CapXon

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 469

ANNUAL REPORT 2017

Contents

Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Ms. LIU Fang Chun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAI Chung Ching *(Retired on 1 June 2017)*
Mr. HSIEH King-Hu, Miles *(Appointed on 1 June 2017)*
Mr. LU Hong Te
Mr. TUNG Chin Chuan

AUDIT COMMITTEE

Mr. LAI Chung Ching
(Ceased to act as Chairman upon retirement on 1 June 2017)
Mr. LU Hong Te
(Appointed as Chairman on 1 June 2017)
Mr. HSIEH King-Hu, Miles
(Appointed on 1 June 2017)
Mr. TUNG Chin Chuan

NOMINATION COMMITTEE

Mr. LIN Chin Tsun *(Chairman)*
Ms. CHOU Chiu Yueh
Mr. LAI Chung Ching *(Retired on 1 June 2017)*
Mr. HSIEH King-Hu, Miles *(Appointed on 1 June 2017)*
Mr. LU Hong Te
Mr. TUNG Chin Chuan

REMUNERATION COMMITTEE

Mr. LAI Chung Ching
(Ceased to act as Chairman upon retirement on 1 June 2017)
Mr. LU Hong Te
(Appointed as Chairman on 1 June 2017)
Mr. LIN Chin Tsun
Ms. CHOU Chiu Yueh
Mr. HSIEH King-Hu, Miles
(Appointed on 1 June 2017)
Mr. TUNG Chin Chuan

CHIEF FINANCIAL OFFICER

Ms. HU Szu Jung, Carol

COMPANY SECRETARY

Ms. CHAN Yin Fung

AUDITOR

Deloitte Touche Tohmatsu
Level 35 One Pacific Place
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Minter Ellison
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Hong Kong

PRINCIPAL BANKERS

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

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Cayman Islands

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STOCK CODE

469

Chairman's Statement

Dear Shareholders,

In general, most financial experts believe that after a turbulent and tumultuous year of 2017, the year 2018 will be a period of positive growth. Four main factors prop up such optimism among global financial experts:

1. Hot money: even though interest rate hikes have taken place in the USA, not every region across the globe will follow suit. In other words, central banks are still printing money, but in smaller amounts.

2. Tax cuts: Whilst quite a few multinationals have frozen large amounts of capital in tax havens countries to avoid taxation, President Trump's move to cut corporate income tax will mobilize such frozen capital, which in turn will increase mobility for such free-moving currencies.

3. More corporate investments: A 2017 UBS survey indicated that over 20% of corporate interviewees in Europe said that they would increase their investment in the coming year, which is much higher than the 6% six months ago. Another survey, conducted by Merrill Lynch on American businesses, provided an even more positive result.

4. Buoyant international trade: Less disruption from protectionism and geopolitics benefited raw material and equipment exporters, leading to thriving investment.

Overall, major financial institutions tend to hold a positive view of the global economy. Once global central banks terminate their monetary easing policy in succession, inflation may reemerge together with stifled employment and economic growth. Furthermore, central banks might return to the loop of lower interest rates due to potential grey swan events, including warfare in the Middle East, competition between artificial intelligence and human beings, and housing markets crushed by tightening policies from central banks. As for the electronics industry, an off season has arrived with less demand for mobile phones and flash memory. In such an adjustment stage, only through continuous innovation, transformation and upgrading can businesses maintain a competitive edge and secure fresh opportunities amidst a moderate environment.

Passive component manufacturing is an industry characterized by high production volume and low unit price, and most of the products are applied within the 3C sector. In the future, the industry will benefit from other emerging application markets such as automotive electronics, high-end smart home appliances, smart meters, 4G LTE base stations, LED street lamps, safety control systems, industrial control and renewable energy equipment, and therefore serve as a stable anchor for the supply and production values of key electronic parts and components. In comparison, non-3C applications belong to the niche market, which is characterized by low production volume and high unit price, and the supply and demand of such end products are less susceptible to fluctuations of economic cycles. Passive component suppliers who are entering these sectors are developing miniaturized and modularized products and are adjusting their product portfolio in order to not only boost their gross profits, but also to avoid the operational risks arising from fluctuations of economic cycles. The future of passive components is expected to look towards developing features such as high capacity, high voltage, high frequency, high resistance to heat, and miniaturization. Increasing demand for end consumer products has led to the growing demand for mobile phones, PCs or niche products such as those for industrial and automotive purposes as well as the Internet of Things. Nonetheless, there may be a short supply of aluminum foils due to more stringent environmental inspections in Mainland China, the global manufacturing hub. To cope with competition in terms of market share and price, only through continuous investment in research and development and equipment cost can we maintain the stable production capacity of all series of capacitors to meet market demand. At the same time, we cater to specific requirements on specifications from our customers to develop new products and provide assistance for joint development, thereby capturing the future opportunities brought by market demand for end products.

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 demands of existing customers and offer better services. On the other hand, the Group will actively solicit new customers, enhance its product functions and added value through its R&D capability, and control costs to increase gross profit, in order to adequately satisfy customers' demands, and to reward shareholders with returns.

In 2017, the strategies for the Group's two major products were as follows:

1. OPERATIONS IN THE ALUMINUM FOIL MARKET

The year 2017 saw the gradual recovery of the economy as a whole. In respect of aluminum foil (the major raw material of passive components), there is a contraction in supply caused by production plants that failed to deliver goods and left the supply chain due to incomplete or substandard environmental equipment amidst environmental protection issues. In particular, manufacturers were vying for materials of ultra-high voltage series used in the photovoltaic industry, owing to a surge in demand and untimely delivery due to a high threshold of technology and process. To respond to such industrial characteristics and current market conditions, the Group assessed the market dynamics and considered future potential supply, which led to its addition of new production lines and also reduced its losses to stabilize the current market demand among customers. Aluminum foils are the major raw material of capacitors, and the Group has excellent production processing technologies for formed foils and a stable production capacity. In addition, the Group is also actively exploring the development potential of markets with high added value, to prepare for future market changes. The Group will continue to pay close attention to and deal with the future changes in the aluminum foils market with care.

Currently, the Group has completed the following key R&D projects and quality control techniques of aluminum foils:

- Etched Aluminum Foil:
  - (i) Multi-level electrolytic etching has been adopted to develop fast production lines for etched aluminum foils, which has raised daily production capacity by 2.5 times and led to a 10% improvement in such technical indicators as capacity and uniformity.
  - (ii) Ultra-high voltage etching has been developed, which has substantially improved the capacity and strength of formed ultra-high-voltage etched aluminum foils in the high-voltage (especially higher than 750 Vf) section.
- Formed Foil:
  - (i) Special formation technology has been developed that caters to the customer, with all indicators (especially deterioration test) meeting the basic requirements from customers.
  - (ii) Water and electricity consumption has been transformed to save energy and reduce consumption. In particular, the organic-acid energy saving technology can reduce electricity consumption per unit by 4% to 7%; the roasting furnaces of production lines have been transformed to preserve heat and save energy; and the water used for washing foils has been reused.

2. OPERATIONS IN THE ELECTROLYTIC CAPACITOR MARKET

The appearance of the 5G network is not far away from us, while the arrival of Internet of Things is the "Next Big Event". A revolution in speed has long gathered its momentum, with higher transmission speed and fewer errors as the key to the future application industries. Therefore, this year, R&D for mass production of electrolytic capacitors was primarily aimed at addressing high-end products, including variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and in-vehicle electronic applications, with great results already achieved for relevant products. In the future, the Group will commit more efforts to meeting the requirements for specific tailor-made products, including miniaturization, high capacity, high and ultra-high voltage, high frequency and temperature. The Group will also take steps to develop custom-made products that cater to meet the front-end demand of the market and can be applied across different sectors, promote the application of electrolytic capacitors in various fields, and expand the global market share of its electrolytic capacitor products.

- As green commuting spreads around the globe, governments have attached great importance to new energy vehicles to replace traditional ones. European countries, in particular, have proposed a time limit for ceasing the production of traditional vehicles. This trend has driven the rapid development of automotive electronics and a greater demand for aluminum electrolytic capacitors;

➢ Given the pressing demand for clean energy globally, the Group has targeted photovoltaic inverters with a capacity of 550V>5000Hrs to ensure that such products will be free of maintenance demand over 15 to 30 years. As part of its vigorous drive to tap into the photovoltaic applications market, the Group is working on the smart terminal technology and its application areas in the capacitor market;

➢ Enhanced promotion has taken place in respect of capacitors for photovoltaic inverters, vehicle chargers and charging piles, to further raise the production capacity of Snap-in products;

➢ The Group has completed the development of its Snap-in 125°C high-temperature product, to meet the application demand of automotive electronics in relation to high-temperature environment and high power output;

➢ A specific internal structure and aging technique are adopted to design and develop VPP-proof high-voltage capacitors that can deliver 2 million times of charging and discharging;

➢ A new type of V-CHIP products has been developed and applied to the low-temperature reflow PCB assembly process;

➢ High-end products have been developed with the liquid V-CHIP volume shrunk by 20%;

➢ The Group has engaged itself in the development and application of electrolyte for semi-solid aluminum electrolytic capacitors that can resist 150°C of high temperature; and

➢ The Group has also developed miniaturized 5 x 4.2 solid capacitors for the NB market, solid-state high-temperature needle-shaped capacitor products and high-temperature patch-shaped products.

The technology industry will have the following focuses in 2018:

1. Large-scale machine interactions will take place with an aim to realize machine collaboration, self-management of production lines, logistics and operating procedures, which require a great volume of transmission between devices. Applications covers expansive venues such as unmanned chemical plants, smart cities and electricity meters.

2. There will be ultra-high requirement on the reliability of undisrupted machine dialogue, i.e., instant communication between important devices. For instance, there can be no delay in the transmission of instructions for acceleration and deceleration for self-driving automobiles, cloud robots and drones.

3. Increased mobile broadband constitutes the biggest demand in respect of live media and entertainment, such as the requirement on speed and capacity from the networks for sharing photos shortly after they are taken, HD videos as well as augmented reality (AR)/virtual reality (VR) experience.

AI will lead the development of the Internet of Things, as the massive demand of AI arithmetic data and communications propels the edge computing network to take shape more quickly. Furthermore, in 2018, VR, AR and mixed reality (MR) will help to deliver enhanced consumer experience, information collection, big data analysis and management, as well as other customized services in a 5G environment.

The Group will capitalize on the collective wisdom of its management team more effectively, leverage on its strengths and innovations, keep up with its achievements, and consolidate its business foundation and competitive edge. Meanwhile, the Group will also make every endeavor to become an international market supplier by combining the competitive edge of its operations in the People's Republic of China (the "PRC"), 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 2018

FINANCIAL REVIEW

A summary of the financial results of the Group for the year ended 31 December 2017 (the "Year") is as follows:

- Revenue increased by approximately 12.94% to approximately RMB1,069,104,000.

- Gross profit increased by approximately 13.28% to approximately RMB270,659,000.

- Loss for the Year attributable to owners of the Company amounted to approximately RMB2,040,000 (for the year ended 31 December 2016: profit of RMB14,339,000).

During the Year under review, the Group's revenue was approximately RMB1,069,104,000, representing an increase of approximately 12.94% over the corresponding period last year. Sales of aluminum electrolytic capacitors for the Year were approximately RMB1,045,836,000, representing an increase of approximately 12.65% as compared to RMB928,376,000 in the corresponding period last year. The year-on-year increase in sales came from better performance as a result of successive shipments of newly developed solid-state capacitors, high-voltage capacitors and charging piles. Sales of aluminum foils for the Year were approximately RMB23,268,000, representing an increase of approximately 27.38% as compared to RMB18,267,000 in the corresponding period last year. Such increase was mainly due to the slow recovery of economic climate in general and the excessive demand in the aluminum foils market where large capacitor manufacturers, in particular, has secured the majority of aluminum foils, leaving a shortfall in aluminum foils supply for medium and small capacitor manufacturers. Hence, the Group has started expanding its production lines in Baotou since 2017, in an effort to support such demand. During the Year, the gross profit margin of the Group slightly increased from approximately 25.24% for the corresponding period last year to approximately 25.32% for this Year.

During the Year, the Group recorded a loss attributable to owners of the Company amounted to approximately RMB2,040,000, which was mainly due to the fact that a subsidiary of the Company closed its production plant in mainland China during the Year, resulting in impairment losses on certain assets.

BUSINESS REVIEW

With successive years of sluggish economic growth behind, mobile devices and the Internet of Things helped deliver a trend of thriving development to the global cloud industry in 2017, with the mushrooming of various innovative application services. Meanwhile, robust PMI figures of the manufacturing sectors in the US and the Eurozone invariably point to the support for external demand, which accounted for a sales rebound in electronic parts and components.

➢ MANUFACTURE AND SALE OF ALUMINUM FOILS

During the Year, after satisfying internal production demand, the Group's external sales of aluminum foils amounted to approximately RMB23,268,000, representing an increase of approximately 27.38% as compared to approximately RMB18,267,000 in the corresponding period last year. The sales of our aluminum foils increased from approximately 1.93% of our Group's total external sales in the corresponding period last year, to approximately 2.18% for the Year.

Despite slow economic recovery in general and relatively conservative trading outlook against a number of factors, there has been an improvement in terms of excessive production capacity and insufficient sales orders of formed foils. While the majority of production capacity was dominated by large-scaled capacitor manufacturers, small and medium-sized ones are confronted with a dire shortage of aluminum foils supply. Having assessed market conditions and considered future potential factors in light of the current industry characteristics, the Group has replaced its conservative practice of production capacity reduction, by establishing new production lines in addition to effective energy conservation and consumption reduction, in a bid to address the market demand of small and medium-sized customers. Aluminum foils are the major raw material of capacitors, and the Group has excellent production processing technologies for formed foils and a stable production capacity. Currently, it has completed key R&D projects and quality control techniques. Besides, the Group is actively exploring markets with high added value to prepare for future market changes. The Group will continue to pay close attention to and deal with the future changes in the aluminum foils market with care.

Currently, the Group has completed the following key R&D projects and quality control techniques of aluminum foils:

- ➢ Etched Aluminum Foils:
  - (i) Multi-level electrolytic etching has been adopted to develop fast production lines for etched aluminum foils, which has raised daily production capacity by 2.5 times and led to a 10% improvement in such technical indicators as specific volume and uniformity.
  - (ii) Ultra-high voltage etching has been developed, which has substantially improved the capacity and strength of formed ultra-high-voltage etched aluminum foils in the high-voltage (especially higher than 750 Vf) section.
- ➢ Formed Foil:
  - (i) Special formation technology has been developed that caters to the customer, with all indicators (especially deterioration test) meeting the basic requirements from customers.
  - (ii) Water and electricity consumption policy has been transformed to save energy and reduce consumption. In particular, the organic-acid energy saving technology can reduce electricity consumption per unit by 4% to 7%; the roasting furnaces of production lines have been transformed to preserve heat and save energy; and the water used for washing foils has been reused.

➢ MANUFACTURE AND SALE OF CAPACITORS

The Group recorded external sales of aluminum electrolytic capacitors of approximately RMB1,045,836,000 during the Year, representing approximately 97.82% of the Group's total external sales, and a decrease of approximately 0.25% from approximately 98.07% of the Group's total external sales for the same period last year.

