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

2015
Annual Report

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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

NOMINATION COMMITTEE

Mr. LIN Chin Tsun *(Chairman)*
Ms. CHOU Chiu Yueh
Mr. LAI Chung Ching
Mr. LU Hong Te
Mr. TUNG Chin Chuan

REMUNERATION COMMITTEE

Mr. LAI Chung Ching *(Chairman)*
Mr. LIN Chin Tsun
Ms. CHOU Chiu Yueh
Mr. LU Hong Te
Mr. TUNG Chin Chuan

CHIEF FINANCIAL OFFICER

Ms. HU Szu Jung, Carol

COMPANY SECRETARY

Ms. CHAN Yin Fung

AUDITOR

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PRINCIPAL BANKERS

Agricultural Bank of China Limited
First Commercial Bank
Hua Nan Commercial Bank
Mega International Commercial Bank Co., Ltd.
Ping An Bank Co., Ltd.
Taiwan Cooperative Bank

REGISTERED OFFICE

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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STOCK CODE

469

Chairman's Statement

Dear Shareholders,

2015 marks an undulating year, during which the world-trembling events such as U.S. rate hike, Paris attacks, and European refugee crisis weighed on the development of the global economy, giving an omen that 2016 is to be a year glutted with risks. Notwithstanding the lumbering recovery of the global economy powered by major economies like U.S. and Eurozone, the pace of growth of emerging markets fell short of the target and even retreated drastically in the headwinds of lowering global commodity price, U.S.'s monetary austerity measures and economic reform policies, posing a threat to the outlook of the global economy. International forecast institutions anticipate that the global economy in 2016 will remain in the new mediocre, that is, the growth trend will be fragile, and will inch up when compared with the grim base period in 2015, though it is not optimistic in general. In the short run, it is no easy task to cope with the uncertainties haunting the global economy which are: 1) the pains and hardship that emerging markets and developing countries have to walk through during the course of transformation and economic reform as well as the stern challenges ahead for economic development; 2) softening consumption due to the looming deflation around the world as a result of the U.S. dollar strength and dwindling commodity prices; 3) turbulence of global financial systems sparked off by the abnormal fluidity of hot money resulting from manipulation of exchange rate policies beyond normal practices deriving from the currency policies launched by major central banks; and 4) the menace of terrorist attacks around the world which may lead to revenges and wars at the regions and in turns dampen normal operation of global economy. A welter of unknowns heralds the economic downside risks in the future, which are the stumbling blocks on the path of recovery.

For manufacturing industry, the year of 2016 should continue to be a phase of "industry transformation driven by science and technology". Be it the industry 4.0 endeavored by Germany, CPS initiated by the United States through Internet-integrated intelligence or "Made in China 2025" driven by mainland China, it is obvious that every country in the world is considering to apply the technological innovation to build a digital and smart manufacturing industry, and to add internet applications (such as smart home, smart factories) to the current manufacturing basis. Besides, industrial robots are marching their way into the workshops; manufacturing industry with high added value is transforming (such as advancing from offer of products to offer of products with solutions and services). In the future, facing with the competition and pressure arising from the growth of virtual reality industries, the industry in general would accelerate the weeding out and replacement process. The manufacturing industry thus is entering into a bi-polar mode in which the giants are benefited from the advantages of economy of scale while the small ones need to transform into a professionalized mode and those in between are declining.

Passive component manufacturing is an industry characterized by high production volume and low unit price, and most of the products are applied in the 3C sector. In the future, the industry will be benefited from other emerging application markets such as automotive electronics, high-end smart home appliances, smart meter, 4G LTE base stations, LED street lamps, safety control system, industrial control and renewable energy resources equipment, and therefore serving as a stable anchor for the supply and production value of key electronic parts and components. As a comparison, non-traditional 3C applications belong to the niche market, which is characterized by high gross profit and stable unit price, and the demand and supply of such end-products are less susceptible to fluctuations of economic cycle. Passive component suppliers begin operating in these sectors, develop small-size and modularized products and adjust their product portfolio in order to boost their gross profits in order to avoid the operational risks arising from business fluctuations. The future of passive components is expected to continue to feature high capacity, high voltage, high frequency, high resistance to heat, miniaturization and so on. Meanwhile, due to the localization of industrial supply chains in China, the relevant local brands are benefiting from the continual expansion of the end-user market. With the advantage of geographical proximity, those local brands strengthen the local manufacturing chain, enhance their supply chain competitiveness in electronic parts and components, and pose threat to Taiwan's industry of electronic parts and components. In this connection, gross profit and price wars will still be the general trend in market share competition for the passive component market. However, in view of the relatively unfavourable competition in terms of market share and price, the local brands will continue to persistently invest in research and development ("R&D") and equipment in order to meet customers' specific specification requests and to enhance the supply stability of various series of capacitors and join hands with capacitor manufacturers in the product development process and assist them in the joint development of materials to meet specific material requests; thereby ushering development opportunities in future market demand.

In response to the ever-changing market demands, Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively the "Group") will, on the one hand, proactively cater to the product demand of existing clients and offer better services. On the other hand, the Group will actively solicit new clients, enhance its R&D capacity for product functionality and improvements and lower its production costs to yield brighter gross profit in order to better satisfy customers' needs, thereby maximizing returns to shareholders.

In 2015, the results of the strategic operation of the Group's two major products are as follows:

1. OPERATIONS IN THE ALUMINUM FOIL MARKET

The general economic recovery momentum remained weak in 2015. There were uncertainties looming over the financial market and economy while emerging economies saw a gradual slowdown of economic growth. Deflation has led to sluggish consumption and weak global trading, making consumption market demand for end-products failed to expand significantly. This, together with the capacity expansion of formed foils in recent years, has not only resulted in insufficient sales orders and excessive production capacity, but also a higher unit cost of production, which has in turn suppressed gross profit under such high cost yet low selling price. Facing with such industrial features and the market conditions of excessive demand, the Group has prudently reduced the production capacity on a temporarily basis after assessing the market situations and the future potential supplies, which has helped mitigating the impact of low gross profit through effective energy-savings and reduced consumption. Aluminum foils are the major raw materials of capacitors. The Group has excellent production processing technologies for formed foils and a stable production capacity. Currently, various key technical R&D projects and quality control techniques have been completed. In addition, the Group also actively explored the development potential of markets with high added values in preparation for timely response when the market condition changes in the future. For the future changes in the aluminum foils markets, the Group will continue to pay close attention and deal with them cautiously.

2. OPERATIONS IN THE ELECTROLYTIC CAPACITOR MARKET

With the start of the industrialized 4.0 era, the promotion of 4G network, and emergence of EV (electric vehicles) and its auxiliary electricity charging equipment, future R&D of the mass production of electrolytic capacitors will aim at addressing the demand for applications in variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and vehicle-carried electronic devices. The Group will be committed to addressing the requirements for specific tailor-made products, including compact size, high capacity, high voltage and high frequency, thereby gradually developing tailor-made products that are able to meet the front-end demand of the market and can be applied to different fields, such as server, photovoltaic, smart meter, rail transport, space industry, automobile, etc.. This may in turn promotes the application of electrolytic capacitors in various aspects in the market and expand the global market share of its electrolytic capacitor products.

- We have ensured stable sales growth of inverter air-conditioners, which has helped to enhance the production value of capacitor application (such as inverter washing machines and refrigerators), thereby consolidating our shares in the market of household electronic appliance with variable frequency.

- We kept abreast of the market development of quick cell phone chargers and worked intensively on the development of capacitor products with compact size. For instance, we have commenced mass production for 470μF/16V φ6.3*12mm products and has recently developed and commenced mass production for 470μF/16V φ5*9mm (10mm max) products. These have further reduced the size of our products, which will be able to meet customers' requirement and boost product sales in the market.

- We have comprehensively enhanced the level of automatic intelligent inspection for production equipment and established a dedicated production technology team to upgrade and install automatic inspection function for our equipment, with an aim to reduce manual processes through automatic production and increase the pass rate.

- In response to the development trend of the new energy market in China, we strived to step up our efforts in both development and marketing promotion of the application of our electricity charging equipment for EV (electric vehicles). Leveraging the outstanding performance of our products, engineering professional services have been put into application. In order to meet our major customers' sample requirements (550WV), we have successfully developed Snap-in vehicle-carried high voltage capacitor, delivered samples successfully and entered testing stage. They will be introduced to the new energy automobile market in China in the future.

- We will further the development and expand the market of electricity charging equipment for automobiles to high-end application fields, such as new energy, vehicle-carried, vehicle control, etc.. On the other hand, customized capacitor products for vehicles with features of long life (500WV, 550WV, 125°C, 10000H) have maintained their technological edges and thus increased the room for profits, and in turn maintained the Company's competitive position among its peers.

As observed in the development of end-product markets and the operating strategies of parts and components suppliers, the development trends of the global passive components industry in 2016 are focusing on: ① the conformity with the specifications of miniaturization, high capacity, high voltage, high frequency; ② betterment of the product distribution placement in emerging sectors such as non-3C application markets; ③ the trend of modularization of parts and components which can be applied in different industries as a result of systematic consolidation between passive components and heterogeneous products and ④ strategic mergers of manufacturers which can complement each other in terms of technologies and bring along synergic effects on customer base and results, and eventually enhance the competitiveness. In the fact of the impacts arising from the meteoric rise of China's supply chains, Taiwanese enterprises are facing the risk of price competition and market seizure by its competitors. The key for Taiwanese enterprises to upgrade themselves to fit in the industry with high values and strong competitiveness is the ability to offer assistance to lower the difficulty of customers' product designs and at the same time provide parts and components products with high added values. In view of this, Taiwanese enterprises can take a chance at cross-platform product consolidation among heterogeneous product industries, cooperate to carry out modularized development or even consider strategic alliances or mergers. By coordinating and complementing with each other in the aspect of technologies and customer bases, corresponding industries in which the Taiwanese enterprises operate shall receive substantial benefits in terms of their future trends and sustainable development.

The Group will capitalize on the collective wisdom of its management team more effectively, leverage on its strengths and innovations, keep up with our achievements and consolidate its business foundation and competitive edges. Meanwhile, the Group will also make every endeavor to become an international market supplier by combining the competitive edges of its operations in mainland China, Hong Kong and Taiwan with a view to maximizing investment returns for the Company's shareholders as a whole.

LIN Chin Tsun
Chairman

Hong Kong, 29 March 2016

Management Discussion and Analysis

FINANCIAL REVIEW

A summary of the financial results of the Group for the year ended 31 December 2015 (the "Year") is as follows:

- Revenue decreased by approximately 14.20% to approximately RMB849,118,000.
- Gross profit decreased by approximately 11.34% to approximately RMB191,954,000.
- Profit for the Year attributable to owners of the Company amounted to approximately RMB3,780,000 (for the year ended 31 December 2014: loss of RMB138,918,000).

During the financial year under review, the Group's revenue was approximately RMB849,118,000, representing a decrease of approximately 14.20% over the same period last year. Sales of aluminum electrolytic capacitors for the Year were approximately RMB803,615,000, representing a decrease of approximately 10.35% as compared to that of RMB896,354,000 in the same period last year. In addition to a slow market performance with an estimated general economic growth of approximately 2.4% in 2015, weak market demand for electronic parts and components, and a continued sluggish market sentiment and trade weakness in the Asian regions, contributed to the decline of our Group's sales performance of electrolytic capacitors, as our operations are primarily related to manufacturers in Mainland China and other Asian customers. The sales of aluminum foils for the Year were approximately RMB45,503,000, representing a decrease of approximately 51.21% as compared to that of RMB93,271,000 in the same period last year. The decrease was mainly due to excessive supply in the aluminum foil market as a result of the persistent weak recovery of the overall economy, and the more competitive selling prices of aluminum foils produced by Japanese manufacturers under the depreciation of Japanese Yen. As a result, the sales of aluminum foils did not meet our expectations. Whilst the Group's revenue for the Year did not increase, our overall cost controls enabled the Group to record an improved gross profit margin of approximately 22.61%, which represented an increase from the gross profit margin of approximately 21.88% for the same period last year.

The loss attributable to owners of the Company of approximately RMB138,918,000 for the year ended 31 December 2014 saw an improvement for the Year, resulting in a profit attributable to owners of the Company of approximately RMB3,780,000. The turnaround was mainly due to the receipt of an arbitral award against the Company's subsidiary in the year ended 31 December 2014 as a result of an arbitration claim filed by a Japanese customer in 2011 against Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), a non-wholly owned subsidiary of the Company, where the Japanese customer claimed for losses incurred from certain allegedly defective electrolytic capacitors supplied by Capxon Taiwan. Pursuant to the arbitral award, Capxon Taiwan was required to compensate the Japanese customer damages in the amount of approximately RMB174,531,000 for which provision was made in the consolidated statement of profit or loss and other comprehensive income for the previous year. During the Year, save for the provision of interest related to the deferred payment of damages in the amount of RMB7,398,000 in the consolidated statement of profit or loss and other comprehensive income, the Group did not make any provision for compensation for material litigation during the Year.

