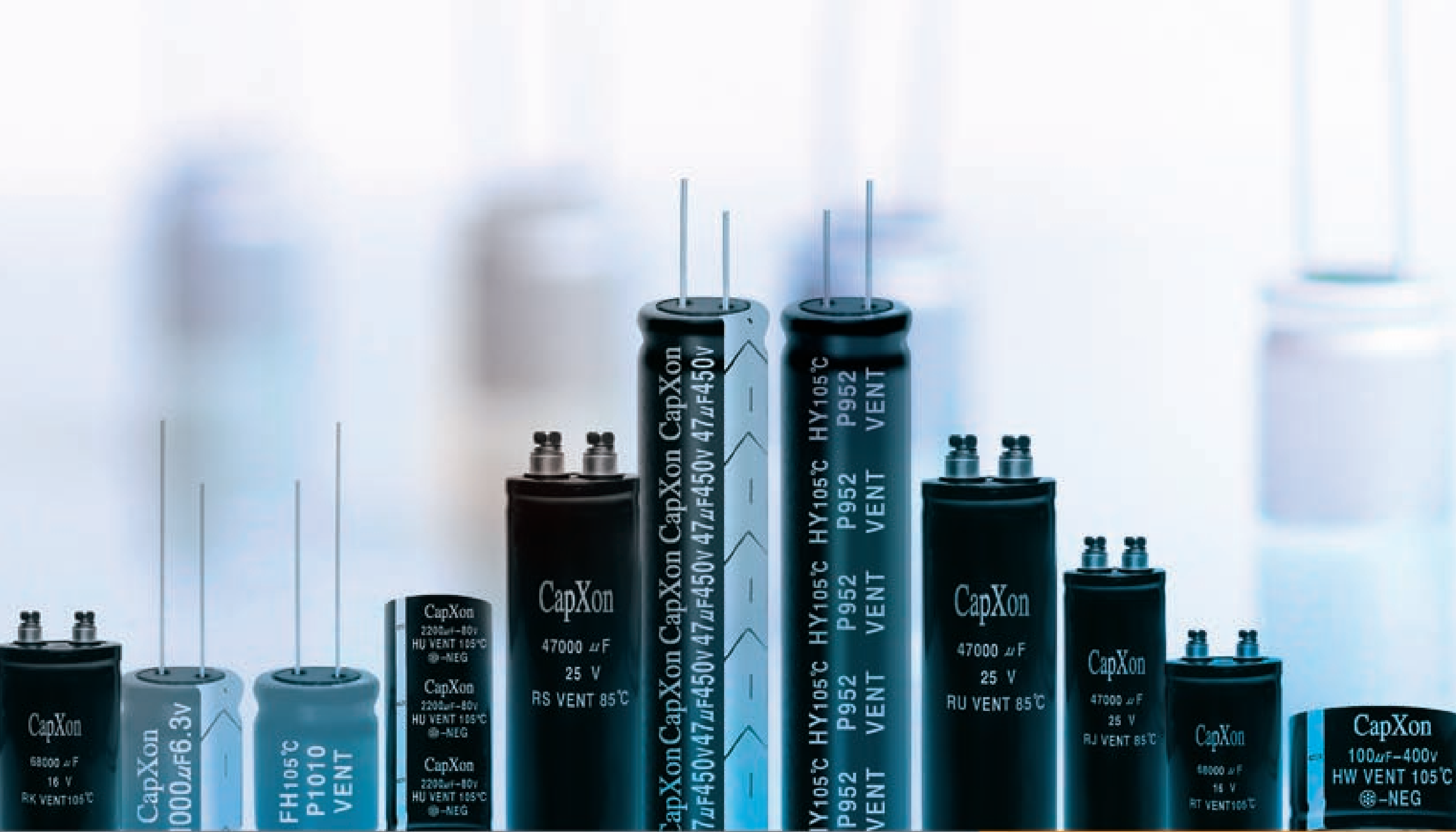
CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED
凱普松國際電子有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 469




# BUILDING FOR GROWTH

## Annual Report 2011



# 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)*
Ms. LIN I Chu

### Non-Executive Director

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

## AUDITOR

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

## LEGAL ADVISER

Minter Ellison
15/F Hutchison House
10 Harcourt Road
Central
Hong Kong

## PRINCIPAL BANKERS

Agricultural Bank of China Limited
Bank of China Limited
Bank of Communications Co., Ltd.
China Construction Bank
China Merchants Bank Co., Ltd.
First Commercial Bank
Hua Nan Commercial Bank
Industrial and Commercial Bank of China
Mega International Commercial Bank Co., Ltd.
Nanyang Commercial Bank Ltd.
Ping An Bank Co., Ltd.
Postal Savings Bank of China

## 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
Xizhi District
New Taipei City
Taiwan

# Corporate Information



## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1702, 17th Floor
CRE Building
No. 303 Hennessy Road
Wanchai
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
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
Wanchai
Hong Kong

## INVESTOR RELATIONS

### Taiwan

Telephone: (886)(2)8692 6611 Ext.41
Fax: (886)(2)8692 6477

### Hong Kong

Telephone: (852)2598 1308
Fax: (852)2598 1808

## WEBSITE

www.capxongroup.com

## STOCK CODE

469

# Chairman's Statement



Dear Shareholders,

During the first half of 2011, benefiting from the hot sales of Apple, intelligent mobile phones and intelligent flat panel computers were popular all around the world. As the demand for consumer electronic products increased, substantial growth was recorded in the demand for electronic components both in terms of function and quantity. Coupled with the 311 earthquake in Japan, major Japanese factories accounting for 60% of global supply were severely affected and were unable to provide normal supply. The strong appreciation of Japanese Yen after the earthquake resulted in rising product prices. Accordingly, the Company experienced relatively strong growth for the first half of 2011. Despite the slowing down of economy in the second half of 2011 due to the deteriorating US and European debt crisis, it is expected that the overall electrolytic capacitor market for 2012 will maintain constant and steady growth as the market calls for more upgraded, precise and miniature application products.

According to the report on the trend of product technology development issued by ITIS, it is expected that the utilization rate of solid electrolytic capacitors will exceed that of liquid electrolytic capacitors by 2013. This implies that the future market trends will tend to focus on the development of properties such as miniature, delicacy, persistence and high-temperature resistance. For the aluminum foil segment, as a result of the expansion of production in the first half of 2011, suppliers also expanded their factories accordingly. However, the slowing down of the economy in the second half of the year resulted in the problem of surplus. Currently, apart from adopting a sound and conservative approach to cope with this situation, the Group endeavors to provide assistance in the development of the materials designated by the electrolytic capacitor customers, who are the major source of opportunities for its future growth.

Looking forward, in maintaining its relationship with the existing customers, the Group will fully capitalize on the benefits from vertical integration between upstream and downstream manufacturers to offer better services. The Group will also actively explore new customers and develop innovative product designs to enhance product function, with a view to maximizing the returns of shareholders.

During the year, the strategic operating results of the Group's two major products are as follows:

## 1. Operation of aluminum foil market

Currently, the Group has commenced mass production of ultra high-voltage anode foil in its production line. The majority of Taiwanese line of electrolytic capacitors and Korean line of electrolytic capacitors use the aluminum foils produced by the Group. Accordingly, the anode foils production not only fully satisfies internal demand, it has also supported the demand from other similar capacitor manufacturers.

In 2011, in spite of the RMB appreciation and increase in grid tariff, the aluminum foil segment of the Group maintained steady growth. However, the growth became stagnant in the fourth quarter due to the poor overall business environment, sluggish US market demand and European debt crisis. Accordingly, given the gloomy global landscape and high short-term uncertainties, the Group will endeavor to focus on new technology development and cost control.

## 2. Operation of electrolytic capacitor market

- in respect of the operation of electrolytic capacitors, production of SMD electrolytic capacitors in all sizes has been completed. In response to the recent surging demand from Mainland China and Japan, large-size SMD has become the major sales target. Presently, the Group is actively developing large-size V-Chip products of 12~16mm;

- the Group continues the development of its screw lock series electrolytic capacitors for wind power, solar power and electric car industries in Europe and Mainland China;

- in view of the expanding consumption market of LED TV, notebooks and game players, the Group has stepped up the production of solid electronic capacitors depending on market demand and supply and has been actively marketing them to system and brand manufacturers to benefit the business expansion of the upstream and downstream OEM factories;

- expansion of production of high-pressure and elongated LY and KY capacitors which was newly developed at the beginning of the year has been completed. For the year, the marketing of LED TV and networking products has been actively expanded to the Taiwan market and Japan market;

- due to the rapid expansion of the small-size charger market, the supply of high-pressure small electrolytic capacitors is insufficient to meet its demand. The Group has completed the expansion of production lines of the fully-automated operating system to enhance productivity; and

- the Group has developed the electrolytic capacitors for auto electronics and obtained the ISO/TS 16949 auto electronics professional quality system certification to become a qualified supplier of electronic components in the automotive industry.

Looking forward, as the world generally calls for a greener business environment and energy-saving and carbon reduction become increasingly popular, government of various countries will make energy industry development their key project, driving all enterprises to trend this way. In the coming year, the Group will target at the development of electrolytic capacitors for wind power, solar power and electric cars. The Group will capitalize on the collective wisdom of its management team more effectively to leverage on its strengths and at the same time expand into new horizons in order to consolidate its business foundation and competitive edge. Meanwhile, the Group will also make every endeavor to become an international market supplier by combining the competitive edges of Mainland China, Hong Kong and Taiwan with a view to maximizing the investment returns for the Company's shareholders as a whole.

**LIN Chin Tsun**
*Chairman*

Hong Kong, 29 March 2012

## FINANCIAL REVIEW

A summary of the financial results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2011 (the "Year") is as follows:

- Revenue rose by approximately 7.06% to approximately RMB1,119,603,000.

- Gross profit increased by approximately 12.69% to approximately RMB227,427,000.

- Profit for the year attributable to owners of the Company amounted to approximately RMB26,895,000 (for the year ended 31 December 2010: RMB18,060,000).

During the Year under review, the Group's revenue was approximately RMB1,119,603,000, representing an increase of approximately 7.06% over the same period last year. The increase was mainly attributable to the better economic sentiments during the first half of 2011 and some orders being diverted to the Group after the earthquake that hit Japan in March 2011. The sales of aluminum electrolytic capacitors for the Year was approximately RMB841,085,000, representing an increase of approximately 10.90% over RMB758,413,000 in the same period last year. The sales of aluminum foils for the Year was approximately RMB278,518,000, representing a decrease of approximately 3.09% over RMB287,399,000 in the same period last year. The Group's gross profit margin increased from approximately 19.30% for the corresponding period last year to approximately 20.31% for the Year. The increase in the gross profit margin was mainly due to the decrease in inventory provision and the increase in sales volume.

## BUSINESS REVIEW

### Manufacture and sale of aluminum foils

During the Year, after satisfying internal production demand, external sales of aluminum foils amounted to approximately RMB278,518,000, representing a decrease of approximately 3.09% over RMB287,399,000 during the same period last year. Its share of the Group's total external sales decreased from approximately 27.48% for the same period last year to approximately 24.88% for the Year.

Aluminum foils are the major raw materials of capacitors. Given the considerable gross profit margin of aluminum foils, huge demand from both domestic and overseas markets and the high quality demanded, the Group has positioned high quality anode foils as a major product in its sales strategy to provide adequate supply of quality raw materials for the Group's own production of capacitors, thereby lowering the production costs and enhancing quality control. Besides, the anode foils can be sold to domestic and overseas capacitor manufacturers so as to enhance the Group's revenue and gross profits. Currently, the majority of the Taiwanese line of electrolytic capacitors and Korean line of electrolytic capacitors use the aluminum foils produced by the Group.

Manufacturing and sale of high quality anode foils is one of the major businesses of the Group. Currently, the Group possesses the technology for the production and processing of quality anode foils as well as stable production capacity. In August 2010, the Group entered into a project investment agreement with the Administration Committee of East-River Industrial Park, Xining (State Level) Economic Technology Development Zone, Qinghai, the PRC in relation to the investment for the construction of production plants, production lines, ancillary facilities and ancillary infrastructure. The Group intends to set up a total of 40 production lines with an aggregate annual planned production capacity of 6,500,000 square meters of aluminum foils. So far, 28 production lines have been completed and are expected to commence production in the fourth quarter. Leverage on its increasingly refined production and processing technology, stable and gradual expansion of production capacity, and low-cost power supply, the Group enjoys overall low costs of production of aluminum foils and stabilizes market supply, thus increasing profitability.

### Manufacture and sale of capacitors

External sales of aluminum electrolytic capacitors during the Year amounted to approximately RMB841,085,000, representing approximately 75.12% of the Group's total external sales. This is approximately 2.60% higher than that recorded in the same period last year which was approximately 72.52% of the Group's total external sales.

At present, the Group's production technique for aluminum electrolytic capacitors is rather mature. In response to the demand arising from diverse application of electronic products, the Group's aluminum electrolytic capacitors feature a comprehensive range of sizes and specifications, and are characterized by long life, high capacitance, low resistance, energy-saving, heat and high voltage tolerance properties. A number of the Group's major products are equipped with these features, such as the SMD electrolytic capacitors and conductive polymers and there are automobile capacitor products that meet the requirements in terms of heat resistance, shock-proof, high ripple rejection and low resistance. During the Year, the Group expanded its production and launched the high-pressure elongated LY and KY capacitors targeting at the LED TV applications and networking product applications, and developed the screw lock series long-lasting electrolytic capacitors for power source supply equipment.