Whereas the passive component industry entered into a mild growth period in relation to the global sales growth of smartphones, there is considerable potential demand from other application markets or high-end application fields such as automobile, high-end smart home appliances, smart electricity meters, safety control systems and industrial control. As such, we are cautiously optimistic about the passive component industry for the years to come. Also, in response to the growing business opportunities in the application of artificial intelligence, VR, AR and MR, the Group focused its R&D for mass production of electrolytic capacitors primarily on high-end products such as variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and in-vehicle electronic applications, with great results already achieved in addressing relevant demand. In the future, the Group will commit more efforts to meeting the requirements for specific tailor-made products, including miniaturization, high capacity, high voltage, and high frequency and high temperature. The Group will also take steps to develop custom-made products that cater to meet the front-end demand of the market and can be applied across different sectors, promote the application of electrolytic capacitors in various fields, and expand the global market share of its electrolytic capacitor products.

Currently, the Group has completed the following key R&D projects and quality control techniques of electrolytic capacitors:

- ➢ Completed technical R&D and manufacture of the stitching, winding and assembly equipment for quasi-solid state aluminum electrolytic capacitors;
- ➢ Developed quasi-solid burst-proof aluminum cases, and improved burst-proof pressure and the capability of manufacturing processes;
- ➢ Developed quasi-solid shockproof base plates;
- ➢ Rectified the defect of solid-state capacitors in low-temperature surge voltage test (-55°C);

- Succeeded in mass producing the electric polymer material for solid-state capacitors and introduced such material to the manufacturing process of capacitors, which improved the yield of qualified products;
- Introduced carbon foils with different techniques for development, design and quality tracking, and lowered the ESR value of solid-state capacitors;
- Developed liquid-state V-CHIP by applying super-cathode foils, which can significantly increase the capacity;
- Developed products of ultra-high voltage (500V-600V) and low temperature (-40°C), to satisfy diverse market demands;
- Developed 550V-600V foil-type products capable of resisting high-voltage shock, to meet the new energy demand for PV inverters; and
- Online surveillance of liquid-state high-voltage products and the aging production of charging cradles, with improved application of products in the new energy field.

LIQUIDITY AND FINANCIAL RESOURCES

CASH FLOWS

The Group's cash demand was primarily derived from the acquisition of property, plant and equipment, the costs and expenses involved in operating activities, and repayment of bank loan interest and borrowings. During the Year, the Group obtained its cash resources from its operating activities.

During the Year, the Group had a total net cash outflow of approximately RMB14,176,000 from operating, investing, and financing activities before foreign exchange adjustment, details of which are set out below:

Net cash inflow from operating activities was approximately RMB46,122,000, which was mainly due to the profit before tax for the Year of approximately RMB23,103,000 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 RMB50,743,000, which was mainly due to the payment of approximately RMB57,732,000 for the purchase of machinery and equipment.

Net cash outflow from financing activities was approximately RMB9,555,000, which was mainly due to borrowings of approximately RMB237,822,000 from banks, repayment of bank borrowings of approximately RMB209,756,000, payment of interest from borrowings of approximately RMB1,620,000 and payment of dividend of approximately RMB36,630,000.

As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB108,446,000 (31 December 2016: RMB123,362,000), which were mainly held in Renminbi, U.S. Dollars and Euro (31 December 2016: Renminbi and U.S. Dollars).

BORROWINGS

As at 31 December 2017, the Group had bank borrowings of approximately RMB115,784,000 (31 December 2016: RMB87,210,000), which were mainly denominated in U.S. Dollars, New Taiwan Dollars, Japanese Yen and Euro (31 December 2016: U.S. Dollars, New Taiwan Dollars and Japanese Yen). Among such bank borrowings, approximately RMB74,070,000 (31 December 2016: RMB44,150,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of the bank borrowings:

	31 December 2017 RMB'000	31 December 2016 RMB'000
Within one year	**115,784**	87,210

PLEDGE OF ASSETS

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Bank deposits	**1,205**	2,424
Land use rights	**–**	13,818
Property, plant and equipment	**10,864**	97,614
	12,069	113,856

The pledged land use rights and certain pledged property, plant and equipment as at 31 December 2016 were released during the year ended 31 December 2017 due to expiry of relevant banking facilities.

FINANCIAL RATIOS

As at 31 December 2017, the Group's gearing ratio (net debt divided by equity attributable to owners of the Company plus net debt) amounted to approximately 29.97%, representing an increase of approximately 6.38% as compared to 23.59% as at 31 December 2016. The increase was mainly due to an increase in bank borrowings of approximately RMB28,574,000, an increase in trade and bills payable of approximately RMB24,483,000 and a decrease in cash and cash equivalents of approximately RMB14,916,000.

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	
	2017	2016
Inventory turnover	**72 days**	76 days
Trade and bills receivable turnover	**126 days**	119 days
Trade and bills payable turnover	**89 days**	76 days

The Group's turnover days of inventories decreased by about 4 days, while the turnover days of trade and bills receivable and trade and bills payable increased by about 7 days and 13 days respectively, as compared to those for the same period last year. The Group will continue to improve the management of its inventories, trade receivables and trade payables in order to achieve even more efficient use of its funds.

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately RMB18,934,000 (31 December 2016: RMB33,430,000).

MATERIAL PROCEEDINGS

(a) During the year ended 31 December 2011, a customer ("Customer") filed an arbitration claim against the Company's subsidiary Capxon Electronic Industrial Company Limited (豐賓電子工業股份有限公司) ("Capxon Taiwan") with the Japan Commercial Arbitration Association (the "Arbitration Association"), claiming damages of JPY1,412,106,000 (equivalent to approximately RMB81,375,000 (2016: RMB83,664,000)) allegedly suffered by the Customer with respect to certain alleged defective 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 RMB3,458,000 (2016: RMB3,555,000) for damages caused, plus interest from 16 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

In August 2014, an arbitral award was made against Capxon Taiwan and Capxon Taiwan was ordered to pay to the Customer damages in an aggregate sum of ("Arbitral Award"):

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB139,871,000 (2016: RMB143,806,000));

(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 RMB75,605,000 (2016: RMB77,732,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB54,305,000 (2016: RMB55,833,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (equivalent to approximately RMB9,961,000 (2016: RMB10,241,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,361,000 (2016: RMB1,399,000)).

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. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the Arbitral Award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. In May 2017, the Japan Supreme Court issued its decision, whereby it dismissed the extraordinary appeal of Capxon Taiwan and upheld the original decision of the Arbitration Association regarding the Arbitral Award.

In September 2017, the Customer filed an application to the High Court of the Hong Kong Special Administrative Region Court of First Instance ("HK Court") to enforce the Arbitral Award in Hong Kong. An enforcement order was made in October 2017 and subsequently a charging order nisi was made in November 2017 by the HK Court. Capxon Taiwan applied to the HK Court to oppose against the charging order nisi in February 2018 and to set aside the enforcement order in March 2018 ("Applications"). The final decision of the Applications has not been reached by the HK Court as of the date of this report.

In November 2017, the Customer also filed an application to the Taiwan Shilin District Court for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan Shilin District Court issued a decision granting the recognition of the Arbitral Award ("Decision"). Capxon Taiwan is in the process of appealing the Decision.

The outcome of the Applications in Hong Kong and the appeal to the Decision cannot be determined at this stage. Therefore, an aggregate amount of JPY3,366,180,618 (31 December 2016: JPY3,220,549,420), equivalent to approximately RMB193,980,000 (31 December 2016: RMB190,864,000), was accrued and included in trade and other payables as at 31 December 2017 as a result of the 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 the 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 ("PRC Action"). In December 2014, the court ruled that the complainant had failed to provide sufficient evidence, and ruled in favor of Capxon Shenzhen. The customer subsequently filed an appeal against the court's decision. In May 2017, the Higher People's Court of Guangdong Province issued its final judgement, rejecting the appeal of the customer and upholding the original decision. Capxon Shenzhen will therefore not be liable to any claims or damages under the PRC Action.

FOREIGN EXCHANGE FLUCTUATIONS

The Group derives its revenue from operations principally in U.S. Dollars and Renminbi, while its expenses are mainly denominated in Japanese Yen, Renminbi, U.S. Dollars and New Taiwan Dollars. As the revenue and expenses are denominated in different currencies, the exposure to exchange risks is mostly managed through natural hedges. However, where there is a relatively large fluctuation in the exchange rates of Renminbi and Japanese Yen, 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.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2017, the Group had approximately 2,406 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. During the Year, staff costs (including directors' emoluments) amounted to approximately RMB221,037,000 (for the year ended 31 December 2016: RMB196,672,000).

REGULATORY COMPLIANCE

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

FUTURE STRATEGIES AND PLANNING

Industry trends in 2018 include: 1) 5G mobile technology will unleash diverse demands for new applications; 2) the introduction of AI will accelerate the demand for edge computing and cloud-based data analysis; 3) block chain will be deployed for commercial purposes; 4) VR products will focus on separate VR devices; and 5) biometric technology will be an emerging star for its application to smartphones. Globally, the technology industry will continue its cross-border transformation. For businesses, how to redefine their value amidst changes and turn crises into opportunities will be the most critical agenda in 2018. Accordingly, we have set out the following objectives for our corporate transformation:

➢ Human resources: Streamlining labour requirements, and tackling the increased labour cost of production lines and improving labour efficiency by providing education and training, and increasing the number of automatic equipment.

➢ Production equipment: Increasing the number of automated equipment, which will be put to trial run.

➢ Material costs: Consolidating common materials to cut inventory backlog.

➢ Material development: Developing fundamental materials – coated high-proportion capacitance foils and high-pressure solid-state materials.

➢ Verification and delivery: Strengthening the application exchanges at the customer side to promptly understand the development dynamics of products, establishing state-of-the-art electronic application laboratories to simulate product application for end customers, and pre-determining the potential failure of capacitor performance and the reasons thereof, in order to uplift the quality of capacitors for better customer satisfaction.

➢ Technical reforms: So far, the Group expects to develop the following key technologies in relation to electrolytic capacitors in 2018:

➢ Aluminum Laminate
The Group has completed the development of Aluminum Laminate 2.5–6.3V to cater to such application in IC smoothing circuits for consumption and commercial purposes, with samples delivered to large notebook factories. In addition, the development of 16V to 25V products is expected to be completed this year.

➢ Semi-solid State
We have completed the development of 16V to 80V products and delivered their samples. In respect of production technology, we have completed the development of impregnation-based assembly and wiring machines (含浸組立連線機). As for 6.3Φ – 10Φ, mass production for all series will be fully completed in 2018;

In response to the rapidly growing demand for in-vehicle products, we have introduced a series of shockproof base plates in our development of quasi-solid-state (V-chip) products to meet the market demands.

➢ Solid State
Given the shortage of raw materials and rising costs caused by environmental protection issues, we have completed the development of special polymer material. We will gradually expand its production and extend its application to 16 to 100V products.

➢ Liquid-state High-voltage Electrolytic Capacitors
In 2018, the Group is expected to complete the development of the following materials:

(1) Hose: PET hoses capable of withstanding 1000 cycles of thermal shock at temperatures between –40°C and – 125°C
(2) Negative foils: Development and mass production of electrochemical etched high-purity high-capacity negative foils
(3) Aluminum cases: Development and mass production of double-layer, burst-proof safety aluminum cases
(4) Electrolytic paper: Development of ultra-low ESR puncture-proof low-voltage electrolytic paper

➢ In respect of the production lines for ultra-high-pressure formed foils of the electrolytic capacitors for solar power generation and EV charging piles, we will enhance research and development to improve our equipment and technology and ultimately raise the production efficiency of such production lines.

➢ We will further optimize the formed foil production technology for specific electrolytic capacitors to our customers, reduce the leakage current ratio to the level, similar to that of Japanese products, and realize mass production.

➢ In respect of the electrolytic capacitors used in adverse environments such as high temperature, high voltage and high moisture, we will develop medium-voltage formed foils capable of lower leakage current.

FUTURE PROSPECTS

In 2018, there is no question that the evolution of technology has been ushered into an era of comprehensive intelligence functions. Whether it is the unlimited possibilities in intelligence-inspired lifestyles brought about by artificial intelligence, or the wide-ranging innovative applications of AR/VR in all sorts of industries and sectors, all point to the arrival of a comprehensive digital age. With the sector's ecosystem now more fully developed, contents of both software and hardware, the development of their diverse applications as well as the solid establishment of wireless transmission, all represent new business opportunities for the industry. The realization of artificial intelligence (AI) trend relies on a breakthrough in the calculation ability of computing chips, while EVs or driverless vehicles rely on instant feedback from terminal environment. Therefore, for the future, the first priorities lie in the database analysis powered by big data, 5G-transmission time and a cloud-based management mechanism. Undoubtedly, when technology turns the world upside down, industries and human resources are bound to embrace the upgrade of this trend. The arrival of AI also means the necessity of transformation. We are also a member of the industry seeking opportunities of transformation.

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 continue to focus on its existing industries and innovative R&D, strive for excellence, control costs effectively and enhance manufacturing efficiency, all in a bid to maintain its competitiveness in the industry. With our technological R&D and product innovation services, the Group will serve and maintain a stable relationship with its existing customers. The Group will also attempt to develop a production-marketing model that integrates different industries, proactively explore markets in Europe and America to meet mass production planning, as well as stabilize the value and revenue from the manufacturing industry, in order to reward the Company's shareholders for their support with profits.

Directors and Senior Management Profiles

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Lin Chin Tsun (林金村), aged 69, 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 65, 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 41, 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 acted as the general manager of the Taiwan branch of the Company's subsidiary Capxon Technology Limited since 1 October 2015, and as the vice-president of the Company's subsidiary Capxon Electronic (Shenzhen) Co., Ltd. ("Capxon Shenzhen") since 1 January 2017. Mr. Lin was appointed as an executive Director on 15 April 2007.

Ms. Lin I Chu (林薏竹), aged 38, 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 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 38, 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. Hsieh King-Hu, Miles (謝金虎), Miles, aged 70, graduated from the Faculty of Accounting of Soochow University, and is currently a member of Taipei CPA Association. Mr. Hsieh joined Deloitte Haskins & Sells (now known as Deloitte & Touche) in July 1971, became a partner in 1987 and retired in August 2002. From 1983 to 2002, Mr. Hsieh was a member of the American Institute of Certified Public Accountants; he was also an executive member of Taipei CPA Association from August 1998 to 2001. Mr. Hsieh is at present the managing partner of Miles Hsieh & Company, which was established by him in 2002. From June 2012 to June 2015, Mr. Hsieh was the supervisor of a Taiwan-listed company, TSRC Corporation (2103), and is currently the independent director of CX Technology Corporation (2415) and The Shanghai Commercial & Savings Bank, Ltd. (5876), both of whose shares are listed on the Taiwan Stock Exchange Corporation. Mr. Hsieh was appointed as an independent non-executive Director on 1 June 2017. Mr. Hsieh is a member of the Company's audit committee, nomination committee and remuneration committee.

Mr. Lu Hong Te (呂鴻德), aged 57, 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), China SCE Property Holdings Limited (1966) and Cosmo Lady (China) Holdings Company Limited (2298), all of whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Lu was appointed as an independent non-executive Director on 15 April 2007. Mr. Lu is the chairman of the Company's audit committee and remuneration committee and a member of the nomination committee.

Mr. Tung Chin Chuan (董清銓), aged 65, 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 the corporate representative(s) of DEXIN Corporation (寶德科技股份有限公司) whose shares are traded as emerging stock in Taiwan, and a consultant of Premier Capital Management Corporation (首席財務管理顧問股份有限公司). Since 11 August 2016, Mr. Tung ceased to act as the supervisor of ACTi Corporation (建騰創達科技股份有限公司) which is a public limited company in Taiwan. 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 45, 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 the Group 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 57, 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 the Group in July 2003. She is principally responsible for the financial advisory and overall financial operations.