BUSINESS REVIEW

Notwithstanding lumbering recovery of the global economy powered by major economies like the U.S. and Eurozone, the pace of growth of emerging markets fell short of the target and even retreated drastically against the headwinds of falling global commodities prices, the U.S.'s monetary austerity measures and economic reform policies, posing a threat to the outlook of the global economy. Continuously decreasing crude oil prices, low commodities prices and geopolitical conflicts in the Middle East, Russia and Turkey have also impacted negatively upon the global economy. The recovery momentum was weak as a whole with weak trading and slow capital flows. Consumer market demand for end-products and the market demand of upstream raw materials also failed to expand significantly.

➢ **MANUFACTURE AND SALE OF ALUMINUM FOILS**

During the Year, after satisfying internal production demand, the external sales of aluminum foils amounted to approximately RMB45,503,000, representing a decrease of approximately 51.21% as compared to that of approximately RMB93,271,000 for the same period last year. The proportion of aluminum foils in relation to the Group's total external sales decreased from approximately 9.42% for the same period last year to approximately 5.36% for the Year.

The general economic recovery momentum remained weak, and thus failed to drive the market demand for end-products significantly. The weak demand resulted in insufficient sales orders in the face of excessive production capacity for formed foils, which led to higher unit costs of production of aluminum foils, and in turn suppressed gross profit under such high cost yet low selling prices. Faced with such industrial and market conditions, the Group has prudently reduced the production capacity temporarily after assessing the market situation and future potential supplies. The Group also mitigated the impact of low gross profit through effective energy-savings and reduced consumption. Aluminum foils are the main raw materials of capacitors. The Group has excellent production processing technologies for formed foils and a stable production capacity. Currently, the Group has completed various key research and development ("R&D") projects and quality control techniques. On the other hand, the Group is also actively exploring the markets with high added values in response to the market changes in the future. The Group will continue to pay close attention to the future developments within the aluminium foil markets.

➢ MANUFACTURE AND SALE OF CAPACITORS

During the Year, the Group recorded external sales of aluminum electrolytic capacitors of approximately RMB803,615,000, representing approximately 94.64% of the Group's total external sales and an increase of approximately 4.06% from approximately 90.58% for the same period last year.

Since 2015, the growth momentum of passive components has been derived from non-3C applications, such as automobile electronics, netcom equipment, LED lightings, and application of automatic industrial production equipment. In light of the changes in end-application fields, the Group continues to advance the R&D and the manufacturing technology of its capacitors, offering a series of aluminum electrolytic capacitors with the features such as long life, high capacitance, low impedance, energy-saving, high temperature resistance and high voltage tolerance.

➢ To meet the customers' requirements of quick cell phone chargers for their major models, we successfully developed ultra-thin solid-state cell phone chargers (PX series 470μF/16V, φ5*9mm); and successfully delivered samples and entered mass production stage.

➢ We have developed the 16V SMD products for servers, this kind of products is dominated by Japanese suppliers. In response to the demand for new models from customers, we successfully developed PM series 180μF/16V, φ6.3*5.8mm, PM series 82μF/16V, φ5*5.8mm and PM series 120μF/20V, φ6.3*5.8mm; and successfully delivered samples and entered mass production stage.

➢ We kept abreast of the trend of all-solid-state power supply and developed alternating/direct current inputs with solid-state high-voltage 400V capacitors, researched and developed high pressure conducting polymers in order to cater for the product needs of high voltage capacitors.

➢ In light of the product solution regarding ultra-thin cell phone chargers with high compressive strength, we have developed the KM series 4.7μF/400V,φ8*11.5mm and put it into mass production to cater to customer-end demands. To meet the Korean customers' sample requirements (450V~500V), we successfully developed relevant products and entered mass production stage. In addition, we entered low-volume production stage in the PRC market.

➢ In response to the demand for long life and high voltage of SMD products from clients, we have designed and developed 400V~450V capacitors specifically for high-end TV inputs with high reliability and long life.

➢ To meet the demand for the miniaturization of advanced mother boards and intelligent home appliances, we conducted R&D into miniaturized SMD solid state products such as 180μF/16V, with the dimension reduced from the original φ6.3*7.7mm to φ6.3*5.8mm, and the product launch was promoted. Currently, the properties of the product are similar to those produced by Japanese manufacturers.

- In response to the demand for improved product appearance from mother board clients, the Company and the upstream supplier jointly developed aluminum cases in the black and gold colours, and were put into mass production.

- We have developed vehicle-mounted capacitors of 550V and expanded the mass production of various vehicle-mounted capacitors, including SMD, Radial and Snap-in.

- To meet the demand for high power sources and adapters, we expanded the highest capacity of 16V and 25V from 1000μF to 1500μF and from 560μF to 820μF respectively, with the largest dimension of φ10×12.5mm remaining unchanged.

- The design and R&D of high voltage conductive polymers 400V products are underway.

- Electricity charging equipment with high temperature resistance and long life span has been successfully developed and introduced to the market with mass production.

- We have made a breakthrough in the life span of 450V 85℃ screw type products, capable of lasting more than 10,000 hours, with a ripple-current resistance 1.4 times higher than that of the RP series. We intend to launch screw type capacitors with a high ripple-current resistance, long life span and high voltage of 500V or above in 2016.

- We have established a laboratory for the R&D of frequency variation, electricity charging equipment and quality assurance.

LIQUIDITY AND FINANCIAL RESOURCES

➢ CASH FLOWS

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

During the Year, the Group had a total net cash outflow of approximately RMB15,034,000 from operating, investing and financing activities before foreign exchange adjustment, the details of which are set out below:

Net cash inflow from operating activities was approximately RMB139,535,000, which was mainly due to the profit before tax for the Year of approximately RMB14,247,000 together with the changes in the flow of funds as a result of the adjustments for finance costs and depreciation, etc., and the movements in inventories, accounts receivable, and accounts payable, etc.

Net cash outflow from investing activities was approximately RMB17,517,000, which was mainly due to the payment of approximately RMB34,495,000 for the purchase of machinery and equipment, and a net decrease of approximately RMB11,376,000 in secured bank deposits.

Net cash outflow from financing activities was approximately RMB137,052,000, which was mainly due to borrowings of approximately RMB394,717,000 from the banks, repayment of the bank borrowings of approximately RMB519,233,000, interest payment of approximately RMB9,573,000 for the borrowings, and repayment to related parties of approximately RMB8,544,000.

As at 31 December 2015, the Group had cash and cash equivalents of approximately RMB93,782,000 (31 December 2014: RMB108,163,000), which were mainly denominated in Renminbi and US dollars.

➢ **BORROWINGS**

As at 31 December 2015, the Group had bank borrowings of approximately RMB158,052,000 (31 December 2014: RMB278,056,000), which were mainly denominated in Renminbi, US dollars and New Taiwan dollars. Among these bank borrowings, approximately RMB80,061,000 (31 December 2014: RMB208,800,000) were subject to fixed interest rates. Below is an analysis of the repayment profile of the bank borrowings:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Within one year or on demand	**158,052**	278,056

PLEDGE OF ASSETS

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

	31 December 2015 RMB'000	31 December 2014 RMB'000
Bank deposits	**6,730**	18,106
Land use rights	**14,239**	21,747
Property, plant and equipment	**99,048**	153,064
	120,017	192,917

FINANCIAL RATIOS

As at 31 December 2015, the Group's gearing ratio (net debts divided by equity attributable to owners of the Company plus net debts) amounted to approximately 25.87%, representing a decrease of approximately 9.10% as compared to 34.97% as at 31 December 2014. The decrease was mainly due to a decrease in bank borrowings of approximately RMB120,004,000.

Below are 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	
	2015	2014
Inventory turnover	**85 days**	78 days
Trade and bills receivable turnover	**130 days**	136 days
Trade and bills payable turnover	**67 days**	75 days

The Group's turnover days of inventories increased by about 7 days, and both turnover days of trade and bills receivable and turnover days of trade and bills payable decreased by about 6 days and 8 days, respectively, as compared to those for the same period last year. The Group will continue to improve on the management of its inventories, trade receivable and trade payable in order to better utilize the available funds.

CAPITAL COMMITMENTS

As at 31 December 2015, the Group had capital commitments contracted but not provided for amounting to approximately RMB35,975,000 (31 December 2014: RMB28,921,000).

MATERIAL PROCEEDINGS

(a) During the year ended 31 December 2011, a customer filed an arbitration claim against Capxon Taiwan with The Japan Commercial Arbitration Association (the "Arbitration Association") in Japan, claiming damages of JPY1,412,106,000 (equivalent to approximately RMB76,113,000 (2014: RMB72,300,000)) allegedly suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum, and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (equivalent to approximately RMB3,234,000 (2014: RMB3,072,000) for damages, plus interest from 17 November 2011 up to the settlement date at 6% per annum, and all arbitration related expenses.

In August 2014, Capxon Taiwan received the arbitral award from the Arbitration Association which required Capxon Taiwan to compensate the customer damages in an aggregate sum of:

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB130,927,000 (2014: RMB124,272,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB70,770,000 (2014: RMB67,173,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB50,833,000 (2014: RMB48,249,000)) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB9,324,000 (2014: RMB8,850,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,274,000 (2014: RMB1,209,000).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. The directors of the Company (the "Directors") lodged an appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. The final decision of the appeal has not been reached by the Tokyo High Court as at the date of this report. The Directors believe that the Group has sufficient grounds to the appeal. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage. Therefore, an aggregate amount of JPY3,074,519,231 (2014: JPY2,928,888,032), equivalent to approximately RMB165,845,000 (2014: RMB150,169,000), was accrued and included in trade and other payables as at 31 December 2015 as a result of the initial arbitral award.

(b) During the year ended 31 December 2011, a customer filed a civil complaint to the People's Court of Shenzhen in the People's Republic of China (the "PRC") against a subsidiary of the Company, Capxon Electronic (Shenzhen) Co., Ltd. (豐賓電子(深圳)有限公司) ("Capxon Shenzhen"), alleging product defects and claiming a sum of RMB12,877,000 in damages. In December 2014, the court ruled that the complainant had failed to provide sufficient evidence and accordingly the court ruled in favour of Capxon Shenzhen. The customer subsequently filed an appeal against the court's decision. As at the date of this report, the parties are still awaiting the court's deliberation on the matter. The directors of the Company believe that the probability of the court overturning its decision is highly unlikely, and has thus made no provision for any potential liability in the consolidated financial statements.

FOREIGN EXCHANGE FLUCTUATIONS

The Group receives its revenue from operations principally in US dollars and Renminbi, whilst its 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, where there is a relatively large fluctuation in Renminbi, the Group will still be indirectly affected.

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

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

As at 31 December 2015, the Group had approximately 2,322 employees in total. Salary, bonus and fringe benefits were determined with reference to the prevailing market terms and the individual employee's performance, qualification and experience. Employees are the backbone of an enterprise. The Group highly values loyal and diligent employees, and provides its employees with on-the-job education and training as well as subsidies on tourism and travelling expenses for home visits. In addition, the Group adopts non-discriminatory hiring and employment practices and strives to provide a safe and healthy workplace. Employees' cost (including directors' emoluments) amounted to approximately RMB183,190,000 for the Year (for the year ended 31 December 2014: RMB185,073,000).

Good customer relationships are fundamental to our operations. The Group maintains close relationships with its customers in order to foster a satisfactory and balanced demand and supply.

The Group does not have any major suppliers that materially affect its operation, and has always maintained a fair and excellent cooperative relationship with its suppliers.

ENVIRONMENTAL POLICIES

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 regulates the standards of the raw materials and production process used in electronic products. As far as the examination of the composition of raw materials and the overall production process are concerned, the Group has installed the relevant equipment and apparatuses to support quality control management. During the Year, the Group also introduced ICP-OES spectrometer to conduct material analysis and testing so as to ensure compliance with the requirements of the RoHS. In addition, in full compliance with the SVHC (Substances of Very High Concern) and halogen-free regulations, the Group has procured a green production environment and shouldered environmental protection responsibilities, thereby winning the trustworthiness of its clients and creating new opportunities for green business.

In addition, the Group utilised resources and reduced wastes in an effective way by adopting measures for recycling, application of eco-friendly stationeries and energy saving.

REGULATORY COMPLIANCE

To the best knowledge of the Company, it has complied, in all material aspects, with the relevant laws and regulations which have significant impact on the Group's business and operation during the Year.

FUTURE STRATEGY AND PLANNING

Starting from 2015, the growth momentum of the overall capacitor market has turned to being dependent upon the low-volume high-priced niche markets for non-3C application industries, such as automobile electronics, high level household electronic appliances, safety control system, industrial equipment, renewable energy resources equipment, network products and LED lightings. Looking forward, the passive components will continue its market trend in the evolvement of a niche market primarily oriented with tailor-made and modularized products featuring miniaturization, high frequency, high capacity, high voltage, durability and high resistance to heat. It is expected that the output value of global passive components will continue to see positive growth in 2016. In view of the uncertain and ever-changing external economic circumstances and the potential development of the industrial market, the Group will adhere to its inherent operating strategy of researching and developing advanced and sophisticated production process and strictly managing quality control, implementing source management and endeavoring to reduce costs, as well as effectively ensuring profitability with economies of scale and attempting to adopt the supply model for the cross-industry integration to enhance its competitive edges in the market.

