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 2018


CapXon
100µF–400V
HW VENT 105℃
CapXon
2200µF–80V
HU VENT 105°C
CapXon

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. HSIEH King-Hu, Miles
Mr. LU Hong Te
Mr. TUNG Chin Chuan

AUDIT COMMITTEE

Mr. LU Hong Te *(Chairman)*
Mr. HSIEH King-Hu, Miles
Mr. TUNG Chin Chuan

NOMINATION COMMITTEE

Mr. LIN Chin Tsun *(Chairman)*
Ms. CHOU Chiu Yueh
Mr. HSIEH King-Hu, Miles
Mr. LU Hong Te
Mr. TUNG Chin Chuan

REMUNERATION COMMITTEE

Mr. LU Hong Te *(Chairman)*
Mr. LIN Chin Tsun
Ms. CHOU Chiu Yueh
Mr. HSIEH King-Hu, Miles
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
88 Queensway
Hong Kong

LEGAL ADVISER

MinterEllison LLP
Level 32 Wu Chung House
213 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

REGISTERED OFFICE

P.O. Box 31119
Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

LIAISON OFFICE IN TAIPEI

5th Floor
No. 165, Sec. 2, Datong Road
Xizhi District
New Taipei City
Taiwan

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1303, 13th Floor
OfficePlus @Wan Chai
No. 303 Hennessy Road
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road, P.O. Box 1586
Grand Cayman, KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

INVESTOR RELATIONS

TAIWAN

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

HONG KONG

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

WEBSITE

www.capxongroup.com

STOCK CODE

469

Dear Shareholders,

What will the global economy look like in 2019? It hinges on the development of the following aspects:

1. China mired in trade wars

2. Growth deceleration in the US

3. Brexit from the Eurozone

In 2018, the dominant market trend was represented by the strengthening of US Dollar, the plunge of Chinese mainland stocks, Renminbi ("RMB") and other emerging markets, as well as the continuous slump of Bitcoin and crude oil prices. The year 2019, however, expects to see the weakening of US Dollar, re-emergence of the Japanese Yen, brilliant emerging markets and a sustained growth momentum of Chinese mainland stocks.

Based on the 2019 global economic outlook by investment banks, the world will encounter three diverging trends:

1. Economic deceleration in developed countries versus the resurgence of emerging markets;

2. Higher inflation in developed countries versus lower inflation in the developing ones; and

3. Slower interest rate hikes in the US versus interest rate rise by other central banks.

Among the reasons behind such diverging trends is the four-year appreciation of the US Dollar attributable to Trump's tax cuts and the resulting growth of American businesses. Nonetheless, given the gradual mitigation of tax reduction incentives, the US has found itself incapable of sustaining the fiscal policy, thus affecting the US stocks and leading to suppression on consumer spending and loans. After experiencing the deflation of Japanese Yen for nearly a quarter of a century, the compound annual growth rate of Japanese businesses has reached 7%. As for the main reason behind such growth, an aging Japanese population is leading to different industries investing in artificial intelligence ("AI") and robots and employing more foreign workers. Furthermore, the consistently underestimated Japanese Yen is expected to embrace higher exchange rates as the Japanese government is expected to put its negative interest rate policy to an end in this coming April. Emerging markets are expected to bounce back from the heavy blow to their assets due to weakening of the US Dollar, mainly owing to their demographic dividends and strong productivity.

Overall, favorable factors abound, subject to whether the China-US trade tension will abate. Globalization highlights the supply chain relations among regions or countries in the electronics industry. Countries around the world are invariably watching the potential changes, whether a consensus will be reached within the 90-day truce and lead to an all positive settlement, or a full-blown trade war will take place after the breakdown of US-China negotiations and bring a comprehensive imposition of high tariffs on all the Chinese imports, or the tariffs remain the same for the time being but are subject to the risk of increase at any time as the trade war continues in tandem with negotiations. All these possibilities depend on the changes in economic conditions of the two biggest economies. Both the worsening of US economic performance and the increasing reform in China may have an impact upon the continuity and scale of the trade war. Hence, as the year 2019 unfolds amidst uncertainties, it is hoped that there will be a peaceful and gentle way to encounter the difficulties ahead.

From an industrial perspective, passive components will continue to grow at a moderate pace in the coming years, which is mainly attributable to the growing popularity of AI among the public, digital ecosystems, biohackers, transparent immersive experience and ubiquitous infrastructure.

As most passive components are in a relatively mature stage of their product lifetime, there is a relatively high correlation between industry fluctuation and general economic cycle. Besides, 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. By entering into these sectors, developing miniaturized and modularized products and adjusting their product portfolios, passive component suppliers can not only boost their gross profits, but also avoid the operational risks arising from fluctuations of economic cycles. As for future market trends, passive components are expected to develop such features 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, personal computers and niche products such as those for industrial and automotive purposes as well as the Internet of Things ("IoT"). Nonetheless, there may be a short supply of aluminum foils due to more stringent environmental inspections in Mainland China, the global manufacturing hub. On the occasion of the China-US trade war, it is imperative to monitor global market changes on a cautious note.

In response to the ever-changing market demands, Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively the "Group" or "we") will, on one hand, proactively cater to the product demands of existing customers and offer better services, and on the other hand, actively solicit new customers, enhance product functions and added value through research and development ("R&D") capability, and control costs to increase gross profit, in order to adequately satisfy customers' demands, and to reward shareholders with returns.

In 2018, the strategies for the Group's two major products were as follows:

1. OPERATIONS IN THE ALUMINUM FOIL MARKET

Overall, the year 2018 witnessed moderate economic growth. Increasingly strict environmental regulations caused a continuous shortfall and higher production cost of aluminum foils, the major raw material of passive components. Meanwhile, the majority of production capacity was still dominated by large-scale capacitor manufacturers. In particular, manufacturers were vying for the 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. In response 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 reduction of wastage 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 remain attentive to and address 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 on aluminum foils:

➢ ETCHED ALUMINUM FOILS

- **Upgrading the high-speed production line for etched aluminum foils**
  Targeting the existing problem in the high-speed production line for etched aluminum foils, we renovated the driveline system and tension control system of the production line in 2018, in an effort to improve product quality and production stability.

- **Acid recycling and reuse**
  As of the end of 2018, we had installed 15 sets of equipment for sulphuric acid recycling and another 15 sets for nitric acid recycling, and gradually increased the proportion of recycled acid in the liquid supply to production lines. This has effectively lowered our acid consumption during production and significantly reduced our waste acid treatment at the sewage treatment center.

➢ **FORMED FOILS**

- We further optimized the production technology for special formed foils of Yaskawa, reduced the leakage current ratio to a level similar to that of their Japanese counterparts, and realized mass production. We have finished installing a production line dedicated to manufacturing special formed foils with a low leakage current ratio, which is expected to commence production in April 2019; and

- We have started our R&D work on boron reduction technology, with some results delivered by our laboratory. The laboratory stage is expected to complete in March 2019 before work can start to manufacture samples.

2. OPERATIONS IN THE ELECTROLYTIC CAPACITOR MARKET

The appearance of 5G network is not far away from us, while the arrival of the IoT 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 future application industries. Therefore, this year, the R&D for mass production of electrolytic capacitors primarily aims at 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 in addressing relevant demand. In the future, the Group will commit more efforts to meeting the requirements for special 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 the front-end demand of the market and can be applied across different sectors, promote market 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 of electrolytic capacitors:

➢ As for fast charging of mobile phones, our market application emphasizes on high-voltage pin-type products as well as the TH series that boasts a long lifespan and heat resistance;

➢ Regions with unstable power supply will embrace the application of high-voltage mini capacitors that can resist strong lightning and high temperature and can charge and discharge swiftly;

➢ Given that 5G communication is expected to lead the world, further efforts have been made to boost the market share of high-voltage pin-type products;

➢ Snap-in, high-voltage pin-type products have been developed in line with 5G development, with continuous expansion in its application fields, including variable-frequency drives for industrial purpose, servo drives, photovoltaic energy drives, UPS, professional power supplies, wind power and special military power supplies;

➢ Snap-in products used in new-energy in-vehicle chargers (ON BOARD CHARGE-OBC) are designed with the structure of double-bottom aluminum cases, which has met the strict requirement on random vibration for new-energy in-vehicle products. Meanwhile, extensive promotion has taken place in relation to the CUL long-lifespan series of horn-shaped capacitors, which is an in-vehicle charger series;

➢ In-vehicle hybrid (semi-solid) capacitors have been developed, with a voltage of 16V to 100V;

➢ Given the expanded market demand for cloud servers and the demand for high-capacity power supplies, electrolytic capacitors have been developed that are equipped with high temperature resistance and a long lifespan for customers to place orders; and

➢ Solid-state polymer capacitors were improved to be capable of resisting peak current between 16V and 63V; and our self-developed pre-treatment process operation with immersion fluid can effectively reduce capacity fade after peak current tests.

As defined by Garner, an international research and consultancy firm, strategic technology trends have the characteristic of rapid growth, high variability and ability to reach the tipping point within the next five years. In light of the above, it is forecasted that the top 10 strategic technology trends in 2019 include automation objects, augmented analytics, AI-driven development, digital twin, stronger edge computing, immersive experience, blockchain, smart space, digital ethics and privacy, and quantum computing. Hence, in 2019, the technology sector will focus on: 1. smart; 2.digital; and 3. grid.

To apply the above three indicators, certain processes under human operation are replaced by smart devices such as robots, drones and self-driving vehicles to achieve automation. Such devices, equipped with a sensory system, allow human brains to make decisions. Meanwhile, in addition to its existing statistical analysis, the learning system of machines can offer predictive and instructive insights, which in turn, will accelerate AI development and application in response to the rapid changes and demand of the market. In addition, digital twin, essentially a cyber-physical system under Industry 4.0, is a type of technology that integrates virtual and reality. Specifically, digital twin fully utilizes the information collected by sensors, and introduces previous data analysis and integration to do simulation in various dimensions and creates multi-faceted application and development of "Digital Twin" in the future. In other words, "Digital Twin" represents the fact that businesses improve their product design, manufacturing, operation and maintenance by utilizing the information, conditions or status as well as the information and analysis of incidents after combination with technology. Furthermore, greater driving force can be generated through the collaboration of edge computing, AI and IoT. At the same time, technologies that can create immersive experience, such as virtual reality, will continue to reshape people's perception of the digital world. Blockchain offers solutions to operational performance, enable interaction and connection in smart spaces, or help establish safety nets to prevent network attacks amidst privacy and security concerns in an increasingly open system. Therefore, forward-looking technologies continue with their advance, bringing unlimited possibilities for the evolution of the world. As part of the electronic industry market, the Group should naturally maintain its competitiveness and master the latest technology to accelerate the development of new technologies, products and solutions so as to become a key player in the competitive market.

The Group will capitalize on the collective wisdom of its management team more effectively, build on current achievements and innovations, and consolidate its business foundation and competitive edge. Meanwhile, the Group will also endeavor to become an international market supplier by combining the competitive edge of its operations in the People's Republic of China ("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, 28 March 2019

FINANCIAL REVIEW

A summary of the financial results of the Group for the year ended 31 December 2018 (the "Year") is as follows:

- Revenue increased by approximately 12.46% to approximately RMB1,202,327,000.
- Gross profit increased by approximately 25.94% to approximately RMB340,868,000.
- Profit for the Year attributable to owners of the Company amounted to approximately RMB64,761,000 (for the year ended 31 December 2017: loss of RMB2,040,000).

During the Year under review, the Group's revenue was approximately RMB1,202,327,000, representing an increase of approximately 12.46% over the corresponding period of last year. Sales of capacitors for the Year were approximately RMB1,172,606,000, representing an increase of approximately 12.12% as compared to RMB1,045,836,000 in the corresponding period of last year. The Group's year-on-year increase in sales came from a better performance of the Group as a result of the launch and sale of the Group's newly developed solid-state capacitors, high-voltage capacitors and charging piles. Sales of aluminum foils for the Year were approximately RMB29,721,000, representing an increase of approximately 27.73% as compared to RMB23,268,000 in the corresponding period of last year. Such increase was mainly attributable to the slow recovery of economic climate in general and the excessive demand in the aluminum foils market where, in particular, large capacitor manufacturers secured the majority of aluminum foils, leaving a shortfall in aluminum foils supply for medium and small capacitor manufacturers. During the Year, the gross profit margin of the Group increased from approximately 25.32% for the corresponding period of last year to approximately 28.35% for the Year.

BUSINESS REVIEW

Although 2018 was in the mid-to-late stage of the current wave of economic expansion and recovery of the global economy continued, factors of potential unrest still existed due to market uncertainties such as the China-US trade issue, Brexit, financial risks in emerging markets caused by continuous interest rate hikes in the US, geopolitical tensions, rise of protectionism and the aging of world population. Since the financial tsunami in 2018, the output gap of developed countries has been gradually dissipating, and the loose monetary policy has also been gradually back to normalcy. Nevertheless, the amount of piling debts around the world has reached a new high after a decade and become a potential concern for the next recession. 2018 ended amidst the "collision" of black swans and grey rhinos coupled with a flurry of events.

As the electronics industry confronts numerous uncertainties, our life has been slowly filled up with the increasingly popular AI, digital ecosystems, biohackers, transparent immersive experience and the ubiquitous infrastructure. Continuous advancement of technologies, particularly wearable devices and unmanned vehicles, will keep transforming human life and competition and thereby increase the requirements for technical upgrade and the demand for electronic parts and components. Furthermore, stricter environmental protection requirements prevented some aluminum foils suppliers from supplying enough aluminum foils to capacitor manufacturers, resulting in higher unit prices of electronic parts and components.