Mr. Lu Yen Chen, Denson (呂晏丞), aged 48, 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 the Group in July 2000 and is responsible for the research and development. Mr. Lu was promoted as the deputy general manager of a subsidiary in Taiwan on 1 September 2011.

Ms. Chan Yin Fung (陳燕鳳), aged 46, 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.

Environmental, Social and Governance Report

The Environmental, Social and Governance report (the "ESG Report") issued by the Company provides information on the Group's principles and actions as a corporate citizen in the electronics industry. The ESG Report elaborates on the various works undertaken by the Group in fulfilling the principle of sustainable development and its social and governance performance during the year ended 31 December 2017. For information relating to corporate governance, please refer to the "Corporate Governance Report" on pages 25 to 32.

SCOPE OF ESG REPORT

The ESG Report covers the core activities of the Group in Hong Kong and Mainland China. The ESG Report describes the Group's overall environmental and social policies, including environmental and social related key performance indicators ("KPIs") of Capxon Shenzhen. The Group will make continual efforts in reviewing its performance in environmental and social aspects, and consider expanding the scope of the ESG Report in the future.

The ESG Report covers the same period as the Group's annual report, which is from 1 January to 31 December 2017.

ESG REPORTING GUIDELINES

The ESG Report is prepared in accordance with the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and references "Specification with Guidance for Quantification and Reporting of The Organization's Greenhouse Gas Emissions" issued by the Market Supervision Commission of Shenzhen Municipality to calculate the KPIs.

STAKEHOLDER ENGAGEMENT

The preparation of the ESG Report involves the engagement of our employees from various departments of the Group, allowing us to obtain a clearer understanding of our levels in environment and social development. The data we have collected not only provides a summary of the Group's environmental and social related work for the year ended 31 December 2017, but also lays a foundation for formulating the Group's short-term and long-term sustainability development strategies. The Group will continue to increase the involvement of stakeholders to collect their valuable and constructive comments and suggestions for our development.

INFORMATION AND FEEDBACK

For detailed information about environmental and corporate governance, please refer to the official website (http://www.capxongroup.com) of the Group and the annual report. Your opinions will be highly valued by the Group. If you have any advice or suggestions, please send your correspondence to the following address: capxon@biznetvigator.com.

OUR VISION ON ENVIRONMENT AND SOCIAL

The Group is one of Asia's leading vertically integrated aluminum electrolytic capacitor manufacturers, and is also one of the few manufacturers that can produce high-quality anode foils in Mainland China. Established in 1980 and listed on the Main Board of The Stock Exchange of Hong Kong Limited in 2007, the Group's principal businesses include the manufacturing and the sale of aluminum foils and capacitors. Our operation is underpinned by six core values: Sincerity; Challenges; Progress; Customers come first; Obedience; and Neatness. The Group ensures quality control in the entire production process by inspecting the raw materials components and installing the relevant equipment and apparatuses. We make sure that all the procedures comply with the Restriction of Hazardous Substances Directive ("RoHS") and carry out green production practices in order to win the trust of our customers.

GREEN OPERATIONS

The Group aims to enhance its performance in environmental protection as we understand that environmental protection is a social responsibility that cannot be neglected. We have clear environmental targets, including compliance with the law, pollution control, clean production, reduction of resources consumption, conservation of natural resources, decreasing the production of toxic substances and continuous improvement on the environment. In relation to environmental protection, the Group has established annual environmental targets in order to reduce the negative impacts of the business on the environment. The Group has been certified by the ISO14001: 2004 Environmental Management System, the IECQ QC8000: 2012 Hazardous Substance Process Management System and the ISO14064: 2006 Green House Gas Emission Management System.

PAPERLESS OFFICE

We aim to create a paperless office by reducing our paper consumption. All internal announcements, memoranda and notices are published on our intranet, while documents are circulated electronically and transferred by e-mail. Meanwhile, in order to optimize the use of paper, we encourage our employees to use duplex copying and printing, and informal documents are required to be printed on recycled paper. In order to monitor the paper consumption of various departments, paper is centrally allocated to different departments.

WASTE DISPOSAL

Conservation of resources and pollution reduction are crucial for protecting the scarce resources of the Earth. The Group continues to be committed to fostering the concerted efforts of different departments in compliance with laws and regulations concerning waste management, as well as the waste reduction and recycling during the production process. Capxon Shenzhen recycles its raw materials waste, and the discarded raw materials are sent to recycling stations for professional treatment or are recycled by the suppliers. We also trade in our consumable goods to avoid squandering resources. The Group strictly complies with the laws and regulations relating to hazardous waste. All hazardous waste generated during our operations are treated by qualified recycle companies.

EMISSIONS MANAGEMENT

The Group understands that the discharge of wastewater and exhaust gas could damage our ecosystem. As such, a rigorous monitoring of the generation of wastewater and exhaust gas is implemented in the production processes, ensuring that our operation will not cause a negative environmental impact. We set up clear procedures for wastewater treatment to ensure that the wastewater has been treated by biochemical processes and water purification processes before it is discharged. We analyze the water quality of our effluents regularly, and an external qualified party is responsible for checking the indicators of the effluents. We also regularly inspect and maintain the wastewater treatment works to ensure the proper operation of the equipment, and only effluents that meet the Class 2 requirements of the Guangdong Provincial Standard of "Discharge Limits of Water Pollutants" (《水污染物排放限值》) (DB44/26-2001) after wastewater treatment is discharged. The concentration of water pollutants in our effluents is as follows:

Water Pollutant	Concentration of Pollutant	Concentration Limit of the DB44/26-2001 Standard
pH Value	6.5-7.9	6-9
Fluoride	≦0.01 mg/L	10 mg/L
Chemical Oxygen Demand (COD)	≦13 mg/L	110 mg/L
Phosphate	≦0.03 mg/L	1 mg/L
Zinc	≦0.06 mg/L	3 mg/L

The Group only generates a small amount of industrial waste gas. The emission of exhaust gas is regularly inspected to ensure the requirements of Guangdong Provincial Standard of "Emission Standard of Air Pollutants" (《大氣污染物排放限值》) (DB44/27-2001) are fulfilled. The concentration of air pollutants from exhaust gas is as follows:

Air Pollutant	Concentration of Pollutant (mg/m^3)	Concentration Limit of the DB44/27-2001 Standard (mg/m^3)
Nitrogen Oxides	≦95	120
Sulphur Dioxide	Not Detected	500
Smoke	≦2.6	120

TREASURING RESOURCES

The Group mainly consumes electricity, diesel and petrol for industrial production and transportation. Through mechanisms establishment, technological innovation, publicity and training, the Group's performance on energy conservation has been enhanced, which has helped us to obtain the ISO50001 Energy Management Certification, rendering the Group the first enterprise to obtain this certification in Guangming New District, Shenzhen.

MECHANISM ESTABLISHMENT

In order to strengthen our management and refine our work, the Group has implemented a comprehensive energy-saving mechanism, including the development of an energy-saving system and the establishment of an evaluation system and reward and penalty program. We emphasize the involvement of employees from all positions in conserving energy to ensure that measures for energy-saving can be effectively implemented. The system not only involves the participation of the chairman or management team, but also employees at all levels. In the energy-saving system, the management team holds meetings from time to time to discuss energy conservation work and check the implementation in various departments in accordance with the energy conservation targets. Through publicity measures in relation to energy-saving, the Group raised energy conservation awareness of our employees. Moreover, we have worked out a practical energy conservation and emissions reduction plan in accordance with our actual situation and have refined the relevant work details. We have set energy conservation targets and appointed energy conservation officers in each department. To ensure sustainable development, we conduct performance assessments in a timely manner and implement incentive mechanisms to achieve our energy conservation targets.

In order to accomplish energy conservation targets, we have established an all-rounded evaluation system, which includes a stringent evaluation of all departments according to the energy conservation targets and implemented policies. The Group has a clear resources management procedure to ensure that resources are properly used. We have also considered whether the energy conservation officer in each department understands each employee's ability when allocating the energy conservation targets to individual employee. The Group has established a comprehensive reward and penalty program according to the evaluation results. We reward those departments or personnel who make outstanding achievements in energy conservation technological innovations, energy conservation management and energy conservation inventions, and penalize departments or personnel for wasting energy. In particular, we reward and provide appropriate incentives to employees who are able to provide measures of enhancing the production volume and quality of products while reducing energy consumption, or carry out special training on the energy conservation system to improve the energy conservation management and performance of relevant employees. The contributions of employees are also considered in their annual appraisals to share the benefits of energy-conservation with our employees.

TECHNOLOGICAL INNOVATION

As a high-tech and innovative company in Mainland China, apart from establishing the aforementioned mechanisms, we also work on the technical upgrades of three aspects, including technological innovation, work process innovation, and operational energy center transformation, which strive to engage in energy conservation and environmental protection, and to improve energy efficiency and production efficiency.

In terms of renewal of energy conservation techniques, the Group has introduced energy-saving appliances and equipment to replace outdated equipment and facilities that are inefficient and energy consuming. To improve work processes and reduce energy usage, we worked on several retrofitting projects, such as air compressor resources integration, equipment automation, lighting transformation, boiler transformation, motor replacement and ultraviolet (UV) lamp replacement, etc. We keep records of our energy conservation retrofitting projects for one year. If abnormal conditions are found, we will instruct the retrofitting company to resolve the issue. Capxon Shenzhen replaced its 1,500W UV lighting with 400W light-emitting diode (LED) for its impressing machine, saving around 17,000kWh of electricity consumption per month. In the past few years, Capxon Shenzhen has also replaced conventional light bulbs with LEDs to save electricity consumption, which can be translated into saving around 18 tons of coal equivalent (tce).

The Group recognizes the need for reforming the work procedures to complement the upgrading of hardware. Therefore, by focusing on energy consumption of our production equipment, we have strengthened the procedures of work allocation in the production units. The number of machines in operation is now determined by the volume of sales orders in order to maximize the utilization of our equipment. To save energy, we lower the temperature of cleaning machines and recycle the residual heat of the air compressors for heating water used in our employees' dormitory. In order to reduce water consumption, the Group collects and purifies wastewater to clean electronic components. Employees are required to regularly conduct maintenance on water storage facilities to prevent water wastage.

The effectiveness of reforming energy-saving projects and innovative working procedures are reflected by the energy consumption of different departments. The Group commissioned the China Certification and Inspection Group to set up an energy management center for collecting data and identifying energy-consuming projects which need to be remedied, avoided and managed. In addition, the center helps evaluate the energy performance and identify the energy-saving potential of the Group. Based on the evaluation, we can develop strategies for improving management and technical measures on the optimization of energy consumption.

PUBLICITY AND TRAINING

The Group has actively promoted energy conservation and raised the employees' awareness of energy conservation in order to encourage the employees to implement the energy conservation measures and achieve the energy conservation targets. The Group is committed to providing energy-saving training to our employees. Besides introducing the new employees to the energy consumption of major products of the Group and major energy-saving equipment, the Group also conducts professional trainings according to the needs of different positions. Moreover, we post energy conservation posters to encourage our employees to take responsibility in saving resources, turning off the tap after use and switching off the lights when not in use.

PEOPLE-ORIENTED

Our employees, who are crucial to the development of the Group is a valuable resource of the Group. The Group is committed to strengthening the corporate values of Sincerity, Challenge, Progress, Customers-come-first, Obedience and Neatness. We strive to provide a comfortable working environment and to build a career platform for our employees to showcase their talent. We strictly abide by the applicable labour laws and regulations and ensure that the interests of the employees are not prejudiced.

EMPLOYEE RIGHTS AND INTERESTS

According to our established recruitment processes, we attract and preserve talent who meet the Group's strategic requirements through various channels such as the talent market and the internet. All candidates will be treated fairly, without any discrimination against gender, age, race or religious belief, if they meet the relevant job requirements. The Group verifies the age of applicants by checking their identification documents to avoid employment of child labour. Before commencement of employment, employees are provided with detailed job descriptions of the duties and responsibilities of the position concerned. The employment is in accordance with labour contract to prevent any forced labour. When employees work overtime, they do so on a voluntary basis to prevent forced labour. We also provide overtime payment in accordance with the relevant laws and regulations. The Group did not employ any child labour or forced labour during the year ended 31 December 2017.

SALARY AND BENEFITS

The Group implements the concept of income adjustment according to the performance of the employee. Employees' performance is reviewed annually for promotion and salary adjustments. Besides basic remuneration, statutory holidays and benefits according to the national rules and regulations, the Group also provides paid leave, holiday gifts, allowance for working under high temperature and other benefits. Based on seniority, we also provide employees with travel subsidies when they return home in Chinese New Year. As a friendly employer, we aim to promote the concept of work-life balance to our employees in order to create a harmonious working environment. For example, Capxon Shenzhen has built a yoga room, two standard basketball courts and a garden for employees to use for free, allowing them to relieve their physical and mental fatigue after work. In addition, Capxon Shenzhen provides free movie screenings from time to time as employee entertainment. During the year ended 31 December 2017, Capxon Shenzhen held activities like the Spring Festival Gala and 8th Award Presentation Ceremony for employees who had completed 10 years of service with the Group on Labor Day, so as to foster the employees' sense of identity towards the Group and to create a harmonious corporate culture.

HEALTH AND SAFETY

As a responsible employer, "Safety comes first, prioritize precautionary measures" is our main safety guideline for our employees. We have established an all-rounded health and safety policy based on the national labour health and safety laws and regulations to prevent occupational hazards. We have also carried out health and safety workshops for our employees to prevent any accidents during work. The Group has consistently implemented the "Five Simultaneous Ideas" (i.e. planning, setting, checking, concluding and reviewing safety and production simultaneously) and the "Four Principles for Accidents" (i.e. intolerance of unclear explanations, unimplemented actions, unclear responsibilities and uneducated personnel). Heavy penalties will be imposed if employees violate the "Three Violations" (i.e. violation against regulations in operation, supervision and violation of labor disciplines).

HEALTH AND SAFETY POLICY

One of the concerns of the Group is the potential occupational hazards in the workplace. Every year, the Group commissions a qualified occupational health technical service organization to conduct an occupational hazard inspection in the workplace. Employees who are in positions with potential health concerns are required to undergo a physical check-up. If employees are identified with any suspected or confirmed occupational health issues, we will arrange transfer or leave for the employees in a timely manner. Only those who have passed the physical check-up are permitted to return to work. Moreover, as some of our employees are required to operate machines or engage in dangerous activities, the Group has established a comprehensive set of guidelines for production and operation safety. The Group requires our employees to strictly follow these operating procedures and the management team to monitor production safety regularly. The stability of our machinery is crucial to the safety of the employees, thus daily and regular maintenance are necessary. All machinery must pass safety checks for the prevention of injury and fatality of employees. To enhance the safety awareness of various departments, to further improve the level of safety management, and to implement management with the aim of "marking everyone responsible for safety", we have signed an agreement with department heads to pledge responsibility in securing safety in production, with a view to achieve the following safety goals:

- Zero casualties or major personal injuries;
- Zero serious mechanical and electrical equipment accidents;
- Zero fire and traffic accidents;
- Zero large-scale infectious diseases and acute poisonings;
- Zero occurrence rate of occupational diseases;
- Zero radioactive accidents.