- Human resources: Streamline labour requirements by controlling overtime man-hours with operational targets and minimize labour costs by managing the number of hours with the actual operation rate. Automatic corner processing equipment has been introduced under the Snap-in production line plan to save manpower and enhance efficiency.

- Production equipment: Increase production lines for conductive polymers to expand production capacity, and set up automated equipment for semi-conductive polymers which will be put to trial run.

- Material costs: Consolidate various types of materials, reduce part numbers and specification, and cut inventory backlog, procurement costs and slow-moving materials. As for conductive polymers, the induced rate has been raised while the voltage forming ratio has been lowered, with an effective reduction of material usage.

- ➢ Material development: Develop SMD production line by using titanium foils as the cathode foil to maximize capacitance and satisfy the customized requirements of miniaturized and high-proportion capacitance.

- ➢ Establishment of laboratory verification: Strengthen communications regarding applications at customer end and promptly understand the development dynamics of products. Establish state-of-the-art electronic application laboratory to simulate product applications at end customers, foresee the potential failure of capacitor performance and the reasons thereof, in order to uplift the quality of capacitors for better customer satisfaction.

- ➢ Technical reform:
  - **Oriented by application-led development:** Leveraging upon our advantages in the R&D of application technology, the Company aims to develop, using inhouse capability, packages similar to that of end customers for testing and verifying the actual environment for applications (e.g. high-speed charging and discharging packages, variable-frequency wave electric current sources, etc.), to swiftly grasp the actual requirements for capacitors, which is an active approach to guiding customers in their choices for suitable capacitors rather than the original passive approach in which customers choose their own capacitors. This strategy has been used in various application areas including industrial frequency variations, frequency variations in air-conditioners and washing machines, electricity sources at stations, photovoltaic energy sources, automobile electronics.
  - **Project development and promotion:** During the Year, the Group primarily launched two projects: 1. Variable-frequency capacitors, varying from basic raw materials (e.g. aluminum foil craftsmanship, electrolyte formula, etc.) to specialty formulations and specialty series (e.g. UJ/UB/UC/UD/UK/UL series, etc.), to make use of its ability in the R&D of applications and development of capacitor series, and to uplift our position in the market supply of variable-frequency capacitor applications. 2. Automobile electronics: Currently, the Group has made progress in the applications and market supply of automobile electronics in mainland China. During the Year, the Group has established dedicated workshops for automobile electronics to be operated by dedicated staff members who are responsible for technology, quality assurance and R&D, so that the Group's vehicle-mounted electronics and electrolytic capacitors can become better and more sophisticated, the Group's R&D of applications in relevant areas can become stronger, and the overall quality of our capacitor products can become more stable by means of technological upgrade.
  - **Breakthrough in the development of basic materials:** 1. The uplift in the high ratio capacitors for formed foils, so as to consolidate the Group's leading position in its capacity production technology by means of material R&D. 2. Development of highly reliable specialty capacitors and electrolytes: self-enhancement of GBL electrolytes for promoting the development of research of vehicle-mounted electronic applications. The development and application of variable-frequency capacitors and electrolytes can ensure that variable-frequency capacitors can stand at the frontier of industrial development.
  - **Super capacitor:** The Group strategically plans for the technological support from researches conducted by colleges and the introduction of the development and production of farad capacitors, in order to address the needs for high-speed charging given the long stand-by time required by modern-day mobile electronic devices.

FUTURE PROSPECTS

Pursuing sustainable operations and sharing profit with shareholders of the Company have always been the goals of the Group. In the future, the Group will persistently focus on the existing industry, innovative R&D, and strive for excellence. The Group will effectively control costs and enhance manufacturing efficiency, in order to maintain its competitiveness in the industry. With technological advancement and product innovation, the Group will serve and maintain a stable relationship with its existing customers. The Group will put forth effort to develop an industry-integrated production and marketing model, proactively explore new markets to meet mass production planning, overcome the challenges of economies of scale as well as stabilize the value and revenue from the industry, in order to reward the Company's shareholders for their support with profits.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Lin Chin Tsun (林金村), aged 67, 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. 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 on 15 April 2007. Mr. Lin is the chairman of the nomination committee of the Company and a member of the Company's remuneration committee.

Ms. Chou Chiu Yueh (周秋月), aged 63, is an executive Director and the vice-president of the Group and is responsible for the management, strategic planning and major decision making in Taiwan market. Ms. Chou is also a director of various subsidiaries of the Company. Ms. Chou is the spouse of Mr. Lin Chin Tsun. She joined Capxon Taiwan in June 1980 and has been the director of Capxon Taiwan since then. Ms. Chou was appointed as an executive Director on 15 April 2007. Ms. Chou is a member of the Company's nomination committee and remuneration committee.

Mr. Lin Yuan Yu (林元瑜), aged 39, is an executive Director 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 and the spouse of Ms. Liu Fang Chun. 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; he has also acted as the general manager of the Taiwan branch of the Company's subsidiary Capxon Technology Limited since 1 October 2015. Mr. Lin was appointed as an executive Director on 15 April 2007.

Ms. Lin I Chu (林薏竹), aged 36, is an executive Director 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 on 15 April 2007 and was re-designated as an executive Director on 1 September 2011.

NON-EXECUTIVE DIRECTOR

Ms. Liu Fang Chun (劉芳均), aged 36, is a non-executive Director. 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 on 15 April 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lai Chung Ching (賴崇慶), aged 80, 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 and a member of the executive committee of Taipei CPA Association (台北市會計師公會). Mr. Lai was appointed as an independent non-executive Director on 15 April 2007. Mr. Lai is the chairman of the audit committee and remuneration committee of the Company and a member of the Company's nomination committee.

Mr. Lu Hong Te (呂鴻德), aged 55, 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 once 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) and 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. From 2004 to the end of 2015, Mr. Lu acted 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 addition, Mr. Lu is an independent director of Uni-President Enterprises Corp. (1216) (統一企業股份有限公司) (appointed on 26 June 2015), 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 these companies 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. On 1 January 2014, Mr. Lu ceased to be an independent director of the Taiwan-listed company AIPTEK International Inc. (6225) (天瀚科技股份有限公司) upon expiry of his term of appointment. Mr. Lu was appointed as an independent non-executive Director on 15 April 2007. Mr. Lu is a member of the Company's audit committee, nomination committee and remuneration committee.

Mr. Tung Chin Chuan (董清銓), aged 63, 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 once the manager of Hewlett-Packard Development Company, L.P. (惠普科技股份有限公司), the vice-general manager and a supervisor of Behavior Tech Computer Corporation (英群企業股份有限公司), the general manager and director of Chaintech Technology Corporation (承啟科技股份有限公司) (formerly known as Walton Chaintech Corporation (華東承啟科技股份有限公司)) and the general manager of Premier Capital Management Corporation (首席財務管理顧問股份有限公司). Currently, Mr. Tung is an independent director of Tai Tien Electronics Co., Ltd. (泰藝電子股份有限公司) and a supervisor of Ruby Tech Corporation (德勝科技股份有限公司), both companies' shares are listed on Gre Tai Securities Market in Taiwan; he is also a supervisor of ACTi Corporation (建騰創達科技股份有限公司) which is a public limited company in Taiwan and a consultant of Premier Capital Management Corporation (首席財務管理顧問股份有限公司). Mr. Tung was appointed as an independent non-executive Director on 15 April 2007. Mr. Tung is a member of the Company's audit committee, nomination committee and remuneration committee.

SENIOR MANAGEMENT

Ms. Lee Feng Mei (李鳳美), aged 43, is the head of foreign sales department. 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 55, is the chief financial officer of the Group and the chief of finance operations in Taiwan. Ms. Hu obtained a bachelor's degree in corporate management from the Private Chinese Culture University (中國文化大學) and a master's degree in business administration from the National Chengchi University (國立政治大學). 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 46, is the chief of research and development and the deputy general manager in 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.

Ms. Chan Yin Fung (陳燕鳳), aged 44, 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 corporate values of the Group 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.

The Company has complied with the applicable code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the Year, save as disclosed below:

(i) Code provision A.6.7 of the CG Code stipulates that independent non-executive directors should also attend general meetings. Mr. Lu Hong Te, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 29 May 2015 due to personal reason.

(ii) Code provision F.1.3 of the CG Code stipulates that the company secretary should report to the board chairman and/or chief executive. The company secretary of the Company reported to the chief financial officer instead of the board chairman and/or the chief executive. As the company secretary also involves in handling financial reporting matters of the Group, it will simplify the reporting process if she reports to the chief financial officer who will report to the board chairman on the Group's financial affairs and corporate governance.

The following outlines how the Company has adopted and complied with the CG Code 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 of 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.

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 (including gender, ethnicity, age, length of service) during the Year and up to the date of this annual report, by category of Directors:

		Gender	Ethnicity	Age	Length of service
Executive Directors:					
Mr. LIN Chin Tsun	*(Chairman and President)*	Male	Chinese	67	Approx. 9 years
Ms. CHOU Chiu Yueh	*(Vice-President)*	Female	Chinese	63	Approx. 9 years
Mr. LIN Yuan Yu	*(Chief Executive Officer)*	Male	Chinese	39	Approx. 9 years
Ms. LIN I Chu		Female	Chinese	36	Approx. 9 years
Non-executive Director:					
Ms. LIU Fang Chun		Female	Chinese	36	Approx. 9 years
Independent non-executive Directors:					
Mr. LAI Chung Ching		Male	Chinese	80	Approx. 9 years
Mr. LU Hong Te		Male	Chinese	55	Approx. 9 years
Mr. TUNG Chin Chuan		Male	Chinese	63	Approx. 9 years

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 and 14.

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. 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

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 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, nomination 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 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.

TRAINING FOR DIRECTORS

Pursuant to code provision A.6.5 of the CG Code, listed company directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant. During the Year, all Directors have participated in appropriate continuous professional development activities by ways of attending seminars or reading materials relating to rules and regulatory updates.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the corporate governance duties as set out below:

(i) to develop and review the Company's policies and practices on corporate governance;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code and its disclosure requirements in the Corporate Governance Report.

During the Year, the Board reviewed and revised the terms of reference for the audit committee in compliance with the new requirements of the CG code.

The Board has monitored the training and continuous professional development of Directors, and reviewed the Company's compliance with the code provisions of the CG Code for the Year and the disclosure requirements in this Corporate Governance Report.

C. REMUNERATION COMMITTEE

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; determining the remuneration packages of individual executive Directors and senior management; and making recommendations to the Board on the remuneration of non-executive Directors. In formulating the remuneration policy, the committee takes into consideration factors such as salaries paid by comparable companies, time commitment, employment conditions and responsibilities. The committee can seek independent professional advice to complement its own resources to discharge its duties.

The remuneration committee comprises two executive Directors, namely Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh, and all the independent non-executive Directors. Mr. Lai Chung Ching is the chairman of the committee.

During the Year, two meetings were held by the remuneration committee to discuss remuneration related matters which included salary review of the chief executive officer and senior management, approval of bonus payments to senior management and a Director, and making recommendation to the Board regarding salary increment of the independent non-executive Directors. 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.

The remuneration of members of senior management (excluding Directors) for the Year all fell within the band of HK$Nil to HK$1,000,000.

Details of the emoluments of each Director, on a named basis, are set out in note 11 to the consolidated financial statements.

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. The committee reviewed, together with the management and the external auditor, the consolidated financial statements for the year ended 31 December 2014 and for the six months ended 30 June 2015, the accounting principles and practices adopted by the Group and statutory compliance. In addition to reviewing the Group's risk management and internal control systems, 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 COMMITTEE

The Board established the nomination committee on 1 April 2012 pursuant to a resolution of the Directors passed on 29 March 2012 with specific written terms of reference which deal clearly with its authority and responsibilities. The committee is primarily responsible for formulating nomination policy for the Board's consideration and implement the Board's approved nomination policy; reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive Directors; and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

The nomination 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.

One meeting was held by the nomination committee during the Year. During the meeting, the committee reviewed the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board; evaluated the performance and the contribution of each of the retiring Directors standing for re-election at the annual general meeting; and assessed the independence of the independent non-executive Director to be re-elected at the annual general meeting. Details of attendance of nomination committee meetings of each of the members of the nomination committee are set out in "Attendance of Individual Directors at Meetings" below.

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The board diversity policy adopted by the Board during the year 2013 (the "Board Diversity Policy") has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

The Board considers that the diversity of the existing Board is sufficient. The nomination committee will review the Board Diversity Policy, as appropriate, to ensure the effectiveness of the Board Diversity Policy and recommend any revisions that may be required to the Board for consideration and approval.

All new appointments and re-appointments to the Board are considered by the nomination committee 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

During the Year, the Company's auditor Deloitte Touche Tohmatsu rendered audit services and certain non-audit services to the Group, and the remuneration paid/payable to it by the Group is set out as follows:

	RMB'000
Audit services	1,180
Non-audit services	798
	1,978

The non-audit services provided by Deloitte Touche Tohmatsu mainly included review of the Group's financial statements for the six months ended 30 June 2015, provision of taxation services and submission of declaration of investments in mainland China on behalf of the Company's Taiwan subsidiary to the authority.