➢ MANUFACTURE AND SALE OF ALUMINUM FOILS

During the Year, after satisfying the Group's internal production demand, the Group's external sales of aluminum foils amounted to approximately RMB29,721,000, representing an increase of approximately 27.73% as compared to the external sales of aluminum foils of approximately RMB23,268,000 in the corresponding period of last year.

The increasingly stringent environmental regulations in Mainland China have restricted the production capacity of aluminum foils suppliers, causing the continuous shortfall and higher production cost of aluminum foils. Meanwhile, the majority of production capacity remains dominated by large-scale capacitor manufacturers. In response to such industrial characteristics, having assessed the market dynamics and considered potential factors, the Group decided to expand its production capacity as planned so as to ensure a stable supply of aluminum foils for its capacitor plants and meet the demand of market customers. Accordingly, in 2018, the Group built 20 new production lines for high-pressure formed foils, all of which have commenced production to secure the stable internal supply for the Group and meet the demand from external markets.

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 various key R&D projects and quality control techniques. Besides, the Group remains active in exploring markets with high added value to prepare for future market changes. The Group will stay attentive to and cautiously respond to the future developments in the aluminum foils market.

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

➢ **Etched aluminum foils**

- *Upgrading the high-speed production line for etched aluminum foils*
  Targeting the existing problem in the high-speed production line for etched aluminum foils, we upgraded the driveline system and tension control system of the production line in 2018, in an effort to improve product quality and production stability.

- *Acid recycling and reuse*
  As of the end of 2018, we had installed 15 sets of equipment for sulphuric acid recycling and another 15 sets for nitric acid recycling, and gradually increased the proportion of recycled acid in the liquid supply to production lines. This has effectively lowered our acid consumption during production and significantly reduced our waste acid treatment at the sewage treatment center.

➢ **Formed foils**

- We further optimized the production technology for special formed foils of Yaskawa, reduced the leakage current ratio to a level similar to that of their Japanese counterparts, and realized mass production. We have finished installing a production line dedicated to manufacturing special formed foils with a low leakage current ratio, which is expected to commence production in April 2019; and

- We have started our R&D work on boron reduction technology, with some results delivered by our laboratory. The laboratory stage is expected to complete in March 2019 and we can then proceed to manufacture samples.

During the Year, the Group has taken the following measures for environmental improvements in aluminum foils production:

1. The energy-saving transformation for roasting furnaces was completed, saving approximately 400kwh per production line per day and 360,000kwh for 30 production lines per month;

2. The transformation for recycling reclaimed water was completed and put into operation, saving approximately 300 tons of water per day and 9,000 tons per month;

3. The facilities of phosphoric acid recycling have completed installation and are under commissioning. Currently, 2 production lines have been put into use and operated gradually. Upon their operation, such facilities are expected to save 10% cost on phosphoric acid in 2019 and save approximately RMB300,000 of sewage treatment cost each year; and

4. The test equipment for boric acid recycling have completed installation and is expected to be on trial by the end of March 2019.

➢ MANUFACTURE AND SALE OF CAPACITORS

In respect of capacitors, the Group recorded external sales of approximately RMB1,172,606,000 for the Year, which accounted for approximately 97.53% of the Group's total external sales and represented an approximately 0.29% slight decrease from approximately 97.82% of the Group's total external sales for the corresponding period of last year.

While the passive component industry is about to enter its moderate growth stage in view of the global sales growth of smartphones, there is a 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. Besides, in response to the growing business opportunities in the application of AI, edge computing and internet as well as the wearable devices and unmanned vehicles, visionary technologies such as 5G, AI and visual machinery will bring the smart devices to a new era of diversity. In respect of the R&D for mass production of capacitor, the Group primarily worked on high-end products such as variable-frequency drives, servo drives, chargers for communication bases and communication terminal products and in-vehicle electronic applications during the Year, with great results already achieved in addressing relevant demand. In the future, the Group will commit more efforts to meeting the requirements for special tailor-made products, including miniaturization, high capacity, high voltage, high frequency and high temperature. The Group will also take steps to develop custom-made products that cater to the front-end demand of the market and can be applied across different sectors, promote market application of capacitors in various fields, renovate technologies and products ahead of the trend and expand the global market share of its capacitor products.

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

- The guide pin department has independent production of guide pins, which produced a better effect upon trial manufacturing of samples. Such pins have started trial application to products with the specification of 6.3*4.4, with an evident effect on reducing ESR. Heat-resistant tapes have undergone effective improvement to lower the cost;

- Tin-bismuth alloy CP wires: Tin-bismuth alloy CP wire samples have been produced, with trial manufacturing of guide pins conducted and the customer terminal test completed;

- Mass production has taken place for large liquid-state SMD capacitors with the specifications of 16x21.5 and 18x16.5, to make up for Capxon's shortfall in large SMD capacitors;

- In respect of liquid-state capacitor products, 650WV ultra-high-voltage products have been produced;

- Snap-in products have been expanded to accommodate the voltage specifications of 85°C/550V&600V and 105°C/550V for variable-frequency drives for industrial purpose, servo drives, photovoltaic energy drives, UPS, professional power supplies, wind power and special military power supplies, with ripple current improved by up to 20%;

- Ultra-high-voltage high-capacitance positive foils have been developed to meet the demand for miniaturization of ultra-high 500-550V horn-shaped products, while the development of 150°C heat-resistant tapes has been completed in respect of guide-pin products;

- New dispersion fluid has been introduced to solid-state capacitors. The application of dispersion in manufacturing processes not only reduced processing procedures and product costs, but also improved production efficiency, yield and the market competitiveness of products;

- Automated production management systems, which boosted information integration, production efficiency and utilization;

- Anti-vibration products have been developed with a view to improving product application to the in-vehicle sphere;

- Currently, our self-developed high-voltage immersion fluid for solid-state capacitors has been put into production, coupled with special electrolytic paper, which can bolster product performance and effectively lower costs; and

- In respect of hybrid capacitors, we have developed 150°C products which passed the AECQ-200 2000-hour test (with the standard hours of 1000H), while continuing to develop 135/145°C products.

LIQUIDITY AND FINANCIAL RESOURCES

➢ CASH FLOWS

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

During the Year, the Group had a total net cash inflow of approximately RMB136,704,000 from operating, investing and financing activities before foreign exchange adjustment, the details of which are set out below:

Net cash inflow from operating activities was approximately RMB146,520,000, which was mainly due to the profit before tax for the Year of approximately RMB112,600,000 together with the changes in the flow of funds as a result of the adjustments for items such as finance costs and depreciation as well as the movements in items such as inventories, receivables and payables.

Net cash outflow from investing activities was approximately RMB129,967,000, which was mainly due to the payment of approximately RMB112,745,000 for the purchase of machinery and equipment.

Net cash inflow from financing activities was approximately RMB120,151,000, which was mainly due to the borrowings of approximately RMB409,338,000 from banks, repayment of bank borrowings of approximately RMB280,653,000 and payment of interest on borrowings which amounted to approximately RMB7,225,000.

As at 31 December 2018, the Group had cash and cash equivalents of approximately RMB248,918,000 (31 December 2017: RMB108,446,000), which were mainly held in Renminbi and U.S. Dollars (31 December 2017: Renminbi, U.S. Dollars and Euro).

➢ BORROWINGS

As at 31 December 2018, the Group had bank and other borrowings of approximately RMB250,497,000 (31 December 2017: RMB115,784,000), which were mainly denominated in U.S. Dollars, New Taiwan Dollars, Japanese Yen, Euro and Renminbi (31 December 2017: U.S. Dollars, New Taiwan Dollars, Japanese Yen and Euro). Among such bank borrowings of approximately RMB200,266,000 (31 December 2017: RMB74,070,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of bank and other borrowings:

	31 December 2018 RMB'000	31 December 2017 RMB'000
Within one year	**240,383**	115,784
More than one year but not exceeding two years	**7,018**	–
More than two years but not exceeding five years	**3,096**	–
	250,497	115,784

PLEDGE OF ASSETS

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

	31 December 2018 RMB'000	31 December 2017 RMB'000
Bank deposits	**2,818**	1,205
Deposit in a financial institution	**2,064**	–
Land use rights	**11,159**	–
Property, plant and equipment	**79,272**	10,864
	95,313	12,069

FINANCIAL RATIOS

As at 31 December 2018, the Group's gearing ratio (net debt divided by the sum of equity attributable to owners of the Company and net debt) amounted to approximately 31.82%, representing a slight increase of approximately 0.06% as compared to 31.76% as at 31 December 2017.

Below sets out 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	
	2018	2017
Inventory turnover	**77 days**	72 days
Trade and bills receivable turnover	**119 days**	126 days
Trade and bills payable turnover	**88 days**	89 days

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 2018, the Group had capital commitments contracted but not provided for in the consolidated financial statements amounting to approximately RMB8,278,000 (31 December 2017: RMB18,934,000).

MATERIAL PROCEEDINGS

During the year ended 31 December 2011, a customer (the "Customer") filed an arbitration claim against the Company's subsidiary Capxon Electronic Industrial Co., Ltd. ("Capxon Taiwan") with the Japan Commercial Arbitration Association (the "Arbitration Association"), claiming damages of JPY1,412,106,000 (equivalent to RMB87,959,000 (2017: RMB81,375,000)) allegedly suffered by the Customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (equivalent to RMB3,737,000 (2017: RMB3,458,000)) 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 which was ordered to pay to the Customer damages in an aggregate sum of ("Arbitral Award"):

(i) damages of JPY2,427,186,647 (equivalent to RMB151,172,000 (2017: RMB139,871,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to RMB81,713,000 (2017: RMB75,605,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to RMB58,693,000 (2017: RMB54,305,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (equivalent to RMB10,766,000 (2017: RMB9,961,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to RMB1,471,000 (2017: RMB1,361,000)).

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 ("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. In May 2018, the HK Court dismissed Capxon Taiwan's application to set aside the enforcement order and adjourned the charging order proceedings to November 2018 for Capxon Taiwan and the Customer to file further evidence.

In September 2018, the Customer applied to the HK Court for discovery of documents and disclosure of certain information of Capxon Taiwan and Lancom Limited, a subsidiary of Capxon Taiwan, by way of summons which is scheduled to be heard on 26 September 2019.

The final decision of the charging order hearing 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. In April 2018, the shareholders of Capxon Taiwan passed a resolution to voluntarily wind up Capxon Taiwan and appointed liquidator pursuant to the Laws of Taiwan. As at 31 December 2018, certain property, plant and equipment in Taiwan, with carrying value of RMB10,995,000 (31 December 2017: nil), were distrained by the Taiwan Shilin District Court for enforcing the Arbitral Award. The relevant property, plant and equipment were still used by the Group as at 31 December 2018. Subsequent to 31 December 2018, under the instruction issued by the Taiwan Shilin District Court, the relevant property, plant and equipment was in auction, and Capxon Technology Limited, a wholly owned subsidiary of the Company, has purchased such auctioned property, plant and equipment. As at the date of this report, the wind up of Capxon Taiwan is still in progress.

The outcome of the hearing from the HK Court cannot be determined at this stage and the wind up of Capxon Taiwan is still in progress. Therefore, an aggregate amount of JPY3,511,811,817 (2017: JPY3,366,180,618), equivalent to RMB218,725,000 (2017: RMB193,980,000), was provided at 31 December 2018 in respect of damages, interest and arbitration related expenses as a result of the Arbitral Award.

FOREIGN EXCHANGE FLUCTUATIONS

The Group's revenue from operations is principally denominated 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 various currencies, the exposure to exchange risks was 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 can result in a material difference from the prevailing or historical exchange rates of Renminbi.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2018, the Group had approximately 2,341 employees in total. Salary, bonus and fringe benefits are 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 RMB239,609,000 (for the year ended 31 December 2017: RMB221,037,000).

COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Company is concerned, it has complied with the relevant laws and regulations that have a significant impact on the business and operations of the Group in all material respects during the Year.

FUTURE STRATEGIES AND PLANNING

Industry trends for 2019 focus on:

1. Popularity of AI: AI technology will undoubtedly be the most important technology trend in the future, covering AI platforms, autonomous driving, robots, drones, etc. Manufacturing, retail, financial investment and medical institutions will invariably make considerable investments in the R&D and design of such application systems.

2. Digital ecosystems: In addition to the popularity of AI, digital ecosystems will replace the old partitioned technological architecture and enable the transition into ecosystem platforms. Humans and technology will be bridged by the establishment of platforms including block chains, digital twins and IoT, which can deliver better security and efficiency for the financial industry.

3. Biohackers: "Super humans" maybe emerged from humans over the next decade. Bringing about great transformations to the future of mankind, these biohackers may produce such novelties as biochips, artificial tissue cultivation, brain-computer interface, augmented reality or mixed reality.

4. Transparent immersive experience: It means that the relationship among people, businesses and objects will become transparent, with smart life emerging as an extension. This includes 4D printing, edge AI, connected homes and self-repair systems.

5. Ubiquitous infrastructure: Environmental technologies that enable such infrastructure include 5G, deep neural network, neuromorphic hardware and quantum computing.

With the advent of cloud computing and its various related technologies and widespread application, an infrastructure computing environment has taken shape that remains perpetually connected, easy to access and impose no restrictions. Undoubtedly, 5G is the most eye-catching infrastructure technology, building end-to-end industry chains and commercial targets. Apparently, with the fast-changing technologies and the acceleration of development, human life is about to enter an era featuring ubiquitous smart applications. Accordingly, industries need to catch up in order to confront technological transformations. As such, we will also transform our business based on the following objectives:

➢ Human resources: Streamlining labor demand, and tackling higher labor cost of production lines and improving labor efficiency through education, training and more automation equipment.

➢ Production equipment: Installing more automation equipment, with trial production to take place.

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

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

➢ Verification and delivery: Strengthening 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 pattern of failure on capacitor performance and the reasons thereof, in order to improve the quality of capacitors and meet the demand.