SAFETY EQUIPMENT

A safe workplace is crucial for the prevention of injury and illness. Production safety would be empty talk without proper protective equipment. To ensure the health and safety of the employees, the Group provides personal protective equipment such as earplugs, protective masks, face masks, etc. Moreover, we have also installed different large-scale protective equipment, such as automatic mechanical sealing equipment, exhaust ventilation fans, exhaust and antiviral installations, etc. The Group also takes potential emergency situations into consideration and provides different emergency equipment in the workplace such as first aid kits.

PUBLICITY AND EDUCATION

While equipping the employees with protective hardware, the Group also requires complementary software. Publicity and education both play important roles in health and safety. The safety of the employees is closely associated with their daily activities, thus we proactively organize promotion events on production safety and place safety notices at the workplace as a reminder. Besides, we attach importance in safety education, for example, organizing regular occupational safety trainings and talks related to occupational health. Content of the training sessions not only cover the principles of production safety, regulations, operating skills, and employees' rights and responsibilities in production safety, but also an analysis of case studies for a better understanding of the employees towards the application of corresponding emergency measures and control procedures in the event of unanticipated incidents. Apart from providing essential safety production knowledge, the Group requires the employees to pass relevant tests before working. Regular drills on emergency plans for health hazards and occupational diseases are essential, which allow employees to familiarize themselves, with the plans after the occurrence of incidents and the management team to comment on the plans for refinement.

ELITE TRAINING

With a view to establishing an elite team for the Group's rapid development and efficient operation, we constantly inspect the employees' performances and regularly conduct performance appraisals. We formulated the promotion mechanism under the principles of fairness and transparency, without any tolerance towards any forms of discrimination. Employees' personal quality, competence and performance are fully considered when assessing the promotion. When there are job vacancies, we will consider internal promotion for competent employees as a way to recognize their contribution.

TRAINING MANAGEMENT

The Group is committed to promoting training and development activities for the employees, which aim to advance their expertise, management competence and problem-solving skills. The Group also provides comprehensive training resources and a learning environment that enhance employees' learning effectiveness, which allow the employees to achieve continuous innovation and maintain the Group's competitive edge. Annual training plans are designed according to the Group's annual business plan and objectives, the demand for training in each department and the applicability of various trainings. The plan includes trainings on various systems, skills training, and new staff training, etc. We implement the training sessions according to a schedule. To evaluate training effectiveness, we invite our employees to fill in questionnaires for their feedback on the level and applicability of the training, quality of the trainer and the overall satisfaction.

TRAINING TYPE

Training provided by the Group includes pre-job training, on-the-job training and professional training. The Group provides pre-job training to new employees in order to accelerate their engagement in the Group's operation. The training includes introduction of the Group's history, corporate culture, business philosophy, quality policy, organizational structure, operational procedures, quality insurance, machinery operation manuals, safety precautions, the Occupational Health and Safety Assessment Series (OHSAS) 18000, and Electronic Industry Code of Conduct (《電子行業行為準則》), etc, so as to enhance the environmental awareness of the employees. Besides theoretical pre-job training, the Group coordinates with each department and provides guidance, which enables the new employees to understand the requirements of their positions in a gradual manner and adapt to their work quickly. Other than pre-job training, we also offer specific on-the-job training to enrich their knowledge and skills for their respective positions. On-the-job training includes the following four aspects: management effectiveness, health and safety, product quality and technical support. Apart from on-the-job training, the Group also provides professional training to enhance the executive competencies and specific professional skills. We recognize the importance of the employees' professional knowledge towards product quality. Hence, all employees who are engaged in quality assurance, research and development, instrument calibration, internal audit and environmental monitoring management must participate in training related to operational knowledge and skills of green products, and obtain relevant certifications. Each department is required to validate the qualifications of the staff annually. In addition, the Group places great emphasis on the quality control of products and aims to offer the best quality products to our customers. Therefore, apart from providing internal training for the employees, the Group also offers external training allowances as an aid and encouragement for qualified technicians to further their studies.

SUPPLY CHAIN MANAGEMENT

With the support from various suppliers, the Group is able to provide the best quality products and services to our customers. We recognize the importance of effective supply chain management towards the operational process. Therefore, we have established environmental, social and ethical standards to evaluate the integrity of our suppliers. All suppliers are required to operate in respect of the concept of sustainable development and the principle of perpetual progress. The Group has also established a transparent and fair procurement procedure for entering into contractual arrangements with suppliers. The requirements towards suppliers are set not only to protect the Group's reputation and business, but also aim to promote the importance of complying with business ethics when dealing with other companies.

SELECTION OF SUPPLIERS

In order to implement our quality policies and to fulfill the environmental protection responsibilities of the Group, we have set strict requirements for our suppliers. The Group has established a clear supplier selection policy to explore and select competitive suppliers with good quality operations. The suppliers are required to fulfill the requirements of ISO9001 Quality Management System and the IECQ QC80000 Hazardous Substance Process Management System. The Group also sets sustainability standards for suppliers to assist potential suppliers in improving their product quality, environmental standards and services, so that a mutually supportive and beneficial relationship can been built between the Group and our suppliers. We have established a series of assessments to evaluate our suppliers, including areas of health and safety, employment policies, human rights and environmental performance. For example, the assessments include whether they have set up an environmental management system, and whether they have conducted product safety testing, etc. The Group conducts on site evaluation to ensure the suppliers are fulfilling the requirements. Our key material suppliers are required to obtain certifications by a third-party certification party, such as ISO9001 certifications, and do not have irregularities. We also give priority to suppliers with ISO9001, IATF16949 Automotive Quality Management Systems, ISO14001 and IECQ QC8000 certifications. All suppliers of the Group must respect the individual human rights of their employees and comply with the relevant laws, regulations and directives in their corresponding operating countries and communities.

SUSTAINABLE AUDIT

After selecting the supplier, we monitor its performance on a continuing basis. We formulate guidelines for inspecting and improving the supplier performance. The guidelines include monthly performance reviews and procedures improvement, so as to fulfill the operation requirements and achieve sustainable growth. In order to ensure the quality of our products, the Group assesses our major suppliers in five aspects on a monthly basis, including quality, delivery, service, cost, and technology. The Group has set high environmental standards for the materials used by our suppliers. If a third-party certification organization confirms the presence of abnormal environmental substances in their review process, the rating of the supplier will be zero. The Group gives top priority to the top performing suppliers based on the results of the review.

SERVING OUR CUSTOMER

The Group is committed to providing the best quality products to our customers by placing the top priority on performing gate-keeping in each procedure. We strive to be customer-oriented by providing quality products that meet their requirements. To deliver the Group's promises, we have implemented the relevant quality assurance controls in order to provide quality services to our customers. We also place great emphasis on customer feedback. To enhance customer's confidence towards the Group, we strive to provide satisfactory after-sale services to our customers, and also to promptly provide effective solutions to the customers' complaints. The Group stipulates that the information provided in all the marketing materials is true and correct, and any forms of false, misleading or misrepresentation statements are prohibited. The Group strictly complies with the laws and regulations related to advertising, labeling and privacy matters of the products.

TESTING AND QUALITY ASSURANCE

To ensure product quality, we have designed a thorough raw material inspection, production process inspection and finished product inspection. We conduct a series of comprehensive checks and tests according to the product specifications and operating standards, the standard of AEC-Q200 Stress Test Qualification for Passive Components and requirements of RoHS on each process. We also check the products' quality, appearance and eco-labels based on the customers' requirements to ensure that the customers receive the products that meet their requirements. The Group understands the importance of learning from mistakes. Therefore, if substandard products are found in the inspection process, the Group will identify the causes of the problems and propose corrective and preventative measures. After the implementation of the measures, we closely monitor their effectiveness and improve the procedures to prevent re-occurrence of the same situation. Moreover, we have an excellent policy for product identification and tracking, which ensures that appropriate records and identification marks are made throughout the entire production process, from the procurement of raw materials, to the shipping of parts, and finally to the finished products. When abnormalities are found in the products, the tracking system allows us to trace the problematic raw materials quickly and to identify any potential issues amongst the entire production process.

CUSTOMER FEEDBACK

We attach great importance to customer feedback, thus we regularly survey our customers' satisfaction towards our products, and carefully analyze our customers' requirements and implement improvement policies to enhance our customer satisfaction. Focusing on the items with low customer satisfaction, we work out improvement plans and inspect the production process to ensure that product quality and production efficiency to meet the customers' requirements, as well as to improve continuously. We have established a comprehensive customer feedback system that enables our sales center to instantly form a cross-department team to analyze and review the products' quality, safety and service quality issues, and adopt the most appropriate approach. The Group is committed to providing a full report to the customers within 3 working days. We believe in the importance of safeguarding the health and safety of our customers and ensuring customer satisfaction.

COMMITMENT TO INTELLECTUAL PROPERTY

With a view to protecting third parties' intellectual property rights and privacy, the Group only uses its clients' trademarks, patents, and technology with their consent and authorization. We have strengthened our internal information management to prevent our employees from disclosing any documents and information related to intellectual property in any way. The Group enhances the awareness of our employees in protecting intellectual property by providing regular intellectual property training, thus our employees can learn specific methods to protect intellectual property.

ANTI-CORRUPTION

In order to maintain the Group's image of integrity and justice, we have established a strict anti-corruption and anti-bribery system. We strictly comply with the laws and regulations related to bribery, extortion, fraud and money laundering. We also empower our employees to supervise any internal personnel, including senior management and other departments, and to report any regulatory violations directly to the Group. The Group will conduct investigations and collect evidence after receiving reports that may involve violations of the Group's business integrity and request verification, and the result of investigation will be published. If necessary, it will be resolved through legal means. In addition, we protect the whistleblower from threats such as attacks, retaliatory or other discriminatory behaviors and keep the identity of the whistleblower confidential.

CARE FOR COMMUNITY

As a socially responsible enterprise, the Group strives to build a close and long-term relationship with the community and create a high-quality living environment for the public. The Group cooperates with non-governmental organizations and socially responsible companies on a continuous basis for the well-being of the community. In addition, the Group's commitment to the society is rooted in its corporate culture. While upholding the principles of "leading by example" and "seeking excellence and perfection", we encourage our employees to take part in volunteering work in the community and continuously strengthen the Group's cooperation with the community. In order to strengthen our connection with the community, we actively participated in different public welfare events including cultural events, sports activities, competitions, etc organized by local communities, business associations and labor unions.

MAIN KEY PERFORMANCE INDICATORS

The following data only covers the business of Capxon Shenzhen as Capxon Shenzhen is the Group's main operation. The Group will consider expanding the scope of the ESG report in the future.

Environmental indicator	2017
Emission from vehicles and stationary source	
Nitrogen oxides (kg)	4,860
Sulphur dioxide (kg)	6
Particulate matter (kg)	306
Greenhouse gases	
Total emission of greenhouse gases (tonnes)	67,993
Total emission of greenhouse gases per 10 thousands products produced (tonnes/10 thousands products)	0.17
Direct emissions (Scope 1) (tonnes)	2,495
Indirect emissions (Scope 2) (tonnes)	65,267
Other indirect emissions (Scope 3) (tonnes)	231
Waste	
Total amount of disposal of non-hazardous waste (tonnes)	473
Total amount of non-hazardous waste produced per 10 thousands products produced (kg/10 thousands products)	1.20
Total amount of hazardous waste produced (tonnes)	140
Total amount of hazardous waste produced per 10 thousands products produced (kg/10 thousands products)	0.36
Use of resources	
Total energy consumption (MWh)	77,539
Total energy consumption per 10 thousands products produced (MWh/10 thousands products)	0.20
Consumption of non-renewable energy (MWh)	8,758
Electricity purchased for consumption (MWh)	68,781
Total water consumption (m^3)	351,264
Water consumption per 10,000 products produced (m^3/10,000 products)	0.89
Amount of materials used for paper packaging (tonnes)	1,391
Amount of packaging materials used per 10 thousands products produced (kg/10 thousands products)	3.74

Employment indicator	2017
Numbers of employees	2,236
By gender	
Male	1,093
Female	1,143
By age	
Above 50	78
30-50	1,374
Below 30	784

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 one of the key elements of 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. Lai Chung Ching, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 1 June 2017 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 is also involved in handling the financial reporting matters of the Group, it simplifies the reporting process if she reports to the chief financial officer, who in turn reports to the board chairman on matters concerning 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	69	Approx. 11 years
Ms. CHOU Chiu Yueh	*(Vice-President)*	Female	Chinese	65	Approx. 11 years
Mr. LIN Yuan Yu	*(Chief Executive Officer)*	Male	Chinese	41	Approx. 11 years
Ms. LIN I Chu		Female	Chinese	38	Approx. 11 years
Non-executive Director:					
Ms. LIU Fang Chun		Female	Chinese	38	Approx. 11 years
Independent non-executive Directors:					
Mr. LAI Chung Ching	*(Retired on 1 June 2017)*	Male	Chinese	82	Approx. 10 years
Mr. HSIEH King-Hu, Miles	*(Appointed on 1 June 2017)*	Male	Chinese	70	Approx. 10 months
Mr. LU Hong Te		Male	Chinese	57	Approx. 11 years
Mr. TUNG Chin Chuan		Male	Chinese	65	Approx. 11 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 14 and 15.

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

Directors can attend Board meetings either in person or by electronic means of communication. Five 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 judgment 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.

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 Environmental, Social and 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 retired as the chairman of the committee on 1 June 2017 and Mr. Lu Hong Te has acted as the chairman of the committee since then.

During the Year, four meetings were held by the remuneration committee to discuss remuneration related matters which included review of the terms of the Director's service agreement/appointment letter, approval of salary increment of and bonus payments to the Directors and senior management. 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 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, risk management 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 retired as the chairman of the committee on 1 June 2017 and Mr. Lu Hong Te has acted as the chairman of the committee since then.

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 2016 and for the six months ended 30 June 2017, the accounting principles and practices adopted by the Group and statutory compliance. In addition to reviewing the risk management and internal control systems and the effectiveness of the internal audit function of the Group, 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; considered the suitability (including assessment of independence) of appointing Mr. Hsieh King-Hu, Miles as an independent non-executive Director and made recommendation to the Board on his appointment. 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	1,125
Non-audit services	508
	1,633

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 2017 and provision of taxation services.

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 2018.

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 entitled to attend in 2017				
Name of Director	**Board**	**Remuneration Committee**	**Audit Committee**	**Nomination Committee**	**Annual General Meeting**
Mr. LIN Chin Tsun	4/5	3/4	N/A	1/1	1/1
Ms. CHOU Chiu Yueh	5/5	4/4	N/A	1/1	1/1
Mr. LIN Yuan Yu	4/5	N/A	N/A	N/A	1/1
Ms. LIN I Chu	3/5	N/A	N/A	N/A	1/1
Ms. LIU Fang Chun	5/5	N/A	N/A	N/A	1/1
Mr. LAI Chung Ching *(Retired on 1 June 2017)*	1/1	1/1	1/1	1/1	0/1
Mr. HSIEH, King-Hu, Miles *(Appointed on 1 June 2017)*	3/4	2/3	1/2	N/A	N/A
Mr. LU Hong Te	5/5	4/4	3/3	1/1	1/1
Mr. TUNG Chin Chuan	3/5	2/4	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 independent auditor's report on pages 40 to 44.

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 1303, 13th 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 1303, 13th 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 Company's 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 1303, 13th 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. RISK MANAGEMENT AND INTERNAL CONTROLS

During the Year, the Company has complied with Principle C.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. Management is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

RISK MANAGEMENT SYSTEM

The Group adopts a risk management system which manages the risks associated with its business and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of these objectives.

- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- *Management:* Consider the risk responses, ensure effective communication with the Board and on-going monitoring of the residual risks.

Based on the risk assessments conducted in 2017, no significant risk was identified.

INTERNAL CONTROL SYSTEM

The Company has in place an integrated framework of internal controls which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are as follows:

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- *Risk Assessment:* A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- *Control Activities:* Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

- *Information and Communication:* Internal and external communications to provide the Group with the information needed to carry out day-to-day controls.

- *Monitoring:* Ongoing and separate evaluations to ascertain whether each component of the internal control is present and functioning.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group has also adopted and implemented an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality agreements are in place when the Group enters into significant negotiations.

- The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted in 2017, no significant control deficiency was identified.

INTERNAL AUDITORS

The Group has an Internal Audit ("IA") function, which consists of professional staff with relevant expertise (such as Certified Public Accountant). The IA function is independent of the Group's daily operation and carries out appraisal of the risk management and internal control systems by conducting interviews, walkthroughs and tests of operating effectiveness.

An IA plan has been approved by the Board. According to the established plan, review of the risk management and internal control systems is conducted semi-annually, and the results are reported to the Board via the audit committee afterwards.

EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Board is responsible for the risk management and internal control systems of the Group and ensuring that reviews of the effectiveness of the systems of risk management and internal control are conducted semi-annually. Several areas have been considered during the Board's reviews, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems, and the work of its IA function.

The Board, through its reviews and the reviews made by the IA function and the audit committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board considers that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

K. INVESTOR RELATIONS

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

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. 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", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" on pages 3 to 5, pages 6 to 13 and pages 16 to 24 respectively, 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 16.04% and 50.32%, 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 45.

During the Year, the Board declared an interim dividend of HK$0.05 per share (2016: Nil per share), amounting to a total of HK$42,227,992.05 (2016: Nil) which was paid to the shareholders of the Company on 11 December 2017.

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 of the Group 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 Group's 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 48.

As at 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB442,688,000 (31 December 2016: RMB380,188,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 96.

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 *(Retired on 1 June 2017)*
Mr. HSIEH King-Hu, Miles *(Appointed on 1 June 2017)*
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, Mr. Lu Hong Te and Mr. Tung Chin Chuan 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 2017 are as follows:

Mr. Lu Hong Te was during the Year appointed as an independent non-executive director of Cosmo Lady (China) Holdings Company Limited (都市麗人(中國)控股有限公司) (Stock Code: 2298) whose shares are listed on the main board of the Stock Exchange.

Mr. Tung Chin Chuan was during the Year appointed as a supervisor of the corporate representative(s) of DEXIN Corporation (寶德科技股份有限公司) (Stock Code: 3349) whose shares are traded as emerging stock in Taiwan.

At the meeting(s) of the remuneration committee and the Board held during the Year, the following annual salary increment of the executive Directors and the non-executive Director were approved with effect from 14 November 2017:

	From (per annum)	Increase to (per annum)
Mr. LIN Chin Tsun	HK$2,400,000 and NT$2,400,000	HK$2,600,000 and NT$2,600,000
Ms. CHOU Chiu Yueh	HK$1,200,000 and NT$1,200,000	HK$1,300,000 and NT$1,300,000
Mr. LIN Yuan Yu	HK$1,200,000 and NT$2,400,000	HK$1,300,000 and NT$2,600,000
Ms. LIN I Chu	HK$600,000 and NT$1,800,000	HK$650,000, NT$1,950,000 and *RMB260,000
Ms. LIU Fang Chun	HK$600,000 and NT$600,000	HK$650,000 and NT$650,000

* With effect from 1 January 2018.

DIRECTORS' SERVICE CONTRACTS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received an independence confirmation from each of the independent non-executive Directors and considers each of 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. The Share Option Scheme expired at 5:00 p.m. on 31 March 2017 and no new share option scheme has been adopted by the Company.

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 30 March 2017

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 2017, 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 2017.

(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 2017, 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 2017, 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 2017.

Save as disclosed above, the Directors are not aware of any other persons who, as at 31 December 2017, 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 takes into account prevailing market terms, individual performance, qualifications and competence.

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

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 2018

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)

OPINION

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 45 to 95, which comprise the consolidated statement of financial position as at 31 December 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for damages	
We identified the provision for damages associated with litigation in respect of the arbitral award against a subsidiary of the Company by the Japan Commercial Arbitration Association (the "Arbitration Association") as a key audit matter due to the estimation uncertainty in respect of the ultimate outcome of the litigation. As disclosed in Notes 4, 22 and 33(a) to the consolidated financial statements, an aggregate amount of approximately RMB193,980,000 was provided for as at 31 December 2017, in respect of damages, interest and arbitration related expenses as a result of an arbitral award ("Arbitral Award") from a customer ("Customer") against the Company's subsidiary in Taiwan ("Taiwan Subsidiary") received in August 2014. In February 2017, the Tokyo High Court rejected the appeal, and the Taiwan Subsidiary then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected the Taiwan Subsidiary's request for a permission to file an appeal. In May 2017, the Japan Supreme Court issued its decision, whereby it dismissed the extraordinary appeal of Taiwan Subsidiary and upheld the original decision of the Arbitration Association regarding the Arbitral Award. In September 2017, the Customer applied to the High Court of the Hong Kong Special Administrative Region Court of First Instance ("HK Court") to enforce the Arbitral Award in Hong Kong. An enforcement order was made in October 2017 and subsequently a charging order nisi was made in November 2017 by the HK Court. The Taiwan Subsidiary applied to the HK Court to oppose against the charging order nisi in February 2018 and to set aside the enforcement order in March 2018 ("Applications"). The final decision of the Applications has not been reached by the HK Court as of the date of approval of the consolidated financial statements.	Our procedures in relation to the provision for damages included: • Reading the documents in connection with the Arbitral Award from the Arbitration Association, decision in relation to the Arbitral Award issued by the Tokyo District Court, decision in relation to the rejection of the appeal issued by the Tokyo High Court, the documents in connection with the appeal to the Japan Supreme Court and a request for a permission to file an appeal to the Tokyo High Court, the decision in relation to the rejection issued by the Tokyo High Court of the request for a permission to file an appeal, documents in connection with the appeal application to the HK Court, the enforcement order and the charging order issued by the HK Court and documents in connection with the appeal application to the Taiwan Shilin District Court; • Obtaining an understanding of the legal opinion on the litigation issued by the Group's legal representatives and discussing the recent development of the litigation with the Group's legal representatives; • Checking the calculation of the aggregate amount of the provision for damages to the documents in connection with the litigation in respect of the Arbitral Award; and • Assessing whether the disclosures in respect of the provision for damages in the consolidated financial statements are sufficient and appropriate.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for damages *(continued)* In November 2017, the Customer also filed an application to the Taiwan Shilin District Court for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan Shilin District Court issued a decision granting the recognition of the Arbitral Award ("Decision"). The Taiwan Subsidiary is in the process of appealing the Decision. Due to the fact that the outcome of the Applications in Hong Kong and the appeal to the Decision cannot be determined at this stage, an overprovision or underprovision for damages may arise, which would be recognised in profit or loss for the period in which the outcome is reached. Thus, there is a material uncertainty in respect of the ultimate outcome of the litigation.	
Impairment assessment of property, plant and equipment used in the Group's aluminum foils segment	
We identified the impairment assessment of property, plant and equipment used in the Group's aluminum foils segment as a key audit matter due to the recurring loss of the aluminum foils segment during the year ended 31 December 2017. As disclosed in Note 4 to the consolidated financial statements, during the year ended 31 December 2017, as a result of the recurring losses from the Group's aluminum foils segment, the Group carried out a review of the recoverable amount of the related property, plant and equipment used in the Group's aluminum foils segment. The recoverable amount is determined based on the value in use calculation which uses the discounted future pre-tax cash flows expected to be derived from the cash-generating unit. The key assumptions used in estimating the projected cash flows are estimated selling price, estimated future costs of production, estimated future operating costs and discount rate. After the review, the management of the Group is of the view that as the recoverable amount is higher than the carrying amount, there is no impairment required to be recognised for the year ended 31 December 2017. The carrying value of the Group's property, plant and equipment used in the Group's aluminum foils segment as at 31 December 2017 was approximately RMB163,665,000 (net of accumulated depreciation and impairment loss of approximately RMB423,466,000).	Our procedures in relation to impairment assessment of property, plant and equipment used in the Group's aluminum foils segment included: • Obtaining the cash flow forecast prepared by the management of the Group in respect of these property, plant and equipment from the management of the Group; • Assessing the methodologies used and the appropriateness of the key valuation assumptions; and • Evaluating the reasonableness and appropriateness of the significant inputs and assumptions including estimated selling price, estimated future costs of production, estimated future operating costs and discount rate with reference to external and industry information.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by IASB and the 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Wu Ka Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	5	**1,069,104**	946,643
Cost of sales		**(798,445)**	(707,707)
Gross profit		**270,659**	238,936
Other income	6(a)	**15,251**	8,005
Other gains and losses	7	**(46,059)**	(1,116)
Impairment loss on property, plant and equipment		**–**	(27,596)
Distribution and selling costs		**(70,900)**	(59,374)
Administrative expenses		**(85,663)**	(79,607)
Other expenses	6(b)	**(49,648)**	(33,582)
Interest on provision for damages	33(a)	**(8,834)**	(8,899)
Finance costs	8	**(1,703)**	(2,398)
Profit before tax		**23,103**	34,369
Income tax expense	9	**(24,915)**	(20,655)
(Loss) profit for the year	10	**(1,812)**	13,714
Other comprehensive income (expense)			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**13,436**	(22,990)
Total comprehensive income (expense) for the year		**11,624**	(9,276)
(Loss) profit for the year attributable to:			
Owners of the Company		**(2,040)**	14,339
Non-controlling interests		**228**	(625)
		(1,812)	13,714
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**12,229**	(8,685)
Non-controlling interests		**(605)**	(591)
		11,624	(9,276)
(Loss) earnings per share (RMB cents)	13		
– Basic		**(0.24)**	1.70

Consolidated Statement of Financial Position

At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**447,276**	443,879
Land use rights	*15*	**22,352**	38,419
Intangible assets	*16*	**11**	153
Deferred tax assets	*17*	**267**	–
Deposits paid for acquisition of property, plant and equipment		**15,307**	34,903
		485,213	517,354
CURRENT ASSETS			
Inventories	*18*	**160,142**	154,529
Land use rights	*15*	**681**	1,031
Trade and other receivables	*19*	**452,203**	383,336
Tax recoverable		**2,056**	2,056
Pledged bank deposits	*20*	**1,205**	2,424
Bank balances and cash	*21*	**108,446**	123,362
		724,733	666,738
CURRENT LIABILITIES			
Trade and other payables	*22*	**462,318**	416,327
Bank borrowings	*23*	**115,784**	87,210
Amounts due to related parties	*24*	**4,963**	4,334
Tax liabilities		**17,849**	20,119
		600,914	527,990
NET CURRENT ASSETS		**123,819**	138,748
TOTAL ASSETS LESS CURRENT LIABILITIES		**609,032**	656,102
NON-CURRENT LIABILITIES			
Deferred income	*26*	**750**	22,698
Deferred tax liabilities	*17*	**3,648**	3,764
		4,398	26,462
NET ASSETS		**604,634**	629,640

	NOTES	2017 RMB'000	2016 RMB'000
CAPITAL AND RESERVES			
Share capital	*27*	**82,244**	82,244
Share premium and reserves		**520,754**	545,155
Equity attributable to owners of the Company		**602,998**	627,399
Non-controlling interests		**1,636**	2,241
TOTAL EQUITY		**604,634**	629,640

The consolidated financial statements on pages 45 to 95 were approved and authorised for issue by the Board of Directors on 29 March 2018 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 2017

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 *(Note i)*	Statutory reserves RMB'000 *(Note ii)*	Translation reserve RMB'000	Other reserve RMB'000 *(Note iii)*	Retained profits (accumulated losses) RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016	82,244	436,626	(30,753)	102,273	16,433	3,650	25,611	636,084	2,832	638,916
Profit (loss) for the year	–	–	–	–	–	–	14,339	14,339	(625)	13,714
Other comprehensive (expense) income for the year	–	–	–	–	(23,024)	–	–	(23,024)	34	(22,990)
Total comprehensive (expense) income	–	–	–	–	(23,024)	–	14,339	(8,685)	(591)	(9,276)
Appropriation	–	–	–	4,250	–	–	(4,250)	–	–	–
At 31 December 2016	82,244	436,626	(30,753)	106,523	(6,591)	3,650	35,700	627,399	2,241	629,640
(Loss) profit for the year	–	–	–	–	–	–	(2,040)	(2,040)	228	(1,812)
Other comprehensive income (expense) for the year	–	–	–	–	14,269	–	–	14,269	(833)	13,436
Total comprehensive income (expense)	–	–	–	–	14,269	–	(2,040)	12,229	(605)	11,624
Dividend recognised as distribution (Note 12)	–	–	–	–	–	–	(36,630)	(36,630)	–	(36,630)
Appropriation	–	–	–	8,243	–	–	(8,243)	–	–	–
At 31 December 2017	82,244	436,626	(30,753)	114,766	7,678	3,650	(11,213)	602,998	1,636	604,634

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 are 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 is 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 years ended 31 December 2013 and 2014, the Group accounted for the acquisition of additional interests in 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 RMB3,650,000, was recognised in other reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	2017 RMB'000	2016 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**23,103**	34,369
Adjustments for:		
Amortisation of intangible assets	**142**	229
Amortisation of land use rights	**684**	1,034
Bank interest income	**(762)**	(691)
Depreciation of property, plant and equipment	**47,848**	58,842
Finance costs	**1,703**	2,398
Net provision (reversal) of impairment loss on trade receivables	**2,614**	(1,940)
Impairment loss on deposits paid for acquisition of property, plant and equipment	**5,289**	–
Impairment loss on property, plant and equipment	**–**	27,596
Loss on termination of a co-operation agreement	**17,958**	–
Loss on disposals of property, plant and equipment	**3,618**	9,767
Government grants released	**(72)**	(312)
Reversal of write-down of inventories	**(6,473)**	(14,261)
Interest on provision for damages (net of corresponding foreign exchange gain of RMB9,304,000 (2016: exchange loss of RMB903,000) arising on retranslation of the related provision at exchange rate prevailing at the end of the reporting period)	**(470)**	9,802
Operating cash flows before movements in working capital	**95,182**	126,833
Decrease in inventories	**860**	1,801
Increase in trade and other receivables	**(53,404)**	(43,481)
Increase in trade and other payables	**30,186**	62,007
Increase in amount due to a related party	**–**	240
Increase in deferred income	**750**	–
Cash generated from operations	**73,574**	147,400
Income tax paid	**(27,452)**	(10,605)
NET CASH FROM OPERATING ACTIVITIES	**46,122**	136,795
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(44,180)**	(39,135)
Deposits paid for acquisition of property, plant and equipment	**(13,552)**	–
Placement of pledged bank deposits	**(775)**	(2,424)
Proceeds on disposal of land use right	**5,000**	–
Withdrawal of pledged bank deposits	**1,994**	6,730
Interest received	**762**	691
Proceeds on disposal of property, plant and equipment	**8**	1,155
NET CASH USED IN INVESTING ACTIVITIES	**(50,743)**	(32,983)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(209,756)**	(275,459)
Dividend paid	**(36,630)**	–
Interest paid	**(1,620)**	(2,398)
New bank borrowings raised	**237,822**	202,464
Advance from (repayments to) related parties	**629**	(890)
NET CASH USED IN FINANCING ACTIVITIES	**(9,555)**	(76,283)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(14,176)**	27,529
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(740)**	2,051
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**123,362**	93,782
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**108,446**	123,362

1. GENERAL

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

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

AMENDMENTS TO IFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

The Group has applied the following amendments to IFRSs issued by International Accounting Standards Board ("IASB") for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets of Unrealised Losses
Amendments to IFRS 12	As part of Annual Improvements to IFRSs 2014–2016 Cycle

AMENDMENTS TO IAS 7 *DISCLOSURE INITIATIVE*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 35. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 35, the application of these amendments has had no impact on the Group's consolidated financial statements.