### Green production system

Restriction of Hazardous Substances Directive 2002/95/EC ("RoHS") is an environmental protection directive enacted by the European Union in 2003 which came into effect in July 2006. It principally specifies the standards for raw materials used in, and the production and processing techniques applied for, electronic products for compliance. In terms of the examination of the ingredients of the raw materials and the overall production and processing, the Group has installed related equipment and apparatuses in aid of quality control so as to ensure compliance with the requirements of the RoHS, regulations of SVHC (Substances of Very High Concern) and halogen free requirements. By complying with these requirements, the Group is taking up responsibilities in environmental protection, thereby winning the trust of its customers and creating green business opportunities.

## LIQUIDITY AND FINANCIAL RESOURCES

### Cash flows

The Group's cash demand is primarily derived from the acquisition of properties, plants and equipment, the costs and expenses related to operating activities, as well as bank loan interest and repayment of borrowings. During the Year, the Group obtained its cash resources from operating activities.

During the Year, the Group had net cash outflow of approximately RMB10,068,000 from operating, investing and financing activities before foreign exchange adjustment, the details of which are set out below:

Net cash inflows from operating activities were approximately RMB164,659,000, mainly accounted for by the profit before tax of approximately RMB42,634,000 for the Year together with the flow of funds as a result of the adjustments for finance costs and depreciation, movements in inventory, accounts receivable and accounts payable.

Net cash outflows from investing activities were approximately RMB171,613,000, mainly accounted for by the cash outflows arising from the Group's payments and prepayments of approximately RMB170,038,000 for the purchase of property, plant and equipment.

Net cash outflows from financing activities were approximately RMB3,114,000, mainly accounted for by the bank borrowings of approximately RMB1,002,546,000, repayment of bank loans of approximately RMB974,603,000, and payment of loan interest of approximately RMB38,609,000.

As at 31 December 2011, the Group had cash and cash equivalents of approximately RMB121,066,000 (31 December 2010: RMB133,546,000), which were mainly denominated in Renminbi and US dollars.

## Borrowings

As at 31 December 2011, the Group had total bank borrowings of approximately RMB655,308,000 (31 December 2010: RMB632,196,000), which were mainly denominated in Renminbi and US dollars. Such borrowings were mainly subject to floating interest rates. Set out below is an analysis of the repayment profile of the bank borrowings:

| | **31 December 2011** | 31 December 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year or on demand | **616,207** | 629,179 |
| In the second year | **38,045** | 956 |
| In the third to fifth years (both years inclusive) | **1,056** | 2,061 |
| | **655,308** | 632,196 |

Included in the above bank borrowings due within one year or on demand are bank loans with carrying amounts of approximately RMB60,000,000 (31 December 2010: RMB34,322,000) that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause.

## CHARGE ON ASSETS

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

| | **31 December 2011** | 31 December 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bank deposits | **100,205** | 109,317 |
| Bills receivables | **2,364** | 2,440 |
| Land use rights | **27,180** | 29,900 |
| Property, plant and equipment | **391,828** | 331,684 |
| | **521,577** | 473,341 |

## FINANCIAL RATIOS

As at 31 December 2011, the Group's gearing ratio (net debts divided by equity attributable to owners of the Company plus net debts) amounted to approximately 48.70%, representing an increase of approximately 0.29% as compared to 48.41% as at 31 December 2010. The increase was mainly attributable to the increase in the Group's bank borrowings of approximately RMB23,112,000 and the decrease in cash and cash equivalents of approximately RMB12,480,000 respectively.

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

| | For the year ended 31 December | |
|---|---|---|
| | **2011** | 2010 |
| Inventory turnover | **96 days** | 101 days |
| Trade and bills receivable turnover | **114 days** | 115 days |
| Trade and bills payable turnover | **61 days** | 60 days |

The Group's turnover days for inventory and trade and bills receivable were 5 days and 1 day shorter than those in the previous year respectively, and the turnover days for trade and bills payable were 1 day longer than those in the previous year. The Group will continue to improve the management of its inventories, trade receivable and trade payable in order to better utilize the available funds.

## CAPITAL COMMITMENTS

As at 31 December 2011, the Group had capital commitments contracted but not provided for and capital commitments authorised but not contracted for amounting to approximately RMB49,156,000 and nil respectively (31 December 2010: RMB19,125,000 and RMB13,049,000 respectively).

## CONTINGENT LIABILITIES

### 2011

1. During the Year, a customer filed a request for arbitration enclosing a statement of claim against a subsidiary of the Company, Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), to The Japan Commercial Arbitration Association in Japan, claiming JPY1,412,106,000 (approximately RMB116,117,000) suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan. The case has not yet been heard on The Japan Commercial Arbitration Association as at the reporting date. The directors of the Company, having sought legal advice, considered that the possibility of the outflow in settlement is not probable as there were no serious product defects for the electrolytic capacitors supplied by Capxon Taiwan and accordingly, no provision for any potential liability has been made in the consolidated financial statements.

2. During the Year, a customer filed a civil complaint to the People's Court of Shenzhen in the People's Republic of China ("PRC") against a subsidiary of the Company, Capxon Electronic (Shenzhen) Company Limited ("Capxon Shenzhen"), claiming product defect compensation of RMB12,877,000. The case is pending the second hearing on the court. The directors of the Company, having sought legal advice, considered that the possibility of the outflow in settlement is not probable as the customer does not have a valid claim against Capxon Shenzhen and accordingly, no provision for any potential liability has been made in the consolidated financial statements.

### 2010

During the year ended 31 December 2009, a customer filed a civil complaint in the People's Court of Baoan District in the PRC (the "Court") against Capxon Shenzhen, claiming product defect compensation of RMB29,144,000. Capxon Shenzhen placed a deposit of RMB7,000,000 to the Court in respect of such claim. During the Year, the Group won the case and the deposit placed was recovered accordingly.

## FOREIGN EXCHANGE FLUCTUATIONS

The Group derives its revenue principally in US dollars and New Taiwan dollars, whilst the expenses are mainly denominated in Japanese Yen, Renminbi, US dollars and New Taiwan dollars. As the revenue and expenses are denominated in different currencies, the exposure to exchange risks was mostly managed through natural hedges. However, in the event that Renminbi further appreciates, the Group will still be affected indirectly.

At present, Renminbi is not a freely convertible currency. The PRC government may adopt measures that could result in a material difference between the exchange rate of Renminbi in future and that prevailing or in the past.

## MAJOR TRANSACTION

On 9 June 2011, Capxon Electronic Industrial Company Limited, a non-wholly owned subsidiary of the Company, as the purchaser entered into two sale and purchase deeds for the purchase of various parcels of land situated in Jiuzuliao, Longtan Township, Taoyuan County, Taiwan at a total consideration of NT$252,000,000 (approximately RMB53,248,000). The Group intended to construct production facilities on such land for the production of solid state capacitors.

## EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2011, the Group had approximately 3,103 employees. Salary, bonus and benefits are determined with reference to prevailing market terms and individual performance, qualification and experience.

## FUTURE STRATEGIES AND PLANS

Since the third quarter of 2011, the market environment has been slowing down or even stagnant as a result of the sluggish US market demand and Europe debt crisis, hampering consumer confidence and investment appetite. Looking into year 2012, despite the uncertainties in the global market, driven by the constant demand for passive components, particularly electrolytic capacitors, the Group will adhere to its operating strategies in face of such unclear external economic landscape and market segments with growth potentials:

### 1. Research and development of advanced production and processing techniques as well as cost reduction

The Group's research and development division will continue its research and development in the fully-automated production and processing system to reduce costs; develop core technologies and upgraded production and processing equipment to achieve fully-automated production. At the same time, the Group will strategically plan its production arrangements of aluminum foils and electrolytic capacitors to increase the profits from sales. The advantages of fully-automated production are as follows:

- Reduce wear and tear of semi-finished products and idle stocks;
- Reduce wear and tear of materials: with the implementation of the systematic production management, materials and semi-finished products are returned to warehouse under the 2% material loss control;
- Optimize manpower: operators and technicians are allocated according to their productivity;
- Reduce defective rate: comprehensive self-examination function of equipment.

## 2. Strict quality control

With the implementation of management at the source and control over defective rate of incoming materials, coupled with the enhancement of production and processing techniques, the aluminum foils and lead wires produced by the Group can effectively enhance the production and processing capability, reduce the defective ratio and reduce the use of raw materials so as to maintain the Group's competitiveness. Meanwhile, in view of customers' needs, the Group is able to obtain the approval for development and design specifications of aluminum electrolytic capacitors simultaneously before the launch of new products so that the Group can meet the requirements as a supplier in advance to process more orders.

## 3. Plan to steadily develop mass production of solid state capacitors

The Group has 30 years of extensive experience in the business of liquid aluminum electrolytic capacitors and has accumulated a large customer base in the electronics industry. Due to the diverse application of electronics technology, demand for aluminum electrolytic capacitors increasingly focuses on properties such as long life, low resistance and high ripple current. The application of traditional liquid aluminum electrolytic capacitors cannot be upgraded due to the properties of electrolyte. On the contrary, solid state capacitors possess qualities that satisfy all such conditions. Taking into account the production and processing as well as human factors, the Group plans to gradually set up a solid state capacitor production line and steadily develop the mass production of solid state capacitors according to the demand from its major customers so as to cope with the market trends of advanced electronics products.

## PROSPECTS

- In respect of the operation of electrolytic capacitors, production of SMD electrolytic capacitors in all sizes has been completed. In response to the recent surging demand from Mainland China and Japan, large-size SMD has become the major sales target. Presently, the Group is actively developing large-size V-Chip products of 12~16mm;

- Expansion of fully-automated production of high-pressure and elongated LY and KY capacitors has been completed. During the Year, the marketing of LED TV and networking products has been actively expanded to the Taiwan market and Japan market;

- The Group continues the development of its screw lock series electrolytic capacitors for wind power, solar power and electric car industries in Europe and Mainland China;

- Due to the rapid expansion of the small-size charger market, the supply of high-pressure small electrolytic capacitors is insufficient to meet its demand. The Group has completed the expansion of production lines of the fully-automated operating system to enhance productivity;

- As the market demand for LED TV, notebooks and game players expands, the Group possesses the following strengths in terms of solid state capacitors:

  (i) Cost reduction: As the Group enjoys the benefits from the smooth vertical integration between the upstream and downstream manufacturers of aluminum electrolytic capacitor raw materials, the major materials are produced by the Group, which are available for the production of solid state capacitors;

(ii) Simplified production and processing: The new state of production and processing features the fully-automated production flow. The patent tools are also equipped with all the machineries and equipment required for batch production and therefore less manpower is required;

(iii) Higher productivity: The fully-automated production lines have a higher productivity rate as compared with the batch production of traditional electrolytic capacitors;

(iv) Special production line: The machineries are highly utilized;

(v) Complete raw materials supply: The core materials for solid state capacitors, such as aluminum foils, are secured;

(vi) Higher properties: The solid state capacitors are high temperature resistant, long life, low resistant and have high ripple current. Meanwhile, they can produce DIP and SMD models to fully replace low voltage liquid electrolytic capacitors; and

(vii) Comprehensive customer base: The Group has established an extensive and stable customer base in the segment of traditional electrolytic capacitors with product applications on power supply products, computer motherboards and peripherals such as networks, LED TV and monitors. In the future, the Group will make use of its existing customers to capture the opportunities from the market demand for solid state capacitors in order to expand its customer base.

- The solid state capacitor manufacturers expect to commence mass production next year and intend to replicate such into system manufacturers and brand manufacturers in the future for business expansion.

The Group will expand the existing production size depending on market demand. In addition to integrating the existing equipment, the Group will invest in the development of new machineries and rearrange the capacity of production lines to achieve the objectives of management and control as planned, with a view to generating returns to the shareholders in the coming year.

# Directors and Senior Management Profiles



## DIRECTORS

### Executive Directors

**Mr. Lin Chin Tsun (林金村)**, aged 63, is the chairman and president of the Group and is responsible for the strategic planning and major decision-making of the Group. Mr. Lin is also a director of various subsidiaries of the Company and of the Company's shareholders Value Management Holding Limited and Hung Yu Investment Co., Ltd. Mr. Lin is the spouse of Ms. Chou Chiu Yueh, father of Mr. Lin Yuan Yu and Ms. Lin I Chu, and father-in-law of Ms. Liu Fang Chun. 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 59, 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 also a director of various subsidiaries of the Company and of the Company's shareholders Value Management Holding Limited and Hung Yu Investment Co., Ltd. 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 35, 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 is also a director of various subsidiaries of the Company. 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.

**Ms. Lin I Chu (林薏竹)**, aged 32, is an 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 was in January 2009 and on 1 September 2011 promoted respectively as head of the sales department and deputy general manager of the business and manufacturing department of the Company's subsidiary Capxon Electronic (Shenzhen) Company Limited ("Capxon Shenzhen"). Ms. Lin was appointed as a non-executive director of the Company on 15 April 2007 and was re-designated as an executive director of the Company on 1 September 2011.