➢ Technical reforms: Currently, the Group expects to develop the following key technologies in relation to aluminum foils and capacitors in 2019:

  ➢ Aluminum foils
    - Capacity ramp-up: Developing new formation additives to ramp up the capacity of newly developed aluminum foils.
    - Energy conservation: Adjusting operational procedures to optimize formation formulas and mitigate power consumption.
    - Conducting R&D on energy-saving technology for the production line of ultra-high-voltage (above 700V) formed foils.

  ➢ Capacitors
    - Conducting online surveillance of the aging process and improving product application in the new energy field, the anti-vibration performance and heat-dissipation design of products in view of the triple-belt design of double-bottom aluminum cases, as well as the application fields of products.
    - Completing the development of new electric polymer material specific to the low-temperature characteristic of solid-state capacitors, to substantially bolster the high-frequency low-resistance performance of customer-side application.
    - Making good development in photovoltaic and new energy application in the capacitor market, enhancing the development of ultra-high-voltage products for photovoltaic inverters and new energy vehicles, and managing to introduce 550V/5000Hrs photovoltaic inverters to the European photovoltaic application market.
    - Passing third-party test in relation to large high-voltage Snap-in capacitors for in-vehicle chargers.
    - Passing client test in relation to semi-solid aluminum electrolytic capacitors for vehicles.

FUTURE PROSPECTS

In 2019, there is no question that the evolution of technology has been ushered into an era of comprehensive intelligence functions. While AI has generated unlimited possibilities for a "smart" life, edge computing mainly addresses such issues as the computing workload of cloud-based platforms for the upper level, the communication and transmission expenses for the middle level, and the real-time control for the lower level of the IoT. This equips the lower-level control equipment or the middle-level gateway with certain computing function, which in turn enables the IoT system to act more quickly at a lower cost for building and operation. Furthermore, the introduction of AI will empower peripheral equipment with computing function and learning capability so that the entire system can acquire real intelligence through constant trial and error. Undoubtedly, when technology turns the world upside down, industries and human resources are bound to embrace the upgrade of this trend. The advent of AI also represents the necessity of transformation. As a member of the industry, the Group is seeking opportunities of transformation. At the same time, it remains attentive to the irrational factors of the market, the smooth adjustment of production-marketing supply chains, the higher cost in U.S. Dollars, and the reduced momentum in international trade arising from China-US trade tensions.

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 R&D innovation, 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 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.

EXECUTIVE DIRECTORS

Mr. Lin Chin Tsun (林金村), aged 70, 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 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 66, 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. 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 42, 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 a master's degree in business administration from China Europe International Business School (中歐國際工商學院) in 2018. 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 39, 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 39, 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 (Alias: Miles Hsieh) (謝金虎), aged 71, 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. Mr. Hsieh was the supervisor of TSRC Corporation (2103) from June 2012 to June 2015, and ceased to be the independent director of CX Technology Corporation (2415) since 5 June 2018, both companies are listed in Taiwan. Mr. Hsieh is currently the independent director of The Shanghai Commercial & Savings Bank, Ltd. (5876) 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 58, 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 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 resigned as an independent non-executive director of ANTA Sports Products Limited (a company listed in Hong Kong, Stock code: 2020) with effect from 1 March 2019. 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 (Alias: Raff Tung) (董清銓), aged 66, 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, an independent director of Lung Hwa Electronics Co., Ltd. (隴華電子股份有限公司) whose shares are listed on the Taiwan Stock Exchange Corporation, 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 46, 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 58, 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 49, is the chief of research and development and the deputy general manager of the Company's subsidiary 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 47, 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.

ABOUT THE REPORT

The Environmental, Social and Governance ("ESG") report of the Group sets forth its principles and works undertaken as a corporate citizen in the electronics industry. The ESG report elaborates not only various efforts undertaken by the Group in fulfilling the principle of sustainable development, but also its social and governance performance.

SCOPE OF ESG REPORT

The ESG report covers the core activities of the Group in Hong Kong and Mainland China and describes its overall environmental and social policies for the Year. The key performance indicators of the Year as disclosed are focused on the environmental and social performance of the major subsidiary of the Group, namely Capxon Electronic (Shenzhen) Co., Ltd. ("Capxon Shenzhen"). The Group will make continual efforts in reviewing its performance on environmental and social aspects, and consider expanding the scope of the ESG report in the future. For more details of corporate governance, please refer to the Corporate Governance Report on page 27 to 34 in the annual report for the Year.

ESG REPORTING GUIDELINE

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, and references the "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 key performance indicators.

INFORMATION AND FEEDBACK

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

STAKEHOLDER ENGAGEMENT

The preparation of the ESG report involves the engagement of employees from various departments of the Group, enabling clearer understanding of our levels in environmental 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, but also lays a foundation for formulating our short-term and long-term sustainability development strategies.

In preparation of the ESG report for the Year, the Group has commissioned an independent third-party consultant to assist us in collecting internal stakeholder's opinions regarding ESG aspects. Through conducting survey with internal stakeholders who have thorough understanding to the Group's business, we collected a series of opinions regarding ESG aspects. Such internal survey effectively facilitates the execution of comprehensive materiality assessment in the future for both internal and external stakeholders. The results of this internal survey will also be used as a reference for reinforcing the Group's internal management.

The Group will continue to increase the involvement of stakeholders so as to collect their valuable and constructive comments and suggestions for our development.

STAKEHOLDERS COMMUNICATIONS

The Group constantly communicates with different stakeholders through diversified channels and strives to listen and actively response to each stakeholder's expectations and requirements. The opinions of stakeholders are of great value to improving the Group's ESG performance and implementing good governance.

Stakeholders	Expectations and Requirements	Means of Communication and Response
Government and Regulators	• Compliance with national policies, laws and regulations • Supporting local economic growth • Paying taxes on time • Production safety	• Regular information reporting • Regular meetings with regulators • Examinations and inspections
Shareholders	• Returns • Operation in compliance with laws • Increasing Company's value	• General meetings • Announcements • Email, telephone communication and company website
Business partners	• Operational integrity • Equal rivalry • Performance of contracts in compliance with laws • Achieving reciprocity	• Review and appraisal meetings • Business communication • Exchanges and discussions • Engagement and cooperation
Customers	• Health and safety • Performing contracts in compliance with laws • Operational integrity	• Customer feedback surveys • Customer communication meetings • Social media platforms
Environment	• Compliant emission • Ecosystem protection	• Communication with local environmental departments • Reporting
Industry	• Establish industrial standards	• Participation in industry forums
Employees	• Rights protection • Occupational health • Remunerations and benefits • Career development • Humanity cares	• Communication meetings with employees • House journal and intranet • Employee mailbox • Training and workshops • Employee activities

OUR VISION ON ENVIRONMENT AND SOCIETY

The Group enjoys the leading position in vertically integrated aluminum electrolytic capacitor manufacturing industry in Asia, 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 (Stock code: 469), the Group is underpinned by six core values of Sincerity; Challenges; Progress; Customers come first; Obedience; and Neatness, while operating principal businesses in the manufacture and sale of aluminum foils and capacitors. In the meantime, we implement green production practices and attach great importance to occupational health and safety that we are accredited corresponding international certifications and hence win the trust of our customers. The Group ensures quality control in the entire production process by inspecting the raw materials components and installing the relevant equipment and apparatuses. We also safeguard that all the procedures are complied with the Restriction of Hazardous Substances Directive ("RoHS") and carry out green production practices comprehensively.

GREEN OPERATIONS

The Group recognizes that environmental protection is its social responsibility that cannot be neglected. We formulate clear environmental approach, including compliance with laws, pollution control, clean production, reduction of resources consumption, conservation of natural resources, reduction of toxic substances generation and continual improvement on environment and landscaping so as to enhance the Group's performance in environmental protection. In relation to environmental protection, the Group has set up annual environmental targets in the hope of reducing adverse environmental impacts caused by the Group's business. Meanwhile, we adhere to the principle of "producing the right product at the right time with the right quality" to provide our customers with high-value, eco-friendly and low-carbon products. Capxon Shenzhen has been certified by the ISO14001:2015 Environmental Management System, IECQ QC8000:2012 Hazardous Substance Process Management System and ISO14064:2006 Greenhouse Gas Emission Management System.

PAPERLESS OFFICE

We strive to attain paperless office by formulating annual targets and measures on reducing paper consumption. All internet announcements, memoranda and notices are published on the Group's intranet system while documents are circulated through electronic means and transmitted by emails. In an attempt to optimize the use of paper, we encourage duplex copying and printing, as well as the use of recycled paper for printing informal documents within departments. Besides, central allocation of paper is applied among departments to facilitate the monitoring of paper consumption. Through implementing the abovementioned policies, Capxon Shenzhen successfully reduced paper consumption during the Year.

WASTE DISPOSAL

Conservation of resources and pollution prevention are essential for preserving the limited resources on the Earth. Collaborating with different departments, the Group is dedicated to managing waste effectively, improving environmental sanitation, reducing pollution to the environment and reusing waste materials to create an innocuous, safe, resourceful and economical environment. Capxon Shenzhen separates and delivers non-recyclable waste to landfills daily for further handling, while recyclable waste are forwarded to qualified recycling company regularly after separation. During hazardous waste treatment, Capxon Shenzhen strictly complies with hazardous waste related laws and regulations, including without limitation the "Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes" (《中華人民共和國固體廢物污染環境防治法》). Capxon Shenzhen collects and separates hazardous waste, some of which are recycled by raw materials suppliers, while the remaining will be treated by qualified units that fulfil regulatory compliance and are granted corresponding licenses or recognized by environmental institutions. Through effective management of hazardous waste treatment, we ameliorate the impacts on environment as low as practicable. During the Year, all hazardous waste of Capxon Shenzhen are recycled and transferred legally.

EMISSIONS MANAGEMENT

Recognizing the damages of wastewater and exhaust gas caused to ecosystem, the Group implements vigorous supervision on the generation of wastewater and exhaust gas in the manufacturing process to ensure that the Group's operation not only causes no negative environmental impacts, but also complies with respective laws and regulations such as the "Water Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國水污染防治法》) and "Atmospheric Pollution Prevention and Control Law of the People's Republic of China" (《中華人民共和國大氣污染防治法》). Besides, wastewater treatment procedures are clearly specified to ensure that wastewater has been treated by biochemical processes and water purification processes before being discharged. The Group monitors the quality of effluents on a regular basis, oversees and repairs effluents treatment facilities timely in a bid to maintain proper functioning. We also commissioned qualified independent third party to carry out relevant inspections. Effluents will only be discharged after wastewater treatments in accordance with the Guangdong Provincial Standard of "Discharge Limits of Water Pollutants" (DB44/26-2001). During the Year, the concentrations of water pollutants discharged by Capxon Shenzhen are as follows:

Water Pollutant	Concentration of Discharges	Concentration Limit of the DB44/26-2001 Standard for Discharges
pH Value	7.03-7.97	6-9
Fluoride (mg/L)	≤0.3	10
Chemical Oxygen Demand (mg/L)	≤40.6	110
Phosphate (mg/L)	≤0.09	1
Zinc (mg/L)	≤ 0.3	3

The Group only generates a small amount of industrial exhaust gas in the production process. To mitigate the negative impacts of exhaust gas on the environment, the Group stipulates that all exhaust gas must be emitted at height through smokestacks, and perform regular examinations and maintenance to ensure facilities are at proper operating condition. The Group has commissioned qualified independent third party to carry out periodic exhaust gas examinations to ensure that requirements set forth in Guangdong Provincial Standard of "Emission Standard of Air Pollutants for Boilers" (DB44/765-2010) are fulfilled. During the Year, the concentrations of exhaust gas emitted by Capxon Shenzhen are as follows:

Air Pollutant	Concentration of Emission	Concentration Limit of the DB44/765-2010 Standard for Emission
Nitrogen Oxides (mg/m³)	≤159	200
Sulphur Dioxide (mg/m³)	≤13	50
Smoke (mg/m³)	<20	30

RESOURCES CONSERVATION

The Group's main energy consumptions are electricity, diesel and petrol for industrial use and transportation. We strive to enhance our performance in energy saving through systems establishment, technological advancement, as well as publicity and training. Moreover, Capxon Shenzhen has successfully obtained the ISO50001:2011 Energy Management System Certification, becoming the first enterprise to acquire this certification in Guangming New District, Shenzhen.

MECHANISM ESTABLISHMENT

To strengthen management and refine the work, the Group has established comprehensive energy management system, in which energy saving system, resources management procedures, target evaluation system, as well as reward and punishment scheme are formulated. The Group values the participation of each employee from all positions in energy saving work so as to safeguard all energy conservation related measures are effectively executed. In view of this, energy management system has clearly specified respective energy conservation duties of different departments, from the Board of Directors and the management to employees at all levels, so that all employees can perform their own responsibilities. Under the energy saving system, the management not only occasionally convenes meetings about the energy saving work, but also formulates feasible energy saving and emission reduction policies and implements specific energy saving measures based on the actual situation of the Group. In order to attain energy conservation goals and targets in each working unit, dedicated officers are also appointed in each working unit to ensure resources are used in a proper way and manner.

In addition, the Group arouses employees' awareness on energy conservation through the publication of energy saving measures, undertaking timely assessments pertaining to goals achievement, and implementing reward and punishment scheme so as to attain sustainable development. In an attempt to meet energy saving goals, the Group has established an all-round target evaluation system, which evaluates departmental performance in accordance with their respective energy saving data, energy saving goals and measures implemented. Through the comprehensive reward and punishment scheme and with reference to the evaluation results, the Group rewards departments or personnel who have an outstanding performance in achieving technological advancement, management and innovation for energy conservation related to energy saving, or punishes the departments or personnel that waste energy. Besides, incentives are also given to personnel who have given useful suggestions on raising product quality and quantity, and energy conservation measures, or provided specific trainings regarding energy conservation and consumption reduction on improving the management standard and capability of energy conservation and consumption reduction for relevant employees. The contribution of employees lays part of the assessment criteria of annual appraisal so as to share with them the benefits of energy conservation.