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 2016.

G. ATTENDANCE OF INDIVIDUAL DIRECTORS AT MEETINGS

The attendance of individual Directors at meetings of the Board and the Board committees as well as at general meeting is set out in the table below:

	Meetings attended/Meetings held in 2015				
Name of Director	**Board**	**Remuneration Committee**	**Audit Committee**	**Nomination Committee**	**Annual General Meeting**
Mr. LIN Chin Tsun	4/4	2/2	N/A	1/1	1/1
Ms. CHOU Chiu Yueh	4/4	2/2	N/A	1/1	1/1
Mr. LIN Yuan Yu	3/4	N/A	N/A	N/A	1/1
Ms. LIN I Chu	3/4	N/A	N/A	N/A	1/1
Ms. LIU Fang Chun	3/4	N/A	N/A	N/A	1/1
Mr. LAI Chung Ching	4/4	2/2	3/3	1/1	1/1
Mr. LU Hong Te	3/4	1/2	3/3	1/1	0/1
Mr. TUNG Chin Chuan	3/4	2/2	2/3	1/1	1/1

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 28 and 29.

I. SHAREHOLDERS' RIGHTS

Set out below are procedures for shareholders of the Company to (i) convene an extraordinary general meeting; (ii) put enquiries to the Board; and (iii) put forward proposals at shareholders' meetings. These procedures are generally governed by the Company's Articles of Association and applicable laws, rules and regulations, which prevail over the below information in case of any inconsistencies.

(i) Procedures for Shareholders of the Company to Convene an Extraordinary General Meeting

Pursuant to Article 58 of the Articles of Association of the Company, any one or more shareholder(s) of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting ("EGM") to be called by the Board for the transaction of any business specified in such requisition.

The requisition must specify the business to be transacted at the EGM and be signed by the requisitionist(s), which shall be deposited at the head office of the Company in Hong Kong (Room 1702, 17th Floor, OfficePlus@Wan Chai, No.303 Hennessy Road, Wanchai, Hong Kong) or at the Company's Hong Kong branch share registrar (Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong). The signature(s) of the requisitionist(s) will be verified by the Company's share registrar or branch share registrar (where applicable).

On the condition that the requisition from requisitionist(s) is proper and in order, the Board shall hold the EGM within two months after the deposit of such requisition. In the event that the Board fails to convene the EGM within twenty-one days of such deposit, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

(ii) Procedures for Putting Enquiries to the Board

Shareholders and other stakeholders of the Company may send their enquires and concerns to the head office of the Company in Hong Kong (Room 1702, 17th Floor, OfficePlus@Wan Chai, No.303 Hennessy Road, Wanchai, Hong Kong) for the attention of the company secretary of the Company who will forward them to the chairman of the Board for handling.

(iii) Procedures for Shareholders of the Company to Put Forward Proposals at Shareholders' Meetings

Shareholders of the Company can follow Article 58 of the Articles of Association for including a resolution under valid requisition of an EGM. Details are set out in "Procedures for Shareholders of the Company to Convene an Extraordinary General Meeting" above.

Pursuant to Article 88 of the Articles of Association of the Company, in the event that a general meeting is to be held for the purpose of electing a Director, if a shareholder of the Company (other than the person to be proposed as a Director) who is qualified to attend and vote at that general meeting wishes to propose a person other than a retiring Director for election as a Director at that general meeting, he/she can deposit a signed written notice (the "Written Notice") of his/her intention to propose such person as a Director together with a notice signed by the person to be proposed of his/her willingness to be elected at the head office of the Company in Hong Kong (Room 1702, 17th Floor, OfficePlus@Wan Chai, No.303 Hennessy Road, Wanchai, Hong Kong) or at the Company's Hong Kong branch share registrar (Tricor Investor Services Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong). The minimum length of the period, during which the Written Notice is given, shall be at least seven days and that (if the Written Notice is submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of the Written Notice shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

In order for the Company to inform its shareholders of the proposed nomination for election, the Written Notice must state the full name of the person proposed for election as a Director, including the person's biographical details as required by rule 13.51(2) of the Listing Rules.

J. INTERNAL CONTROLS

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

During the Year, the Board appointed an external consultant SHINEWING Risk 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. 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.

K. INVESTOR RELATIONS

There was no change in the Company's constitutional documents during the Year.

Directors' Report

The Directors present their annual report together with the audited consolidated financial statements for the Year.

PRINCIPAL ACTIVITIES

The Company is an investment holding company, and has engaged in trading of capacitors since 1 January 2013 which was ceased during the Year. Principal activities and particulars of the Company's subsidiaries are set out in note 36 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.

BUSINESS REVIEW

The business review of the Group for the Year as required under Schedule 5 to the Companies Ordinance (Cap. 622 of the laws of Hong Kong) can be found in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 3 to 5 and pages 6 to 12 respectively of this annual report, and in note 29 to the consolidated financial statements. These discussions form part of this Directors' Report.

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 15.60% and 42.34%, respectively.

None of the Directors, their close 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 are set out in the consolidated statement of profit or loss and other comprehensive income on page 30.

The Board does not recommend the payment of a final dividend for the Year.

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 borrowings are set out in note 23 to the consolidated financial statements.

PENSION SCHEMES

Details of the pension schemes are set out in note 25 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 27 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 page 33.

As at 31 December 2015, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB399,041,000 (31 December 2014: RMB414,858,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 84.

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

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 Chin Tsun, Ms. Chou Chiu Yueh and Ms. Lin I Chu 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/CHIEF EXECUTIVES

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules, the changes of information of Directors/chief executives subsequent to the publication of the interim report of the Company for the six months ended 30 June 2015 are as follows:

Mr. Lin Yuan Yu has acted as the general manager of the Taiwan branch of the Company's subsidiary Capxon Technology Limited since 1 October 2015. Also, the Company's remuneration committee approved the annual salary increment of Mr. Lin Yuan Yu from HKD1,200,000 and NTD1,800,000 to HKD1,200,000 and NTD2,400,000 with effect from 1 January 2016.

Moreover, Mr. Lu Hong Te ceased to act 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) since the end of 2015.

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.

PERMITTED INDEMNITY PROVISION

The Articles of Association of the Company provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

A directors' liability insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 32 to the consolidated financial statements, no transaction, arrangement or contract of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with 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 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.

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 32 to the consolidated financial statements. The related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under 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 out 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 2016**

   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.

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

As at 31 December 2015, 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	Total interest (a) and approximate percentage of shareholding (b)(1) (a)	(b)
Mr. LIN Chin Tsun	Beneficial owner	101,657,378	564,973,947	66.90
	Interest of controlled corporations	395,360,783(2)		
	Interest of spouse	67,955,786		
Ms. CHOU Chiu Yueh	Beneficial owner	67,955,786	564,973,947	66.90
	Interest of controlled corporations	395,360,783(2)		
	Interest of spouse	101,657,378		
Mr. LIN Yuan Yu	Beneficial owner	13,161,622	394,675,621	46.73
	Interest of controlled corporation	374,585,006(3)		
	Interest of spouse	6,928,993		
Ms. LIN I Chu	Beneficial owner	9,429,777	384,014,783	45.47
	Interest of controlled corporation	374,585,006(3)		
Ms. LIU Fang Chun	Beneficial owner	6,928,993	394,675,621	46.73
	Interest of spouse	387,746,628		
Ms. HU Szu Jung, Carol	Beneficial owner	243,991	243,991	0.03

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 2015.

(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.

Save as disclosed above, as at 31 December 2015, 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 2015, 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 2015.

Save as disclosed above, the Directors are not aware of any other persons who, as at 31 December 2015, 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 prevailing market terms and individual employee's performance, qualifications and experience.

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 Share Option Scheme to provide incentive to the directors and eligible employees of the Group, details of the said scheme 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.

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.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the audited consolidated financial statements of the Group for the Year.

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, as at the date of this report, the Company has maintained the sufficient public float as required under the Listing Rules.

AUDITOR

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 2016

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 30 to 83, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and 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 applicable disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation 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 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 financial position of the Group as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the applicable disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to note 33(a) to the consolidated financial statements which explains that included in trade and other payables as at 31 December 2015, an aggregate amount of approximately RMB165,845,000 (2014: RMB150,169,000) was provided, in respect of damages, interest, arbitration and appeal related expenses as a result of an arbitral award against the Group's subsidiary in Taiwan received in August 2014. As further stated in note 33(a) to the consolidated financial statements, the Group filed a petition to the Tokyo District Court for the annulment of the arbitral award in October 2014. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of the Group and upheld the original decision regarding the arbitral award. In February 2016, the Group has filed an appeal to the Tokyo High Court for the annulment of the arbitral award. The final decision of the appeal has not been reached by the Tokyo High Court up to the date of this report. The eventual success or otherwise of the appeal may have a material effect on the provision amount already included in trade and other payables as at 31 December 2015. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
Revenue	5	**849,118**	989,625
Cost of sales		**(657,164)**	(773,119)
Gross profit		**191,954**	216,506
Other income	6A	**12,470**	10,540
Other gains and losses	7	**(5,993)**	(2,646)
Distribution and selling costs		**(55,637)**	(62,203)
Administrative expenses		**(81,746)**	(83,972)
Other expenses	6B	**(29,830)**	(24,396)
Provision for damages	33(a)	**(7,398)**	(174,531)
Finance costs	8	**(9,573)**	(16,338)
Profit (loss) before tax		**14,247**	(137,040)
Income tax expense	9	**(11,206)**	(6,987)
Profit (loss) for the year	10	**3,041**	(144,027)
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		**1,677**	(262)
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation		**(10,185)**	5,199
Other comprehensive (expense) income for the year		**(8,508)**	4,937
Total comprehensive expense for the year		**(5,467)**	(139,090)
Profit (loss) for the year attributable to:			
Owners of the Company		**3,780**	(138,918)
Non-controlling interests		**(739)**	(5,109)
		3,041	(144,027)
Total comprehensive expense attributable to:			
Owners of the Company		**(5,174)**	(134,256)
Non-controlling interests		**(293)**	(4,834)
		(5,467)	(139,090)
Earnings (loss) per share (RMB cents)	13		
– Basic		**0.45**	(16.45)

Consolidated Statement of Financial Position

At 31 December 2015

	NOTES	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**499,603**	549,649
Land use rights	15	**39,453**	40,503
Intangible assets	16	**382**	2,074
Deferred tax assets	17	**–**	730
Deposits paid for acquisition of property, plant and equipment		**36,564**	29,620
		576,002	622,576
CURRENT ASSETS			
Inventories	18	**142,069**	164,660
Land use rights	15	**1,031**	1,031
Trade and other receivables	19	**335,737**	372,725
Tax recoverable		**2,107**	1,076
Pledged bank deposits	20	**6,730**	18,106
Bank balances and cash	21	**93,782**	108,163
		581,456	665,761
CURRENT LIABILITIES			
Trade and other payables	22	**318,580**	311,773
Bank borrowings	23	**158,052**	278,056
Amounts due to related parties	24	**4,984**	13,341
Tax liabilities		**10,120**	7,921
		491,736	611,091
NET CURRENT ASSETS		**89,720**	54,670
TOTAL ASSETS LESS CURRENT LIABILITIES		**665,722**	677,246
NON-CURRENT LIABILITIES			
Defined benefit obligations	25	**–**	4,779
Deferred income	26	**23,010**	24,612
Deferred tax liabilities	17	**3,796**	3,472
		26,806	32,863
NET ASSETS		**638,916**	644,383

Consolidated Statement of Financial Position

At 31 December 2015

	NOTE	2015 RMB'000	2014 RMB'000
CAPITAL AND RESERVES			
Share capital	27	**82,244**	82,244
Share premium and reserves		**553,840**	559,014
Equity attributable to owners of the Company		**636,084**	641,258
Non-controlling interests		**2,832**	3,125
TOTAL EQUITY		**638,916**	644,383

The consolidated financial statements on pages 30 to 83 were approved and authorised for issue by the Board of Directors on 29 March 2016 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 2015

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 *(Note i)*	Statutory reserve RMB'000 *(Note ii)*	Translation reserve RMB'000	Other reserve RMB'000 *(Note iii)*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2014	82,244	436,626	(30,753)	96,674	22,091	1,971	164,982	773,835	9,638	783,473
Loss for the year	–	–	–	–	–	–	(138,918)	(138,918)	(5,109)	(144,027)
Other comprehensive income (expense) for the year	–	–	–	–	4,915	–	(253)	4,662	275	4,937
Total comprehensive income (expense)	–	–	–	–	4,915	–	(139,171)	(134,256)	(4,834)	(139,090)
Acquisition on additional interests of subsidiaries	–	–	–	–	–	1,679	–	1,679	(1,679)	–
Appropriation	–	–	–	5,127	–	–	(5,127)	–	–	–
At 31 December 2014	82,244	436,626	(30,753)	101,801	27,006	3,650	20,684	641,258	3,125	644,383
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**3,780**	**3,780**	**(739)**	**3,041**
Other comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(10,573)**	**–**	**1,619**	**(8,954)**	**446**	**(8,508)**
Total comprehensive (expense) income	**–**	**–**	**–**	**–**	**(10,573)**	**–**	**5,399**	**(5,174)**	**(293)**	**(5,467)**
Appropriation	**–**	**–**	**–**	**472**	**–**	**–**	**(472)**	**–**	**–**	**–**
At 31 December 2015	**82,244**	**436,626**	**(30,753)**	**102,273**	**16,433**	**3,650**	**25,611**	**636,084**	**2,832**	**638,916**

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.