### Non-executive Director

**Ms. Liu Fang Chun (劉芳均)**, aged 32, 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.

## Independent Non-executive Directors

**Mr. Lai Chung Ching (賴崇慶)**, aged 76, 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 governance. Since 1967, Mr. Lai has been the member of the executive committee of the Taipei CPA Association (台北市會計師公會); from 1977 to 1983, he was the director and vice-president and in 1983, was elected as the president of the Taipei CPA Association (台北市會計師公會). Mr. Lai was elected as 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 alumnus 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 the chairman 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 51, 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 independent director 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), China Lilang Limited (1234) and China SCE Property Holdings Limited (1966), all of whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Lu was an independent non-executive director of China Green (Holdings) Limited (904), which is listed on the Stock Exchange, from November 2008 to March 2009. 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 59, 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 was 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 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 director of Tai Tien Electronics Co., Ltd. (泰藝電子股份有限公司), and is a supervisor of Ruby Tech Corporation (德勝科技股份有限公司). 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 39, 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 51, 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 42, is the chief of research and development and the deputy general manager of Capxon Taiwan. 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. Lu was promoted as the deputy general manager of Capxon Taiwan on 1 September 2011.

**Mr. Lin Jen Te, Matt (林仁德)**, aged 43, is the chief of the finance operations of the 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 overall financial operations of Capxon Shenzhen.

**Mr. Long Chung Hsin, Andrew (龍中興)**, aged 53, is the chief of Capxon Yichang's finance 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 40, 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 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 Code on Corporate Governance Practices (the "CG Code")

The Company has complied with the code provisions set out in 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 2011.

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 as the code of conduct regarding directors' securities transactions.

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 2011.

### B. BOARD OF DIRECTORS

The Board comprises four executive directors, one non-executive director 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)* |
| Ms. LIN I Chu | |

***Non-executive director:***
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 13 to 15.

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 2011. 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 *(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 of the Company and senior management. 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 and senior management. 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 2011, three meetings were held by the remuneration committee to discuss remuneration related matters including salary review of and bonus payments for the directors and senior management and approval of the terms of the service agreement entered into with Ms. Lin I Chu upon her re-designation as an executive director from a non-executive director. 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 11 to the consolidated 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 auditor, approving the remuneration and terms of engagement of the external auditor and considering any questions of resignation or dismissal of such auditor. 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 2011. The committee reviewed, together with the management and the external auditor, the consolidated financial statements for the year ended 31 December 2010 and for the six months ended 30 June 2011, 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 auditor and approved the remuneration and terms of engagement of the external auditor. 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. AUDITOR'S REMUNERATION

Deloitte Touche Tohmatsu, the external auditor 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 2011 and the audit of the financial statements of the Group for the year ended 31 December 2011.

For the year ended 31 December 2011, the total remuneration in respect of review and audit services provided by Deloitte Touche Tohmatsu for the Group amounted to approximately RMB1,312,000 and in respect of non-audit services provided by Deloitte Touche Tohmatsu amounted to approximately RMB546,000.

The audit committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the external auditor of the Company for 2012.

## 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 2011 | | |
|---|---|---|---|
| **Name of director** | **Board** | **Remuneration Committee** | **Audit Committee** |
| Mr. LIN Chin Tsun | 4/4 | 3/3 | N/A |
| Ms. CHOU Chiu Yueh | 4/4 | 3/3 | N/A |
| Mr. LIN Yuan Yu | 4/4 | N/A | N/A |
| Ms. LIN I Chu | 3/4 | N/A | N/A |
| Ms. LIU Fang Chun | 2/4 | N/A | N/A |
| Mr. LAI Chung Ching | 4/4 | 3/3 | 3/3 |
| Mr. LU Hong Te | 3/4 | 3/3 | 3/3 |
| Mr. TUNG Chin Chuan | 3/4 | 3/3 | 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 auditor of the Company regarding their responsibilities for the financial statements of the Group is set out in the report of the auditor on pages 32 and 33.

## I. INTERNAL CONTROL

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 BDO Financial 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.

The directors of the Company (the "Directors") are pleased to present their annual report together with the audited consolidated financial statements for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. Principal activities and particulars of the Company's subsidiaries are set out in note 39 to the consolidated financial statements.

An analysis of the Group's sales and operating results for the year by principal activities is set out in note 5 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

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

The percentages of purchases for the year attributable to the Group's largest supplier and the Group's five largest suppliers were 19.95% and 34.45%, 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 2011 are set out in the consolidated statement of comprehensive income on page 34.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2011.

## PROPERTY, PLANT AND EQUIPMENT

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

## 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 25 to the consolidated financial statements.

## PENSION SCHEMES

Details of the pension schemes are set out in note 27 to the consolidated financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 29 to the consolidated financial statements.

## RESERVES

Details of the movements in reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 37 and 38.

As at 31 December 2011, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB422,265,000.

## FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 98.

## 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)*
Ms. LIN I Chu *(re-designated to an executive Director from a non-executive Director on 1 September 2011)*

### Non-Executive Director

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, Mr. Lai Chung Ching and Mr. Lu Hong Te will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DISCLOSURE OF INFORMATION OF DIRECTORS

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules, the changes of information of Directors are as follows:

Ms. Lin I Chu ("Ms. Lin") has been re-designated as an executive Director from a non-executive Director and appointed as a deputy general manager of business and manufacturing department of Capxon Electronic (Shenzhen) Company Limited, a subsidiary of the Company, effective 1 September 2011. The service agreement of Ms. Lin in relation to her appointment as a non-executive Director was terminated with effect from 1 September 2011 and a new service agreement had been entered into between the Company and Ms. Lin in relation to her appointment as an executive Director for a term of three years commencing from 1 September 2011. At any time during the term, either party may terminate the appointment by giving to the other party at least six months' notice in writing. Ms. Lin's annual remuneration, as provided in her service agreement, will be HK$600,000 and NT$1,800,000. Ms. Lin is also entitled to a discretionary bonus as determined by the Board provided that the total amount of bonuses payable to all the executive Directors in any year shall not exceed 5% of the audited consolidated profit after taxation and minority interests but before extraordinary items of the Group (if any) for the relevant year, and such share options as may be determined by the Board at its sole discretion from time to time.

During the year, the Remuneration Committee approved to increase the annual remuneration of the executive Director Mr. Lin Yuan Yu to HK$1,200,000 and NT$1,800,000 from HK$1,200,000 and NT$720,000 with effect from 1 September 2011.

## DIRECTORS' SERVICE CONTRACTS

None of the retiring 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 notes 26 and 35 to the consolidated financial statements, no contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2011 and up to the date of this report, none of the Directors nor their respective associates was interested in any business which is considered to compete or is likely to compete, either directly or indirectly, with the business of the Group as required to be disclosed pursuant to the Listing Rules.

## CONTRACTS OF SIGNIFICANCE BETWEEN THE GROUP AND THE CONTROLLING SHAREHOLDER

There was no contract of significance between the Company and/or its subsidiaries with the controlling shareholder and/or its subsidiaries subsisted at the end of the year or at any time during the year.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 35 to the consolidated financial statements. None constitutes a discloseable "connected transaction" or "continuing connected transaction" as defined in Chapter 14A of the Listing Rules.

## 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.

### 3. *Total number of shares available for issue under the Share Option Scheme and % of issued share capital at 29 March 2012*

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 repaid

Nil.

### 8. The basis of determining the exercise price

The exercise price is determined by the Board and shall at least be the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a Business Day; and (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of offer.

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

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

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

## Pre-IPO Share Option Scheme

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

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

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

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

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

### 3. Total number of shares available for issue under the Pre-IPO Share Option Scheme and % of issued shared capital at 29 March 2012

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 of the Company dated 24 April 2007 (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.

### 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 repaid

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 at the close of business on the Business Day preceding 7 May 2007 (i.e. 4 May 2007).

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 2011 are as follows:

| | Date of grant | Exercise price per share | Number of options outstanding as at 1 January 2011 and 31 December 2011 |
|---|---|---|---|
| **Employees** | 17 April 2007 | HK$0.465 | 3,300,000 |
| **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. LIN I Chu | 17 April 2007 | HK$0.465 | 900,000 |
| Ms. LIU Fang Chun | 17 April 2007 | HK$0.465 | 900,000 |
| **Chief Financial Officer** | | | |
| Ms. HU Szu Jung, Carol | 17 April 2007 | HK$0.465 | 900,000 |
| | | | 13,400,000 |

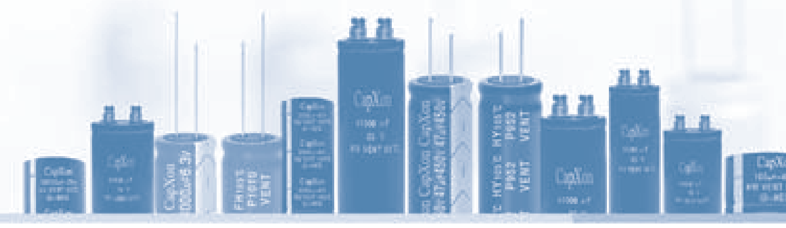
*Notes:*

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 exercise 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 2011.

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 2011, 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, 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[4] | 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 | 46.73 | 1,900,000 | 397,475,621 | 47.06 |
| | Interest of controlled corporation | 374,585,006[3] | | – | | |
| | Interest of spouse | 6,928,993 | | 900,000 | | |
| Ms. LIN I Chu | Beneficial owner | 9,429,777 | 45.47 | 900,000 | 384,914,783 | 45.58 |
| | Interest of controlled corporation | 374,585,006[3] | | – | | |
| Ms. LIU Fang Chun | Beneficial owner | 6,928,993 | 46.73 | 900,000 | 397,475,621 | 47.06 |
| | Interest of spouse | 387,746,628 | | 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 2011.

(2) Value Management Holding Limited ("VMHL"), of which Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh are directors, owns 374,585,006 shares. Pursuant to the SFO, VMHL is deemed to be controlled by Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh who accordingly are taken to be interested in the 374,585,006 shares held by VMHL.

In accordance with the SFO, each of Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh is deemed to be interested in 20,775,777 shares held by Hung Yu Investment Co., Ltd., a company controlled by both of them.

(3) Each of Mr. Lin Yuan Yu and Ms. Lin I Chu is deemed to be interested in the 374,585,006 shares held by VMHL under the SFO.

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

Save as disclosed above, as at 31 December 2011, 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 SHAREHOLDER

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 2011, according to the register of interests kept by the Company under section 336 of the SFO, the following entity 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 | Approximate percentage of shareholding* |
|---|---|---|---|
| VMHL | Beneficial owner | 374,585,006 | 44.35 |

* 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 2011.

Save as disclosed above, the Directors are not aware of any other persons who, as at 31 December 2011, had interests or short positions in the shares and underlying shares of the Company 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 2011.

## 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 audited consolidated financial statements of the Group for the year ended 31 December 2011 (including the accounting principles and practices), internal controls and financial reporting matters with the management of the Company.

## 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 2011 the amount of public float as required under the Listing Rules.

## AUDITOR

The Company changed its auditor to Deloitte Touche Tohmatsu from Ernst & Young during year 2009.

A resolution for the reappointment of Deloitte Touche Tohmatsu as the Company's auditor for the ensuing year will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**LIN Chin Tsun**
*Chairman*

Hong Kong, 29 March 2012

**Deloitte.**
**德勤**

**TO THE SHAREHOLDERS OF**
**CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED**
**凱普松國際電子有限公司**
*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 97, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2011 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
29 March 2012

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011



| | NOTES | **2011** | 2010 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Revenue | *5* | **1,119,603** | 1,045,812 |
| Cost of sales | | **(892,176)** | (843,997) |
| Gross profit | | **227,427** | 201,815 |
| Other income | *6a* | **10,216** | 9,336 |
| Other gains and losses | *7* | **(7,322)** | (11,801) |
| Distribution and selling costs | | **(56,158)** | (48,598) |
| Administrative expenses | | **(74,542)** | (70,269) |
| Other expenses | *6b* | **(18,378)** | (21,330) |
| Finance costs | *8* | **(38,609)** | (32,011) |
| Profit before tax | | **42,634** | 27,142 |
| Income tax expense | *9* | **(15,106)** | (8,369) |
| Profit for the year | *10* | **27,528** | 18,773 |
| **Other comprehensive expense** | | | |
| Exchange differences arising on translation | | **(928)** | (513) |
| Total comprehensive income for the year | | **26,600** | 18,260 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **26,895** | 18,060 |
| Non-controlling interests | | **633** | 713 |
| | | **27,528** | 18,773 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **25,912** | 17,680 |
| Non-controlling interests | | **688** | 580 |
| | | **26,600** | 18,260 |
| Earnings per share – Basic and diluted (RMB cents) | *13* | **3.18** | 2.14 |