ENERGY CONSERVATION

The Group has the conviction that the renewal of energy conservation techniques is crucial for achieving energy conserving production and energy saving goals and thus we highly value efforts in technological upgrades. As a high-tech and innovative enterprise in the Mainland China, in addition to the establishment of energy management system, the Group also works on three aspects, including energy conservation technological advancement, reformation of working procedures and energy management centre establishment, in order to reach the goals of energy conservation and environmental protection, and enhancement in energy efficiency and production efficiency.

In terms of renewal of energy conservation techniques, the Group proactively adopted energy efficient appliances and equipment to replace the outdated ones which are high-energy consuming and low efficient. In order to improve working process and reduce energy consumption, the Group has accomplished numerous renovation projects, such as air compressor resources integration, equipment automation, lighting transformation, boiler transformation, motor replacement and ultraviolet (UV) lamp replacement. After executing the renovation projects, the Group keeps monitoring and recording relevant energy consumption data for one year. If any abnormalities are identified, the Group will request responsible renovating company to resolve the issue. To achieve the energy conservation goals and targets of the Year, Capxon Shenzhen has replaced CTR computer monitors with LCD ones which are more energy efficient.

The Group recognizes that reformation of working procedures is necessary to coordinate with hardware upgrades. Therefore, with respect to energy consumption of production equipment, we adjust working arrangement in production unit that the number of equipment in operation will be determined by sales volume in order to maximize the utilization of equipment. To further reduce energy consumption and utilize resources, the Group lowers the temperature of washing machines and makes use of residual heat from air compressors for producing hot water for dormitory use. Furthermore, in an attempt to reduce water consumption, the Group recycles and purifies wastewater to clean electronic spare parts, and requests employees to conduct regular maintenance for water storage facilities to avoid water wastage.

The effectiveness of renewal of energy conservation techniques and reformation of working procedures are reflected by energy consumption achievement in every unit. In order to have a better understanding on energy consumption data, the Group commissioned the China Certification and Inspection Group to set up an energy management centre for collecting data and identifying energy consuming projects which are needed to be remedied, avoided and managed. Moreover, the energy management centre helps to evaluate the Group's energy efficiency and identify its energy-saving potential based on statistical review on energy use and energy saving performance analysis, which in turn, help the Group to formulate the energy management policies and optimize energy-saving technologies according to the evaluation outcomes.

PUBLICITY AND TRAINING

To encourage all employees' active participation in energy conservation and emission reduction to reach the energy saving goals, the Group enhances publicity on energy saving and consumption reduction to raise their awareness, and provides pre-job training to allow new employees to understand the energy saving approach, policies and rules. For instance, brief introduction on energy consumption of major products of the Group and major energy-saving equipment are conducted. For different departments, the Group provides respective professional training to its employees so as to improve their energy saving skills and knowledge of energy saving and consumption reduction as well as their understanding on new working procedures and technologies. Besides, the Group constantly displays energy conservation posters to remind its employees to take responsibilities in resources conservation by turning off the tap after use and switching off the light when not in use.

PEOPLE-ORIENTED

Employees are the most valuable asset of the Group and the pillar for our development. The Group emphasizes the principles of sincerity, challenges, progress, customer-come-first, obedience and integrity. In the meantime, we strive to provide favourable working environment and harmonious working atmosphere for employees, as well as to create a career platform which enables employees to showcase their talents. The Group strictly complies with the applicable labour laws and regulations, including but not limited to the "Labour Law of the People's Republic of China" (《中華人民共和國勞動法》) and "Labour Contract Law of the People's Republic of China" (《中華人民共和國勞動合同法》), to safeguard employees' interests.

EMPLOYEE RIGHTS AND INTERESTS

In accordance with the Group's recruitment procedures, we attract talents through various channels, such as the talent market and the Internet. All candidates with capabilities that fulfil the job requirements enjoy equal opportunities, regardless of their gender, age, race or religion, among others. The Group strictly verifies the identification documents of candidates to prevent misemploying child labour, and prohibits any forms of forced labour. Detailed job descriptions such as duties and responsibilities of the position, working hours and venues are clearly stated before the official commencement of employment. We strictly follow the provisions stated in labour contracts during the entire employment period to avoid forced labour. Any overtime working will only be arranged after obtaining the consent of employees so as to prevent forced overtime working. We also ensure that employee's working hours and rest period are in line with "Labour Law of the People's Republic of China" (《中華人民共和國勞動法》).If employees have to work overtime, it must be on voluntary basis and they will be provided with overtime compensation in accordance with relevant laws and regulations. During the Year, the Group did not employ any child labour or forced labour.

REMUNERATION AND BENEFITS

Remuneration adjustment and promotion are considered based on employee's appraisal review, evaluation and working performance. On top of basic salary, statutory holidays and insurance, the Group provides employees with other benefits such as paid leaves, holiday gifts and allowance for working under high temperature. Travel subsidies are also provided accordingly based on employees' seniority for their travels to hometown during the Chinese New Year. Being a friendly employer, the Group advocates the culture with the idea of work-life balance and creates a harmonious working environment. Capxon Shenzhen has established a yoga room, two standard basketball courts and a garden for employees to enjoy complimentary refreshment after work. Besides, Capxon Shenzhen provides free movies screenings for employees from time to time. During the Year, Capxon Shenzhen held several activities, such as Chinese New Year Gala, the Ninth Award Presentation Ceremony on International Working Day and basketball competitions, to raise the sense of belonging towards the company and build up an atmosphere with warm and harmonious corporate culture.

HEALTH AND SAFETY

As a responsible employer, the Group upholds "Safety comes first, Prevention-based" as the principle of safety production and establishes an all-round health and safety policy in accordance with the relevant laws and regulations, among others, the "Production Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》) and "Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases" (《中華人民共和國職業病防治法》). The Group also provides health and safety education to raise employees' awareness on safety production and to reduce the risks of accidents. The Group performs the "Five Simultaneous Ideas" (i.e. planning, arranging, inspecting, summarizing and evaluating safety and production simultaneously) and "Four Principles for Accidents" (i.e. intolerance of unclear explanations, unimplemented actions, unclear responsibilities and uneducated personnel) during the safety production process. Employees who have committed "Three Violations" (i.e. violation against regulations in operation, supervision and violation of labour disciplines) will be subjected to serious punishment by the Group. Capxon Shenzhen is accredited OHSAS18001:2007 Occupational Health and Safety Management System Certification which recognizes our effort in protecting employees' health and safety.

HEALTH AND SAFETY POLICY

The Group attaches great importance to potential hazards of occupational diseases in the workplace. We have commissioned qualified occupational health technical service organization to conduct hazard inspection of occupational diseases in the workplace annually so as to identify the abovementioned hazards in the production and operation processes as well as to evaluate the effectiveness of preventive measures on occupational diseases. The Group stipulates that employees working in positions with potential occupational diseases concerns are required to have health check at least once a year. If employees are or likely diagnosed any occupational diseases, the Group will arrange re-designation or leaves immediately, and schedule resumption of work after passing health check. The Group also formulates comprehensive safety production and operation guidelines for employees who operate machines and participate in dangerous work. We require not only employees to strictly follow the guidelines during operation, but also require management to carry out regular safety examination. Recognizing that the proper functioning of equipment prevent employees from injury or fatality, the Group arranges routine maintenance for machines and equipment to ensure that all equipment pass safety inspection and are of normal functioning. To enhance safety awareness of departments, raise safety production standards and implement accountability, we enter safety production agreements with each department head to pledge responsibilities in educating, guiding and supervising employees' safety in production, with a view to achieve the following goals:

- Zero casualties or major personal injuries and fatalities;
- Zero serious mechanical and electrical equipment accidents;

- Zero fire and traffic accidents;
- Zero large-scale infectious diseases and acute poisoning;
- Zero occurrence rate of occupational diseases; and
- Zero radioactive accidents.

SAFETY EQUIPMENT AND SUPPLIES

Providing employees with adequate safety equipment and supplies is essential for achieving safety production. To ensure employees' safety and health condition, the Group provides numerous personal protective equipment such as earplugs, protective masks, face masks and insulated gloves, and installs different large-scale protective facilities such as automatic mechanical sealing equipment, exhaust ventilation fans, exhaust and antiviral system, in an effort to prevent dust, poison, noise and high temperature. In case of emergencies, the Group places various emergency equipment in the workplace, such as first aid kits, emergency shower and eyewash facilities.

PUBLICITY AND EDUCATION

Apart from providing equipment to protect employees' safety and health, the Group also advocates publicity to complement production safety. Since employee's safety is closely associated with daily activities, the Group actively organizes events to promote production safety and post corresponding notices at workplace. In addition to publicity, the Group also focuses on safety education that occupational hygiene and safety training and seminars are organized on a regular basis. The policies, background knowledge, requirements and precautions of production safety are covered in the training with illustration of relevant case study so as to allow employees to have a better understanding on contingency measures and risks control procedures in case of emergency. Relevant tests in the training are carried out before the commencement of employment to ensure that employees are equipped with an in-depth knowledge on safety production. Moreover, the Group organized drills on occupational disease hazards regularly to enhance their emergency response capability while the management will undertake an assessment after drills to improve emergency plans so as to ensure its effectiveness.

ELITE TRAINING

In an attempt to build strong talent pool for our rapid development and efficient operation, the Group conducts routine employee appraisals to examine their working performance. We establish our promotion mechanism with a fair and just basis and would not tolerate any forms of discrimination. In regard to promotion, we consider employees' personal quality, competence and performance, and prioritize internal promotion for capable employees when there are vacancies so as to give recognition to their efforts and contributions.

TRAINING MANAGEMENT

The Group is committed to promoting training and development activities for employees, which aim to advance their expertise, management skills and problem-solving ability. The Group also provides comprehensive training resources and a good learning environment to enhance employees' learning effectiveness and stimulate their innovation, which in turn help to maintain our competitive edge. The Group amends and implements annual training plans in accordance with our annual operation plans and targets, the needs for training in each department and the applicability of training. Training courses include various aspects like system training, skills training and new joiner training programme. To ensure and evaluate the effectiveness of training, employees are required to undergo examination after training and fill in a set of questionnaires for their feedback on the level, applicability, trainer' quality and overall satisfaction regarding the training.

TYPES OF TRAINING

Training provided by the Group comprises pre-job training, on-the-job training and professional training. In order to foster employees' engagement in our operation, the Group provides all new employees with pre-job training, covering the Group's history, corporate culture, business philosophy, quality assurance policies and organizational structure. To allow employees to have a full understanding on our policies on environmental protection, occupational safety and product quality, the Group arranges various training related to ISO14001 Environment Management System, ISO50001 Energy Management System, OHSAS18001 Occupational Health and Safety Management System and IATF16949 Automotive Quality Management System. In addition to training provision, the Group also coordinates with each department and provides appropriate guidance so that employees can get familiarized with their job duties, relevant requirements and working environment. Apart from pre-job training, on-the-job training is also provided by each department to facilitate employees' knowledge and skills. On-the-job training covers numerous aspects including production management, health and safety, quality management and technological assistance. The Group also provides professional training in a view to enhance execution capability and specific professional skills of specialists. Since employees' professional knowledge are critical to enhancing product quality, employees who are engaged in quality assurance, research and development, instrument calibration, internal audit and environmental monitoring management must receive particular training related to operational knowledge of green products and practical skills and obtain relevant certification. Each department will conduct evaluation to assess and validate employees' qualification annually. Furthermore, the Group places great emphasis on quality control and aims to offer products of best quality to customers such that employees who are responsible for quality control are required to pass additional assessment and obtain certifications. Therefore, apart from providing internal training for the employees, the Group also offers external training allowances as an aid and encouragement for the qualified technicians to further their studies.

SUPPLY CHAIN MANAGEMENT

The support from suppliers has established a strong foothold for the Group to provide the best quality product and service to customers. The Group recognizes stringent supply chain management is an integral part in its business operation. Therefore, the Group conducts assessment on quality of products from suppliers. In the meantime, we formulate strict standards on environment, labour rights protection and ethics for suppliers. The Group also develops transparent and fair procurement procedures and suppliers' management procedures. Our requirements towards suppliers not only safeguard the Group's brand prestige and business operation, but also reflect our values on ethical business practices. The Group strives to assist suppliers to raise their standards on quality, environment and service etc, so as to sustain the relationship of mutual support and prosperity.

SELECTION OF SUPPLIERS

In order to implement quality assurance policies and fulfil our responsibility on environmental protection, the Group imposes clear requirements for suppliers. The Group formulates distinct selection policies for suppliers such that suppliers for major raw materials are required to obtain relevant certifications from third party certification organizations such as ISO9001 Quality Management System and IECQ QC080000 Hazardous Substance Process Management System, in a view to select competitive suppliers with good quality operation. Suppliers who have obtained certifications from third party certification organizations will be given priority. The Group evaluates suppliers' performance on health and safety policies, employment policies, human right protection and environmental protection, among others. For instance, the evaluations include whether suppliers have established environmental management system and whether they have conducted product safety examination. We will also conduct on-site evaluations to ensure that the suppliers fulfil our requirements. The Group requires all suppliers to respect the individual human rights of employees and comply with the relevant laws and regulations in their corresponding operating countries and communities.

SUSTAINABLE AUDIT

After selecting suppliers, we monitor their performance on a continual basis. We conduct constant monitoring on their performance and formulate guidelines, including performance review and procedures improvement, to inspect and improve their performance so as to ensure their stability on performance, product and service quality. To safeguard product quality, the Group assesses major suppliers on a monthly basis according to five criteria, including quality, delivery, service, cost and technology. The Group imposes stringent standards towards environmental material safety of suppliers. If a third party certification organization confirms the presence of abnormal environmental substances in its review process, the monthly rating of the supplier will be zero. With reference to the assessment results, the Group gives priority to outstanding suppliers and regard them as preferential procurement partners.