Except as described above, the application of the above amendments to IFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

NEW AND REVISED IFRSs 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[1]
IFRS 15	Revenue from Contracts with Customers and the Related Amendements[1]
IFRS 16	Leases[2]
IFRS 17	Insurance Contracts[4]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts*[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[2]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to IAS 28	As part of the Annual Improvements to IFRS Standards 2014–2016 Cycle[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2015–2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2021

IFRS 9 *FINANCIAL INSTRUMENTS*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of IFRS 9 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 fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods.

- 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 *Financial Instruments: Recognition and Measurement* ("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.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of IFRS 9:

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

IFRS 9 *FINANCIAL INSTRUMENTS* *(continued)*

Classification and measurement

Except for financial assets which are subject to expected credit loss model upon application of IFRS 9, all financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under IAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of IFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs that are subject to impairment provision upon application of IFRS 9 by the Group.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by the Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit losses provision on trade receivables. Such further impairment recognised under expected credit loss model would increase the opening accumulated losses and deferred tax assets at 1 January 2018.

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.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosure. However, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

IFRS 16 *LEASES*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* ("IAS 17") and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for own use while other operating lease payments are presented as operating cash flows. Upon application of IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under IAS 17, the Group has already recognised land use rights for leasehold land where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB1,623,000 as disclosed in Note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of RMB290,000 as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments and would be included in the initial measurement of right-of-use assets.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The directors of the Company anticipate that the application of other new and revised IFRSs 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 issued by IASB. 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.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

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

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, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

BASIS OF CONSOLIDATION *(continued)*

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.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs).

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 is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

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, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight line basis over the lease terms.

LEASEHOLD LAND AND BUILDING

When the Group makes payments for a property interest which includes both leasehold 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 property is accounted as an operating lease. Specifically, the entire consideration (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 at initial recognition.

To the extent the allocation of the relevant 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 term 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).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

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 AND TERMINATION BENEFITS

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.

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another IFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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.

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

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

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

TAXATION *(continued)*

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 cost 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 estimated 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.

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.

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.

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.

Objective evidence of impairment for each individual receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments in each individual receivable 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 the 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.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other 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 or other 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.

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.

Financial liabilities at amortised cost

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.

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 have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 as 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 asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset is belonged. 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 of disposal 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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 make 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 ("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, an arbitral award was made against Capxon Taiwan and Capxon Taiwan was ordered to pay to the Customer damages in an aggregate sum of damages of Japanese Yen ("JPY")2,427,186,647 plus interest on deferred payment and arbitration related expenses ("Arbitral Award").

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. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the Arbitral Award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. In May 2017, the Japan Supreme Court issued its decision, whereby it dismissed the extraordinary appeal of Capxon Taiwan and upheld the original decision of the Arbitration Association regarding the Arbitral Award.

In September 2017, the Customer filed an application to the High Court of the Hong Kong Special Administrative Region Court of First Instance ("HK Court") to enforce the Arbitral Award in Hong Kong. An enforcement order was made in October 2017 and subsequently a charging order nisi was made in November 2017 by the HK Court. Capxon Taiwan applied to the HK Court to oppose against the charging order nisi in February 2018 and to set aside the enforcement order in March 2018 ("Applications"). The final decision of the Applications has not been reached by the HK Court as of the date of approval of the consolidated financial statements.

In November 2017, the Customer also filed an application to the Taiwan Shilin District Court for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan Shilin District Court issued a decision granting the recognition of the Arbitral Award ("Decision"). Capxon Taiwan is in the process of appealing the Decision.

Due to the fact that the outcome of the Applications in Hong Kong and the appeal to the Decision cannot be determined at this stage, an overprovision or underprovision for damages may arise, which would be recognised in profit or loss for the period in which the outcome is reached. Thus, there is a material uncertainty in respect of the ultimate outcome of the litigation. An aggregate amount of JPY3,366,180,618 (2016: JPY3,220,549,420), equivalent to approximately RMB193,980,000 (2016: RMB190,864,000), was accrued and included in trade and other payables as at 31 December 2017 as a result of the Arbitral Award.

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

IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2017, as a result of the recurring losses sustained by the Group's aluminum foils segment, the Group carried out a review of the recoverable amount of the related property, plant and equipment used in the Group's aluminum foils segment.

The recoverable amount is determined based on the value in use calculation which uses the discounted future pre-tax cash flows expected to be derived from the cash-generating unit. The key assumptions used in estimating the projected cash flows are estimated selling price, estimated future costs of production, estimated future operating costs and discount rate. After the review, the management of the Group is of the view that as the recoverable amount is higher than the carrying amount, there is no impairment required to be recognised for the year ended 31 December 2017.

As at 31 December 2017, the carrying amount of property, plant and equipment used in aluminum foils segment is RMB163,665,000 (net of accumulated depreciation and impairment loss of RMB423,466,000) (2016: carrying amount of RMB171,315,000, net of accumulated depreciation and impairment loss of RMB411,052,000).

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 2017, the carrying amount of trade receivables is RMB403,036,000 (net of allowance for doubtful debts of RMB18,188,000) (2016: carrying amount of RMB336,091,000, net of allowance for doubtful debts of RMB18,098,000).

ALLOWANCE FOR INVENTORIES

The Group exercises their estimates in making allowance for inventories. The Group reviews the inventory listing at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in operation. Management estimates the net realisable value for such items based primarily on the latest invoice prices, sales after year end and current market conditions. As at 31 December 2017, the carrying amount of inventories is RMB160,142,000 (net of allowance for inventories of RMB17,467,000) (2016: RMB154,529,000, net of allowance for inventories of RMB23,937,000).

5. REVENUE AND SEGMENT 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

5. REVENUE AND SEGMENT INFORMATION *(continued)*

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 2017

	Capacitors RMB'000	**Aluminum foils RMB'000**	**Segment total RMB'000**	**Elimination RMB'000**	**Total RMB'000**
External sales	**1,045,836**	**23,268**	**1,069,104**	**–**	**1,069,104**
Inter-segment sales	**–**	**106,406**	**106,406**	**(106,406)**	**–**
Segment revenue	**1,045,836**	**129,674**	**1,175,510**	**(106,406)**	**1,069,104**
Segment profit (loss)	**95,250**	**(58,984)**	**36,266**	**(1,154)**	**35,112**
Interest income					**762**
Unallocated corporate expenses					**(11,538)**
Finance costs					**(1,703)**
Interest on provision for damages					**(8,834)**
Foreign exchange gain arising on retranslation of provision for damages					**9,304**
Profit before tax					**23,103**

For the year ended 31 December 2016

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	928,376	18,267	946,643	–	946,643
Inter-segment sales	–	77,763	77,763	(77,763)	–
Segment revenue	928,376	96,030	1,024,406	(77,763)	946,643
Segment profit (loss)	139,486	(82,594)	56,892	(54)	56,838
Interest income					691
Unallocated corporate expenses					(10,960)
Finance costs					(2,398)
Interest on provision for damages					(8,899)
Foreign exchange loss arising on retranslation of provision for damages					(903)
Profit before tax					34,369

5. REVENUE AND SEGMENT INFORMATION *(continued)*

SEGMENT REVENUE AND RESULTS *(continued)*

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit (loss) from each segment without allocation of central administration costs, interest income, finance costs, interest on provision for damages and foreign exchange gain (loss) arising on retranslation of 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, deferred tax liabilities, tax recoverable and deferred tax assets are allocated as part of segment liabilities and segment assets respectively. This is the measure reported to the Group's chief decision makers for the purposes of resource allocation and assessment of segment performance.

Inter-segment sales are charged at prevailing market rates.

SEGMENT ASSETS AND LIABILITIES

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

	2017 RMB'000	2016 RMB'000
Segment assets		
Capacitors	**949,403**	841,656
Aluminum Foils	**534,322**	644,131
Total segment assets	**1,483,725**	1,485,787
Elimination – inter-segment balances	**(284,075)**	(302,687)
Unallocated assets	**10,296**	992
Consolidated assets	**1,209,946**	1,184,092
Segment liabilities		
Capacitors	**301,583**	223,395
Aluminum Foils	**391,981**	440,661
Total segment liabilities	**693,564**	664,056
Elimination – inter-segment balances	**(284,075)**	(302,687)
Unallocated liabilities	**195,823**	193,083
Consolidated liabilities	**605,312**	554,452

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

– all assets, other than other receivables 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 SEGMENT INFORMATION *(continued)*

GEOGRAPHICAL INFORMATION

The geographical information about the Group's non-current assets (excluding deferred tax assets) by geographical location of the assets are detailed below:

	2017 RMB'000	2016 RMB'000
The PRC	**473,992**	506,386
Taiwan	**10,954**	10,968
	484,946	517,354

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

	2017 RMB'000	2016 RMB'000
Revenue from external customers:		
The PRC	**902,834**	760,804
Taiwan	**16,583**	17,536
Other Asian countries *(Note)*	**120,284**	143,723
Europe *(Note)*	**27,877**	23,256
Americas and Africa	**1,526**	1,324
	1,069,104	946,643

Note: The countries of the external customers included in these categories comprised Korea, Japan, Vietnam, Singapore, Germany and others (2016: Korea, Japan, Vietnam, Singapore, India, Germany 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 SEGMENT INFORMATION *(continued)*

OTHER SEGMENT INFORMATION

Amount included in the measure of segment profit (loss) or segment assets:

For the year ended 31 December 2017

	Capacitors RMB'000	Aluminum foils RMB'000	Total RMB'000
Additions to non-current assets	**52,241**	**10,555**	**62,796**
Depreciation and amortisation	**29,304**	**19,370**	**48,674**
Net provision of impairment loss on trade receivables	**2,104**	**510**	**2,614**
Impairment loss on deposits paid for acquisition of property, plant and equipment	**–**	**5,289**	**5,289**
Loss on disposals of property, plant and equipment	**1,844**	**1,774**	**3,618**
Loss on termination of a co-operation agreement	**–**	**17,958**	**17,958**
Net reversal of write-down of inventories	**(5,938)**	**(535)**	**(6,473)**

For the year ended 31 December 2016

	Capacitors RMB'000	Aluminum foils RMB'000	Total RMB'000
Additions to non-current assets	31,944	7,191	39,135
Depreciation and amortisation	30,869	29,236	60,105
Net (reversal) provision of impairment loss on trade receivables	(2,370)	430	(1,940)
Loss on disposals of property, plant and equipment	6,521	3,246	9,767
Net reversal of write-down of inventories	(11,430)	(2,831)	(14,261)
Impairment loss on property, plant and equipment	–	27,596	27,596

6. OTHER INCOME/EXPENSES

(a) OTHER INCOME

	2017 RMB'000	2016 RMB'000
Bank interest income	**762**	691
Government grants *(Note)*	**6,689**	3,728
Sales of scrap material	**671**	1
Others	**7,129**	3,585
	15,251	8,005

Note: During the year ended 31 December 2017, the Group recognised government grants of RMB6,617,000 (2016: RMB3,416,000), which are the incentives in engaging in the production of capacitors products. In addition, the amount also includes the release of deferred income of RMB72,000 (2016: RMB312,000). Details of the deferred income are set out in Note 26.

(b) OTHER EXPENSES

	2017 RMB'000	2016 RMB'000
Research and development costs	**34,494**	31,293
Depreciation of property, plant and equipment *(Note)*	**10,315**	–
Others	**4,839**	2,289
	49,648	33,582

Note: The amount represents the depreciation expense of property, plant and equipment of a subsidiary of the Company which has ceased operation during the current year. The relevant equipment have been relocated to other production plants of the Group subsequent to the end of the reporting period.

7. OTHER GAINS AND LOSSES

	2017 **RMB'000**	2016 RMB'000
Loss on termination of a co-operation agreement *(Note i)*	**(17,958)**	–
Impairment loss on deposits paid for acquisition of property, plant and equipment *(Note ii)*	**(5,289)**	–
Loss on disposals of property, plant and equipment	**(3,618)**	(9,767)
Impairment loss on trade receivables	**(2,663)**	(1,353)
Reversal of impairment loss on trade receivables *(Note iii)*	**49**	3,293
Net foreign exchange (loss) gain	**(16,580)**	6,711
	(46,059)	(1,116)

Notes:

(i) During the year ended 31 December 2017, a subsidiary of the Company, Capxon Electronic Technology (Qinghai) Co. Ltd. (凱普松電子科技(青海)有限公司) ("Capxon Qinghai"), entered into a termination contract with 西寧經濟技術開發區東川工業園區財政局 ("Counterparty"), an independent third party, to terminate a co-operation agreement entered into in prior years. According to the termination contract, Capxon Qinghai (i) received a cash compensation of RMB5,000,000 from the Counterparty; (ii) surrendered the related land use right with net carrying amount of RMB10,252,000; (iii) forfeited a deposit for acquisition of property, plant and equipment of RMB22,440,000 previously paid to the Counterparty; and (iv) the Counterparty waived the accrued factory rental expense payable by Capxon Qinghai incurred in prior years of RMB9,734,000. As a result, the Group recognised a loss on termination of a co-operation agreement of RMB17,958,000 for the year ended 31 December 2017.

(ii) The board of directors of the Company reassessed the recoverability of deposits paid for acquisition of property, plant and equipment amounting to RMB5,289,000 aged over 1 year and considered that the recoverability is low after negotiation with other counterparties. As a result, impairment loss on deposits paid for acquisition of property, plant and equipment of RMB5,289,000 is recognised.

(iii) In prior years, the Group made impairment loss against the long outstanding balances with several debtors. During the years ended 31 December 2016 and 2017, the Group received the repayments from the counterparties. Accordingly, the Group recognised the reversal of impairment loss.

8. FINANCE COSTS

	2017 **RMB'000**	2016 RMB'000
Interest on bank borrowings	**1,703**	2,398

9. INCOME TAX EXPENSE

	2017 **RMB'000**	2016 RMB'000
Current tax:		
– PRC Enterprise Income Tax	**11,585**	15,285
– Taiwan Corporate Income Tax	**3,093**	3,398
PRC dividend withholding tax	**10,504**	–
	25,182	18,683
Under(over)provision in prior years:		
– PRC Enterprise Income Tax	**–**	2,333
– Taiwan Corporate Income tax	**–**	(361)
	–	1,972
Deferred tax *(Note 17)*:		
– Current year	**(267)**	–
	24,915	20,655

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"), a subsidiary of the Company, the tax rate of the Group's subsidiaries in the PRC is 25%.

In March 2018, Capxon Shenzhen was approved for 1 year as enterprise that satisfied the condition as high technology development enterprise and is subject to a preferential tax rate of 15% in 2017. In March 2017, Capxon Shenzhen was approved for 1 year as enterprise that satisfied the condition as high technology development enterprise and is subject to a preferential tax rate of 15% in 2016.