# Consolidated Statement of Financial Position

At 31 December 2011



| | NOTES | 2011<br>RMB'000 | 2010<br>RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 14 | **713,004** | 648,862 |
| Land use rights | 16 | **26,511** | 29,189 |
| Intangible assets | 17 | **10,174** | 10,959 |
| Deferred tax assets | 18 | **1,237** | 1,076 |
| Deposits paid for acquisition of property, plant and equipment | | **26,807** | – |
| Deposits paid for land use rights | | **8,440** | – |
| | | **786,173** | 690,086 |
| CURRENT ASSETS | | | |
| Inventories | 19 | **229,213** | 240,132 |
| Land use rights | 16 | **669** | 711 |
| Trade and other receivables | 20 | **417,058** | 421,181 |
| Available-for-sale investments | 21 | **7,000** | – |
| Pledged bank deposits | 22 | **100,205** | 109,317 |
| Bank balances and cash | 23 | **121,066** | 133,546 |
| | | **875,211** | 904,887 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 24 | **183,759** | 181,827 |
| Bank borrowings | 25 | **616,207** | 629,179 |
| Amounts due to related parties | 26 | **11,866** | 16,440 |
| Tax liabilities | | **12,738** | 5,708 |
| | | **824,570** | 833,154 |
| NET CURRENT ASSETS | | **50,641** | 71,733 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **836,814** | 761,819 |

| | NOTES | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Bank borrowings | 25 | **39,101** | 3,017 |
| Defined benefit obligations | 27 | **6,076** | 6,365 |
| Deferred income | 28 | **12,000** | – |
| Deferred tax liabilities | 18 | **600** | – |
| | | **57,777** | 9,382 |
| | | **779,037** | 752,437 |
| CAPITAL AND RESERVES | | | |
| Share capital | 29 | **82,244** | 82,244 |
| Share premium and reserves | | **686,455** | 660,543 |
| Equity attributable to owners of the Company | | **768,699** | 742,787 |
| Non-controlling interests | | **10,338** | 9,650 |
| | | **779,037** | 752,437 |

The consolidated financial statements on pages 34 to 97 were approved and authorised for issue by the Board of Directors on 29 March 2012 and are signed on its behalf by:

**LIN Chin Tsun**
*DIRECTOR*

**CHOU Chiu Yueh**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2011



| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Capital reserve | Share option reserve | Statutory reserve | Translation reserve | Retained profits | Total | Non-controlling interests | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | | *(Note i)* | | *(Note ii)* | | | | | |
| At 1 January 2010 | 82,244 | 436,626 | (30,753) | 6,015 | 70,924 | 22,380 | 137,315 | 724,751 | 9,070 | 733,821 |
| Profit for the year | – | – | – | – | – | – | 18,060 | 18,060 | 713 | 18,773 |
| Other comprehensive expense for the year | – | – | – | – | – | (380) | – | (380) | (133) | (513) |
| Total comprehensive (expense) income | – | – | – | – | – | (380) | 18,060 | 17,680 | 580 | 18,260 |
| Recognition of equity-settled share-based payments | – | – | – | 356 | – | – | – | 356 | – | 356 |
| Appropriation | – | – | – | – | 8,302 | – | (8,302) | – | – | – |
| At 31 December 2010 | 82,244 | 436,626 | (30,753) | 6,371 | 79,226 | 22,000 | 147,073 | 742,787 | 9,650 | 752,437 |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **26,895** | **26,895** | **633** | **27,528** |
| Other comprehensive expense for the year | **–** | **–** | **–** | **–** | **–** | **(983)** | **–** | **(983)** | **55** | **(928)** |
| Total comprehensive (expense) income | **–** | **–** | **–** | **–** | **–** | **(983)** | **26,895** | **25,912** | **688** | **26,600** |
| Appropriation | **–** | **–** | **–** | **–** | **7,012** | **–** | **(7,012)** | **–** | **–** | **–** |
| At 31 December 2011 | **82,244** | **436,626** | **(30,753)** | **6,371** | **86,238** | **21,017** | **166,956** | **768,699** | **10,338** | **779,037** |

*Notes:*

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

(ii) Under the relevant regulations in the People's Republic of China (the "PRC"), certain subsidiaries of the Company which established in the PRC are required to make appropriation to the statutory reserve fund at 10% of their profit after tax based on their statutory financial statements. The statutory reserve fund may only be used, upon approval by the relevant authorities, to offset accumulated losses or to increase the capital of those subsidiaries.

According to the laws and regulations of Taiwan, a subsidiary of the Company which incorporated in Taiwan is required to set aside 10% of its statutory net income each year for legal reserve, until the reserve balance has reached the paid-in share capital amount.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2011



| | 2011 | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| OPERATING ACTIVITIES | | |
| Profit before taxation | **42,634** | 27,142 |
| Adjustments for: | | |
| Amortisation of intangible assets | **2,803** | 1,920 |
| Amortisation of land use rights | **687** | 694 |
| Bank interest income | **(4,645)** | (3,253) |
| Depreciation of investment properties | **–** | 32 |
| Depreciation of property, plant and equipment | **72,944** | 70,012 |
| Finance costs | **38,609** | 32,011 |
| Gain on disposal of investment properties | **–** | (4,104) |
| Gain on disposal of land use rights | **(316)** | – |
| Impairment loss on intangible assets | **747** | – |
| Impairment loss on trade receivables | **193** | 3,398 |
| Loss on disposal of property, plant and equipment | **1,803** | 4,274 |
| Provision for the defined benefit pension plans | **194** | – |
| Reversal of impairment loss on trade receivables | **(2,358)** | – |
| Share-based payment expenses | **–** | 356 |
| Write-down of inventories | **6,988** | 11,679 |
| Operating cash flows before movements in working capital | **160,283** | 144,161 |
| (Decrease) increase in defined benefit obligations | **(12)** | 602 |
| Decrease (increase) in inventories | **3,931** | (25,118) |
| Decrease (increase) in trade and other receivables | **6,288** | (66,074) |
| Decrease in amount due to a related party | **(126)** | (2,949) |
| Increase in trade and other payables | **1,932** | 30,769 |
| Cash generated from operations | **172,296** | 81,391 |
| Income tax paid | **(7,637)** | (4,720) |
| NET CASH FROM OPERATING ACTIVITIES | **164,659** | 76,671 |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2011

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | **(143,231)** | (43,982) |
| Deposits paid for acquisition of property, plant and equipment | **(26,807)** | – |
| Deposits paid for land use rights | **(8,440)** | – |
| Purchase of available-for-sales investments | **(7,000)** | – |
| Placement of pledged bank deposits | **(50,308)** | – |
| Additions to intangible assets | **(3,018)** | (2,230) |
| Addition to land use rights | **–** | (4,450) |
| Withdrawal of pledged bank deposits | **59,320** | 100,438 |
| Interest received | **4,645** | 3,253 |
| Proceeds on disposal of land use rights | **2,349** | – |
| Proceeds on disposal of property, plant and equipment | **877** | 224 |
| Proceeds on disposal of investment properties | **–** | 13,675 |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | **(171,613)** | 66,928 |
| FINANCING ACTIVITIES | | |
| Repayment of bank borrowings | **(974,603)** | (792,515) |
| Interest paid | **(38,609)** | (32,011) |
| Repayment to related parties | **(11,734)** | – |
| New bank borrowings raised | **1,002,546** | 730,913 |
| Receipts of government grants | **12,000** | – |
| Advance from related parties | **7,286** | 12,703 |
| NET CASH USED IN FINANCING ACTIVITIES | **(3,114)** | (80,910) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(10,068)** | 62,689 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **(2,412)** | 194 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **133,546** | 70,663 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | **121,066** | 133,546 |

## 1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate controlling parties are Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh. The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is an investment holding company. Particulars and principal activities of its subsidiaries are set out in Note 39.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

### New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised standards, amendments and interpretations issued by International Accounting Standards Board and IFRS Interpretations Committee.

| | |
|---|---|
| Amendments to IFRSs | Improvements to IFRSs issued in 2010 |
| IAS 24 (as revised in 2009) | Related Party Disclosures |
| Amendments to IAS 32 | Classification of Rights Issues |
| Amendments to IFRIC 14 | Prepayments of a Minimum Funding Requirement |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments |

The application of these new and revised standards and interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

### New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| Amendments to IFRS 7 | Disclosures – Transfers of Financial Assets[1] |
| | Disclosures – Offsetting Financial Assets and Financial Liabilities[2] |
| Amendments to IFRS 7 and IFRS 9 | Mandatory Effective Date of IFRS 9 and Transition Disclosures[3] |
| IFRS 9 | Financial Instruments[3] |
| IFRS 10 | Consolidated Financial Statements[2] |
| IFRS 11 | Joint Arrangements[2] |
| IFRS 12 | Disclosure of Interests in Other Entities[2] |
| IFRS 13 | Fair Value Measurement[2] |
| Amendments to IAS 1 | Presentation of Items of Other Comprehensive Income[5] |
| Amendments to IAS 12 | Deferred Tax – Recovery of Underlying Assets[4] |
| IAS 19 (as revised in 2011) | Employee Benefits[2] |
| IAS 27 (as revised in 2011) | Separate Financial Statements[2] |
| IAS 28 (as revised in 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to IAS 32 | Offsetting Financial Assets and Financial Liabilities[6] |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

### New and revised IFRSs issued but not yet effective *(continued)*

### *IFRS 9 Financial Instruments*

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

Based on the financial instruments of the Group as at 31 December 2011, the directors anticipate that the application of IFRS 9 in the future is not expected to have a significant impact on amounts reported in respect of the Group's financial assets and liabilities.

## 2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") *(continued)*

### New and revised IFRSs issued but not yet effective *(continued)*

### *IAS 19 (as revised in 2011) Employee Benefits*

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 will have impact on amounts reported in respect of the Groups' defined benefit plans. However, the directors have not yet performed a detailed analysis of the impact of the application of the amendments and hence have not yet quantified the extent of the impact.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments are measured at fair values at initial recognition, as explained in the accounting policies set out below. Historical cost generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Basis of consolidation *(continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

### *Allocation of total comprehensive income to non-controlling interests*

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance (effective from 1 January 2010 onwards).

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and title has been passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than freehold land and construction in progress as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than freehold land and construction in progress less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

No depreciation is provided in respect of freehold land.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised in profit or loss on a straight line basis over the terms of the relevant lease.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight line basis over the lease terms.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the consolidated statement of financial position and is amortised over the lease terms on a straight line basis.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interest as appropriate).

### Borrowing costs

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### Retirement benefit costs

Payments to defined contribution retirement benefit plans, state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of the reporting period. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the amended benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Taxation *(continued)*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

### Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss in the period when the asset is derecognised.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Intangible assets *(continued)*

### *Research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

– the technical feasibility of completing the intangible asset so that it will be available for use or sale;

– the intention to complete the intangible asset and use or sell it;

– the ability to use or sell the intangible asset;

– how the intangible asset will generate probable future economic benefits;

– the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

– the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimate selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### *Financial assets*

The Group's financial assets are classified as loans and receivables and available-for-sales investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

#### ***Financial assets*** *(continued)*

*Impairment of financial assets*

Financial assets, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

#### ***Financial assets*** *(continued)*

*Impairment of financial assets (continued)*

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

#### ***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceed received, net of direct issue costs.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Financial liabilities including trade and other payables, bank borrowings and amounts due to related parties are subsequently measured at amortised cost, using the effective interest method.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Financial instruments *(continued)*

#### *Derecognition*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Where the Group has a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the possible obligation is disclosed as contingent liability.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Share-based payment transactions

#### *Equity-settled share-based payment transactions*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment in share option reserve.

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

### Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company makes various estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment 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). Where the actual future cash flows are different from expected, a material impairment or reversal may arise.

As at 31 December 2011, the carrying amount of trade receivables is RMB346,613,000 (net of allowance for doubtful debts of RMB32,790,000) (2010: carrying amount of RMB350,158,000, net of allowance for doubtful debts of RMB36,007,000).

### Allowance for inventories

The Group exercises their estimates in making allowance for inventories. The Group reviews the inventory listing at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in operation. Management estimates the net realisable value for such items based primarily on the latest invoice prices, sales after year end and current market conditions. As at 31 December 2011, the carrying amount of inventories is RMB229,213,000 (net of allowance for inventories of RMB17,465,000) (2010: RMB240,132,000, net of allowance for inventories of RMB17,505,000).

## 5. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the amounts received and receivable for goods sold, net of sales taxes, discounts and returns, for the year.

The Group's operating and reportable segments, based on the information reported to the chief operating decision maker (i.e. the executive directors of the Company) for the purpose of resources allocation and assessment of segment performance are as follows:

| | | |
|---|---|---|
| Capacitors | – | Manufacture and sale of capacitors |
| Aluminum foils | – | Manufacture and sale of aluminum foils |

## 5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable and operating segment for the year.

**For the year ended 31 December 2011**

| | Capacitors | Aluminum foils | Segment total | Elimination | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| External sales | **841,085** | **278,518** | **1,119,603** | **–** | **1,119,603** |
| Inter-segment sales | **–** | **281,984** | **281,984** | **(281,984)** | **–** |
| Segment revenue | **841,085** | **560,502** | **1,401,587** | **(281,984)** | **1,119,603** |
| Segment profit | **61,937** | **21,081** | **83,018** | **4,185** | **87,203** |
| Interest income | | | | | **4,645** |
| Unallocated corporate expense | | | | | **(10,605)** |
| Finance costs | | | | | **(38,609)** |
| Profit before taxation | | | | | **42,634** |

For the year ended 31 December 2010

| | Capacitors | Aluminum foils | Segment total | Elimination | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| External sales | 758,413 | 287,399 | 1,045,812 | – | 1,045,812 |
| Inter-segment sales | – | 282,387 | 282,387 | (282,387) | – |
| Segment revenue | 758,413 | 569,786 | 1,328,199 | (282,387) | 1,045,812 |
| Segment profit | 35,021 | 28,456 | 63,477 | 2,862 | 66,339 |
| Interest income | | | | | 3,253 |
| Unallocated corporate expense | | | | | (10,439) |
| Finance costs | | | | | (32,011) |
| Profit before taxation | | | | | 27,142 |

## 5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

### Segment revenues and results *(continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, interest income and finance costs. However, the related bank balances and the bank borrowings of the reportable segment are reported to the Group's chief decision makers as part of segment assets and liabilities. In addition, taxation expenses are not allocated to segments while tax payables and deferred tax assets are allocated as part of segment liabilities and segment assets respectively. This is the measure reported to the Group's chief decision makers for the purposes of resource allocation and assessment of segment performance.