VALUE OUR CUSTOMERS

The Group performs gate-keeping duties in a prudent manner and is dedicated to providing products with the best quality to our customers. In the meantime, we believe health and safety as well as satisfactory of customers are the foundation for long term development of our business. Therefore, we uphold the philosophy of customer-oriented and strive to offer them the best product that meets their requirements by adopting relevant supervision measures. The Group highly values the opinion of our customers and is committed to providing satisfactory after-sale services and thus any complaints from our customers will be handled promptly with effective solution. The Group stipulates that information provided in all marketing material shall be true and correct and we forbid any forms of false, misleading and inaccurate statement. The Group strictly complies with the relevant laws and regulations pertaining to advertising, labelling and privacy.

TESTING AND QUALITY ASSURANCE

To ensure product quality, the Group has formulated all-round policies of inspection on raw materials, production process and finished products in accordance with the "Product Quality Law of the People's Republic of China" (《中華人民共和國產品質量法》). A series of thorough inspection are carried out at different production stage based on product specifications, operating standards, the standard of AEC-Q200 Stress Test Qualification for Passive Components and requirements of RoHS. We also inspect quality of product, appearance and labels on customer's request to ensure that the products meet their requirements. If there is any substandard products found during the inspection, we will label and separate them, and analyze the causes behind together with the adoption of corrective and preventive measures, which are carried out under our supervision so as to improve the overall workflow and prevent future occurrence. Besides, the Group has formulated comprehensive product identification and tracking policy so that detailed record and identification marks of products are made throughout the entire production process, from raw material procurement to shipping of finished goods. With the tracking system, we can trace problematic raw materials or spare parts effectively when any abnormalities are reported.

CUSTOMER FEEDBACK

The Group highly values customers' opinion and conducts regular survey on customers' satisfaction to our products. Based on the survey results, we analyze customers' needs and implement improvement policies to increase their satisfaction. We will implement improvement policies for items with lower satisfaction and monitor the policies' effectiveness. The Group establishes comprehensive customer feedback mechanism, which enables us to set up the cross-department team upon the receipt of complaints. The cross-department team will review and analyze the quality and safety of products as well as service quality with an appropriate approach, and submit a full report to the customer within three working days.

INTELLECTUAL PROPERTY AND PRIVACY PROTECTION

The Group has always been focusing on intellectual property and privacy protection and is abided by the relevant laws and regulations, among others, the "Trademark Law of the People's Republic of China" (《中華人民共和國商標法》) and the "Patent Law of the People's Republic of China" (《中華人民共和國專利法》). In order to protect intellectual property of customers, the Group will only employ their patents, trademarks and technologies after granting their authorization. We also organize regular training related to intellectual property for our employees in a view to raise their awareness of intellectual property protection. In an attempt to protect privacy of customers, we not only enter confidential agreements with employees according to their positions, but also strengthen internal information management so as to prevent any forms of information leakage related to intellectual property or other commercial secrets.

ANTI-CORRUPTION

In order to maintain our image of integrity and honesty, the Group formulates rigid anti-corruption and anti-bribery policies, and strictly complies with laws and regulations related to bribery, extortion, fraud and money laundering, including but not limited to the "Criminal Law of the People's Republic of China" (《中華人民共和國刑法》) and the "Anti-Money Laundering Law of the People's Republic of China" (《中華人民共和國反洗錢法》). Employees are given permission by the Group to monitor any internal personnel, from senior management to other departments, and to report directly to the Group in case of any regulatory violations. Upon receipt of reports on violations of business integrity and verification request, the Group will carry out investigation and collect evidence immediately, and finally announce the results of the investigation. We might also seek legal solutions when necessary. Besides, the Group keeps the identity of whistleblower confidential so as to protect them from retaliatory or other discriminatory behaviours.

CARE FOR COMMUNITY

As a responsible company, the Group strives to build a close and long-term relationship with local community and to share with them our development achievements. We cooperate with non-governmental organizations and socially responsible enterprises on a continuous basis for the well-being of the community. With our social responsibility commitment deeply rooted in corporate culture, the Group strives to serve the community and encourages our employees to participate in voluntary work in an effort to contribute the community. To enhance our ties and connection with community, we participate in various charitable activities such as cultural events, sports activities and competitions which are organized by local communities, business associations and labour union.

KEY PERFORMANCE INDICATORS

The followings are the key performance indicators data of Capxon Shenzhen during the Year:

Environmental indicator	2018	2017
Emission from vehicles and stationary combustion source		
Nitrogen oxides (kg)	**3,942**	4,860
Sulphur dioxide (kg)	**7**	6
Particulate matter (kg)	**275**	306
Greenhouse gases		
Total emission of greenhouse gases (t CO_2e)	**76,142**	67,993
Emission of greenhouse gases per 10 thousands products produced (t CO_2e/10 thousands products)	**0.18**	0.17
Direct emission (Scope 1) (t CO_2e)	**3,211**	2,495
Energy indirect emission (Scope 2) (t CO_2e)	**72,614**	65,267
Other indirect emission (Scope 3) (t CO_2e)	**317**	231
Waste		
Total amount of non-hazardous waste produced[1](t)	**564**	473
Amount of non-hazardous waste produced per 10 thousands products produced (kg/10 thousands products)	**1.35**	1.20
Total amount of hazardous waste produced (t)	**237**	140
Amount of hazardous waste produced per 10 thousands products produced (kg/10 thousands products)	**0.57**	0.36
Use of resources		
Total energy consumption (MWh)	**88,617**	77,539
Energy consumption per 10 thousands products produced (MWh/10 thousands products)	**0.21**	0.20
Consumption of non-renewable energy (MWh)	**12,093**	8,758
Electricity purchased for consumption (MWh)	**76,524**	68,781
Total water consumption (m^3)	**327,953**	351,264
Water consumption per 10 thousands products produced (m^3/10 thousands products)	**0.79**	0.89
Amount of materials used for paper packaging (tonnes)	**2,641**	1,391
Amount of packaging materials used per 10 thousands products produced (kg/10 thousands products)	**6.34**	3.74

Employment indicator	2018	2017
Numbers of employees	**2,093**	2,236
By gender		
Male	**1,211**	1,093
Female	**882**	1,143
By age		
Above 50 years old	**69**	78
Between 30 to 50 years old	**1,467**	1,374
Below 30 years old	**557**	784

[1] Non-hazardous waste includes waste paper and general waste. In the Year, the Group started including the amount of food waste in the total amount of non-hazardous waste produced.

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. Tung Chin Chuan, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 31 May 2018 due to personal reasons.

(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	70	Approx. 12 years
Ms. CHOU Chiu Yueh	*(Vice-President)*	Female	Chinese	66	Approx. 12 years
Mr. LIN Yuan Yu	*(Chief Executive Officer)*	Male	Chinese	42	Approx. 12 years
Ms. LIN I Chu		Female	Chinese	39	Approx. 12 years
Non-executive Director:					
Ms. LIU Fang Chun		Female	Chinese	39	Approx. 12 years
Independent non-executive Directors:					
Mr. HSIEH King-Hu, Miles		Male	Chinese	71	Approx. 1 year 10 months
Mr. LU Hong Te		Male	Chinese	58	Approx. 12 years
Mr. TUNG Chin Chuan		Male	Chinese	66	Approx. 12 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 15 and 16.

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

Directors can attend Board meetings either in person or by electronic means of communication. Four Board meetings were held during the Year. Details of attendance of Board meetings by 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 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 as set out in Rule 3.13 of the Listing Rules and considers that each of 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. Lu Hong Te is the chairman of the committee.

During the Year, one meeting was held by the remuneration committee to discuss remuneration related matters which included approval of salary increment for and bonus payments to the senior management. Details of attendance of the remuneration committee meeting by 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. Lu Hong Te is the chairman of the committee.

Three meetings were held by the audit committee during the Year. The committee reviewed, together with the management and the external auditor, the consolidated financial statements for the year ended 31 December 2017 and for the six months ended 30 June 2018, 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 the audit committee meetings by 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 implementing the Board's approved nomination policy; reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; assessing the independence of independent non-executive Directors; and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

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

One meeting was held by the nomination committee during the Year. During the meeting, the committee reviewed the structure, size, composition and diversity (including the skills, knowledge and experience) of the Board; evaluated the performance and the contribution of each of the retiring Directors standing for re-election at the annual general meeting; and assessed the independence of the independent non-executive Directors to be re-elected at the annual general meeting. Details of attendance of the nomination committee meeting by 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	1.131
Non-audit services	666
	1,797

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 2018, provision of taxation and liquidation services, and submission of declaration of investments on behalf of the Company's Taiwan subsidiary to the authority.

The audit committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the external auditor of the Company for 2019.

G. ATTENDANCE OF INDIVIDUAL DIRECTORS AT MEETINGS

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

	Meetings attended/Meetings held in 2018				
Name of Director	Board	Remuneration Committee	Audit Committee	Nomination Committee	Annual General Meeting
Mr. LIN Chin Tsun	4/4	1/1	N/A	1/1	1/1
Ms. CHOU Chiu Yueh	4/4	1/1	N/A	1/1	1/1
Mr. LIN Yuan Yu	3/4	N/A	N/A	N/A	0/1
Ms. LIN I Chu	3/4	N/A	N/A	N/A	1/1
Ms. LIU Fang Chun	4/4	N/A	N/A	N/A	1/1
Mr. HSIEH, King-Hu, Miles	4/4	1/1	3/3	1/1	1/1
Mr. LU Hong Te	4/4	1/1	3/3	1/1	1/1
Mr. TUNG Chin Chuan	3/4	1/1	3/3	1/1	0/1

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 41 to 45.

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 2018, 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 2018, no significant control deficiency was identified.

INTERNAL AUDITORS

The Group has an Internal Audit ("IA") function in place, 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 during the Year. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but 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 are pleased to 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 38 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 6, pages 7 to 14 and pages 17 to 26 respectively, and in note 31 to the consolidated financial statements. These discussions form part of this Directors' Report.

MAJOR CUSTOMERS AND SUPPLIERS

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

The percentages of purchases for the Year attributable to the Group's largest supplier and the Group's five largest suppliers were 15.05% and 41.57%, 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 46.

During the year ended 31 December 2017, the Board declared an interim dividend of HK$0.05 per share, amounting to a total of HK$42,227,992.05 which was paid to the shareholders of the Company on 11 December 2017. No interim dividend was declared by the Board during the Year.

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 25 to the consolidated financial statements.

PENSION SCHEMES

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

SHARE CAPITAL

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

RESERVES

Details of the movements in reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 49.

As at 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB442,336,000 (31 December 2017: RMB442,688,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 104.

DIVIDEND POLICY

The Board resolved to adopt a dividend policy ("Dividend Policy") on 14 December 2018. Under the Dividend Policy, the Company may declare and distribute not less than 20% of the Group's profit attributable to the owners of the Company in any financial year as dividends to its shareholders from the financial year ending 31 December 2018 onwards, whether as interim and/or final dividends, subject to the criteria as set out below.

The Company's ability to pay dividends will depend upon, among other things, the Group's current and future operations, liquidity position and capital requirements, as well as the dividends received from the Company's subsidiaries, which in turn will depend on the ability of those subsidiaries to pay dividends. The payment of dividends by the Company is also subject to the requirements of the Cayman Islands laws and the Company's articles of association.

The Board will review the Dividend Policy from time to time. The Dividend Policy does not amount to any guarantee, representation or indication that the Company must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividend requires the approval of the Board at its discretion, subject to the applicable laws and regulations and the Company's articles of association. In addition, the declaration and payment of final dividends for any financial year by the Company will be subject to the approval of the shareholders at the Company's general meeting.

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. HSIEH King-Hu, Miles
Mr. LU Hong Te
Mr. TUNG Chin Chuan

In accordance with Article no. 87 of the Company's Articles of Association, Ms. Chou Chiu Yueh, Ms. Lin I Chu and Ms. Liu Fang Chun 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 2018 are as follows:

Mr. Lu Hong Te resigned as an independent non-executive director of ANTA Sports Products Limited (a company listed in Hong Kong, Stock code: 2020) with effect from 1 March 2019.

At a meeting of the Company's remuneration committee held on 28 March 2019, the remuneration committee approved, with effect from 1 April 2019, to appoint Ms. Lin I Chu as the vice-president of the Company's subsidiary Capxon Electronic (Shenzhen) Co., Ltd. and increase her annual remuneration from HK$650,000, NTD1,950,000 and RMB260,000 to HK$1,040,000, NTD1,950,000 and RMB260,000.

At a board meeting held on 28 March 2019, the Board (as recommended by the remuneration committee of the Company) approved the increase in director's fee of Mr. Hsieh King-Hu, Miles and Mr. Tung Chin Chuan both from HK$168,000 per annum to HK$192,000 per annum with effect from 1 April 2019.

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 34 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 34 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.

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

As at 31 December 2018, 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 2018.

(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 2018, 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 2018, 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 2018.