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:

2017

	The PRC		Taiwan		Hong Kong		Others[1]		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit (loss) before tax	27,038		13,362		536		(17,833)		23,103	
Tax at the statutory tax rate	6,760	25.0	2,272	17.0	88	16.5	–	–	9,120	39.5
Tax effect of:										
Deductible temporary differences not recognised	2,002	7.4	2	0.0	–	–	–	–	2,004	8.7
Utilisation of deductible temporary differences not recognised	(2,162)	(8.0)	–	–	(8)	(1.5)	–	–	(2,170)	(9.4)
Expenses not deductible for tax	4,886	18.1	2,134	16.0	470	87.7	–	–	7,490	32.4
Income not subject to tax	–	–	(1,582)	(11.8)	(550)	(102.6)	–	–	(2,132)	(9.2)
Tax loss not recognised	6,213	23.0	–	–	–	–	–	–	6,213	26.9
Utilisation of tax loss previously not recognised	(22)	(0.1)	–	–	–	–	–	–	(22)	(0.1)
Income tax on concessionary tax rate	(6,092)	(22.5)	–	–	–	–	–	–	(6,092)	(26.4)
PRC dividend withholding tax	10,504	38.8	–	–	–	–	–	–	10,504	45.5
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income at the Group's effective rate	22,089	81.7	2,826	21.1	–	–	–	–	24,915	107.8

2016

	The PRC		Taiwan		Hong Kong		Others[1]		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit (loss) before tax	40,225		6,939		(10,624)		(2,171)		34,369	
Tax at the statutory tax rate	10,056	25.0	1,180	17.0	(1,753)	16.5	–	–	9,483	27.6
Tax effect of:										
Deductible temporary differences not recognised	7,955	19.8	3	0.0	101	1.0	–	–	8,059	33.5
Utilisation of deductible temporary differences not recognised	(4,882)	(12.1)	–	–	–	–	–	–	(4,882)	(14.2)
Expenses not deductible for tax	2,150	5.3	2,214	31.9	1,652	(15.5)	–	–	6,016	22.1
Under(over)provision in prior years	2,333	5.8	(361)	(5.2)	–	–	–	–	1,972	5.7
Income not subject to tax	(1,749)	(4.3)	–	–	–	–	–	–	(1,749)	(9.7)
Tax loss not recognised	12,390	30.8	–	–	–	–	–	–	12,390	36.0
Income tax on concessionary tax rate	(10,634)	(26.4)	–	–	–	–	–	–	(10,634)	(30.9)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income at the Group's effective rate	17,619	43.9	3,036	43.7	–	–	–	–	20,655	70.1

(1) The expenses incurred by the Company incorporated in the Cayman Islands and its 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. (LOSS) PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
(Loss) profit for the year has been arrived at after charging:		
Employee benefit expenses (including directors' emoluments *(Note 11)*):		
Wages, salaries and allowances	**206,509**	183,826
Defined contribution pension schemes *(Note 25)*	**14,528**	12,846
	221,037	196,672
Less: amount capitalised in inventories	**(135,305)**	(120,979)
	85,732	75,693
Amortisation of intangible assets (included in administrative expenses)	**142**	229
Amortisation of land use rights	**684**	1,034
Depreciation of property, plant and equipment		
– capitalised in inventories	**35,266**	56,933
– recognised in administrative expenses	**2,267**	1,909
– recognised in other expenses	**10,315**	–
Total depreciation and amortisation	**48,674**	60,105
Auditor's remuneration (including audit and non-audit services)	**1,633**	1,703
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB6,473,000 (2016: RMB14,261,000))#	**798,445**	707,707

During the year ended 31 December 2017 and 2016, certain aged inventories relating to the cessation of operation of Capxon Qinghai were sold at above net realisable values. As a result, a reversal of write-down of inventories of approximately RMB6,473,000 (2016: RMB14,261,000) 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 Listing Rules and Hong Kong Companies Ordinance are as follows:

DIRECTORS AND THE CHIEF EXECUTIVE

Name of director	Fee	Salaries and allowances	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
2017				
EXECUTIVE DIRECTORS[1]:				
Lin Chin Tsun	–	2,834	2	2,836
Chou Chiu Yueh	–	1,418	18	1,436
Lin Yuan Yu	–	1,706	26	1,732
Lin I Chu	–	998	26	1,024
NON-EXECUTIVE DIRECTOR[2]:				
Liu Fang Chun	–	714	10	724
INDEPENDENT NON-EXECUTIVE DIRECTORS[3]:				
Lai Chung Ching*	100	–	–	100
Lu Hong Te	202	–	–	202
Hsieh King-Hu, Miles#	86	–	–	86
Tung Chin Chuan	147	–	–	147
	535	7,670	82	8,287

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

DIRECTORS AND THE CHIEF EXECUTIVE *(continued)*

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
2016					
EXECUTIVE DIRECTORS[1]:					
Lin Chin Tsun	–	2,550	202	–	2,752
Chou Chiu Yueh	–	1,276	184	18	1,478
Lin Yuan Yu	–	1,522	184	25	1,731
Lin I Chu	–	886	184	24	1,094
NON-EXECUTIVE DIRECTOR[2]:					
Liu Fang Chun	–	638	100	9	747
INDEPENDENT NON-EXECUTIVE DIRECTORS[3]:					
Lai Chung Ching	237	–	–	–	237
Lu Hong Te	145	–	–	–	145
Tung Chin Chuan	145	–	–	–	145
	527	6,872	854	76	8,329

* Retired on 1 June 2017
# Appointed on 1 June 2017

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 Officer of the Group and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

[1] The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of 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 (2016: four) were directors of the Company and details of their emoluments are set out above. The emoluments of the remaining individual are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and allowances	**766**	741
Performance related incentive payment	**15**	15
	781	756

During the years ended 31 December 2017 and 31 December 2016, 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. DIVIDEND

An interim dividend of HK$0.05 (2016: nil) per share amounting to HK$42,227,992.05 (equivalent to approximately RMB36,630,000) (2016: nil) in aggregate was paid to the ordinary shareholders during the year ended 31 December 2017.

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

13. (LOSS) EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share		
(Loss) profit for the year attributable to owners of the Company	**(2,040)**	14,339

	2017	2016
Number of shares		
Number of ordinary shares for the purposes of basic (loss) earnings per share	**844,559,841**	844,559,841

Diluted (loss) earnings per share is not presented for the years ended 31 December 2017 and 2016 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 2016	4,465	8,582	263,236	846,337	54,558	9,669	10,325	1,197,172
Additions	–	–	570	1,260	61	516	38,389	40,796
Transfer	–	–	–	24,644	7,533	1,210	(33,387)	–
Disposals/written-off	–	–	–	(28,582)	(1,390)	(943)	(621)	(31,536)
Exchange realignment	560	604	–	–	25	9	–	1,198
At 31 December 2016	5,025	9,186	263,806	843,659	60,787	10,461	14,706	1,207,630
Additions	**–**	**–**	**566**	**4,007**	**26**	**–**	**50,064**	**54,663**
Transfer	**–**	**–**	**–**	**32,391**	**9,901**	**103**	**(42,395)**	**–**
Disposals/written-off	**–**	**–**	**–**	**(9,164)**	**(1,723)**	**(120)**	**(7,811)**	**(18,818)**
Exchange realignment	**94**	**172**	**–**	**–**	**17**	**3**	**–**	**286**
At 31 December 2017	**5,119**	**9,358**	**264,372**	**870,893**	**69,008**	**10,447**	**14,564**	**1,243,761**
DEPRECIATION AND IMPAIRMENT								
At 1 January 2016	–	2,879	67,468	587,096	32,396	7,730	–	697,569
Provided for the year	–	209	5,954	46,281	5,802	596	–	58,842
Eliminated on disposals	–	–	–	(18,603)	(1,216)	(795)	–	(20,614)
Impairment loss recognised in profit or loss	–	–	–	19,479	616	36	7,465	27,596
Exchange realignment	–	265	–	–	90	3	–	358
At 31 December 2016	–	3,353	73,422	634,253	37,688	7,570	7,465	763,751
Provided for the year	**–**	**199**	**5,968**	**34,647**	**6,433**	**601**	**–**	**47,848**
Eliminated on disposals/written off	**–**	**–**	**–**	**(6,101)**	**(1,508)**	**(118)**	**(7,465)**	**(15,192)**
Exchange realignment	**–**	**61**	**–**	**–**	**17**	**–**	**–**	**78**
At 31 December 2017	**–**	**3,613**	**79,390**	**662,799**	**42,630**	**8,053**	**–**	**796,485**
CARRYING VALUE								
At 31 December 2017	**5,119**	**5,745**	**184,982**	**208,094**	**26,378**	**2,394**	**14,564**	**447,276**
At 31 December 2016	5,025	5,833	190,384	209,406	23,099	2,891	7,241	443,879

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)*

As a result of the recurring loss and cessation of operation of Capxon Qinghai during the year ended 31 December 2016, 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 RMB27,596,000 which was recognised in profit or loss for the year ended 31 December 2016. The recoverable amount of these property, plant and equipment, whose value in use was determined to be insignificant, has been determined as the assets' fair value less cost to sell by reference to valuations of their fair value. These valuations were performed by independent qualified professional valuers.

The impairment loss on property, plant and equipment has been disclosed in the profit or loss as a separate line item.

The carrying value of properties shown above comprises:

	2017 **RMB'000**	2016 RMB'000
Properties:		
Freehold in Taiwan	**10,864**	10,858
In the PRC	**184,982**	190,384
	195,846	201,242

As at 31 December 2017, 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 RMB5,542,000 (2016: RMB5,986,000). The directors of the Company expect to obtain the building ownership certificates for these buildings in year 2018.

The Group has pledged property, plant and equipment with a net book value of approximately RMB10,864,000 (2016: RMB97,614,000) to secure general banking facilities granted to the Group.

15. LAND USE RIGHTS

	2017 **RMB'000**	2016 RMB'000
Land use rights in the PRC	**23,033**	39,450
Analysed for reporting purpose as:		
Current assets	**681**	1,031
Non-current assets	**22,352**	38,419
	23,033	39,450

The Group pledged land use rights with a net book value of approximately RMB13,818,000 to secure general banking facilities granted to the Group as at 31 December 2016 and the pledged land use rights were released during the year ended 31 December 2017 due to expiry of relevant banking facilities.

At 31 December 2016, the Group did not obtain land use right certificates of a land use right under a co-operation agreement. During the year ended 31 December 2017, the Group entered into a termination contract with the Counterparty and surrendered the land use right, the details of which are disclosed in Note 7.

16. INTANGIBLE ASSETS

	Trademark, patents and licences RMB'000
COST	
At 1 January 2016	20,388
Exchange realignment	220
At 31 December 2016	20,608
Written off	**(18,223)**
Exchange realignment	**31**
At 31 December 2017	**2,416**
AMORTISATION AND IMPAIRMENT	
At 1 January 2016	20,006
Exchange realignment	220
Charge for the year	229
At 31 December 2016	20,455
Written off	**(18,223)**
Exchange realignment	**31**
Charge for the year	**142**
At 31 December 2017	**2,405**
CARRYING VALUES	
At 31 December 2017	**11**
At 31 December 2016	153

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:

	2017 RMB'000	2016 RMB'000
Deferred tax assets	**267**	–
Deferred tax liabilities	**(3,648)**	(3,764)
	(3,381)	(3,764)

17. DEFERRED TAX *(continued)*

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

	Unrealised exchange losses RMB'000	**Withholding tax provided RMB'000**	**Total RMB'000**
At 1 January 2016	–	(3,796)	(3,796)
Exchange realignment	–	32	32
At 31 December 2016	–	(3,764)	(3,764)
Credit to profit or loss	**267**	**–**	**267**
Exchange realignment	**–**	**116**	**116**
At 31 December 2017	**267**	**(3,648)**	**(3,381)**

No deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to RMB64,580,000 (2016: RMB125,326,000), 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 RMB72,040,000 (2016: RMB73,131,000) arising from the inventories and doubtful debts allowance, impairment of property, plant and equipment and impairment of deposits paid for the acquisition of property, plant and equipment. No deferred tax asset has been recognised in respect of the deductible temporary difference 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 RMB133,757,000 (2016: RMB136,330,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to 2022, five years from the year in which the loss was originated, to offset against future taxable profits.

18. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**73,469**	54,805
Work in progress	**11,323**	24,524
Finished goods	**75,350**	75,200
	160,142	154,529

19. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	**421,224**	354,189
Less: allowance for doubtful debts	**(18,188)**	(18,098)
Total trade receivables	**403,036**	336,091
Advances to suppliers	**16,961**	7,810
Value added tax recoverable	**11,430**	18,362
Prepayments and deposits	**14,699**	11,446
Others	**6,077**	9,627
Total trade and other receivables	**452,203**	383,336

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 approximate to respective revenue recognition dates.

	2017 RMB'000	2016 RMB'000
0–60 days	**220,953**	187,826
61–90 days	**81,700**	58,871
91–180 days	**96,059**	85,464
181–270 days	**4,314**	3,915
Over 360 days	**10**	15
	403,036	336,091

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. 85% (2016: 83%) of the trade and bills 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 RMB43,974,000 (2016: RMB40,775,000) 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 consider that as there is no 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

	2017 RMB'000	2016 RMB'000
One to six months past due	**43,343**	39,751
Over six months past due	**631**	1,024
Total	**43,974**	40,775

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	2017 RMB'000	2016 RMB'000
1 January and 31 December	**18,098**	19,864
Impairment losses recognised on receivables	**2,663**	1,353
Amount recovered during the year	**(49)**	(3,293)
Written off as uncollectible	**(2,103)**	(265)
Exchange realignment	**(421)**	439
31 December	**18,188**	18,098

Included in the allowance for doubtful debts were individually impaired debtors with an aggregate balance of RMB18,188,000 (2016: RMB18,098,000), 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

	2017 RMB'000	2016 RMB'000
1 January and 31 December	**694**	694

20. PLEDGED BANK DEPOSITS

These represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB1,205,000 (2016: RMB2,424,000) were pledged to secure short-term bank loans and are therefore classified as current assets.

The pledged bank deposits carry variable interest rate of 0.08% (2016: 0.02% to 0.45%) per annum.

21. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market interest rates ranging from 0.0001% to 0.46% (2016: 0.0001% to 2.3%) per annum.

22. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade and bills payables	**206,082**	181,599
Advances from customers	**1,842**	5,828
Payroll payables	**19,137**	14,931
Accruals	**8,138**	14,054
Provision for damages *(Note 33(a))*	**193,980**	190,864
Government grants payable *(Note 26)*	**22,626**	–
Payable for acquisition of property, plant and equipment	**5,064**	–
Others	**5,449**	9,051
	462,318	416,327

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:

	2017 RMB'000	2016 RMB'000
0–60 days	**131,682**	145,835
61–90 days	**28,020**	7,638
91–180 days	**23,945**	9,439
181–270 days	**2,601**	375
271–360 days	**2,185**	113
Over 360 days	**17,649**	18,199
	206,082	181,599

Movement in the provision for damages

	2017 RMB'000	2016 RMB'000
1 January	**190,864**	165,845
Interest on provision for damages	**8,834**	8,899
Exchange (gain) loss arising on retranslation recognised in profit or loss	**(9,304)**	903
Exchange realignment	**3,586**	15,217
31 December	**193,980**	190,864

23. BANK BORROWINGS

	2017 RMB'000	2016 RMB'000
Bank borrowings	**115,784**	87,210
Secured	**41,714**	87,210
Unsecured	**74,070**	–
	115,784	87,210
Carrying amount repayable:*		
Within one year and shown under current liabilities	**115,784**	87,210

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

The Group's bank borrowings include fixed-rate borrowings of RMB74,070,000 (2016: RMB44,150,000) which carry interest ranging from 2.90% to 3.10% (2016: 1.50% to 1.58%) per annum and are repayable within one year. The remaining balance is variable-rate borrowings which carry interest at the ranges of effective interest rates (which are also equal to contracted interest rates) of 1.25% to 2.40% (2016: 1.05% to 2.45%) per annum.