Inter-segment sales are charged at prevailing market rates.

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Segment assets** | | |
| Capacitors | **1,008,231** | 952,714 |
| Aluminum Foils | **702,403** | 744,982 |
| Total segment assets | **1,710,634** | 1,697,696 |
| Elimination – inter-segment balances | **(50,131)** | (106,785) |
| Unallocated assets | **881** | 4,062 |
| Consolidated assets | **1,661,384** | 1,594,973 |
| **Segment liabilities** | | |
| Capacitors | **583,836** | 580,182 |
| Aluminum Foils | **347,128** | 367,880 |
| Total segment liabilities | **930,964** | 948,062 |
| Elimination – inter-segment balances | **(50,131)** | (106,785) |
| Unallocated liabilities | **1,514** | 1,259 |
| Consolidated liabilities | **882,347** | 842,536 |

## 5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

### Segment assets and liabilities *(continued)*

For the purposes of monitoring segment performance and allocating resources between segments:

– all assets, other than deposits and prepayment, bank balance of the Company, are allocated to reportable segments; and

– all liabilities, other than other payables of the Company, are allocated to reportable segments.

The geographical information about its non-current assets excluded deferred tax assets by geographical location of the assets are detailed below:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| The PRC | **709,242** | 672,507 |
| Taiwan | **75,694** | 16,503 |
| | **784,936** | 689,010 |

Revenue from external customers by geographical location of customers are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Revenue from external customers: | | |
| The PRC | **833,875** | 776,600 |
| Taiwan | **53,353** | 67,447 |
| Other Asian countries *(Note)* | **211,458** | 183,937 |
| Europe *(Note)* | **18,094** | 15,383 |
| Americas *(Note)* | **2,823** | 2,445 |
| | **1,119,603** | 1,045,812 |

*Note:* The countries of the external customers included in these categories comprised Japan, Korea, Malaysia, Singapore, Germany, Italy, Spain and others (2010: Japan, Malaysia, Germany, Italy, Brazil and others). No further analysis by countries of these categories is presented because the revenue from each individual country is insignificant to the total revenue.

During both years, none of the Group's individual customers contributed more than 10% of the Group's revenue.

## 5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

### Other segment information

Amount included in the measure of segment profit or segment assets:

**For the year ended 31 December 2011**

| | **Capacitors** | **Aluminum foils** | **Total** |
|---|---|---|---|
| | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| Depreciation and amortisation | **39,114** | **37,320** | **76,434** |
| Additions to non-current assets *(note)* | **91,369** | **54,880** | **146,249** |
| (Reversal of impairment loss) impairment loss on trade receivables | **(2,358)** | **193** | **(2,165)** |
| Loss on disposal of property, plant and equipment | **1,782** | **21** | **1,803** |
| Gain on disposal of land use rights | **–** | **(316)** | **(316)** |
| Impairment loss on intangible assets | **747** | **–** | **747** |

For the year ended 31 December 2010

| | Capacitors | Aluminum foils | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Depreciation and amortisation | 37,842 | 34,816 | 72,658 |
| Additions to non-current assets *(note)* | 34,196 | 16,466 | 50,662 |
| Impairment loss on trade receivables | 1,284 | 2,114 | 3,398 |
| Loss on disposal of property, plant and equipment | 3,371 | 903 | 4,274 |

*Note:* Non-current assets excluded deferred tax assets.

## 6. OTHER INCOME/EXPENSES

### a. Other income

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Bank interest income | **4,645** | 3,253 |
| Rental income | **–** | 270 |
| Government grant *(note)* | **1,500** | – |
| Others | **4,071** | 5,813 |
| | **10,216** | 9,336 |

*Note:* During the year, the Group received government grants of RMB1,500,000 (2010: Nil) from Qinghai government to subsidy the research and development cost for the encouragement of the manufacturing of aluminum foils products in Qinghai. There were no unfulfilled conditions attached to these grants and, therefore, the Group recognised the grants upon receipts.

### b. Other expenses

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Research and development costs | **13,400** | 12,545 |
| Others | **4,978** | 8,785 |
| | **18,378** | 21,330 |

## 7. OTHER GAINS AND LOSSES

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Loss on disposal of property, plant and equipment | **(1,803)** | (4,274) |
| Gain on disposal of investment properties | **–** | 4,104 |
| Gain on disposal of land use rights | **316** | – |
| Impairment loss on intangible assets | **(747)** | – |
| Impairment loss on trade receivables | **(193)** | (3,398) |
| Reversal of impairment loss on trade receivables | **2,358** | – |
| Net foreign exchange losses | **(7,253)** | (8,233) |
| | **(7,322)** | (11,801) |

## 8. FINANCE COSTS

| | 2011 | 2010 |
|---|---|---|
| | **RMB'000** | *RMB'000* |
| Interest on bank borrowings wholly repayable within five years | **38,609** | 32,011 |

## 9. INCOME TAX EXPENSE

| | 2011 | 2010 |
|---|---|---|
| | **RMB'000** | *RMB'000* |
| Current tax: | | |
| – PRC Enterprise Income Tax | **13,496** | 6,538 |
| – Taiwan Corporate Income Tax | **1,825** | 2,413 |
| | **15,321** | 8,951 |
| (Over)underprovision in prior years: | | |
| – PRC Enterprise Income Tax | **(967)** | (290) |
| – Taiwan Corporate Income tax | **313** | (500) |
| | **(654)** | (790) |
| Deferred tax *(Note 18)*: | | |
| – Current year | **439** | 15 |
| – Attributable to a change in tax rate | **–** | 193 |
| | **439** | 208 |
| | **15,106** | 8,369 |

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for both years.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. For companies that were qualified for incentive tax rate of 15% under old law or regulations, their tax rate will progressively increase to 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012, respectively. For companies that were granted exemption and reliefs ("Tax Benefit") for PRC Enterprise Income Tax, the New Law and Implementation Regulations allowed them to continue to enjoy the Tax Benefit until their respective expiry dates.

## 9. INCOME TAX EXPENSE *(continued)*

Pursuant to the relevant laws and regulations in the PRC, one of the Group's PRC subsidiaries, Capxon Electronic Technology (Baotou) Co. Ltd ("Capxon Baotou"), is exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The first profit-making year of Capxon Baotou was 2007, and the concession expires after 2011.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

**2011**

| | The PRC | | Taiwan | | Hong Kong | | Others[1] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* | *RMB'000* | *%* |
| Profit (loss) before tax | 52,167 | | 1,760 | | (1,364) | | (9,929) | | 42,634 | |
| Tax at the statutory tax rate | 13,042 | 25.0 | 299 | 17.0 | (226) | 16.5 | – | – | 13,115 | 30.8 |
| Tax effect of: | | | | | | | | | | |
| Lower tax rates for specific provinces or enacted by local authority | (1,074) | (2.1) | – | – | – | – | – | – | (1,074) | (2.5) |
| Expenses not deductible for tax | 2,354 | 4.5 | – | – | 271 | (19.9) | – | – | 2,625 | 6.2 |
| (Over)underprovision in prior years | (967) | (1.9) | 313 | 17.8 | – | – | – | – | (654) | (1.5) |
| Additional charges for the undistributed profit in Taiwan[2] | – | – | 1,609 | 91.4 | – | – | – | – | 1,609 | 3.8 |
| Income not subject to tax | (375) | (0.7) | – | – | (45) | 3.3 | – | – | (420) | (1.0) |
| Tax effect of deductible temporary differences not recognised being reversed | (451) | (0.9) | – | – | – | – | – | – | (451) | (1.1) |
| Deferred tax relating to dividend withholding tax | – | – | – | – | 356 | (26.1) | – | – | 356 | 0.8 |
| Income tax expense reported in the consolidated statement of comprehensive income at the Group's effective rate | 12,529 | 24.0 | 2,221 | 126.2 | 356 | (26.1) | – | – | 15,106 | 35.4 |

## 9. INCOME TAX EXPENSE *(continued)*

2010

| | The PRC | | Taiwan | | Hong Kong | | Others[1] | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | % | *RMB'000* | % | *RMB'000* | % | *RMB'000* | % | *RMB'000* | % |
| Profit (loss) before tax | 37,744 | | 1,659 | | (1,635) | | (10,626) | | 27,142 | |
| Tax at the statutory tax rate | 9,436 | 25.0 | 282 | 17.0 | (270) | 16.5 | – | – | 9,448 | 34.8 |
| Tax effect of: | | | | | | | | | | |
| Lower tax rates for specific provinces or enacted by local authority | (2,200) | (5.8) | – | – | – | – | – | – | (2,200) | (8.1) |
| Expenses not deductible for tax | 9,212 | 24.4 | 155 | 9.3 | 1,391 | (85.1) | – | – | 10,758 | 39.6 |
| Utilisation of tax losses previously not recognised | (7,431) | (19.7) | – | – | – | – | – | – | (7,431) | (27.4) |
| Overprovision in prior years | (290) | (0.8) | (500) | (30.1) | – | – | – | – | (790) | (2.9) |
| Additional charges for the undistributed profit in Taiwan[2] | – | – | 1,747 | 105.3 | – | – | – | – | 1,747 | 6.4 |
| Income not subject to tax | – | – | – | – | (1,121) | 68.6 | – | – | (1,121) | (4.1) |
| Decrease in opening deferred tax asset resulting from decrease in applicable tax rate | – | – | 193 | 11.6 | – | – | – | – | 193 | 0.7 |
| Tax effect of deductible temporary differences not recognised | 3,188 | 8.4 | – | – | – | – | – | – | 3,188 | 11.7 |
| Deferred tax relating to dividend withholding tax | – | – | – | – | 244 | (14.9) | – | – | 244 | 0.9 |
| Other tax benefits[3] | (5,667) | (15.0) | – | – | – | – | – | – | (5,667) | (20.9) |
| Income tax expense reported in the consolidated statement of comprehensive income at the Group's effective rate | 6,248 | 16.6 | 1,877 | 113.1 | 244 | (14.9) | – | – | 8,369 | 30.8 |

(1) The expenses incurred by the holding company incorporated in the Cayman Islands and those subsidiaries incorporated in the British Virgin Islands are not deductible under any jurisdiction.

(2) Pursuant to relevant tax laws in the Taiwan, Capxon Taiwan is subject to tax on undistributed retained profits for the year, which is equal to 10% of the profit for the year.

## 9. INCOME TAX EXPENSE *(continued)*

(3) Pursuant to relevant regulations stipulated by the Ministry of Finance and the State Administration of Taxation of the PRC, an enterprise is entitled to a tax benefit calculated at 40% of the additions of equipment manufactured in the PRC up to 2008. The amount of tax benefit that is deductible, however, is limited to the amount of increase in enterprise income tax for the year in which the equipment is acquired as compared with the tax amount charged in the preceding year. The portion of the tax benefit that is not utilised can be carried forward for future application for a period not more than five years from the year in which the equipment is acquired in all tax benefit were used in the year ended 31 December 2010.

Details of deferred taxation for the year are set out in Note 18.

## 10. PROFIT FOR THE YEAR

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit for the year has been arrived at after charging (crediting): | | |
| Employee benefit expenses (including directors' emoluments *(Note 11)*): | | |
| Wages, salaries and allowances | **135,147** | 113,614 |
| Share-based payment expenses | **–** | 356 |
| Defined contribution pension scheme *(Note 27 (ii))* | **6,666** | 5,452 |
| Defined benefit pension plan *(Note 27 (i))* | **194** | 282 |
| | **142,007** | 119,704 |
| Amortisation of intangible assets | | |
| – in cost of sales | **1,805** | 749 |
| – in administrative expenses | **998** | 1,171 |
| Amortisation of land use rights | **687** | 694 |
| Auditor's remuneration | **1,312** | 1,220 |
| Cost of inventories recognised as an expense (including write-down inventories of RMB6,988,000 (2010: RMB11,679,000)) | **892,176** | 843,997 |
| Depreciation of property, plant and equipment | **72,944** | 70,012 |
| Depreciation of investment properties | **–** | 32 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid or payable to the directors for both years are as follows:

### Directors

| Name of directors | Fee | Salaries and allowances | Performance related incentive payment | Share-based payment | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **2011** | | | | | | |
| Lin Chin Tsun | – | 2,522 | 210 | – | – | 2,732 |
| Chou Chiu Yueh | – | 1,262 | 105 | – | 40 | 1,407 |
| Lin Yuan Yu | – | 1,235 | 116 | – | 17 | 1,368 |
| Liu Fang Chun | – | 630 | 94 | – | 8 | 732 |
| Lin I Chu | – | 736 | 129 | – | 48 | 913 |
| Lai Chung Ching | 200 | – | – | – | – | 200 |
| Lu Hong Te | 110 | – | – | – | – | 110 |
| Tung Chin Chuan | 110 | – | – | – | – | 110 |
| | 420 | 6,385 | 654 | – | 113 | 7,572 |

| Name of directors | Fee | Salaries and allowances | Performance related incentive payment | Share-based payment | Retirement benefit scheme contributions | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| 2010 | | | | | | |
| Lin Chin Tsun | – | 2,608 | 322 | 84 | – | 3,014 |
| Chou Chiu Yueh | – | 1,466 | 107 | 60 | 39 | 1,672 |
| Lin Yuan Yu | – | 1,201 | 322 | 50 | 17 | 1,590 |
| Liu Fang Chun | – | 652 | 107 | 24 | 8 | 791 |
| Lin I Chu | – | 839 | 215 | 24 | 43 | 1,121 |
| Lai Chung Ching | 209 | – | – | – | – | 209 |
| Lu Hong Te | 115 | – | – | – | – | 115 |
| Tung Chin Chuan | 115 | – | – | – | – | 115 |
| | 439 | 6,766 | 1,073 | 242 | 107 | 8,627 |

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

### Employees

The five highest paid individuals of the Group for both years were all directors of the Company and details of their emoluments are set out above.