Save as disclosed above, the Directors are not aware of any other persons who, as at 31 December 2018, 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, 28 March 2019

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 46 to 103, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 the Company's subsidiary in Taiwan ("Capxon Taiwan") by the Japan Commercial 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, 23 and 35(a) to the consolidated financial statements, an aggregate amount of approximately RMB218,725,000 was provided for as at 31 December 2018, in respect of damages, interest and arbitration related expenses as a result of an arbitral award ("Arbitral Award") from a customer ("Customer") against Capxon Taiwan received in August 2014. In September 2017, the Customer applied to the High Court of the Hong Kong Special Administrative Region ("HK Court") to enforce the Arbitral Award in Hong Kong. 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 April 2018, the shareholders of Capxon Taiwan passed a resolution to voluntarily wind up Capxon Taiwan and appointed liquidator pursuant to the Laws of Taiwan. In September 2018, the Customer applied to the HK Court for discovery of documents and disclosure of certain information of Capxon Taiwan and Lancom Limited, a subsidiary of Capxon Taiwan, by way of summons which is scheduled to be heard on 26 September 2019. Due to the fact that the outcome of the hearing from the HK Court cannot be determined at this stage and the wind up of Taiwan Capxon is still in progress, 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.	Our procedures in relation to the provision for damages included: • Reading the documents in connection with the litigation; • 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
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 years ended 31 December 2014, 2015, 2016 and 2017. As disclosed in Note 4 to the consolidated financial statements, as a result of the recurring losses from the Group's aluminum foils segment in prior years, 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 gross margin. After the review, the management of the Group is of the view that as the recoverable amount is higher than the carrying amount and no impairment is required to be recognised for the year ended 31 December 2018. The carrying value of the Group's property, plant and equipment used in the Group's aluminum foils segment as at 31 December 2018 was RMB201,008,000 (net of accumulated depreciation and impairment loss of RMB353,438,000).	Our procedures in relation to impairment assessment of property, plant and equipment used in the Group's aluminum foils segment included: • Obtaining the cash flows forecast prepared by the management of the Group in respect of these property, plant and equipment from the management of the Group; • Evaluating the accuracy of the management's cash flow forecasts by comparing the actual results to the previously forecasted results; • Assessing the reasonableness of growth rates applied in the forecast based on historical experiences and trend; and • Comparing the budgeted sales and gross margin against historical performance and the management's business plan.

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
28 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
Revenue	5	**1,202,327**	1,069,104
Cost of sales		**(861,459)**	(798,445)
Gross profit		**340,868**	270,659
Other income	6(a)	**14,968**	15,251
Other expenses	6(b)	**(38,233)**	(49,648)
Other gains and losses	7	**(1,203)**	(38,156)
Impairment loss on deposits paid for acquisition of property, plant and equipment		**–**	(5,289)
Impairment loss on trade receivables, net of reversal		**(3,047)**	(2,614)
Impairment loss on other receivables		**(1,755)**	–
Distribution and selling costs		**(80,486)**	(70,900)
Administrative expenses		**(102,551)**	(85,663)
Interest on provision for damages	35(a)	**(8,756)**	(8,834)
Finance costs	8	**(7,205)**	(1,703)
Profit before tax		**112,600**	23,103
Income tax expense	9	**(48,955)**	(24,915)
Profit (loss) for the year	10	**63,645**	(1,812)
Other comprehensive (expense) income			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(16,538)**	13,436
Total comprehensive income for the year		**47,107**	11,624
Profit (loss) for the year attributable to:			
Owners of the Company		**64,761**	(2,040)
Non-controlling interests		**(1,116)**	228
		63,645	(1,812)
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		**47,953**	12,229
Non-controlling interests		**(846)**	(605)
		47,107	11,624
Earnings (loss) per share (RMB cents)	13		
– Basic		**7.67**	(0.24)

Consolidated Statement of Financial Position

At 31 December 2018

	NOTES	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**491,426**	447,276
Land use rights	15	**21,667**	22,352
Intangible assets	16	**8**	11
Pledged deposit in a financial institution	20	**2,064**	–
Deferred tax assets	17	**–**	267
Deposits paid for acquisition of property, plant and equipment		**25,842**	15,307
		541,007	485,213
CURRENT ASSETS			
Inventories	18	**204,188**	160,142
Land use rights	15	**681**	681
Trade and other receivables	19	**435,047**	452,203
Tax recoverable		**795**	2,056
Pledged bank deposits	20	**2,818**	1,205
Fixed bank deposits	21	**28,221**	–
Bank balances and cash	21	**248,918**	108,446
		920,668	724,733
CURRENT LIABILITIES			
Trade and other payables	22	**289,459**	268,338
Provision for damages	23	**218,725**	193,980
Contract liabilities	24	**6,906**	–
Bank and other borrowings	25	**240,383**	115,784
Amounts due to related parties	26	**3,654**	4,963
Tax liabilities		**37,747**	17,849
		796,874	600,914
NET CURRENT ASSETS		**123,794**	123,819
TOTAL ASSETS LESS CURRENT LIABILITIES		**664,801**	609,032
NON-CURRENT LIABILITIES			
Bank and other borrowings	25	**10,114**	–
Deferred income	28	**750**	750
Deferred tax liabilities	17	**6,987**	3,648
		17,851	4,398
NET ASSETS		**646,950**	604,634

	NOTE	2018 RMB'000	2017 RMB'000
CAPITAL AND RESERVES			
Share capital	29	**82,244**	82,244
Share premium and reserves		**563,916**	520,754
Equity attributable to owners of the Company		**646,160**	602,998
Non-controlling interests		**790**	1,636
TOTAL EQUITY		**646,950**	604,634

The consolidated financial statements on pages 46 to 103 were approved and authorised for issue by the Board of Directors on 28 March 2019 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 2018

	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 2017	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
Adjustment *(Note 2)*	–	–	–	–	–	–	(4,791)	(4,791)	–	(4,791)
At 1 January 2018 (restated)	**82,244**	**436,626**	**(30,753)**	**114,766**	**7,678**	**3,650**	**(16,004)**	**598,207**	**1,636**	**599,843**
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**64,761**	**64,761**	**(1,116)**	**63,645**
Other comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(16,808)**	**–**	**–**	**(16,808)**	**270**	**(16,538)**
Total comprehensive (expense) income	**–**	**–**	**–**	**–**	**(16,808)**	**–**	**64,761**	**47,953**	**(846)**	**47,107**
Appropriation	**–**	**–**	**–**	**5,960**	**–**	**–**	**(5,960)**	**–**	**–**	**–**
At 31 December 2018	**82,244**	**436,626**	**(30,753)**	**120,726**	**(9,130)**	**3,650**	**42,797**	**646,160**	**790**	**646,950**

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 2018

	2018 RMB'000	2017 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**112,600**	23,103
Adjustments for:		
Amortisation of intangible assets	**4**	142
Amortisation of land use rights	**685**	684
Bank interest income	**(1,402)**	(762)
Depreciation of property, plant and equipment	**41,963**	47,848
Finance costs	**7,205**	1,703
Impairment loss on trade receivables, net of reversal	**3,047**	2,614
Impairment loss on other receivables	**1,755**	–
Impairment loss on deposits paid for acquisition of property, plant and equipment	**–**	5,289
Loss on termination of a co-operation agreement	**–**	17,958
(Gain) loss on disposals of property, plant and equipment	**(1,928)**	3,618
Government grants released	**–**	(72)
Reversal of write-down of inventories	**(150)**	(6,473)
Interest on provision for damages and foreign exchange loss of RMB10,104,000 (2017: net of exchange gain of RMB9,304,000) arising on retranslation of the related provision at exchange rate prevailing at the end of the reporting period	**18,860**	(470)
Operating cash flows before movements in working capital	**182,639**	95,182
(Increase) decrease in inventories	**(43,896)**	860
Increase in trade and other receivables	**(1,451)**	(53,404)
Increase in trade and other payables	**28,047**	30,186
Increase in contract liabilities	**5,064**	–
Increase in deferred income	**–**	750
Cash generated from operations	**170,403**	73,574
Income tax paid	**(23,883)**	(27,452)
NET CASH FROM OPERATING ACTIVITIES	**146,520**	46,122
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(86,903)**	(44,180)
Placement of fixed bank deposits	**(28,221)**	–
Deposits paid for acquisition of property, plant and equipment	**(25,842)**	(13,552)
Placement of pledged deposit in a financial institution	**(2,064)**	–
Placement of pledged bank deposits	**(1,839)**	(775)
Proceeds on disposal of property, plant and equipment	**13,274**	8
Interest received	**1,402**	762
Withdrawal of pledged bank deposits	**226**	1,994
Proceeds on disposal of land use right	**–**	5,000
NET CASH USED IN INVESTING ACTIVITIES	**(129,967)**	(50,743)
FINANCING ACTIVITIES		
New bank and other borrowings raised	**409,338**	237,822
Repayment of bank and other borrowings	**(280,653)**	(209,756)
Interest paid	**(7,225)**	(1,620)
(Repayments to) advance from related parties	**(1,309)**	629
Dividend paid	**–**	(36,630)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**120,151**	(9,555)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**136,704**	(14,176)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**3,768**	(740)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**108,446**	123,362
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**248,918**	108,446

1. GENERAL

Capxon International Electronic Company Limited (the "Company") is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Value Management Holding Limited, a private limited company incorporated in the British Virgin Islands, which is ultimately controlled by 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 38.

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 AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

NEW AND AMENDMENTS TO IFRSs THAT ARE MANDATORILY EFFECTIVE FOR THE CURRENT YEAR

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

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers and the related Amendments
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IAS 28	As part of the Annual Improvements to IFRSs 2014–2016 Cycle
Amendments to IAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

The Group has applied IFRS 15 for the first time in the current year. IFRS 15 superseded IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group has applied IFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in IFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as such comparative information was prepared under IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue at a point in time when the control of capacitors and aluminum foils is transferred to the customers at the designated locations. Warranty is provided to customers for assuring that the product complies with agreed-upon specifications (i.e. assurance-type warranties). Transportation and other related activities that occur before the customers obtain control of the related good are considered as fulfilment activities.

Information about the Group's performance obligations and the accounting policies resulting from application of IFRS 15 are disclosed in Notes 5 and 3 respectively.

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

2.1 IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* *(continued)*

Summary of effects arising from initial application of IFRS 15

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Note	Carrying amounts previously reported at 31 December 2017 RMB'000	Reclassification RMB'000	Carrying amounts under IFRS 15 at 1 January 2018 RMB'000
CURRENT LIABILITIES				
Trade and other payables	*(a)*	268,338	(1,842)	266,496
Contract liabilities	*(a)*	–	1,842	1,842

Note:

(a) As at 1 January 2018, advances from customers of RMB1,842,000 in respect of the contracts with customers previously included in trade and other payables were reclassified to contract liabilities upon application of IFRS 15.

The following tables summarise the impacts of applying IFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	Note	As reported RMB'000	Reclassification RMB'000	Amounts without application of IFRS 15 RMB'000
CURRENT LIABILITIES				
Trade and other payables	*(a)*	289,459	6,906	296,265
Contract liabilities	*(a)*	6,906	(6,906)	–

Note:

(a) Prior to the application of IFRS 15, advances from customers were classified as trade and other payables. For illustrative purpose of the table above, advance from customers of RMB6,906,000 are reclassified from contract liabilities to trade and other payables.

Impact on the consolidated statement of cash flows

	As reported RMB'000	Reclassification RMB'000	Amounts without application of IFRS 15 RMB'000
Increase in trade and other payables	28,047	5,064	33,111
Increase in contract liabilities	5,064	(5,064)	–

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

2.2 IFRS 9 *FINANCIAL INSTRUMENTS AND THE RELATED AMENDMENTS*

In the current year, the Group has applied IFRS 9 *Financial Instruments* and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses ("ECL") for financial assets and (3) general hedge accounting.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as such comparative information was prepared under IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39").

Accounting policies resulting from application of IFRS 9 are disclosed in Note 3.

Summary of effects arising from initial application of IFRS 9

The table below illustrates the classification and measurement of trade receivables from goods subject to ECL under IFRS 9 and IAS 39 at the date of initial application, 1 January 2018.

	Note	Trade receivables from goods RMB'000	Accumulated losses RMB'000
Closing balance at 31 December 2017 – IAS 39		403,036	(11,213)
Effect arising from initial application of IFRS 9			
Remeasurement			
Impairment under ECL model	*(a)*	(4,791)	(4,791)
Opening balance at 1 January 2018		398,245	(16,004)

Note:

(a) Impairment under ECL model

The Group applies the IFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics. ECL for other financial assets at amortised cost, including other receivables, pledged bank deposits, pledged deposit in a financial institution, fixed bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, the additional credit loss allowance of RMB4,791,000 has been recognised against accumulated losses. The additional loss allowance is charged against the trade receivables from goods through the loss allowance account.

Loss allowances for trade receivables from goods as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 is as follows:

	Trade receivables from goods RMB'000
At 31 December 2017 – IAS 39	18,188
Amount remeasured through opening accumulated losses	4,791
At 1 January 2018	22,979

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

2.3 IMPACTS ON OPENING CONSOLIDATED STATEMENT OF FINANCIAL POSITION ARISING FROM THE APPLICATION OF ALL NEW STANDARDS

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item but the line items that were not affected by the changes have not been included.

	31 December 2017 RMB'000 (Audited)	IFRS 9 RMB'000	IFRS 15 RMB'000	1 January 2018 RMB'000 (Restated)
Trade and other receivables	452,203	(4,791)	–	447,412
Trade and other payables	268,338	–	(1,842)	266,496
Contract liabilities	–	–	1,842	1,842
Accumulated losses	(11,213)	(4,791)	–	(16,004)

NEW AND AMENDMENTS TO IFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[3]
IFRIC 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 3	Definition of a Business[4]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[5]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

Except for the new IFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to IFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND AMENDMENTS TO 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. In addition, IFRS 16 includes requirements relating to subleases and lease modifications.

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. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature, as appropriate.

Under IAS 17, the Group has already recognised assets for prepaid lease payment for leasehold land where the Group is a leasee. 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 are owned.

Furthermore, extensive disclosure are required by IFRS 16.

As at 31 December 2018, the Group as lessee has non-cancellable operating lease commitment of RMB10,893,000 as disclosed in Note 32. 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 unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of RMB651,000 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 amount of such deposits may be adjusted to amortised cost. Such adjustment is considered as additional lease payment and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* ("IFRIC 4") and not apply this standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of IFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

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 ("Companies Ordinance").