(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.

(iii) During the year ended 31 December 2014, the Group accounted for the acquisition on additional interests of subsidiaries as equity transaction and the difference between the carrying amount of non-controlling interests and the fair value of the consideration paid, amounting to RMB1,679,000, was recognised in other reserve.

During the year ended 31 December 2013, the Group accounted for the deemed acquisition on additional interest of a subsidiary as equity transaction and the difference between the carrying amount of non-controlling interests and the fair value of the consideration paid, amounting to RMB1,971,000 was recognised in other reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**14,247**	(137,040)
Adjustments for:		
Amortisation of intangible assets	**1,711**	2,361
Amortisation of land use rights	**1,034**	1,034
Bank interest income	**(1,062)**	(614)
Depreciation of property, plant and equipment	**66,364**	72,765
Finance costs	**9,573**	16,338
Impairment loss on trade receivables	**5,305**	6,646
Impairment loss on other receivables	**556**	–
Impairment loss on property, plant and equipment	**3,500**	1,880
Loss on disposals of property, plant and equipment	**3,335**	14,677
Provision for the defined benefit pension plans	**36**	316
Government grants	**(7,183)**	(2,412)
Reversal of impairment loss on trade receivables	**(4,673)**	–
(Reversal of) write-down of inventories	**(3,780)**	12,649
Provision for damages (net of corresponding foreign exchange loss of RMB8,278,000 (2014: foreign exchange gain RMB24,362,000) arising on retranslation of the related provision at exchange rate prevailing at the end of the reporting period)	**15,676**	150,169
Operating cash flows before movements in working capital	**104,639**	138,769
Decrease in defined benefit obligations	**(1,604)**	(2,322)
Decrease (increase) in inventories	**26,371**	(13,487)
Decrease in trade and other receivables	**32,625**	63,011
Increase in amount due to related parties	**187**	18
Decrease in trade and other payables	**(13,512)**	(67,911)
Cash generated from operations	**148,706**	118,078
Income tax paid	**(9,171)**	(10,648)
NET CASH FROM OPERATING ACTIVITIES	**139,535**	107,430
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(26,116)**	(24,747)
Deposits paid for acquisition of property, plant and equipment	**(8,379)**	(1,580)
Placement of pledged bank deposits	**(6,730)**	(18,106)
Additions to intangible assets	**(19)**	(51)
Withdrawal of pledged bank deposits	**18,106**	41,264
Proceeds on disposal of property, plant and equipment	**4,559**	4,734
Interest received	**1,062**	614
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(17,517)**	2,128

	2015 RMB'000	2014 RMB'000
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(519,233)**	(737,753)
Interest paid	**(9,573)**	(16,338)
Repayment to related parties	**(8,544)**	(570)
New bank borrowings raised	**394,717**	660,451
Receipts of government grants	**5,581**	4,820
NET CASH USED IN FINANCING ACTIVITIES	**(137,052)**	(89,390)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(15,034)**	20,168
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**653**	128
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**108,163**	87,867
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**93,782**	108,163

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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 and was also engaged in the trading of capacitors which was ceased during the current year. Particulars and principal activities of its subsidiaries are set out in Note 36.

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")

APPLICATION OF NEW AND REVISED IFRSs

The Group has applied the following new and revised IFRSs issued by International Accounting Standards Board for the first time in the current year:

Amendments to International Accounting Standard ("IAS") 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle

The application of these amendments 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.

NEW AND REVISED IFRSs IN ISSUE 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:

IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IAS 7	Disclosure Initiative[5]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[1]
Amendments to IAS 27	Equity Method in Separate Financial Statements[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined.
5 Effective for annual periods beginning on or after 1 January 2017.

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

IFRS 9 *FINANCIAL INSTRUMENTS*

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required 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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting 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.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that 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. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 may have impact on the consolidated financial statements of the Group. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed review.

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

IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the IFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance (Cap. 622) ("HKCO").

The provisions of the HKCO regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the HKCO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor HKCO or Listing Rules but not under the HKCO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope for IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BASIS OF CONSOLIDATION *(continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 lessee

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

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 each 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 deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis 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 each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss as employee benefit expenses. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

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 '(loss) profit before tax' as reported in the consolidated statement of profit or loss and other 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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 are 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 with finite useful lives that are acquired separately 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. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. 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. Costs of inventories are 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.

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 instruments.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets

The Group's financial assets are classified as loans and receivables. 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 debt instrument 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 debt instrument, 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).

Impairment of financial assets

Financial assets, are assessed for indicators of impairment at the end of each 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; or
- 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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.

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.

Financial liabilities and equity instruments

Debt 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.

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.

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 (including all fees and points 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

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. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, 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, 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.

The amount recognised is a provision is 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. When 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.

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 with finite useful lives 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. When 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS *(continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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.

PROVISION FOR DAMAGES

Note 33(a) describes an arbitration claim filed by a customer against a subsidiary of the Company, Capxon Electronic Industrial Company Limited（豐賓電子工業股份有限公司）("Capxon Taiwan"), to The Japan Commercial Arbitration Association (the "Arbitration Association") in Japan during the year ended 31 December 2011.

In August 2014, Capxon Taiwan received the arbitral award from the Arbitration Association which required Capxon Taiwan to compensate the customer damages in an aggregate sum of a damages of JPY2,427,186,647 plus interest on deferred payment and arbitration related expenses.

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. The directors of the Company lodged an appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. The final decision of the appeal has not been reached by the Tokyo High Court up to the date of this report. The directors of the Company believe that the Group has sufficient grounds to the appeal. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage. Where the actual future damages payments are more or less than expected, overprovision or underprovision for damages may arise, which would be recognised in profit or loss for the period in which the ultimate outcome of the appeal is reached. Therefore, an aggregate amount of JPY3,074,519,231 (2014: JPY2,928,888,032), equivalent approximately to RMB165,845,000 (2014: RMB150,169,000), was accrued and included in trade and other payables as at 31 December 2015 as a result of the initial arbitral award.

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 2015, the carrying amount of trade receivables is RMB280,531,000 (net of allowance for doubtful debts of RMB19,864,000) (2014: carrying amount of RMB323,120,000, net of allowance for doubtful debts of RMB18,783,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

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 2015, the carrying amount of inventories is RMB142,069,000 (net of allowance for inventories of RMB40,356,000) (2014: RMB164,660,000, net of allowance for inventories of RMB44,136,000).

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.

Information reported to the chief operating decision makers (i.e. the executive directors of the Company) for the purposes of resources allocation and assessment of segment performance focuses on types of products.

The Group's reportable and operating segments are as follows:

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

SEGMENT REVENUE AND RESULTS

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

For the year ended 31 December 2015

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	**803,615**	**45,503**	**849,118**	**–**	**849,118**
Inter-segment sales	**–**	**89,041**	**89,041**	**(89,041)**	**–**
Segment revenue	**803,615**	**134,544**	**938,159**	**(89,041)**	**849,118**
Segment profit (loss)	**69,821**	**(35,510)**	**34,311**	**5,263**	**39,574**
Interest income					**1,062**
Unallocated corporate expense					**(9,418)**
Finance costs					**(9,573)**
Provision for damages					**(7,398)**
Profit before tax					**14,247**

5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

SEGMENT REVENUE AND RESULTS *(continued)*

For the year ended 31 December 2014

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	896,354	93,271	989,625	–	989,625
Inter-segment sales	–	229,007	229,007	(229,007)	–
Segment revenue	896,354	322,278	1,218,632	(229,007)	989,625
Segment profit (loss)	66,714	(6,969)	59,745	2,990	62,735
Interest income					614
Unallocated corporate expense					(9,520)
Finance costs					(16,338)
Provision for damages					(174,531)
Loss before tax					(137,040)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administration costs, interest income, finance costs and provision for damages. However, the related bank balances and the bank borrowings of the reportable segments are reported to the Group's chief decision makers as part of segment assets and liabilities. In addition, tax expense is not allocated to segments while tax liabilities 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.

5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

SEGMENT ASSETS AND LIABILITIES

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

	2015 RMB'000	2014 RMB'000
Segment assets		
Capacitors	**778,314**	837,699
Aluminium Foils	**660,700**	491,222
Total segment assets	**1,439,014**	1,328,921
Elimination – inter-segment balances	**(282,445)**	(44,425)
Unallocated assets	**889**	3,841
Consolidated assets	**1,157,458**	1,288,337
Segment liabilities		
Capacitors	**251,364**	364,894
Aluminium Foils	**382,520**	171,952
Total segment liabilities	**633,884**	536,846
Elimination – inter-segment balances	**(282,445)**	(44,425)
Unallocated liabilities	**167,103**	151,533
Consolidated liabilities	**518,542**	643,954

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

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

– all liabilities, other than other payables and accruals of the Company and provision for damages of the Company's subsidiary in Taiwan, are allocated to reportable segments.

5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

GEOGRAPHICAL INFORMATION

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

	2015 **RMB'000**	2014 RMB'000
The PRC	**565,712**	611,609
Taiwan	**10,290**	10,237
	576,002	621,846

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

	2015 **RMB'000**	2014 RMB'000
Revenue from external customers:		
The PRC	**679,358**	765,978
Taiwan	**16,547**	23,592
Other Asian countries *(Note)*	**130,880**	152,126
Europe *(Note)*	**17,718**	35,362
Americas and Africa *(Note)*	**4,615**	12,567
	849,118	989,625

Note: The countries of the external customers included in these categories comprised Korea, Japan, Vietnam, Singapore, India, Germany, Italy, Russia, Spain and others (2014: Korea, Japan, Singapore, India, Israel, Germany, Poland, Italy, Russia, Spain 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.

INFORMATION ABOUT MAJOR CUSTOMERS

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 (loss) or segment assets:

For the year ended 31 December 2015

	Capacitors RMB'000	Aluminum foils RMB'000	Total RMB'000
Depreciation and amortisation	37,105	32,004	69,109
Additions to non-current assets *(Note)*	28,285	7,664	35,949
Impairment loss on trade receivables	5,305	–	5,305
Reversal of impairment loss on trade receivables	(2,382)	(2,291)	(4,673)
Loss on disposals of property, plant and equipment	3,335	–	3,335
(Reversal of) write-down of inventories	(6,290)	2,510	(3,780)
Impairment of property, plant and equipment	–	3,500	3,500

For the year ended 31 December 2014

	Capacitors RMB'000	Aluminum foils RMB'000	Total RMB'000
Depreciation and amortisation	38,518	37,642	76,160
Additions to non-current assets *(Note)*	53,164	2,796	55,960
Impairment loss on trade receivables	3,045	3,601	6,646
Loss on disposals of property, plant and equipment	7,875	6,802	14,677
Write-down of inventories	11,672	977	12,649
Impairment of property, plant and equipment	–	1,880	1,880

Note: Non-current assets excluded deferred tax assets.

6. OTHER INCOME/EXPENSES

A. OTHER INCOME

	2015 RMB'000	2014 RMB'000
Bank interest income	**1,062**	614
Government grants *(note)*	**7,183**	2,412
Sales of scrap material	**38**	488
Others	**4,187**	7,026
	12,470	10,540

Note: During the year ended 31 December 2015, the Group recognised government grants of RMB5,581,000 (2014: RMB300,000), which subsidise the production of aluminium foils and capacitors products, upon receipt from the government authorities in the PRC, as the predetermined conditions set out by the government authorities have been fulfilled. In addition, the amount also includes the release of deferred income of RMB1,602,000 (2014: RMB2,112,000). Details of the deferred income are set out in Note 26.

B. OTHER EXPENSES

	2015 RMB'000	2014 RMB'000
Research and development costs	**26,137**	19,062
Others	**3,693**	5,334
	29,830	24,396

7. OTHER GAINS AND LOSSES

	2015 RMB'000	2014 RMB'000
Loss on disposals of property, plant and equipment	**(3,335)**	(14,677)
Impairment loss on trade receivables	**(5,305)**	(6,646)
Impairment loss on other receivables	**(556)**	–
Reversal of impairment loss on trade receivables *(Note)*	**4,673**	–
Impairment loss on property, plant and equipment	**(3,500)**	(1,880)
Net foreign exchange gain	**2,030**	20,557
	(5,993)	(2,646)

Note: In prior years, the Group made impairment loss against the long outstanding balances with several debtors. During the year ended 31 December 2015, the Group received the repayments from the counterparties. Accordingly, the Group recognised the reversal of impairment loss.

8. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank borrowings	9,281	15,786
Interest on amount due to a director	292	552
	9,573	16,338

9. INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
Current tax:		
– PRC Enterprise Income Tax	8,250	6,563
– Taiwan Corporate Income Tax	2,697	1,572
	10,947	8,135
Overprovision in prior years:		
– PRC Enterprise Income Tax	–	(4,650)
– Taiwan Corporate Income tax	(608)	(250)
	(608)	(4,900)
Deferred tax *(Note 17)*:		
– Current year	867	3,752
	11,206	6,987

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, except for Capxon Electronic (Shenzhen) Co., Ltd. (豐賓電子(深圳)有限公司) ("Capxon Shenzhen") and Capxon Electronic Technology (Qinghai) Co., Ltd. (凱普松電子科技(青海)有限公司) ("Capxon Qinghai"), subsidiaries of the Company, the tax rate of the Group's subsidiaries in the PRC is 25%.

In February 2014, Capxon Shenzhen was approved for 3 years as enterprise that satisfied the condition as high technology development enterprise and is subject to a preferential tax rate of 15% in 2013, 2014 and 2015.

In March 2014, Capxon Qinghai was approved for 2 years as enterprise that satisfied the conditions that the enterprise principally engages in state encouraged industries as defined under the New Western Catalogue for the Western Region Development and is subject to a preferential tax rate of 15% in 2013 and 2014. The tax rate of Capxon Qinghai for the year ended 31 December 2015 is 25%.

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

9. INCOME TAX EXPENSE *(continued)*

The income tax expense for the year can be reconciled to the profit (loss) before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

2015

	The PRC		Taiwan		Hong Kong		Others(1)		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit (loss) before tax	27,322		88		(9,818)		(3,345)		14,247	
Tax at the statutory tax rate	6,830	25.0	15	17.0	(1,620)	16.5	–	–	5,225	36.7
Tax effect of:										
Deductible temporary differences not recognised	1,178	4.3	31	35.2	304	(3.1)	–	–	1,513	10.6
Expenses not deductible for tax	3,389	12.4	3,637	4,133.0	1,952	(19.9)	–	–	8,978	63.0
Overprovision in prior years	–	–	(608)	(690.9)	–	–	–	–	(608)	(4.3)
Income not subject to tax	(1,503)	(5.5)	(119)	(135.2)	(636)	6.5	–	–	(2,258)	(15.8)
Tax loss not recognised	6,687	24.5	–	–	–	–	–	–	6,687	46.9
Income tax on concessionary tax rate and tax exemption	(6,197)	(22.7)	–	–	–	–	–	–	(6,197)	(43.5)
Effect of tax exemptions granted to PRC subsidiaries	(2,134)	(7.8)	–	–	–	–	–	–	(2,134)	(15.0)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income at the Group's effective rate	8,250	30.2	2,956	3359.1	–	–	–	–	11,206	78.6

2014

	The PRC		Taiwan		Hong Kong		Others(1)		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit (loss) before tax	18,671		(149,447)		(4,926)		(1,338)		(137,040)	
Tax at the statutory tax rate	4,669	25.0	(25,406)	17.0	(812)	16.5	–	–	(21,549)	15.7
Tax effect of:										
Deductible temporary differences not recognised	(35)	(0.2)	(212)	0.1	–	–	–	–	(247)	0.2
Expenses not deductible for tax	1,750	9.4	27,470	(18.4)	812	(16.5)	–	–	30,032	(21.9)
Overprovision in prior years	(4,650)	(24.9)	(250)	0.2	–	–	–	–	(4,900)	3.6
Income not subject to tax	(648)	(3.5)	–	–	–	–	–	–	(648)	0.5
Tax loss not recognised	5,258	28.2	–	–	–	–	–	–	5,258	(3.8)
Income tax on concessionary tax rate and tax exemption	(4,431)	(23.7)	–	–	–	–	–	–	(4,431)	3.2
Deferred tax charge on dividend withholding tax	–	–	–	–	3,472	(70.5)	–	–	3,472	(2.5)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income at the Group's effective rate	1,913	10.3	1,602	(1.1)	3,472	(70.5)	–	–	6,987	(5.0)

(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 in any jurisdictions.

Details of deferred taxation for the year are set out in Note 17.

10. PROFIT (LOSS) FOR THE YEAR

	2015 **RMB'000**	2014 RMB'000
Profit (loss) for the year has been arrived at after charging:		
Employee benefit expenses (including directors' emoluments *(Note 11)*):		
Wages, salaries and allowances	**172,102**	171,676
Defined contribution pension schemes *(Note 25 (II))*	**11,052**	13,081
Defined benefit pension plan *(Note 25 (I))*	**36**	316
	183,190	185,073
Amortisation of intangible assets		
– in cost of sales	**1,444**	1,678
– in administrative expenses	**267**	683
Amortisation of land use rights	**1,034**	1,034
Auditor's remuneration	**1,978**	1,562
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB3,780,000 (2014: write-down of inventories of RMB12,649,000)) *(Note)*	**657,164**	773,119
Depreciation of property, plant and equipment	**66,364**	72,765

Note: During the year ended 31 December 2015, certain aged inventories which were written-down in prior years were sold. As a result, a reversal of write-down of inventories of approximately RMB3,780,000 has been recognised and included in the cost of sales in the current year.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES

Details of the emoluments paid or payable to the directors and the chief executive for both years disclosed pursuant to the applicable Listing Rules and HKCO are as follows:

DIRECTORS AND THE CHIEF EXECUTIVE

Name of directors	Fee RMB'000	Salaries and allowances RMB'000	Performance related incentive payment *(Note)* RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2015					
EXECUTIVE DIRECTORS[1]:					
Lin Chin Tsun	–	2,400	–	–	2,400
Chou Chiu Yueh	–	1,200	–	16	1,216
Lin Yuan Yu	–	1,318	–	23	1,341
Lin I Chu	–	836	–	21	857
NON-EXECUTIVE DIRECTOR[2]:					
Liu Fang Chun	–	600	52	8	660
INDEPENDENT NON-EXECUTIVE DIRECTORS[3]:					
Lai Chung Ching	211	–	–	–	211
Lu Hong Te	124	–	–	–	124
Tung Chin Chuan	124	–	–	–	124
	459	6,354	52	68	6,933

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

DIRECTORS AND THE CHIEF EXECUTIVE *(continued)*

Name of directors	Fee	Salaries and allowances	Performance related incentive payment *(Note)*	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2014					
EXECUTIVE DIRECTORS[1]:					
Lin Chin Tsun	–	2,389	–	–	2,389
Chou Chiu Yueh	–	1,195	–	44	1,239
Lin Yuan Yu	–	1,317	–	23	1,340
Lin I Chu	–	842	–	60	902
NON-EXECUTIVE DIRECTOR[2]:					
Liu Fang Chun	–	598	52	9	659
INDEPENDENT NON-EXECUTIVE DIRECTORS[3]:					
Lai Chung Ching	191	–	–	–	191
Lu Hong Te	105	–	–	–	105
Tung Chin Chuan	106	–	–	–	106
	402	6,341	52	136	6,931

Note: The amount of performance related incentive payment to each executive director is determined by the Company's remuneration committee, subject to the total amount of bonuses payable to all executive directors in any year cannot exceed 5% of the audited consolidated profit after tax and non-controlling interests but before extraordinary items of the Group (if any) for the relevant year. The board of directors of the Company makes the final decision for the amount of bonus payment to the non-executive directors.

Mr. Lin Yuan Yu is also the Chief Executive of the Group and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

(1) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group.

(2) The non-executive director's emoluments shown above were mainly for her services rendered to the Company or its subsidiaries.

(3) The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

11. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, four (2014: four) were directors of the Company and details of their emoluments are set out above. The emoluments of the remaining individual are as follows:

	2015 RMB'000	2014 RMB'000
Salaries and allowances	**717**	735
Performance related incentive payment	**15**	–
	732	735

During the years ended 31 December 2015 and 31 December 2014, 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. There was no arrangement under which a director or the chief executive waived or agreed to waive 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 (LOSS) PER SHARE

The calculation of the earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2015 RMB'000	2014 RMB'000
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share Earnings (loss) for the year attributable to owners of the Company	**3,780**	(138,918)

	2015	2014
Number of shares		
Number of ordinary shares for the purposes of basic earnings (loss) per share	**844,559,841**	844,559,841

Diluted earnings (loss) per share is not presented for the years ended 31 December 2015 and 2014 as there were no potential dilutive ordinary shares outstanding during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land in Taiwan RMB'000	Buildings in Taiwan RMB'000	Buildings in the PRC RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2014	4,609	8,821	250,686	836,273	41,603	12,293	38,402	1,192,687
Additions	–	–	988	1,039	58	653	51,591	54,329
Transfer	–	–	10,387	47,493	13,864	–	(71,744)	–
Disposals/written-off	–	–	–	(28,584)	(4,355)	(3,144)	(8,266)	(44,349)
Exchange adjustment	(229)	(403)	–	–	(43)	(140)	–	(815)
At 31 December 2014	4,380	8,418	262,061	856,221	51,127	9,662	9,983	1,201,852
Additions	**–**	**–**	**1,175**	**2,677**	**44**	**140**	**23,515**	**27,551**
Transfer	**–**	**–**	**–**	**16,738**	**5,578**	**–**	**(22,316)**	**–**
Disposals/written-off	**–**	**–**	**–**	**(29,299)**	**(2,207)**	**(133)**	**(857)**	**(32,496)**
Exchange adjustment	**85**	**164**	**–**	**–**	**16**	**–**	**–**	**265**
At 31 December 2015	**4,465**	**8,582**	**263,236**	**846,337**	**54,558**	**9,669**	**10,325**	**1,197,172**
DEPRECIATION AND IMPAIRMENT								
At 1 January 2014	–	2,575	54,613	507,546	28,862	8,655	480	602,731
Provided for the year	–	183	6,979	60,972	3,869	762	–	72,765
Eliminated on disposals	–	–	–	(19,582)	(2,970)	(1,906)	(480)	(24,938)
Impairment loss recognised in profit or loss	–	–	–	1,832	38	10	–	1,880
Exchange adjustment	–	(131)	–	–	(33)	(71)	–	(235)
At 31 December 2014	–	2,627	61,592	550,768	29,766	7,450	–	652,203
Provided for the year	**–**	**200**	**5,876**	**55,327**	**4,561**	**400**	**–**	**66,364**
Eliminated on disposals	**–**	**–**	**–**	**(22,499)**	**(1,983)**	**(120)**	**–**	**(24,602)**
Impairment loss recognised in profit or loss	**–**	**–**	**–**	**3,500**	**–**	**–**	**–**	**3,500**
Exchange adjustment	**–**	**52**	**–**	**–**	**52**	**–**	**–**	**104**
At 31 December 2015	**–**	**2,879**	**67,468**	**587,096**	**32,396**	**7,730**	**–**	**697,569**
CARRYING VALUE								
At 31 December 2015	**4,465**	**5,703**	**195,768**	**259,241**	**22,162**	**1,939**	**10,325**	**499,603**
At 31 December 2014	4,380	5,791	200,469	305,453	21,361	2,212	9,983	549,649

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	Over the shorter of the terms of the lease, or 2% – 4.5%
Plant and machinery	9%
Office and other equipment	18%
Motor vehicles	18%

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

During the year ended 31 December 2015, as a result of the recurring loss of Capxon Qinghai (2014: Capxon Electronic Technology (Baotou) Co., Ltd.), a subsidiary of the Company, the Group carried out a review of the recoverable amount of the related property, plant and equipment of the subsidiary which are used in the Group's aluminum foils segment. The review led to the recognition of an impairment loss of RMB3,500,000 (2014: RMB1,880,000) which has been recognised in profit or loss for the year ended 31 December 2015.

The impairment loss has been included in profit or loss in the 'Other gains and losses' line item.

The carrying value of properties shown above comprises:

	2015 **RMB'000**	2014 RMB'000
Properties:		
Freehold in Taiwan	**10,168**	10,171
Medium-term lease in the PRC	**195,768**	200,469
	205,936	210,640

As at 31 December 2015, the Group did not obtain building ownership certificates for buildings located in Baotou City, Inner Mongolia Autonomous Region, the PRC, with a carrying value of approximately RMB6,430,000 (2014: RMB6,873,000). The directors of the Company expect to obtain the building ownership certificates for these buildings in year 2016.

The Group has pledged property, plant and equipment with a net book value of approximately RMB99,048,000 (2014: RMB153,064,000) to secure general banking facilities granted to the Group.

15. LAND USE RIGHTS

	2015 **RMB'000**	2014 RMB'000
Medium-term land use rights in the PRC	**40,484**	41,534
Analysed for reporting purpose as:		
Current assets	**1,031**	1,031
Non-current assets	**39,453**	40,503
	40,484	41,534

The Group has pledged land use rights with a net book value of approximately RMB14,239,000 (2014: RMB21,747,000) to secure general banking facilities granted to the Group.