During the year ended 31 December 2011 and 31 December 2010, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

## 12. DIVIDENDS

No dividends were paid, declared or proposed during both years, nor has any dividend been proposed since the end of the reporting period.

## 13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Earnings** | | |
| Earnings for the purposes of basic and diluted earnings per share | | |
| Profit for the year attributable to owners of the Company | **26,895** | 18,060 |

| | **2011** | 2010 |
|---|---|---|
| **Number of shares** | | |
| Number of ordinary shares for the purposes of basic and diluted earnings per share | **844,559,841** | 844,559,841 |

The computation of diluted earnings per share does not assume the exercise of the Company's share options because the exercise price of those options was higher than the average market price for shares for both 2011 and 2010.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Freehold land in Taiwan | Buildings in Taiwan | Buildings in the PRC | Plant and machinery | Office and other equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| COST | | | | | | | | |
| At 1 January 2010 | 4,877 | 10,709 | 240,650 | 707,660 | 38,688 | 10,845 | 28,108 | 1,041,537 |
| Additions | – | – | 1,590 | 5,722 | 1,073 | 959 | 34,638 | 43,982 |
| Transfer | – | – | 9,612 | 24,909 | 1,297 | – | (35,818) | – |
| Disposals | – | – | (3,915) | (7,543) | (2,546) | (630) | (2,188) | (16,822) |
| Exchange adjustment | 277 | 609 | – | 14 | 237 | 124 | – | 1,261 |
| At 31 December 2010 | 5,154 | 11,318 | 247,937 | 730,762 | 38,749 | 11,298 | 24,740 | 1,069,958 |
| Additions | 55,331 | – | 718 | 6,332 | 1,168 | 635 | 79,047 | 143,231 |
| Transfer | – | – | 846 | 36,979 | 1,906 | – | (39,731) | – |
| Disposals | – | (1,405) | – | (11,798) | (4,768) | (64) | – | (18,035) |
| Exchange adjustment | (2,581) | (759) | – | (141) | (183) | (166) | (129) | (3,959) |
| At 31 December 2011 | 57,904 | 9,154 | 249,501 | 762,134 | 36,872 | 11,703 | 63,927 | 1,191,195 |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | |
| At 1 January 2010 | – | 3,176 | 27,233 | 299,461 | 25,169 | 7,402 | 480 | 362,921 |
| Provided for the year | – | 306 | 7,211 | 57,490 | 3,941 | 1,064 | – | 70,012 |
| Eliminated on disposals | – | – | (3,915) | (5,507) | (2,272) | (630) | – | (12,324) |
| Exchange adjustment | – | 199 | – | 13 | 201 | 74 | – | 487 |
| At 31 December 2010 | – | 3,681 | 30,529 | 351,457 | 27,039 | 7,910 | 480 | 421,096 |
| Provided for the year | – | 216 | 8,898 | 59,066 | 3,655 | 1,109 | – | 72,944 |
| Eliminated on disposals | – | (1,405) | – | (9,624) | (4,268) | (58) | – | (15,355) |
| Exchange adjustment | – | (217) | – | (30) | (134) | (113) | – | (494) |
| At 31 December 2011 | – | 2,275 | 39,427 | 400,869 | 26,292 | 8,848 | 480 | 478,191 |
| CARRYING VALUE | | | | | | | | |
| At 31 December 2011 | 57,904 | 6,879 | 210,074 | 361,265 | 10,580 | 2,855 | 63,447 | 713,004 |
| At 31 December 2010 | 5,154 | 7,637 | 217,408 | 379,305 | 11,710 | 3,388 | 24,260 | 648,862 |

## 14. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment other than freehold land and construction in progress are depreciated on a straight line basis, after taking into account their estimated residual value, at the following rates per annum:

| | |
|---|---|
| Buildings | 2% – 4.5% |
| Plant and machinery | 9% |
| Office and other equipment | 18% |
| Motor vehicles | 18% |

The carrying value of properties shown above comprises:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Properties: | | |
| Freehold in Taiwan | **64,783** | 12,791 |
| Medium-term lease in the PRC | **210,074** | 217,408 |
| | **274,857** | 230,199 |

As at 31 December 2011, the Group had not obtained building ownership certificates for buildings located in Baotou City, Inner Mongolia Autonomous Region, the PRC, with a carrying value of approximately RMB8,204,000 (2010: RMB9,675,000). The directors of the Company expect to obtain the building ownership certificates for these buildings in year 2013.

The Group has pledged property, plant and equipment with a net book value of approximately RMB391,828,000 (2010: RMB331,684,000) to secure general banking facilities granted to the Group.

## 15. INVESTMENT PROPERTIES

| | RMB'000 |
|---|---|
| COST | |
| At 1 January 2010 | 11,290 |
| Exchange adjustment | (260) |
| Disposals | (11,030) |
| At 31 December 2010 and 2011 | – |
| DEPRECIATION AND IMPAIRMENT | |
| At 1 January 2010 | 1,427 |
| Eliminated on disposals | (1,459) |
| Provided for the year | 32 |
| At 31 December 2010 and 2011 | – |
| CARRYING VALUE | |
| At 31 December 2010 and 2011 | – |

The above investment properties were situated in Taiwan freehold land and were depreciated on a straight line basis at the following rates per annum:

| | |
|---|---|
| Freehold land | Not depreciated |
| Buildings | 2% |

During the year ended 31 December 2010, the Group disposed of the entire investment properties for a cash consideration net of transaction costs of approximately NTD64,963,000 (equivalent to approximately RMB13,675,000), resulting a gain on disposal of approximately RMB4,104,000 as disclosed in Note 7.

## 16. LAND USE RIGHTS

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Medium-term land use rights in the PRC | **27,180** | 29,900 |
| Analysed for reporting purpose as: | | |
| Current assets | **669** | 711 |
| Non-current assets | **26,511** | 29,189 |
| | **27,180** | 29,900 |

The Group has pledged land use rights with a net book value of approximately RMB27,180,000 (2010: RMB29,900,000) to secure general banking facilities granted to the Group.

## 17. INTANGIBLE ASSETS

| | Trademark, patents and licences |
|---|---|
| | *RMB'000* |
| COST | |
| At 1 January 2010 | 18,593 |
| Exchange adjustment | 81 |
| Additions | 2,230 |
| At 31 December 2010 | 20,904 |
| Exchange adjustment | (365) |
| Additions | 3,018 |
| At 31 December 2011 | 23,557 |
| AMORTISATION AND IMPAIRMENT | |
| At 1 January 2010 | 8,031 |
| Exchange adjustment | (6) |
| Charge for the year | 1,920 |
| At 31 December 2010 | 9,945 |
| Exchange adjustment | (112) |
| Charge for the year | 2,803 |
| Impairment loss recognised during the year *(Note)* | 747 |
| At 31 December 2011 | 13,383 |
| CARRYING VALUES | |
| At 31 December 2011 | 10,174 |
| At 31 December 2010 | 10,959 |

*Note:* Full impairment loss was recognised for the trademark held by Evercon Limited ("HKEC"), which had been in the capacitors manufactured by Evercon Electronic (Shenzhen) Co., Ltd. ("SZEC"). As SZEC is in the process of de-registration, it is expected that no future economic benefits will be generated from the trademark. Both HKEC and SZEC are subsidiaries of the Company.

The above are computer software licences, patents and licences for the technology used in production of capacitors and aluminum foils, which were acquired from third parties, and have estimated useful lives of 3 to 10 years over which the assets are amortised on the straight line basis.

## 18. DEFERRED TAX

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Deferred tax assets | **1,237** | 1,320 |
| Deferred tax liabilities | **(600)** | (244) |
| | **637** | 1,076 |

The followings are the major deferred tax assets recognised by the Group and movements thereon during the year:

| | **Inventories and doubtful debts allowance** | **Post-employee benefits pension** | **Withholding tax provided** | **Total** |
|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2010 | 1,112 | 172 | – | 1,284 |
| Effect of change in tax rate | (167) | (26) | – | (193) |
| Credit (charge) to profit or loss | 153 | 76 | (244) | (15) |
| At 31 December 2010 | 1,098 | 222 | (244) | 1,076 |
| Credit (charge) to profit or loss | (145) | 62 | (356) | (439) |
| At 31 December 2011 | 953 | 284 | (600) | 637 |

At 31 December 2011 and 31 December 2010, the Group did not have unused tax losses available for offset against future profits.

## 18. DEFERRED TAX *(continued)*

Under the relevant tax laws in the PRC and Taiwan, withholding tax is imposed on dividends declared in respect of profits earned by the PRC and Taiwan subsidiaries (profits earned from 1 January 2008 onwards for PRC subsidiaries). Except for a deferred tax liability recognised in respect of RMB6,000,000 (2010: RMB5,000,000) dividend expected to be declared by a PRC subsidiary, no deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC and Taiwan subsidiaries amounting to RMB39,700,000 and RMB88,097,000 (2010: RMB23,016,000 and RMB92,445,000) respectively as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

At the end of the reporting period, the Group has deductible temporary differences of RMB44,363,000 (31 December 2010: RMB46,168,000). No deferred tax asset has been recognised in related to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 19. INVENTORIES

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **78,496** | 80,920 |
| Work in progress | **17,069** | 23,219 |
| Finished goods | **133,648** | 135,993 |
| | **229,213** | 240,132 |

## 20. TRADE AND OTHER RECEIVABLES

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade and bills receivables | **379,403** | 386,165 |
| Less: allowance for doubtful debts | **(32,790)** | (36,007) |
| Total trade receivables | **346,613** | 350,158 |
| Advances to suppliers | **8,296** | 14,726 |
| Value added tax recoverable | **33,685** | 25,913 |
| Deposit for litigation claim *(Note 36)* | **–** | 7,000 |
| Others | **28,464** | 23,384 |
| Total trade and other receivables | **417,058** | 421,181 |

## 20. TRADE AND OTHER RECEIVABLES *(continued)*

The Group generally allows its trade customers a credit period of 30 days to 180 days. The following is an aged analysis of the trade and bills receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 – 60 days | **195,644** | 189,173 |
| 61 – 90 days | **64,656** | 65,345 |
| 91 – 180 days | **81,350** | 90,254 |
| 181 – 270 days | **4,277** | 5,177 |
| 271 – 360 days | **602** | 162 |
| Over 360 days | **84** | 47 |
| | **346,613** | 350,158 |

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines its credit limit based on results from investigation of historical credit records of these customers. Each customer is subject to a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. 97% (2010: 94%) of the trade receivables that are neither past due nor impaired have good credit quality under the internal assessment by the Group.

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of RMB40,552,000 (2010: RMB19,795,000) which were past due as at the reporting date but for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The directors considered that as there has not been a significant deterioration in credit quality of these debtors and there are continuing subsequent settlement, the amounts are still recoverable.

### Ageing of trade receivables which were past due but not impaired

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| One to six months past due | **38,743** | 19,748 |
| Over six month past due | **1,809** | 47 |
| Total | **40,552** | 19,795 |

## 20. TRADE AND OTHER RECEIVABLES *(continued)*

### Movement in the allowance for doubtful debts

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 1 January | **36,007** | 32,609 |
| Impairment losses recognised on receivables | **193** | 3,398 |
| Amount written off as uncollectible | **(1,052)** | – |
| Amount recovered during the year | **(2,358)** | – |
| 31 December | **32,790** | 36,007 |

Included in the allowance for doubtful debts were individually impaired debtors with an aggregate balance of RMB32,790,000 (2010: RMB36,007,000), which had been in severe financial difficulties. The Group did not hold any collateral over these balances.

The Group has pledged bills receivables of approximately RMB2,364,000 (2010: RMB2,440,000) to secure general banking facilities granted to the Group.

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Unlisted investments | **7,000** | – |

The unlisted investments represent units in investment fund managed by a bank in the PRC. The underlying assets of the fund mainly comprise government bonds, bonds issued by corporate entities in the PRC and other eligible financial products. At the end of the reporting period, the fair value of the above investments was determined based on the quoted price provided by the counterparty bank. The investments were subsequently redeemed on the maturity date, 4 January 2012, and a gain of RMB1,000 was recognised.

## 22. PLEDGED BANK DEPOSITS

These represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB100,205,000 (2010: RMB109,317,000) were pledged to secure short-term bank loans and are therefore classified as current assets.

The pledged bank deposits carry variable interest rate which range from 0.36% to 4.40% (2010: 0.02% to 2.79%) per annum.

## 23. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market interest rates which range from 0.01% to 0.50% (2010: 0.01% to 0.40%) per annum.