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below.

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

REVENUE FROM CONTRACTS WITH CUSTOMERS (UPON APPLICATION OF IFRS 15 IN ACCORDANCE WITH TRANSITIONS IN NOTE 2)

Under IFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with IFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

REVENUE RECOGNITION (PRIOR TO 1 JANUARY 2018)

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASES

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.

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 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 profit before tax because of income or expense that are taxable or deductible in other years and 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 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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.

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.

Property, plant and equipment 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.

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.

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

RESEARCH AND DEVELOPMENT EXPENDITURE

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

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

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

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

– the ability to use or sell the intangible asset;

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

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

INVENTORIES

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

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value expect for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 since 1 January 2018. 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at financial assets at fair value through other comprehensive income. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9 (including trade and other receivables, pledged deposit in a financial institution, pledged bank deposits, fixed bank deposits and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Impairment of financial assets (upon application of IFRS 9 with transitions in accordance with Note 2) (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables and other receivables are each assessed as a separate group.);

- Past-due status; and

- Nature, size and industry of debtors.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of trade and other receivables where the corresponding adjustment is recognised through a loss allowance account.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Classification and subsequent measurement of financial assets (before application of IFRS 9 on 1 January 2018)

The Group's financial assets are classified as loans and receivables.

Interest income is recognised on an effective interest basis.

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, fixed bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss.

Impairment of loans and receivables (before application of IFRS 9 on 1 January 2018)

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; or
- 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified either as 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 entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

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

Derecognition of financial liabilities

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

The recoverable amount of tangible and intangible assets are estimated individually. 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 immediately in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 35(a) describes a provision for damages associated with litigation in respect of the arbitral award against the Company's subsidiary in Taiwan, Capxon Electronic Industrial Co., Ltd. (豐賓電子工業股份有限公司), ("Capxon Taiwan") by the Japan Commercial Arbitration Association (the "Arbitration Association").

An aggregate amount of JPY3,511,811,817 (2017: JPY3,366,180,618), equivalent to RMB218,725,000 (2017: RMB193,980,000), was provided as at 31 December 2018, in respect of damages, interest and arbitration related expenses as a result of an arbitral award ("Arbitral Award") from a customer ("Customer") against Capxon Taiwan received in August 2014.

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

PROVISION FOR DAMAGES *(continued)*

Due to the fact that the outcome of the hearing from the High Court of the Hong Kong Special Administrative Region ("HK Court") cannot be determined at this stage and the wind up of Capxon Taiwan is still in progress, 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. Details of which is set out in Note 35(a).

IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT

As a result of the recurring losses sustained by the Group's aluminum foils segment for the years ended 31 December 2014, 2015, 2016 and 2017, 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 gross margin. After the review, the management of the Group is of the view that as the recoverable amount is higher than the carrying amount, no impairment is recognised for the year ended 31 December 2018.

As at 31 December 2018, the carrying amount of property, plant and equipment used in aluminum foils segment is RMB201,008,000 (net of accumulated depreciation and impairment loss of RMB353,438,000) (2017: carrying amount of RMB163,665,000, net of accumulated depreciation and impairment loss of RMB423,466,000).

ESTIMATED IMPAIRMENT FOR TRADE RECEIVABLES

As at 31 December 2017, 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).

As at 31 December 2018, the Group uses provision matrix to calculate ECL for the trade receivables. The provision rates are based on internal credit ratings as groupings of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable and is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Notes 31 and 19, respectively.

As at 31 December 2018, the carrying amount of trade receivables is RMB383,895,000 (net of allowance for credit loss of RMB22,674,000) (2017: carrying amount of RMB403,036,000, net of allowance for doubtful debts of RMB18,188,000).

5. REVENUE AND SEGMENT INFORMATION

DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

Geographical markets and product type information

	For the year ended 31 December 2018		
	Capacitors RMB'000	Aluminum foils RMB'000	Total RMB'000
Geographical markets			
The PRC	991,652	26,439	1,018,091
Taiwan	17,771	–	17,771
Other Asian countries *(Note)*	122,218	3,282	125,500
Europe *(Note)*	39,239	–	39,239
America and Africa	1,726	–	1,726
Revenue from contracts with customers	1,172,606	29,721	1,202,327

Note: The countries of the external customers included in these categories comprised Korea, Japan, Vietnam, Singapore, 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.

SEGMENT INFORMATION

The Group is principally engaged in manufacturing and sale of capacitors and aluminum foils under its own brand name. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to customer's designated location. The normal credit term is 30 to 180 days upon delivery. A contract liability is recognised when a deposit from customer is received but revenue has yet been recognised. Sales-related warranties associated with the goods cannot be purchased separately and they serve as an assurance that the goods sold comply with agreed-upon specifications.

The contracts for capacitors and aluminum foils are for periods of one year or less. As permitted under IFRS 15, the transaction prices allocated to these unsatisfied contracts are not disclosed.

All revenue generated by the Group is recognised at a point in time.

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 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 2018

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	**1,172,606**	**29,721**	**1,202,327**	**–**	**1,202,327**
Inter-segment sales	**–**	**202,425**	**202,425**	**(202,425)**	**–**
Segment revenue	**1,172,606**	**232,146**	**1,404,752**	**(202,425)**	**1,202,327**
Segment profit	**133,829**	**25,003**	**158,832**	**(5,143)**	**153,689**
Interest income					**1,402**
Unallocated corporate expenses					**(16,426)**
Finance costs					**(7,205)**
Interest on provision for damages					**(8,756)**
Exchange loss arising on retranslation of provision for damages					**(10,104)**
Profit before tax					**112,600**

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)
Exchange gain arising on retranslation of provision for damages					9,304
Profit before tax					23,103

5. REVENUE AND SEGMENT INFORMATION *(continued)*

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 (loss) gain arising on retranslation of provision for damages. However, the related bank balances and deposits and the bank and other 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:

	2018 RMB'000	2017 RMB'000
Segment assets		
Capacitors	**1,330,744**	949,403
Aluminum Foils	**430,270**	534,322
Total segment assets	**1,761,014**	1,483,725
Elimination – inter-segment balances	**(349,168)**	(284,075)
Unallocated assets	**49,829**	10,296
Consolidated assets	**1,461,675**	1,209,946
Segment liabilities		
Capacitors	**577,429**	301,583
Aluminum Foils	**345,824**	391,981
Total segment liabilities	**923,253**	693,564
Elimination – inter-segment balances	**(349,168)**	(284,075)
Unallocated liabilities	**240,640**	195,823
Consolidated liabilities	**814,725**	605,312

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

– all assets, other than pledged deposit in a financial institution, other receivables and bank balances of the Company, are allocated to reportable segments; and

– all liabilities, other than other payables and accruals and other borrowings 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 pledged deposit in a financial institution and deferred tax assets) by geographical location of the assets are detailed below:

	2018 RMB'000	2017 RMB'000
The PRC	527,390	473,992
Taiwan	11,553	10,954
	538,943	484,946

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

	2018 RMB'000	2017 RMB'000
Revenue from external customers:		
The PRC	1,018,091	902,834
Taiwan	17,771	16,583
Other Asian countries	125,500	120,284
Europe	39,239	27,877
America and Africa	1,726	1,526
	1,202,327	1,069,104

INFORMATION ABOUT MAJOR CUSTOMERS

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

OTHER SEGMENT INFORMATION

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

For the year ended 31 December 2018

	Capacitors RMB'000	Aluminum foils RMB'000	Total RMB'000
Additions to non-current assets *(Note)*	62,895	44,786	107,681
Depreciation and amortisation	29,915	12,737	42,652
Impairment loss on trade receivables, net of reversal (reversal of impairment loss on trade receivables)	3,557	(510)	3,047
Impairment loss on other receivables	1,755	–	1,755
Loss (gain) on disposals of property, plant and equipment	5,027	(6,955)	(1,928)
Net reversal of write-down of inventories	(23)	(127)	(150)

5. REVENUE AND SEGMENT INFORMATION *(continued)*

OTHER SEGMENT INFORMATION *(continued)*

For the year ended 31 December 2017

	Capacitors RMB'000	Aluminum foils RMB'000	Total RMB'000
Additions to non-current assets *(Note)*	52,241	10,555	62,796
Depreciation and amortisation	29,304	19,370	48,674
Impairment loss on trade receivables, net of reversal	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)

Note: Non-current assets excluded financial assets and deferred tax assets.

6. OTHER INCOME/EXPENSES

(a) OTHER INCOME

	2018 RMB'000	2017 RMB'000
Bank interest income	**1,402**	762
Government grants *(Note)*	**10,277**	6,689
Sales of scrap material	**297**	671
Others	**2,992**	7,129
	14,968	15,251

Note: During the year ended 31 December 2018, the Group recognised government grants of RMB10,277,000 (2017: RMB6,617,000), which is the incentive in engaging in the production of capacitor products. In addition, the amount also included the release of deferred income of RMB72,000 for the year ended 31 December 2017. Details of the deferred income are set out in Note 28.

(b) OTHER EXPENSES

	2018 RMB'000	2017 RMB'000
Research and development costs	**35,835**	34,494
Depreciation of property, plant and equipment *(Note)*	**1,671**	10,315
Others	**727**	4,839
	38,233	49,648

Note: The amount represents the depreciation expense of property, plant and equipment of a subsidiary of the Company which has ceased operation during the year ended 31 December 2017. The relevant equipment has been relocated to other production plants of the Group during the year ended 31 December 2018.

7. OTHER GAINS AND LOSSES

	2018 RMB'000	2017 RMB'000
Loss on termination of a co-operation agreement *(Note)*	–	(17,958)
Gain (loss) on disposals of property, plant and equipment	1,928	(3,618)
Net foreign exchange loss	(3,131)	(16,580)
	(1,203)	(38,156)

Note: 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.

8. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on bank and other borrowings	7,205	1,703

9. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current tax:		
– PRC Enterprise Income Tax	30,029	11,585
– Taiwan Corporate Income Tax	1,983	3,093
PRC dividend withholding tax	13,030	10,504
	45,042	25,182
Deferred tax *(Note 17)*:	3,913	(267)
	48,955	24,915

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

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was passed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong Profits Tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements.

9. INCOME TAX EXPENSE *(continued)*

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.

Under the Income Tax Law in Taiwan, the corporate income tax rate of the Group's subsidiaries in Taiwan is 20% (2017: 17%).

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

2018

	The PRC		Taiwan		Hong Kong		Others[1]		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit (loss) before tax	134,728		(5,902)		(6,910)		(9,316)		112,600	
Tax at the statutory tax rate	33,682	25.0	(1,180)	20.0	(1,141)	16.5	–	–	31,361	27.9
Tax effect of:										
Deductible temporary differences not recognised	1,521	1.1	–	–	–	–	–	–	1,521	1.4
Utilisation of deductible temporary differences not recognised	(1,329)	(1.0)	(193)	3.3	(64)	0.9	–	–	(1,586)	(1.4)
Expenses not deductible for tax	2,105	1.6	3,623	(61.4)	1,205	(17.4)	–	–	6,933	6.1
Tax losses not recognised	2,102	1.6	–	–	–	–	–	–	2,102	1.9
Utilisation of tax losses previously not recognised	(8,052)	(6.0)	–	–	–	–	–	–	(8,052)	(7.2)
Withholding tax for undistributed profits in subsidiaries	3,646	2.7	–	–	–	–	–	–	3,646	3.2
PRC dividend withholding tax paid	13,030	9.7	–	–	–	–	–	–	13,030	11.6
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income at the Group's effective rate	46,705	34.7	2,250	(38.1)	–	–	–	–	48,955	43.5

9. INCOME TAX EXPENSE *(continued)*

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 losses not recognised	6,213	23.0	–	–	–	–	–	–	6,213	26.9
Utilisation of tax losses 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 paid	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

(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. PROFIT (LOSS) FOR THE YEAR

	2018 RMB'000	2017 RMB'000
Profit (loss) for the year has been arrived at after charging:		
Employee benefit expenses (including directors' emoluments *(Note 11)*):		
Wages, salaries and allowances	**222,107**	206,509
Retirement benefit scheme contribution *(Note 27)*	**17,502**	14,528
	239,609	221,037
Less: amount capitalised in inventories	**(142,949)**	(135,305)
	96,660	85,732
Amortisation of intangible assets (included in administrative expenses)	**4**	142
Amortisation of land use rights	**685**	684
Depreciation of property, plant and equipment		
– capitalised in inventories	**37,160**	35,266
– recognised in administrative expenses	**3,132**	2,267
– recognised in other expenses	**1,671**	10,315
Total depreciation and amortisation	**42,652**	48,674
Auditor's remuneration (including audit and non-audit services)	**1,797**	1,633
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB150,000 (2017: RMB6,473,000))#	**861,459**	798,445
Research and development costs	**35,835**	34,494

During the year ended 31 December 2018 and 2017, certain aged inventories relating to the cessation of operation by Capxon Qinghai were sold at above net realisable values. As a result, a reversal of write-down of inventories of RMB150,000 (2017: RMB6,473,000) 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 Companies Ordinance are as follows:

DIRECTORS AND THE CHIEF EXECUTIVE

Name of director	Fee RMB'000	Salaries and allowances RMB'000	Performance related incentive payment RMB'000 *(Note)*	Retirement benefit scheme contributions RMB'000	Total RMB'000
2018					
EXECUTIVE DIRECTORS[(1)]:					
Lin Chin Tsun	–	2,773	844	2	3,619
Chou Chiu Yueh	–	1,387	591	18	1,996
Lin Yuan Yu	–	1,676	591	26	2,293
Lin I Chu	–	1,243	591	26	1,860
NON-EXECUTIVE DIRECTOR[(2)]:					
Liu Fang Chun	–	696	338	10	1,044
INDEPENDENT NON-EXECUTIVE DIRECTORS[(3)]:					
Lu Hong Te	234	–	–	–	234
Hsieh King-Hu, Miles	143	–	–	–	143
Tung Chin Chuan	143	–	–	–	143
	520	7,775	2,955	82	11,332