At 31 December 2015, the Group did not obtain land use right certificates of land use rights with a carrying amount of approximately RMB16,082,000 (2014: RMB16,432,000). The directors of the Company expect to obtain the land use right certificates in year 2016.

16. INTANGIBLE ASSETS

	Trademark, patents and licences RMB'000
COST	
At 1 January 2014	24,318
Exchange adjustment	(128)
Additions	51
Written-off	(3,957)
At 31 December 2014	20,284
Exchange adjustment	**85**
Additions	**19**
At 31 December 2015	**20,388**
AMORTISATION AND IMPAIRMENT	
At 1 January 2014	19,930
Exchange adjustment	(124)
Charge for the year	2,361
Eliminated on written-off	(3,957)
At 31 December 2014	18,210
Exchange adjustment	**85**
Charge for the year	**1,711**
At 31 December 2015	**20,006**
CARRYING VALUES	
At 31 December 2015	**382**
At 31 December 2014	2,074

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.

17. 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:

	2015 RMB'000	2014 RMB'000
Deferred tax assets	**–**	730
Deferred tax liabilities	**(3,796)**	(3,472)
	(3,796)	(2,742)

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

	Inventories and doubtful debts allowance RMB'000	**Post-employee benefits pension RMB'000**	**Tax losses RMB'000**	**Withholding tax provided RMB'000**	**Total RMB'000**
At 1 January 2014	566	444	–	–	1,010
(Charge) credit to profit or loss	(256)	(294)	270	(3,472)	(3,752)
At 31 December 2014	310	150	270	(3,472)	(2,742)
Charge to profit or loss	(477)	(116)	(274)	–	(867)
Exchange realignment	**167**	**(34)**	**4**	**(324)**	**(187)**
At 31 December 2015	**–**	**–**	**–**	**(3,796)**	**(3,796)**

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 RMB62,910,000 and RMB12,753,000 (2014: RMB43,862,000 and RMB737,000), 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 be reversed in the foreseeable future.

At the end of the reporting period, the Group has deductible temporary differences of RMB60,220,000 (2014: RMB62,920,000) arising from the inventories and doubtful debts allowance. A deferred tax asset has been recognised in respect of RMB1,824,000 in 2014 (2015: nil) of such allowance. No deferred tax asset has been recognised in respect of the remaining RMB60,220,000 (2014: RMB61,096,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At the end of the reporting period, the Group has unused tax losses of RMB86,770,000 (2014: RMB60,022,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB1,590,000 in 2014 (2015: nil) of such income tax losses. No deferred tax asset has been recognised in respect of the remaining RMB86,770,000 (2014: RMB58,432,000) unused tax losses due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to 2020, five years from the year in which the loss was originated, to offset against future taxable profits.

18. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	53,740	67,681
Work in progress	6,302	5,756
Finished goods	82,027	91,223
	142,069	164,660

19. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade and bills receivables	300,395	341,903
Less: allowance for doubtful debts	(19,864)	(18,783)
Total trade receivables	280,531	323,120
Advances to suppliers	1,600	5,273
Value added tax recoverable	32,990	22,283
Prepayments	12,981	12,755
Others	7,635	9,294
Total trade and other receivables	335,737	372,725

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 dates at the end of the reporting period, which approximated to respective revenue recognition dates.

	2015 RMB'000	2014 RMB'000
0–60 days	158,310	184,952
61–90 days	61,976	63,302
91–180 days	56,139	73,576
181–270 days	3,243	1,115
271–360 days	636	88
Over 360 days	227	87
	280,531	323,120

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. 93% (2014: 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 RMB17,800,000 (2014: RMB18,686,000) 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 of the Company 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.

19. TRADE AND OTHER RECEIVABLES *(continued)*

AGING OF TRADE RECEIVABLES WHICH WERE PAST DUE BUT NOT IMPAIRED

	2015 RMB'000	2014 RMB'000
One to six months past due	17,757	18,549
Over six months past due	43	137
Total	17,800	18,686

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	2015 RMB'000	2014 RMB'000
1 January	18,783	12,125
Impairment losses recognised on receivables	5,305	6,646
Amount recovered during the year	(4,673)	–
Exchange adjustment	449	12
31 December	19,864	18,783

Included in the allowance for doubtful debts were individually impaired debtors with an aggregate balance of RMB19,864,000 (2014: RMB18,783,000), which had been in severe financial difficulties. The Group did not hold any collateral over these balances.

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS FOR OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
1 January	138	570
Amount provided during the year	556	–
Amount written off as uncollectible	–	(432)
31 December	694	138

20. PLEDGED BANK DEPOSITS

These represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB6,730,000 (2014: RMB18,106,000) were pledged to secure short-term bank loans and are therefore classified as current assets.

The pledged bank deposits carry variable interest rates which range from 0.01% to 0.45% (2014: 0.02% to 0.50%) per annum.

21. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market interest rates which range from 0.01% to 0.75% (2014: 0.01% to 0.50%) per annum.

22. TRADE AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Trade and bills payables	**113,955**	125,629
Advances from customers	**6,189**	4,948
Payroll payables	**14,275**	13,496
Accruals	**9,471**	8,591
Land use rights payable	**5,481**	5,522
Provision for damages	**165,845**	150,169
Others	**3,364**	3,418
	318,580	311,773

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:

	2015 RMB'000	2014 RMB'000
0–60 days	**78,679**	62,157
61–90 days	**8,366**	17,814
91–180 days	**6,513**	28,090
181–270 days	**2,426**	1,468
271–360 days	**1,318**	604
Over 360 days	**16,653**	15,496
	113,955	125,629

23. BANK BORROWINGS

	2015 RMB'000	2014 RMB'000
Bank borrowings	**158,052**	278,056
Secured	**104,530**	231,961
Unsecured	**53,522**	46,095
	158,052	278,056
Carrying amount repayable:*		
Within one year and shown under current liabilities	**158,052**	278,056

* 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 RMB80,061,000 (2014: RMB208,800,000) which carry interest ranged from 1.53% to 5.90% (2014: 2.02% to 8.00%) 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 1.31% to 6.44% (2014: 1.46% to 2.84%) per annum.

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

	United States Dollars ("USD") RMB'000	Japanese Yen ("JPY") RMB'000
At 31 December 2015	**86,074**	**5,283**
At 31 December 2014	177,588	21,358

24. AMOUNTS DUE TO RELATED PARTIES

Name of related party	Relationship	2015 RMB'000	2014 RMB'000
Chou Chiu Yueh	Director	–	4
Lin Chin Tsun	Director	3,485	3,297
Lin I Chu	Director	1,499	10,039
Lin Yuan Yu	Director	–	1
		4,984	13,341

As at 31 December 2015 and 2014, the amounts due to related parties were interest-free, unsecured and repayable on demand, except for an unsecured amount due to Ms. Lin I Chu of RMB10,039,000 at 31 December 2014 which bore a variable interest at benchmark interest rate of loans determined by Bank of China Limited minus a fixed margin per annum and was repayable within one year.

25. RETIREMENT BENEFIT PLANS

(I) DEFINED BENEFIT PENSION PLAN

The Company's subsidiary incorporated in Taiwan, Capxon Taiwan, has a defined benefit pension plan, covering substantially all of its employees who were recruited by Capxon Taiwan before the implementation of the Employee Pension Act on 1 July 2005. The defined benefit pension plan requires contributions to be made to separately administered funds. The defined benefit pension plan of the Group was terminated during the year ended 31 December 2015.

The board of the pension fund is composed of an equal number of representatives from both employers and employees. The board of the pension fund is required by law and by its articles of association to act in the interest of the fund and of all relevant stakeholders in the plan, i.e. active employees, inactive employees, retirees, employers. The board of the pension fund is responsible for the investment policy with regard to the assets of the fund.

Under the plan, the employees are entitled to retirement benefits at the annual based on an accumulated base point, which is determined by them of years of service, with 45 point at maximum multiplied by the average salaries of the last 6 months on attainment of a retirement age ranging from 55 to 65. No other post-retirement benefits are provided to these employees.

The plan in Taiwan exposes the Group to actuarial risks such as investment risk, interest rate risk and salary risk.

Investment risk	The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.
Salary risk	The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan liability.

25. RETIREMENT BENEFIT PLANS *(continued)*

(I) DEFINED BENEFIT PENSION PLAN *(continued)*

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2014 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:

	Valuation at 2015	2014
Discount rate	N/A	2.25%
Expected return on plan assets	N/A	2.25%
Expected rate of salary increase	N/A	2.00%

The actuarial valuation showed that the market value of plan assets was RMB707,000 and that the actuarial value of these assets represented 15% of the benefits that had accrued to members as at 31 December 2014.

Amounts recognised in comprehensive income in respect of this defined benefit pension plan are as follows:

	2015 RMB'000	2014 RMB'000
Current service cost	36	181
Net interest expense	–	135
Components of defined benefit costs recognised in profit or loss	36	316
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	–	(2)
Actuarial gains and losses arising from changes in demographic assumptions	–	115
Actuarial gains and losses arising from changes in financial assumptions	–	(224)
Actuarial gains and losses arising from experience adjustments	–	373
Release of actuarial gains and losses upon termination of the defined benefit pension plan	(1,677)	–
Components of defined benefit costs recognised in other comprehensive (income) expense	(1,677)	262
Total	(1,641)	578

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

The remeasurement of the net defined benefit liability is included in other comprehensive (income) expense.

25. RETIREMENT BENEFIT PLANS *(continued)*

(I) DEFINED BENEFIT PENSION PLAN *(continued)*

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

	2015 RMB'000	2014 RMB'000
Present value of defined benefit obligations	–	5,486
Fair value of plan assets	–	(707)
Funded Status and net liability arising from defined benefit obligation	–	4,779

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

	2015 RMB'000	2014 RMB'000
Defined benefit obligations at beginning of the year	**5,486**	7,488
Current service cost	**36**	181
Interest cost	–	149
Actuarial gains and losses arising from changes in demographic assumptions	–	115
Actuarial gains and losses arising from changes in financial assumptions	–	(224)
Actuarial gains and losses arising from experience adjustments	–	373
Benefit paid	–	(2,302)
Release of actuarial gains and losses upon termination of the defined benefit pension plan	**(1,677)**	–
Liabilities extinguished on settlements	**(3,764)**	–
Exchange difference	**(81)**	(294)
Defined benefit obligations at end of the year	–	5,486

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

	2015 RMB'000	2014 RMB'000
Fair value of plan assets at beginning of the year	**707**	707
Interest income	–	14
Remeasurement gain:		
Return on plan assets (excluding amounts included in net interest expense)	–	2
Exchange differences	–	(36)
Contributions from the Group	–	2,322
Benefit paid	–	(2,302)
Assets distributed on settlements	**(707)**	–
Fair value of plan assets at end of the year	–	707

25. RETIREMENT BENEFIT PLANS *(continued)*

(I) DEFINED BENEFIT PENSION PLAN *(continued)*

The fair value of the plan assets at the end of the reporting period for each category, are as follows:

	Fair value of plan assets	
	2015	2014
	RMB'000	RMB'000
Cash and cash equivalents	–	135
Debt instruments	–	98
Equity instruments	–	474
Total	–	707

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets.

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 50 basis points higher/lower, the defined benefit obligation would decrease by RMB418,000/increase by RMB470,000 as at 31 December 2014.

- If the expected salary growth increases/decreases by 0.5%, the defined benefit obligation would increase by RMB469,000/decrease by RMB421,000 as at 31 December 2014.

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the consolidated statement of financial position.

Each year an Asset-Liability-Matching study is performed in which the consequences of the strategic investment policies are analysed in terms of risk-and-return profiles. Investment and contribution policies are integrated within this study. Main strategic choices that are formulated in the actuarial and technical policy document of the fund with asset mix based on 67% equity instruments, 14% debt instruments and 19% cash and cash equivalents.

25. RETIREMENT BENEFIT PLANS *(continued)*

(I) DEFINED BENEFIT PENSION PLAN *(continued)*

Capxon Taiwan funds the cost of the entitlements expected to be earned on a yearly basis. The contribution (including back service payments) is paid by Capxon Taiwan. The funding requirements are based on the local actuarial measurement framework. In this framework the discount rate is set on a risk free rate. Furthermore, premiums are determined on a current salary base. Additional liabilities stemming from past service due to salary increases (back-service liabilities) are paid immediately to the fund. Apart from paying the costs of the entitlements, Capxon Taiwan is not liable to pay additional contributions in case the fund does not hold sufficient assets. In that case, the fund would take other measures to restore its solvency, such as a reduction of the entitlements of the plan members.

The average duration of the benefit obligations at 31 December 2014 was 9.4 years.

(II) DEFINED CONTRIBUTION PENSION SCHEMES

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 the lower of HK$1,250 before 31 May 2014 and HK$1,500 effective form 1 June 2014 as defined in the Mandatory Provident Fund Scheme Ordinance per month or 5% of relevant monthly payroll costs as a mandatory contribution to the scheme, which contribution is matched by the employee.

The Group also participates in the employee retirement benefits plans in Taiwan. The Group is required to make monthly contributions calculated as a percentage of the monthly payroll costs.