## 24. TRADE AND OTHER PAYABLES

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade and bills payables | **146,550** | 151,567 |
| Advances from customers | **6,052** | 4,923 |
| Payroll payables | **10,417** | 10,507 |
| Accruals | **18,049** | 12,354 |
| Others | **2,691** | 2,476 |
| | **183,759** | 181,827 |

The credit period on purchases of goods is normally 30 to 60 days. The following is an aged analysis of trade and bills payables based on the invoice date at the end of the reporting period:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 0 – 60 days | **81,325** | 82,560 |
| 61 – 90 days | **23,202** | 16,714 |
| 91 – 180 days | **21,391** | 31,844 |
| 181 – 270 days | **5,482** | 2,884 |
| 271 – 360 days | **3,458** | 2,216 |
| Over 360 days | **11,692** | 15,349 |
| | **146,550** | 151,567 |

## 25. BANK BORROWINGS

| | 2011 | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Secured | **503,214** | 473,196 |
| Unsecured | **152,094** | 159,000 |
| | **655,308** | 632,196 |
| Carrying amount repayable:* | | |
| Within one year | **556,207** | 594,857 |
| More than one year, but not exceeding two years | **38,045** | 956 |
| More than two years but not more than five years | **1,056** | 2,061 |
| | **595,308** | 597,874 |
| Carrying amount that contain a repayment on demand clause repayable: | | |
| Within one year | **–** | 20,000 |
| After one year from the end of the reporting period (shown under current liabilities) | **60,000** | 14,322 |
| | **60,000** | 34,322 |
| | **655,308** | 632,196 |
| Less: Amounts due within one year shown under current liabilities | **(616,207)** | (629,179) |
| Amounts due over one year | **39,101** | 3,017 |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The Group's bank borrowings included fixed-rate borrowings of RMB7,250,000 (2010: RMB132,000,000) which carry interests of 5% (2010: 5.36% to 5.84%) per annum and are repayable within one year. The remaining balances are variable-rate borrowings which carry interest at the ranges of effective interest rates (which are also equal to contracted interest rates) of 1.41% to 7.78% (2010: 1.34% to 7.74%) per annum.

## 25. BANK BORROWINGS *(continued)*

The Group's borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | EUR | USD | JPY |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| **At 31 December 2011** | **1,890** | **84,809** | **31,849** |
| At 31 December 2010 | 1,556 | 99,116 | 40,570 |

## 26. AMOUNTS DUE TO RELATED PARTIES

| Name of related party | Relationship | 2011 | 2010 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Chou Chiu Yueh | Director | **5** | 5 |
| Fung Yue Technology Limited ("Fung Yue") | *Note i, iii* | **3,409** | 3,535 |
| Hill Source Electron (Shenzhen) Co., Ltd. ("Hill Source") | *Note ii* | **1,166** | 1,319 |
| Capxon Electronic Technology (Renhua) Co., Ltd. ("Capxon Renhua") | *Note i* | **–** | 11,581 |
| Lin I Chu | Director | **7,285** | – |
| Lin Yuan Yu | Director | **1** | – |
| | | **11,866** | 16,440 |

Except for an unsecured amount due to Ms. Lin I Chu of approximately RMB7,285,000 which bears fixed-interest at 4.044% per annum and repayable within one year, the remaining balances due to related parties at 31 December 2011 and 2010 were interest-free, unsecured and repayable on demand.

*Notes:*

(i) Fung Yue is wholly owned by Mr. Lin Chin Tsun who is an executive director and one of the ultimate controlling parties of the Company. Capxon Renhua is a subsidiary of Fung Yue.

(ii) Mr. Lin Chin Tsun, an executive director and one of the ultimate controlling parties of the Company, can exercise significant influence over Hill Source.

(iii) The balances for both years were in trade nature and repayable on demand. The following is an aged analysis of amount due to related parties based on the invoice date at the end of the reporting period:

| | 2011 | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Over 360 days | **3,409** | 3,535 |

## 27. RETIREMENT BENEFIT PLANS

### (i) Defined benefit obligations

The Company's subsidiary incorporated in Taiwan, Capxon Electronic Industrial Company Limited ("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 2006. The defined benefit pension plan requires contributions to be made to separately administered funds.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2011 by Greatfine Wealth Management Consulting Inc., a member of the Actuarial Society of Taiwan. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

| | **2011** | 2010 |
|---|---|---|
| Discount rate | **1.8%** | 1.8% |
| Expected return on plan assets | **1.8%** | 1.8% |
| Expected rate of salary increase | **2.0%** | 2.0% |

The actuarial valuation showed that the market value of plan assets was RMB680,000 (2010: RMB708,000) and that the actuarial value of these assets represented 11% (2010: 11%) of the benefits that had accrued to members.

Amounts recognised in the profit or loss in respect of these defined benefit plans are as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Current service cost | **148** | 192 |
| Interest cost | **99** | 113 |
| Expected return on plan assets | **(12)** | (13) |
| Actuarial gains recognised in the year | **(41)** | (10) |
| Total | **194** | 282 |

The charge for the year is included in the employee benefit expenses in the profit or loss.

## 27. RETIREMENT BENEFIT PLANS *(continued)*

### (i) Defined benefit obligations *(continued)*

The amount included in the consolidated statement of financial position arising from the Group's obligations in respect of its defined benefit retirement benefit plans is as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Present value of defined benefit obligations | 6,497 | 5,821 |
| Fair value of plan assets | (680) | (708) |
| | 5,817 | 5,113 |
| Net actuarial gains not recognised | 259 | 1,252 |
| Net liability arising from defined benefit obligation | 6,076 | 6,365 |

Movements in the present value of the defined benefit obligations in the current year were as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| At 1 January | 5,821 | 5,651 |
| Current service cost | 148 | 192 |
| Interest cost | 99 | 113 |
| Actuarial losses (gains) | 894 | (447) |
| Exchange difference | (465) | 312 |
| At 31 December | 6,497 | 5,821 |

Movements in the fair value of the plan assets in the current year were as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| At 1 January | 708 | 636 |
| Expected return on plan assets | 12 | 13 |
| Exchange differences on a foreign plan | (52) | 38 |
| Contributions from the Group | 12 | 21 |
| At 31 December | 680 | 708 |

## 27. RETIREMENT BENEFIT PLANS *(continued)*

### (i) Defined benefit obligations *(continued)*

The plan assets solely represent cash, the expected rate of return at the reporting period is 1.8% (2010: 1.6%) per annum.

The expected rate of return is the expected returns of the plan assets held. The directors' assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The actual return on plan assets was RMB7,000 (2010: RMB11,000).

The Group expects to make a contribution of RMB17,000 (2010: RMB25,000) to the defined benefit plans during the next financial year.

### (ii) Defined contribution plans

The employees of the Company's subsidiaries in the PRC are members of state-managed retirement pension schemes operated by the local government. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement pension scheme to fund the benefits. The only obligation of the Group with respect to the retirement pension scheme is to make the specified contributions.

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs, up to HK$12,000 per annum (2010: HK$12,000 per annum), to the scheme, which contribution is matched by employees.

The costs charged to consolidated statement of comprehensive incomes during the year were RMB6,666,000 (2010: RMB5,452,000). All the contributions had been paid over to the scheme as at the end of the reporting period.

## 28. DEFERRED INCOME

During the year, Capxon Electronic Technology (QingHai) Co., Ltd. ("Capxon Qinghai"), a subsidiary of the Company, received government grants of RMB12,000,000 (2010: Nil) from 西寧經濟技術開發區東川工業園區財政局 as subsidy for the acquisition of land use rights for the encouragement of setting up of aluminum foils production lines in Qinghai. On 31 October 2011, Capxon Qinghai entered into a contract with 西寧經濟技術開發區發展集團有限公司 for the acquisition of land use rights in Qinghai at a consideration of RMB17,481,000, and a deposit of RMB8,440,000 was paid during the year ended 31 December 2011.

## 29. SHARE CAPITAL

| | Number of shares | Amount |
|---|---|---|
| | | *HK$'000* |
| Ordinary shares of HK$0.1 each | | |
| Authorised: | | |
| At 1 January 2010, 31 December 2010 and 2011 | 1,500,000,000 | 150,000 |
| Issued and fully paid: | | |
| At 1 January 2010, 31 December 2010 and 2011 | 844,559,841 | 84,456 |
| Shown in the financial statements as *(RMB'000)* | | 82,244 |

## 30. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank borrowings and amounts due to related parties disclosed in Notes 25 and 26 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium and various reserves.

Management of the Group reviews the capital structure regularly and taking into account of the cost and risk associated with the capital. Generally, the Group employs a conservative strategy regarding its risk management. The Group will balance its overall capital structure through the payment of dividends, new share issues of the Company as well as the raising of bank loans.

## 31. FINANCIAL INSTRUMENTS

### 31a. Categories of financial instruments

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **578,423** | 602,007 |
| Available-for-sale investments | **7,000** | – |
| **Financial liabilities** | | |
| Amortised cost | **826,136** | 812,519 |

### 31b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due to related parties, trade and other payables, pledged bank deposits, bank balances and cash, bank borrowings and available-for-sale investments. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Market risk*

*(i) Currency risk*

The Group mainly operates in the PRC with transactions substantially entered into in RMB, and the exposure to exchange rate risks mainly arises from the foreign currency sales and purchases and the bank balances and bank borrowings denominated in foreign currency. Approximately 51.95% (2010: 70.64%) of the Group's sales and 45.65% (2010: 46.17%) of the Group's purchase are denominated in currencies other than the functional currency of the respective group entities.

## 31. FINANCIAL INSTRUMENTS *(continued)*

### 31b. Financial risk management objectives and policies *(continued)*

#### *Market risk* *(continued)*

*(i) Currency risk (continued)*

The carrying amount of the Group's monetary assets (representing trade and other receivables and bank balances) and monetary liabilities (representing trade and other payables, amounts due to related parties and bank borrowings) denominated in currencies other than the functional currency of the relevant group entities at the reporting dates are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Hong Kong Dollars ("HKD") | **31,046** | 37,141 | **25,067** | 13,632 |
| United States Dollars ("USD") | **96,060** | 125,196 | **91,953** | 110,275 |
| New Taiwan Dollars ("NTD") | **11,347** | 33,870 | **3,254** | 3,623 |
| Euro ("EUR") | **5** | – | **1,890** | 1,556 |
| Japanese Yen ("JPY") | **3,965** | 9,684 | **31,849** | 51,839 |

The Group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need rises.

Sensitivity analysis

The Group is mainly exposed to the fluctuation of HKD, USD, NTD, EUR and JPY against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The strengthening of RMB against the foreign currencies by 5% will give rise to the following profit (loss) after tax, and vice versa:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| HKD impact | **(226)** | (882) |
| USD impact | **(152)** | (560) |
| NTD impact | **(303)** | (1,134) |
| EUR impact | **78** | 58 |
| JPY impact | **1,107** | 1,581 |

## 31. FINANCIAL INSTRUMENTS *(continued)*

### 31b. Financial risk management objectives and policies *(continued)*

#### ***Market risk*** *(continued)*

#### *(ii) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and amount due to a related party (see Notes 25 and 26 for details of these borrowings and amount due to a related party).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings, pledged bank deposits and bank balances. It is the Group's policy to keep its borrowings and pledged bank deposits and bank balances at floating rate of interest so as to minimise the fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider necessary action when significant interest rate exposure is anticipated.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate borrowings. Management considered the cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances is insignificant. The analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis point (2010: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points (2010: 25 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by RMB1,230,000 (2010: RMB938,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

#### *(iii) Other price risk*

The Group is exposed to equity price risk through its unlisted investments. Detail of these is set out in note 21. As the effect on changes in the price is not significant, no sensitivity analysis is presented.

## 31. FINANCIAL INSTRUMENTS *(continued)*

### 31b. Financial risk management objectives and policies *(continued)*

#### *Credit risk*

As at 31 December 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit rating, the Group does not have any other significant concentration of credit risk on bank balances and trade receivables. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

#### *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant sources of liquidity. As at 31 December 2011, the Group has available unutilised short-term bank loan facilities of approximately RMB428,111,000 (2010: RMB318,752,000). Details of bank borrowings are set out in Note 25.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless the probability of the banks choosing to exercise their rights. The maturity date for other non-derivative financial liabilities are based on the agreed repayment dates.