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

	United States Dollars ("USD") RMB'000	Euro ("EUR") RMB'000	JPY RMB'000
At 31 December 2017	**41,798**	**32,272**	**17,631**
At 31 December 2016	**44,150**	**–**	**19,421**

24. AMOUNTS DUE TO RELATED PARTIES

Name of related party	Relationship	2017 RMB'000	2016 RMB'000
Lin Chin Tsun	Director	**3,464**	3,725
Lin I Chu	Director	**1,499**	609
		4,963	4,334

The amounts due to related parties are non-trade in nature, interest-free, unsecured and repayable on demand.

25. RETIREMENT BENEFIT PLANS

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$1,500 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 and the municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in Taiwan.

The total expenses recognised in profit or loss during the year were RMB14,528,000 (2016: RMB12,846,000) 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

	2017 RMB'000	2016 RMB'000
CARRYING VALUE		
At 1 January	**22,698**	23,010
Additions	**750**	–
Released to profit or loss during the year	**(72)**	(312)
Reclassified to other payable *(Note)*	**(22,626)**	–
At 31 December	**750**	22,698

Note: These relate to government grants received by Capxon Qinghai for the encouragement of setting up of aluminum foils production lines. Upon the termination contract with the Counterparty (as disclosed in Note 7), the Group considers the fulfillment of the conditions of the related grants are no longer met. Accordingly, the relevant government grants amounted to RMB22,626,000 are reclassified to other payable to the relevant government authorities.

27. SHARE CAPITAL

	Number of shares	**Amount HK$'000**
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2016 and 31 December 2016 and 2017	1,500,000,000	150,000
Issued and fully paid:		
At 1 January 2016 and 31 December 2016 and 2017	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

	2017 **RMB'000**	2016 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**517,853**	471,504
Financial liabilities		
Amortised cost	**570,850**	486,106

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.

29. FINANCIAL INSTRUMENTS *(continued)*

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

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 currencies. Approximately 36.19% (2016: 44.64%) of the Group's sales and 9.73% (2016: 10.85%) of the Group's purchases 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), monetary liabilities (representing trade and other payables and bank borrowings) and inter-group receivables and payables denominated in currencies other than the functional currency of the relevant group entities at the reporting dates are as follows:

	Assets		Liabilities	
	2017	2016	**2017**	2016
	RMB'000	RMB'000	**RMB'000**	RMB'000
Hong Kong Dollars ("HK$")	**392,704**	396,494	**139,101**	154,118
USD	**738,899**	910,718	**850,250**	994,153
New Taiwan Dollars ("NTD")	**311**	508	**19,645**	16,371
EUR	**33,785**	4,244	**32,272**	13
JPY	**27,458**	24,402	**247,783**	232,142

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 arise.

Sensitivity analysis

The Group is mainly exposed to the fluctuation of HK$, USD, NTD, EUR and JPY against the functional currencies of the respective group entities.

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 an increase in loss after tax (2016: decrease in profit after tax) where the functional currencies of respective group entities strengthen 5% against the relevant foreign currencies, and vice versa:

	2017	2016
	RMB'000	RMB'000
HK$ impact	**11,244**	10,044
USD impact	**(7,753)**	(5,519)
NTD impact	**(784)**	(651)
EUR impact	**63**	176
JPY impact	**(9,037)**	(8,459)

29. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(ii) Interest rate risk

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

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate borrowings. Management considers the cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances is insignificant. The analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis point (2016: 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 (2016: 25 basis point) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2017 would increase/decrease by RMB86,000 (2016: post-tax profit for the year would decrease/increase by RMB82,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

Credit risk

As at 31 December 2017, 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.

29. FINANCIAL INSTRUMENTS *(continued)*

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

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 2017, the Group has available unutilised short-term bank loan facilities of approximately RMB60,849,000 (2016: RMB425,367,000). 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 dates on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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 yield curve at the end of the reporting period.

	Weighted average effective interest rate %	Undiscounted cash flows – on demand or less than 1 year RMB'000	Total carrying amount RMB'000
2017			
Non-derivative financial liabilities			
Trade and other payables	–	450,103	450,103
Bank borrowings			
– fixed-rate	3.02	74,917	74,070
– variable-rate	1.82	41,915	41,714
Amounts due to related parties	–	4,963	4,963
		571,898	570,850

	Weighted average effective interest rate %	Undiscounted cash flows – on demand or less than 1 year RMB'000	Total carrying amount RMB'000
2016			
Non-derivative financial liabilities			
Trade and other payables	–	394,562	394,562
Bank borrowings			
– fixed-rate	1.54	44,398	44,150
– variable-rate	1.70	43,396	43,060
Amounts due to related parties	–	4,334	4,334
		486,690	486,106

29. FINANCIAL INSTRUMENTS *(continued)*

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 expenses under operating leases during the year for rented premises are approximately RMB4,951,000 (2016: RMB5,013,000).

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:

	2017 **RMB'000**	2016 RMB'000
Within one year	**705**	2,864
In the second to fifth years inclusive	**918**	355
	1,623	3,219

Leases are negotiated and rental are fixed for a period from one to two years (2016: one to two years).

31. CAPITAL COMMITMENTS

	2017 **RMB'000**	2016 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**18,934**	33,430

32. RELATED PARTY DISCLOSURES

(I) PROVISION OF GUARANTEES AND SECURITY BY THE COMPANY'S DIRECTORS AND SHAREHOLDERS

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

	2017 RMB'000	2016 RMB'000
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**74,070**	44,150
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**17,455**	27,513
Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu *(Note)*	**24,259**	15,547
	115,784	87,210

The expiry dates of the above guarantees fall within the period from January 2018 to December 2018 (2016: January 2017 to December 2017).

As at 31 December 2017, Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh, Mr. Lin Yuan Yu and Ms. Lin I Chu *(Note)* pledged properties to certain banks to secure banking facilities of NTD200,000,000 (2016: NTD200,000,000) (approximately RMB43,786,000 (2016: RMB42,980,000) granted to the Group.

Note: Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh are ultimate controlling shareholders of the Company. Mr. Lin Yuan Yu and Ms. Lin I Chu are close family members of the Company's controlling shareholders. All of them are directors and shareholders of the Company.

(II) RELATED PARTY BALANCES

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

(III) COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2017 RMB'000	2016 RMB'000
Short-term benefits	**9,854**	8,970
Post-employment benefits	**169**	152
Performance related incentive payment	**65**	915
	10,088	10,037

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, the Customer filed an arbitration claim against Capxon Taiwan with the Arbitration Association, claiming damages of JPY1,412,106,000 (equivalent to approximately RMB81,375,000 (2016: RMB83,664,000)) allegedly suffered by the Customer with respect to certain alleged defective 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 RMB3,458,000 (2016: RMB3,555,000) for damages caused, plus interest from 16 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

In August 2014, an arbitral award was made against Capxon Taiwan and Capxon Taiwan was ordered to pay to the Customer damages in an aggregate sum of:

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB139,871,000 (2016: RMB143,806,000));

(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 RMB75,605,000 (2016: RMB77,732,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB54,305,000 (2016: RMB55,833,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (equivalent to approximately RMB9,961,000 (2016: RMB10,241,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,361,000 (2016: RMB1,399,000)).

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. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the Arbitral Award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. In May 2017, the Japan Supreme Court issued its decision, whereby it dismissed the extraordinary appeal of Capxon Taiwan and upheld the original decision of the Arbitration Association regarding the Arbitral Award.

In September 2017, the Customer filed an application to the HK Court to enforce the Arbitral Award in Hong Kong. An enforcement order was made in October 2017 and subsequently a charging order nisi was made in November 2017 by the HK Court. Capxon Taiwan applied to the HK Court to oppose against the charging order nisi in February 2018 and to set aside the enforcement order in March 2018. The final decision of the Applications has not been reached by the HK Court as of the date of approval of the consolidated financial statements.

In November 2017, the Customer also filed an application to the Taiwan Shilin District Court for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan Shilin District Court issued the Decision. Capxon Taiwan is in the process of appealing the Decision.

The outcome of the Applications in Hong Kong and the appeal to the Decision cannot be determined at this stage. Therefore, an aggregate amount of JPY3,366,180,618 (31 December 2016: JPY3,220,549,420), equivalent to approximately RMB193,980,000 (31 December 2016: RMB190,864,000), was accrued and included in trade and other payables as at 31 December 2017 as a result of the Arbitral Award.

33. MATERIAL PROCEEDINGS *(continued)*

(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 ("PRC Action"). In December 2014, the court ruled that the complainant had failed to provide sufficient evidence, and ruled in favor of Capxon Shenzhen. The customer subsequently filed an appeal against the court's decision. In May 2017, the Higher People's Court of Guangdong Province issued its final judgement, rejecting the appeal of the customer and upholding the original decision. Capxon Shenzhen will therefore not be liable to any claims or damages under the PRC Action.

34. PLEDGE OF ASSETS

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

	2017 **RMB'000**	2016 RMB'000
Property, plant and equipment	**10,864**	97,614
Land use rights	**–**	13,818
Bank deposits	**1,205**	2,424
	12,069	113,856

The pledged land use rights and certain pledged property, plant and equipment as at 31 December 2016 were released during the year ended 31 December 2017 due to the expiry of relevant banking facilities.

35. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	At 1 January 2017 **RMB'000**	**Financing cash flows** **RMB'000**	**Other changes** **RMB'000** ***(Note i)***	**At 31 December 2017** **RMB'000**
Bank borrowings *(Note ii)*	**87,210**	**28,066**	**508**	**115,784**
Accrued interest expenses *(Note iii)*	**163**	**(1,620)**	**1,703**	**246**
Dividend payable	**–**	**(36,630)**	**36,630**	**–**
Amounts due to related parties	**4,334**	**629**	**–**	**4,963**
	91,707	**(9,555)**	**38,841**	**120,993**

Notes:

(i) Other changes include the effect of foreign exchange rate changes, finance cost recognised (Note 8), interim dividend declared (Note 12), and government grants recognised as other income (Note 6(a)).

(ii) The cash flows from bank borrowings comprise the net amount of new bank borrowings raised and repayment of bank borrowings.

(iii) The accrued interest expenses represent the interest expenses accrued for the bank borrowings which included in the line item of "Trade and other payables". The financing cash flows from accrued interest expenses represent the interest paid in the consolidated statement of cash flows.

36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

GENERAL INFORMATION OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2017 and 2016 are as follows:

Name of subsidiary	Place of incorporation (or establishment)/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
			Direct		Indirect		
			2017 %	2016 %	2017 %	2016 %	
Capxon Electronic Technology (Baotou) Co., Ltd. *(Note i)* 凱普松電子科技(包頭)有限公司	The PRC/the PRC	RMB100,000,000	–	–	100	100	Manufacture and sale of aluminum foils
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/the PRC	US$30,000,000	–	–	100	100	Manufacture and sale of aluminum foils
Capxon Qinghai *(Note i)* 凱普松電子科技(青海)有限公司	The PRC/the PRC	RMB99,000,000	–	–	100	100	Manufacture and sale of aluminum foils
Capxon Shenzhen *(Note ii)* 豐賓電子(深圳)有限公司	The PRC/the PRC	US$73,880,000	6.77	6.77	93.23	93.23	Manufacture and sale of capacitors
Capxon Taiwan 豐賓電子工業股份有限公司	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/ Taiwan	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/the PRC	US$700,000	–	–	100	100	Trading
Easy Chance Ltd. 宜邦有限公司	Hong Kong/Taiwan	HK$10,000	–	–	100	100	Trading and investment holding
Evercon Limited *(Note iii)* 艾美康有限公司	Hong Kong/Taiwan	US$1,000,000	N/A	100	–	–	Inactive
Gold Wish Ltd.	British Virgin Islands/ Taiwan	US$30,000,000	100	100	–	–	Investment holding
Lancom Ltd. 龍球有限公司	Hong Kong/ Taiwan	HK$85,137,200	–	–	96.54	96.54	Trading

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

GENERAL INFORMATION OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation (or establishment)/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
			Direct		Indirect		
			2017	2016	**2017**	2016	
			%	%	**%**	%	
Mega Tender Ltd. 緯成有限公司	Hong Kong/the PRC	HK$10,000	**100**	100	**–**	–	Trading
Multiple Investments Ltd.	British Virgin Islands/ Taiwan	US$2,300,000	**100**	100	**–**	–	Investment holding
Shenzhen Capxon New Energy Electronic Technology Co., Ltd.* *(Note i & iv)* 深圳市凱普松新能源電子科技有限公司	The PRC/the PRC	RMB5,000,000	**–**	–	**N/A**	100	Inactive
Waystech Trading Ltd. 威達貿易有限公司	British Virgin Islands/ Taiwan	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/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.

(iii) The subsidiary was deregistered in July 2017.

(iv) The subsidiary was deregistered in April 2017.

37. FINANCIAL INFORMATION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSET		
Investments in subsidiaries	**515,011**	521,841
CURRENT ASSETS		
Other receivables	**241**	299
Amounts due from subsidiaries *(Note i)*	**366,334**	377,721
Bank balances	**10,055**	693
	376,630	378,713
CURRENT LIABILITIES		
Other payables and accruals	**1,843**	2,219
Amounts due to subsidiaries	**364,866**	435,903
	366,709	438,122
NET CURRENT ASSETS (LIABILITIES)	**9,921**	(59,409)
TOTAL ASSETS LESS CURRENT LIABILITIES	**524,932**	462,432
CAPITAL AND RESERVES		
Share capital	**82,244**	82,244
Share premium and reserves *(Note ii)*	**442,688**	380,188
TOTAL EQUITY	**524,932**	462,432
Profit (loss) for the year	**99,130**	(18,853)
Dividend recognised as distribution *(Note 12)*	**36,630**	–

Notes:

(i) Based on the assessment of the directors of the Company, the amounts are expected to realise within twelve months after the end of the reporting period, accordingly, the amounts are classified as current assets.

(ii) The reserves movement of the Company for the year ended 31 December 2017 represents the profit for the year of RMB99,130,000 (2016: loss for the year of RMB18,853,000) and the dividend recognised as distribution of RMB36,630,000 (2016: Nil).

Five-Year Financial Summary

	Year ended 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Revenue	1,072,741	989,625	849,188	946,643	**1,069,104**
Profit (loss) for the year	5,990	(144,027)	3,041	13,714	**(1,812)**

	As at 31 December				
	2013	2014	2015	2016	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,445,952	1,288,337	1,157,458	1,184,092	**1,209,946**
Total liabilities	(662,479)	(643,954)	(518,542)	(554,452)	**(605,312)**
	783,473	644,383	638,916	629,640	**604,634**
Attributable to:					
Owners of the Company	773,835	641,258	636,084	627,399	**602,998**
Non-controlling interests	9,638	3,125	2,832	2,241	**1,636**
	783,473	644,383	638,916	629,640	**604,634**