The total expenses recognised in profit or loss during the year were RMB11,052,000 (2014: RMB13,081,000) represents contributions payable/paid to these plans by the Group at rates specified in the rules of the schemes. All the contributions had been paid over to the schemes as at the end of the reporting period.

26. DEFERRED INCOME

	2015 **RMB'000**	2014 RMB'000
CARRYING VALUE		
At 1 January	**24,612**	22,204
Government grants received during the year	**–**	4,520
Released to profit or loss during the year	**(1,602)**	(2,112)
At 31 December	**23,010**	24,612

Capxon Qinghai received government grants from 西寧經濟技術開發區東川工業園區財政局, 青海省商務廳 and 青海省科學技術廳 for the encouragement of setting up of aluminium foils production lines in Qinghai. the grants will be recognised in profit or loss on a systematic basis over the useful life of the production lines upon the completion of production lines.

27. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2014 and 31 December 2014 and 2015	1,500,000,000	150,000
Issued and fully paid:		
At 1 January 2014 and 31 December 2014 and 2015	844,559,841	84,456
Shown in the consolidated financial statements as (RMB'000)		82,244

28. 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 23 and 24, 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 payment of dividends, new share issues of the Company as well as the raising of bank loans.

29. FINANCIAL INSTRUMENTS

29A. CATEGORIES OF FINANCIAL INSTRUMENTS

	2015 RMB'000	2014 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**388,677**	458,683
Financial liabilities		
Amortised cost	**298,065**	438,077

29. FINANCIAL INSTRUMENTS *(continued)*

29B. 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 and bank borrowings. 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), 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 43.21% (2014: 46.33%) of the Group's sales and 35.28% (2014: 55.42%) of the Group's purchase are denominated in currencies other than the functional currency of the respective group entities.

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 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	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollars ("HKD")	**21,281**	29,242	**560**	14,545
USD	**91,179**	130,912	**90,657**	188,748
New Taiwan Dollars ("NTD")	**3,299**	240	**197**	–
Euro ("EUR")	**2,516**	1,615	**–**	–
JPY	**1,058**	5,815	**5,612**	21,952

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.

29. FINANCIAL INSTRUMENTS *(continued)*

29B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

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 the functional currencies of respective group entities 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. A positive number below indicates a decrease in profit after tax (2014: an increase in loss after tax) where the functional currencies of respective group entities strengthen 5% against the relevant foreign currencies, and vice versa:

	2015 **RMB'000**	2014 RMB'000
HKD impact	**777**	551
USD impact	**9**	(2,162)
NTD impact	**116**	9
EUR impact	**94**	61
JPY impact	**(186)**	(617)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see Note 23 for details of these borrowings).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings, pledged bank deposits, amount due to a related party and bank balances. The Group tends to keep its borrowings, pledged bank deposits, amount due to a related party 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, amount due to a related party 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 (2014: 25 basis point) 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 point (2014: 25 basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2015 would decrease/increase by RMB105,000 (2014: loss for the year would increase/decrease by RMB163,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

29. FINANCIAL INSTRUMENTS *(continued)*

29B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

As at 31 December 2015, 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 source of liquidity. As at 31 December 2015, the Group has available unutilised short-term bank loan facilities of approximately RMB395,933,000 (2014: RMB315,000,000). Details of bank borrowings are set out in Note 23.

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.

29. FINANCIAL INSTRUMENTS *(continued)*

29B. 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 RMB'000	Undiscounted cash flows RMB'000	Total carrying amount RMB'000
2015				
Non-derivative financial liabilities				
Trade and other payables	–	135,029	135,029	135,029
Bank borrowings				
– fixed-rate	2.11	80,635	80,635	80,061
– variable-rate	3.54	78,537	78,537	77,991
Amounts due to related parties	–	4,984	4,984	4,984
		299,185	299,185	298,065

	Weighted average effective interest rate %	On demand or less than 1 year RMB'000	Undiscounted cash flows RMB'000	Total carrying amount RMB'000
2014				
Non-derivative financial liabilities				
Trade and other payables	–	146,680	146,680	146,680
Bank borrowings				
– fixed-rate	3.82	211,130	211,130	208,800
– variable-rate	2.15	69,678	69,678	69,256
Amounts due to related parties				
– variable-rate	6.03	10,923	10,923	10,039
– interest-free	–	3,302	3,302	3,302
		441,713	441,713	438,077

29C. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The fair values of 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 recognised in the consolidated financial statements approximate their fair values.

30. OPERATING LEASES

Minimum lease payments paid under operating leases during the year for rented premises is approximately RMB5,096,000 (2014: RMB4,897,000).

At the end of the reporting period, the Group had commitments for future minimum lease payment under non-cancellable operating leases in respect of rented premises which fall due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	**4,836**	5,004
In the second to fifth year inclusive	**1,944**	6,336
	6,780	11,340

Leases are negotiated and rental are fixed for a period from one to two years (2014: one to three years).

31. CAPITAL COMMITMENTS

	2015 RMB'000	2014 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**35,975**	28,921

32. RELATED PARTY DISCLOSURES

(I) RELATED PARTY TRANSACTION

During the year, the Group entered into the following transaction with a related party:

Name of related party	Nature of transaction	**2015 RMB'000**	2014 RMB'000
Lin I Chu *(Note)*	Interest expense	**292**	552

Note: Ms. Lin I Chu is an executive director of the Company and the daughter of Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh, who are executive directors and the ultimate controlling parties of the Company.

32. RELATED PARTY DISCLOSURES *(continued)*

(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:

	2015 RMB'000	2014 RMB'000
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**79,502**	157,794
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**38,846**	68,185
Lin Yuan Yu *(Note)*	**26,000**	50,000
Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu *(Note)*	**13,704**	–
	158,052	275,979

Note: Mr. Lin Chin Tsun and Ms. Chou Chu Yueh are ultimate controlling shareholders of the Company. Mr. Lin Yuan Yu is a close family member 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 2016 to December 2016 (2014: January 2015 to December 2015).

As at 31 December 2015, Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh and Mr. Lin Yuan Yu (2014: Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh) pledged a property to a bank to secure banking facilities of NTD165,000,000 (approximately RMB32,555,000 (2014: RMB31,928,000)) granted to the Group.

(III) RELATED PARTY BALANCES

Details of the Group's outstanding balances with related parties are set out in Note 24.

(IV) COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2015 RMB'000	2014 RMB'000
Short-term benefits	**9,089**	9,198
Post-employment benefits	**160**	254
	9,249	9,452

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

33. MATERIAL PROCEEDINGS

(a) During the year ended 31 December 2011, a customer filed an arbitration claim against Capxon Taiwan with the Arbitration Association in Japan, claiming damages of JPY1,412,106,000 (equivalent to approximately RMB76,113,000 (2014: RMB72,300,000)) allegedly suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (equivalent to approximately RMB3,234,000 (2014: RMB3,072,000) for damages caused, plus interest from 17 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

In August 2014, Capxon Taiwan received the arbitral award from the Arbitration Association which required Capxon Taiwan to compensate the customer damages in an aggregate sum of:

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB130,927,000 (2014: RMB124,272,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB70,770,000 (2014: RMB67,173,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB50,833,000 (2014: RMB48,249,000)) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB9,324,000 (2014: RMB8,850,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,274,000 (2014: RMB1,209,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. The directors of the Company lodged a further appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. The final decision of the appeal has not been reached by the Tokyo High Court up to the date of this report. The directors of the Company believe that the Group has sufficient grounds to the appeal. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage. Therefore, an aggregate amount of JPY3,074,519,231 (2014: JPY2,928,888,032), equivalent to approximately RMB165,845,000 (2014: RMB150,169,000), was accrued and included in trade and other payables as at 31 December 2015 as a result of the initial arbitral award.

(b) During the year ended 31 December 2011, a customer filed a civil complaint to the People's Court of Shenzhen in the PRC against Capxon Shenzhen, alleging product defects and claiming a sum of RMB12,877,000 in damages. In December 2014, the court ruled that the complainant had failed to provide sufficient evidence and accordingly the court ruled in favor of Capxon Shenzhen. The customer subsequently filed an appeal against the court's decision. As at the date of this report, the parties are still awaiting the court's deliberation on the matter. The directors of the Company believe that the probability of the court overturning its decision is highly unlikely and has thus made no provision for any potential liability in the consolidated financial statements.

34. PLEDGE OF ASSETS

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

	2015 RMB'000	2014 RMB'000
Property, plant and equipment	**99,048**	153,064
Land use rights	**14,239**	21,747
Bank deposits	**6,730**	18,106
	120,017	192,917

35. NON-CASH TRANSACTION

During the year ended 31 December 2014, bills receivable discounted with recourse of RMB18,235,000 (2015: nil) was set off with advances drawn on bills receivable discounted with recourse.

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

GENERAL INFORMATION OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2015 and 2014 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		
			2015 %	2014 %	2015 %	2014 %	
Capxon Electronic Technology (Baotou) Co., Ltd. *(Note i)* 凱普松電子科技(包頭)有限公司	The PRC	RMB100,000,000	–	–	100	100	Manufacture and sale of aluminium foil
Capxon Electronic Technology (Yichang Xanxin) Co., Ltd. *(Note ii)* 凱普松電子科技(宜昌三峽)有限公司	The PRC	US$30,000,000	–	–	100	100	Manufacture and sale of aluminium foil
Capxon Qinghai *(Note i)*	The PRC	RMB99,000,000	–	–	100	100	Manufacture and sale of aluminium foils
Capxon Shenzhen *(Note ii)*	The PRC	US$73,880,000	6.77	6.77	93.23	93.23	Manufacture and sale of capacitors
Capxon Taiwan	Taiwan	Registered: NTD620,000,000 Issued and fully paid: NTD532,410,000	96.54	96.54	–	–	Trading
Capxon Technology Limited 凱普松科技有限公司	British Virgin Islands	US$1,700,000	100	100	–	–	Trading
Capxon Trading (Shenzhen) Co., Ltd.* *(Note ii)* 凱普松貿易(深圳)有限公司	The PRC	US$700,000	–	–	100	100	Trading
Easy Chance Ltd. 宜邦有限公司	Hong Kong	HK$10,000	–	–	100	100	Trading and investment holding
Evercon Limited 香港艾美康有限公司	Hong Kong	US$1,000,000	100	100	–	–	Inactive
Gold Wish Ltd.	British Virgin Islands	US$30,000,000	100	100	–	–	Investment holding

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(continued)*

GENERAL INFORMATION OF SUBSIDIARIES *(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		
			2015	2014	**2015**	2014	
			%	%	**%**	%	
Lancom Ltd. 龍球有限公司	Hong Kong	HK$85,137,200	**–**	–	**96.54**	96.54	Trading
Mega Tender Ltd. 緯成有限公司	Hong Kong	HK$10,000	**100**	100	**–**	–	Trading
Multiple Investments Ltd.	British Virgin Islands	US$2,300,000	**100**	100	**–**	–	Investment holding
Shenzhen Capxon New Energy Electronic Technology Co., Ltd.* *(Note i)* 深圳市凱普松新能源電子科技有限公司	The PRC	RMB5,000,000	**–**	–	**100**	100	Inactive
Waystech Trading Ltd. 威達貿易有限公司	British Virgin Islands	US$1,034,699	**100**	100	**–**	–	Investment holding
Yichang Fengshuo Equipment Co., Ltd. *(Note ii)* 宜昌豐碩設備有限公司	The PRC	HK$8,000,000	**–**	–	**100**	100	Manufacture and sale of equipment

* For identification purpose only

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.

37. FINANCIAL INFORMATION OF THE COMPANY

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSET		
Investments in subsidiaries	**521,841**	511,509
CURRENT ASSETS		
Trade and other receivables	**280**	4,339
Amounts due from subsidiaries	**375,702**	387,401
Bank balances	**608**	3,509
	376,590	395,249
CURRENT LIABILITIES		
Other payables	**1,258**	1,363
Amounts due to subsidiaries	**415,888**	408,293
	417,146	409,656
NET CURRENT LIABILITIES	**(40,556)**	(14,407)
TOTAL ASSETS LESS CURRENT LIABILITIES	**481,285**	497,102
CAPITAL AND RESERVES		
Share capital	**82,244**	82,244
Share premium and reserves	**399,041**	414,858
TOTAL EQUITY	**481,285**	497,102
(Loss) Profit for the year	**(15,817)**	391

Five-Year Financial Summary

	Year ended 31 December				
	2011	2012	2013	2014	**2015**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Revenue	1,119,603	970,975	1,072,741	989,625	**849,188**
Profit (loss) for the year	27,528	(2,205)	5,990	(144,027)	**3,041**

	As at 31 December				
	2011	2012	2013	2014	**2015**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,661,384	1,547,895	1,445,952	1,288,337	**1,157,458**
Total liabilities	(882,088)	(772,424)	(662,479)	(643,954)	**(518,542)**
	779,296	775,471	783,473	644,383	**638,916**
Attributable to:					
Owners of the Company	768,949	764,454	773,835	641,258	**636,084**
Non-controlling interests	10,347	11,017	9,638	3,125	**2,832**
	779,296	775,471	783,473	644,383	**638,916**