## 31. FINANCIAL INSTRUMENTS *(continued)*

### 31b. Financial risk management objectives and policies *(continued)*

#### *Liquidity risk* *(continued)*

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

| | **Weighted average effective interest rate** | **On demand or less than 1 year** | **Over 1 year** | **Undiscounted cash flows** | **Total carrying amount** |
|---|---|---|---|---|---|
| | **%** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** | ***RMB'000*** |
| **2011** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | **–** | **158,962** | **–** | **158,962** | **158,962** |
| Bank borrowings | | | | | |
| – fixed-rate | **5.00** | **7,309** | **–** | **7,309** | **7,250** |
| – variable-rate | **5.30** | **616,699** | **40,065** | **656,764** | **648,058** |
| Amounts due to related parties | | | | | |
| – fixed-rate | **4.044** | **7,383** | **–** | **7,383** | **7,285** |
| – interest-free | **–** | **4,581** | **–** | **4,581** | **4,581** |
| | | **794,934** | **40,065** | **834,999** | **826,136** |

| | Weighted average effective interest rate | On demand or less than 1 year | Over 1 year | Undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| 2010 | | | | | |
| Non-derivative financial liabilities | | | | | |
| Trade and other payables | – | 163,883 | – | 163,883 | 163,883 |
| Bank borrowings | | | | | |
| – fixed-rate | 5.48 | 135,617 | – | 135,617 | 132,000 |
| – variable-rate | 4.56 | 508,515 | 3,155 | 511,670 | 500,196 |
| Amounts due to related parties | – | 16,440 | – | 16,440 | 16,440 |
| | | 824,455 | 3,155 | 827,610 | 812,519 |

## 31. FINANCIAL INSTRUMENTS *(continued)*

### 31b. Financial risk management objectives and policies *(continued)*

#### *Liquidity risk* *(continued)*

The amounts included above for variable interest rate bank borrowings are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Bank loans with a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. As at 31 December 2011, the aggregate principal amounts of these bank loans amounted to RMB60,000,000 (2010: RMB34,322,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid in 2013 in accordance with the scheduled repayment dates set out in the loan agreements shown as below. At that time, the aggregate principal and interest cash outflows will amount to RMB65,598,000 (2010: RMB38,326,000).

The table includes both interest and principal cash flows of bank loans with a repayable on demand clause. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

| | Weighted average effective interest rate | On demand or less than 1 year | 1 to 2 year | Undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|
| | % | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **2011** | **6.69** | **–** | **65,598** | **65,598** | **60,000** |
| 2010 | 5.84 | 21,168 | 17,158 | 38,326 | 34,322 |

### 31c. Fair value

The fair value of financial assets with standard terms and conditions are determined with reference to quoted market prices.

The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 31. FINANCIAL INSTRUMENTS *(continued)*

### 31c. Fair value *(continued)*

#### *Fair value measurements recognised in the statement of financial position*

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | 31/12/2011 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Available-for-sale investments | – | 7,000 | – | 7,000 |

## 32. SHARE-BASED PAYMENT TRANSACTIONS

On 3 April 2007, the Company approved and adopted a 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 "Pre-IPO Share Option Scheme"). 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") with 600,000 options and 900,000 options forfeited during the year ended 31 December 2007 and 31 December 2009 respectively. The Pre-IPO Share Option Scheme was closed at the close of business on 4 May 2007 and no further options may be granted thereafter.

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.

## 32. SHARE-BASED PAYMENT TRANSACTIONS *(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, calculated using the Black-Scholes pricing model. The Group did not recognise any share option expense (2010: RMB356,000) during the year. The share option was fully vested during the year ended 31 December 2010.

The following table discloses movements during the year of the Company's share options under the Pre-IPO Share Option Scheme:

| Date of grant | Exercise price | Exercisable period | Outstanding at 1.1.2010, 1.1.2011 and 31.12.2011 |
|---|---|---|---|
| | *HK$* | | |
| 17 April 2007 | 0.465 | 18.4.2008 to 16.4.2012 | 2,680,000 |
| | 0.465 | 18.4.2009 to 16.4.2012 | 2,680,000 |
| | 0.465 | 18.4.2010 to 16.4.2012 | 8,040,000 |
| | | | 13,400,000 |

## 33. OPERATING LEASES

### (i) The Group as lessor

Property rental income earned during the year ended 31 December 2010 was RMB270,000 less of outgoings of RMB62,000.

The properties was disposed of during the year ended 31 December 2010 as stated in Note 15.

## 33. OPERATING LEASES *(continued)*

### (ii) The Group as lessee

Minimum lease payments paid under operating leases during the year for rented premises is approximately RMB1,252,000 (2010: RMB1,397,000).

At the end of the reporting period, the Group had outstanding commitments payable under non-cancellable operating lease in respect of rented premises which fall due as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within one year | **357** | 359 |
| In the second to fifth year inclusive | **339** | 113 |
| | **696** | 472 |

Leases are negotiated and rental are fixed for a period from one to three years (2010: one to two years).

## 34. CAPITAL COMMITMENTS

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **49,156** | 19,125 |
| Commitments for the acquisition of property, plant and equipment authorised but not contracted for | **–** | 13,049 |

## 35. RELATED PARTY DISCLOSURES

### (i) Related party transactions

During the year, the Group entered into the following transactions with related parties:

| Name of related parties | Nature of transactions | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| Ele Con Co., Ltd. *(Note i)* | Purchase of raw materials | – | 5,014 |
| Hill Source | Purchase of raw materials | – | 81 |
| Capxon Renhua | Purchase of property, plant and equipment | – | 689 |
| Lin I Chu *(Note ii)* | Interest expense | **13** | – |

*Notes:*

(i) It was owned as to 30% by Ms. Liu Fang Chun who is a non-executive director of the Company and the close family member of the controlling shareholders of the Company.

(ii) Ms. Lin I Chu is the daughter of Mr. Lin Chin Tsun and an executive director of the Company.

### (ii) Provision of guarantees and security by the Company's directors and shareholders

Certain directors and shareholders of the Company have provided guarantees to banks to support facilities granted by those banks to the Group as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Guarantees provided by: | | |
| Lin Chin Tsun *(Note)* | **200,000** | 143,836 |
| Lin Chin Tsun and Chou Chiu Yueh *(Note)* | **98,734** | 59,134 |
| Lin Chin Tsun, Chou Chiu Yueh, Lin Yuan Yu, Liu Fang Chun and Lin I Chu *(Note)* | **50,500** | 58,267 |
| Lin Chin Tsun and Lin Yuan Yu *(Note)* | **101,163** | 66,642 |
| | **450,397** | 327,879 |

*Note:* Lin Chin Tsun and Chou Chiu Yueh are controlling shareholders of the Company. Lin Yuan Yu, Liu Fang Chun and Lin I Chu are close family members of the controlling shareholders. All of them are directors and shareholders of the Company.

The expiry dates of the above guarantees fall within the period from January 2012 to March 2015 (2010: March 2011 to March 2015).

In the current year, Ms. Lin I Chu has pledged a property to a bank to secure banking facilities of RMB30,000,000 (2010: nil) granted to the Group. In addition, Mr. Lin Yuan Yu, has pledged a property to a bank to secure banking facilities of USD1,300,000 granted to the Group in 2010.

## 35. RELATED PARTY DISCLOSURES *(continued)*

### (iii) Related party balances

Details of the Group's outstanding balances with related parties are set out in Note 26.

### (iv) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Short-term benefits | **10,107** | 10,626 |
| Post-employment benefits | **232** | 206 |
| Share-based payment expenses | **–** | 314 |
| | **10,339** | 11,146 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

### (v) Provision of loan facility from the Company's director

During the year, Mr. Lin Chin Tsun and the Group entered into an agreement where Mr. Lin Chin Tsun agreed to provide to the Group a loan facility amounting to NTD160,000,000 (approximately RMB33,808,000) for the period from 1 January 2012 to 31 December 2016. The loan is unsecured and carries interest at 2% per annum which is subject to re-negotiation if the market interest rate changes by 1%. The Group did not utilize the facility up to the date of this report.

## 36. CONTINGENT LIABILITIES

### 2011

i. During the year, a customer filed a request for arbitration enclosing a statement of claim against a subsidiary of the Company, Capxon Taiwan, to The Japan Commercial Arbitration Association in Japan, claiming JPY1,412,106,000 (approximately RMB116,117,000) suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan. The case has not yet been heard on The Japan Commercial Arbitration Association as at the reporting date. The directors of the Company, having sought legal advice, considered that the possibility of the outflow in settlement is not probable as there were no serious product defects for the electrolytic capacitors supplied by Capxon Taiwan and accordingly, no provision for any potential liability has been made in the consolidated financial statements.

ii During the year, a customer filed a civil complaint to the People's Court of Shenzhen in the PRC against a subsidiary of the Company, Capxon Electronic (Shenzhen) Co. Ltd. ("Capxon Shenzhen"), claiming product defect compensation of RMB12,877,000. The case is pending the second hearing on the court. The directors of the Company, having sought legal advice, considered that the possibility of the outflow in settlement is not probable as the customer does not have a valid claim against Capxon Shenzhen and accordingly, no provision for any potential liability has been made in the consolidated financial statements.

### 2010

During the year ended 31 December 2009, a customer filed a civil complaint in the People's Court of Baoan District in the PRC (the "Court") against Capxon Shenzhen, claiming product defect compensation of RMB29,144,000. Capxon Shenzhen placed a deposit of RMB7,000,000 (Note 20) to the Court in respect of such claim. During the year, the Group won the case and the deposit placed was recovered accordingly.

## 37. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to banks for banking facilities:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Property, plant and equipment | **391,828** | 331,684 |
| Land use rights | **27,180** | 29,900 |
| Bank deposits | **100,205** | 109,317 |
| Bills receivables | **2,364** | 2,440 |
| | **521,577** | 473,341 |

## 38. FINANCIAL INFORMATION OF THE COMPANY

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | **511,503** | 511,503 |
| CURRENT ASSETS | | |
| Deposits and prepayments | **232** | 312 |
| Bank balances | **649** | 3,750 |
| | **881** | 4,062 |
| CURRENT LIABILITIES | | |
| Other payables | **1,514** | 1,259 |
| Amounts due to subsidiaries | **4,406** | 2,766 |
| | **5,920** | 4,025 |
| NET CURRENT (LIABILITIES) ASSETS | **(5,039)** | 37 |
| | **506,464** | 511,540 |
| CAPITAL AND RESERVES | | |
| Share capital | **82,244** | 82,244 |
| Share premium and reserves | **424,220** | 429,296 |
| | **506,464** | 511,540 |
| Loss for the year | **5,144** | 1,290 |

## 39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2011 and 2010 are as follows:

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Direct | | Indirect | | |
| | | | **2011** | 2010 | **2011** | 2010 | |
| | | | **%** | % | **%** | % | |
| Capxon Baotou *(Note i)* | The PRC | RMB100,000,000 | **–** | – | **100** | 100 | Manufacture and sale of aluminum foil |
| Capxon Electronic Technology (Yichang Sanxia) Co. Ltd. *(Note ii)* | The PRC | US$30,000,000 | **–** | – | **100** | 100 | Manufacture and sale of aluminum foil |
| Capxon Shenzhen *(Note ii)* | The PRC | US$39,150,000 | **12.77** | 12.77 | **84.81** | 84.81 | Manufacture and sale of capacitors |
| Capxon Taiwan | Taiwan | NTD620,000,000 | **96.54** | 96.54 | **–** | – | Sale of capacitors |
| Capxon Trading (Shenzhen) Co. Ltd. *(Note ii)* | The PRC | US$700,000 | **–** | – | **96.54** | 96.54 | Trading |
| Easy Chance Ltd. | Hong Kong | HK$10,000 | **–** | – | **100** | 100 | Trading and investment holding |
| SZEC *(Note ii)* | The PRC | US$1,000,000 | **–** | – | **100** | 100 | In the process of de-registration |
| HKEC | Hong Kong | US$1,000,000 | **100** | 100 | **–** | – | Trading and investment holding |
| Gold Wish Ltd. | British Virgin Islands | US$30,000,000 | **100** | 100 | **–** | – | Investment holding |
| Lancom Ltd. | Hong Kong | HK$85,137,200 | **–** | – | **96.54** | 96.54 | Trading and investment holding |

## 39. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

| Name of subsidiary | Place of incorporation/ establishment/ operation | Issued and fully paid share capital/ registered capital | Attributable equity interest held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Direct | | Indirect | | |
| | | | **2011** | 2010 | **2011** | 2010 | |
| | | | **%** | % | **%** | % | |
| Mega Tender Ltd. | Hong Kong | HK$10,000 | **100** | 100 | **–** | – | Trading |
| Multiple Investments Ltd. | British Virgin Islands | US$2,300,000 | **100** | 100 | **–** | – | Investment holding |
| Waystech Trading Ltd. | British Virgin Islands | US$1,034,699 | **100** | 100 | **–** | – | Investment holding |
| Yichang Fengshuo Equipment Co. Ltd. *(Note ii)* | The PRC | HK$8,000,000 | **–** | – | **100** | 100 | Manufacture and sale of equipment |
| Capxon Qinghai *(Note i)* | The PRC | RMB79,000,000 (2010: RMB50,000,000) | **–** | – | **100** | 100 | 2011: Manufacture and sale of aluminum foils (2010: Not yet commenced business) |

None of the subsidiaries had any debt securities outstanding at the end of the reporting period or at any time during the year.

*Notes:*

(i) Being established in the PRC in the form of domestic enterprise.

(ii) Being established in the PRC in the form of wholly foreign-owned enterprise.

# Five-Year
# Financial Summary



| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| **RESULTS** | | | | | |
| Revenue | 1,016,533 | 912,642 | 775,053 | 1,045,812 | **1,119,603** |
| Profit (loss) for the year | 67,570 | (24,741) | (6,119) | 18,773 | **27,528** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 1,672,681 | 1,392,774 | 1,592,085 | 1,594,973 | **1,661,384** |
| Total liabilities | (906,519) | (653,660) | (858,264) | (842,536) | **(882,347)** |
| | 766,162 | 739,114 | 733,821 | 752,437 | **779,037** |
| Attributable to: | | | | | |
| Owners of the Company | 756,935 | 730,324 | 724,751 | 742,787 | **768,699** |
| Non-controlling interests | 9,227 | 8,790 | 9,070 | 9,650 | **10,338** |
| | 766,162 | 739,114 | 733,821 | 752,437 | **779,037** |