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

DIRECTORS AND THE CHIEF EXECUTIVE *(continued)*

Name of director	Fee RMB'000	Salaries and allowances RMB'000	Performance related incentive payment RMB'000 *(Note)*	Retirement benefit scheme contributions RMB'000	Total 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

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

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

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

(1) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the 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, five (2017: four) were directors of the Company and details of their emoluments are set out above. The emoluments of the remaining individual are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	–	766
Performance related incentive payment	–	15
	–	781

During the years ended 31 December 2018 and 31 December 2017, 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

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

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. EARNINGS (LOSS) PER SHARE

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

	2018 RMB'000	2017 RMB'000
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share		
Profit (loss) for the year attributable to owners of the Company	**64,761**	(2,040)

	2018	2017
Number of shares		
Number of ordinary shares for the purposes of basic earnings (loss) per share	**844,559,841**	844,559,841

Diluted earnings (loss) per share is not presented for the years ended 31 December 2018 and 2017 as there were no potential 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 2017	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	–	–	–	(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
Additions	**–**	**–**	**3,756**	**16,749**	**30**	**560**	**76,051**	**97,146**
Transfer	**–**	**–**	**1,120**	**49,607**	**6,561**	**391**	**(57,679)**	**–**
Disposals	**–**	**–**	**–**	**(106,970)**	**(2,939)**	**(57)**	**(8,294)**	**(118,260)**
Exchange realignment	**148**	**271**	**–**	**–**	**27**	**4**	**–**	**450**
At 31 December 2018	**5,267**	**9,629**	**269,248**	**830,279**	**72,687**	**11,345**	**24,642**	**1,223,097**
DEPRECIATION AND IMPAIRMENT								
At 1 January 2017	–	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	–	–	–	(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
Provided for the year	**–**	**180**	**5,897**	**28,173**	**7,061**	**652**	**–**	**41,963**
Eliminated on disposals	**–**	**–**	**–**	**(104,487)**	**(2,377)**	**(50)**	**–**	**(106,914)**
Exchange realignment	**–**	**108**	**–**	**–**	**26**	**3**	**–**	**137**
At 31 December 2018	**–**	**3,901**	**85,287**	**586,485**	**47,340**	**8,658**	**–**	**731,671**
CARRYING VALUE								
At 31 December 2018	**5,267**	**5,728**	**183,961**	**243,794**	**25,347**	**2,687**	**24,642**	**491,426**
At 31 December 2017	5,119	5,745	184,982	208,094	26,378	2,394	14,564	447,276

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)*

The carrying value of properties shown above comprises:

	2018 **RMB'000**	2017 RMB'000
Properties:		
Freehold in Taiwan	**10,995**	10,864
In the PRC	**183,961**	184,982
	194,956	195,846

As at 31 December 2018, 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 RMB5,098,000 (2017: RMB5,542,000). The directors of the Company expect to obtain the building ownership certificates for these buildings in 2019.

The Group has pledged property, plant and equipment with a carrying value of RMB79,272,000 (2017: RMB10,864,000) to secure general banking facilities granted to the Group.

As at 31 December 2018, certain property, plant and equipment in Taiwan, with carrying value of RMB10,995,000 (31 December 2017: nil), were distrained by the Taiwan Shilin District Court for enforcing the Arbitral Award. The relevant property, plant and equipment were still used by the Group as at 31 December 2018. Details are disclosed in Note 35.

As at 31 December 2018, the carrying amount of property, plant and equipment used in aluminum foils segment is RMB201,008,000, net of accumulated depreciation and impairment loss of RMB353,438,000 (2017: RMB163,665,000, net of accumulated depreciation and impairment loss of RMB423,466,000). As a result of the recurring losses in aluminum foils segment for the years ended 31 December 2014, 2015, 2016 and 2017, 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. After the review, the management of the Group is of the view that as the recoverable amount is higher than the carrying amount, no impairment is recognised for the year ended 31 December 2018 (2017: nil). The recoverable amount of these property, plant and equipment has been determined on the basis of their value in use.

15. LAND USE RIGHTS

	2018 **RMB'000**	2017 RMB'000
Land use rights in the PRC	**22,348**	23,033
Analysed for reporting purpose as:		
Current assets	**681**	681
Non-current assets	**21,667**	22,352
	22,348	23,033

The Group has pledged land use right with a carrying value of RMB11,159,000 (2017: nil) to secure general banking facilities granted to the Group.

16. INTANGIBLE ASSETS

	Licences RMB'000
COST	
At 1 January 2017	20,608
Written off	(18,223)
Exchange realignment	31
At 31 December 2017	2,416
Exchange realignment	**54**
At 31 December 2018	**2,470**
AMORTISATION	
At 1 January 2017	20,455
Written off	(18,223)
Exchange realignment	31
Charge for the year	142
At 31 December 2017	2,405
Exchange realignment	**53**
Charge for the year	**4**
At 31 December 2018	**2,462**
CARRYING VALUES	
At 31 December 2018	**8**
At 31 December 2017	11

The licences were acquired from third parties with 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:

	2018 RMB'000	2017 RMB'000
Deferred tax assets	**–**	267
Deferred tax liabilities	**(6,987)**	(3,648)
	(6,987)	(3,381)

17. DEFERRED TAX *(continued)*

The following 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 2017	–	(3,764)	(3,764)
Credit to profit or loss	267	–	267
Exchange realignment	–	116	116
At 31 December 2017	267	(3,648)	(3,381)
Charge to profit or loss	**(267)**	**(3,646)**	**(3,913)**
Exchange realignment	**–**	**307**	**307**
At 31 December 2018	**–**	**(6,987)**	**(6,987)**

As at 31 December 2018, deferred tax liabilities of RMB6,987,000 (2017: RMB3,648,000) has been provided for in respect of the temporary difference arising from the undistributed profits earned by certain PRC subsidiaries from 1 January 2008 onwards.

Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in respect of temporary differences attributable to the undistributed profit earned by certain PRC subsidiaries as at 31 December 2018 of RMB7,734,000 (2017: RMB64,580,000), 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 reverse in the foreseeable future.

At the end of the reporting period, the Group has deductible temporary differences of RMB76,993,000 (2017: RMB72,454,000) arising from the inventories and doubtful debts allowance, impairment of property, plant and equipment and impairment of deposits 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 RMB91,864,000 (2017: RMB133,757,000) 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 2023 (2017: 2022), five years from the year in which the loss was originated, to offset against future taxable profits.

18. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**96,764**	73,469
Work in progress	**14,568**	11,323
Finished goods	**92,856**	75,350
	204,188	160,142

19. TRADE AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables – goods	406,569	421,224
Less: allowance for credit loss	(22,674)	(18,188)
Total trade receivables	383,895	403,036
Other receivables	5,668	5,861
Less: allowance for credit loss	(897)	(694)
	4,771	5,167
Advances to suppliers	15,352	16,961
Value added tax recoverable	9,962	11,430
Prepayments and deposits	19,960	14,699
Others	1,107	910
	46,381	44,000
Total trade and other receivables	435,047	452,203

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to RMB383,895,000 and RMB398,245,000 respectively.

The normal credit term is 30 to 180 days upon delivery. The following is an aged analysis of the trade receivables net of allowance for credit loss presented based on the invoice dates at the end of the reporting period.

	2018 RMB'000	2017 RMB'000
0–60 days	279,751	220,953
61–90 days	45,895	81,700
91–180 days	54,349	96,059
181–270 days	3,900	4,314
Over 360 days	–	10
	383,895	403,036

As at 31 December 2018, total bills received amounting to RMB6,205,000 (2017: RMB10,368,000) are held by the Group for future settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of RMB39,846,000 which are past due. Out of the past due balances, RMB27,328,000 has been past due 90 days or more and is not considered as in default as the directors of the Company consider that the recoverability of these debts are high based on historical experience. The Group does not hold any collateral over these balances.

19. TRADE AND OTHER RECEIVABLES *(continued)*

As at 31 December 2017, included in the Group's trade receivables balance were debtors with an aggregate carrying amount of RMB43,974,000 which were past due but for which the Group had not provided for impairment loss. The Group did not hold any collateral over these balances. The directors of the Company considered that as there was no significant deterioration in credit quality of these debtors and there were continuing subsequent settlement, the amounts were still recoverable.

Aging of trade receivables which are past due but not impaired is as follows:

	2017 RMB'000
One to six months past due	43,343
Over six months past due	631
	43,974

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 31.

20. PLEDGED BANK DEPOSITS/PLEDGED DEPOSIT IN A FINANCIAL INSTITUTION

Pledged deposits represent deposits pledged to banks and a financial institution to secure banking facilities granted to the Group. Deposits amounting to RMB2,818,000 (2017: RMB1,205,000) are pledged to secure short-term bank loans and are therefore classified as current assets. A deposit amounting to RMB2,064,000 (2017: nil) is pledged to secure a long-term loan and is therefore classified as non-current asset.

Pledged bank deposits carry variable interest rate of 0.08% (2017: 0.08%) per annum.

Pledged deposit in a financial institution carries fixed interest rate of 0.5% per annum.

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 31.

21. FIXED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances carry interest at prevailing market interest rates which range from 0.0001% to 0.48% (2017: 0.0001% to 0.46%) per annum.

Fixed bank deposits carry interest at fixed rate of 2.00% (2017: nil) per annum.

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 31.

22. TRADE AND OTHER PAYABLES

	2018 RMB'000	2017 RMB'000
Trade and bills payables	**211,227**	206,082
Advances from customers	**–**	1,842
Payroll payables	**23,816**	19,137
Accruals	**9,183**	8,138
Payable to PRC government authorities *(Note 28)*	**22,626**	22,626
Payable for acquisition of property, plant and equipment	**–**	5,064
Other tax payable	**8,833**	2,235
Others	**13,774**	3,214
	289,459	268,338

22. TRADE AND OTHER PAYABLES *(continued)*

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 dates at the end of the reporting period:

	2018 RMB'000	2017 RMB'000
0–60 days	**104,838**	131,682
61–90 days	**42,283**	28,020
91–180 days	**42,672**	23,945
181–270 days	**4,127**	2,601
271–360 days	**1,444**	2,185
Over 360 days	**15,863**	17,649
	211,227	206,082

23. PROVISION FOR DAMAGES

Movements in the provision for damages

	2018 RMB'000	2017 RMB'000
1 January	**193,980**	190,864
Interest on provision for damages	**8,756**	8,834
Exchange loss (gain) arising on retranslation recognised in profit or loss	**10,104**	(9,304)
Exchange realignment	**5,885**	3,586
31 December	**218,725**	193,980

Details of the provision are set out in Note 35(a).

24. CONTRACT LIABILITIES

	31.12.2018 RMB'000	1.1.2018* RMB'000
Capacitors	**6,344**	835
Aluminum foils	**562**	1,007
	6,906	1,842

* The amounts in this column are after the adjustments from the application of IFRS 15.

Upon adoption of IFRS 15, receipt in advance from customers included in trade and other payables amounting to RMB1,842,000 (Note 22) was reclassified to contract liabilities on the date of initial application, 1 January 2018.

The Group receives certain portions of the contract value as deposits from customers when it signs agreements with customers. Contract liabilities represent receipts in advance from customers which are recognised as revenue at a point in time when the control of the goods is transferred to the customers. During the year ended 31 December 2018, revenue recognised in the current year relating to contract liabilities at the beginning of the year is RMB1,842,000.

25. BANK AND OTHER BORROWINGS

	2018 RMB'000	2017 RMB'000
Bank borrowings	**191,415**	115,784
Other borrowings	**59,082**	–
	250,497	115,784
Secured	**104,795**	41,714
Unsecured	**145,702**	74,070
	250,497	115,784
The carrying amounts of borrowings are repayable:		
Within one year	**240,383**	115,784
More than one year but not more than two years	**7,018**	–
More than two years but not more than five years	**3,096**	–
	250,497	115,784
Less: Amounts due within one year shown under current liabilities	**(240,383)**	(115,784)
Amount shown under non-current liabilities	**10,114**	–

The Group's bank and other borrowings include fixed-rate borrowings of RMB200,266,000 (2017: RMB74,070,000) which carry interest ranging from 1.11% to 3.78%% (2017: 2.90% to 3.10%) per annum and are repayable within one year. The remaining balance is variable-rate borrowings which carry interest at the range of effective interest rates (which are also equal to contracted interest rates) of 1.24% to 5.34% (2017: 1.25% to 2.40%) 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 2018	**58,229**	**117,219**	**17,429**
At 31 December 2017	41,798	32,272	17,631

26. AMOUNTS DUE TO RELATED PARTIES

Name of related party	Relationship	2018 RMB'000	2017 RMB'000
Amounts due to related parties			
Lin Chin Tsun	Director	**3,654**	3,464
Lin I Chu	Director	**–**	1,499
		3,654	4,963

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

27. 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 Schemes 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 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 are RMB17,502,000 (2017: RMB14,528,000) and represent 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.

28. DEFERRED INCOME

	2018 **RMB'000**	2017 RMB'000
CARRYING VALUE		
At 1 January	**750**	22,698
Additions	–	750
Released to profit or loss during the year	–	(72)
Reclassified to other payable *(Note)*	–	(22,626)
At 31 December	**750**	750

Note: This related to government grants received by Capxon Qinghai for the encouragement of setting up aluminum foils production lines. Upon termination of the contract with the Counterparty (as disclosed in Note 7), the Group considered the fulfillment of the conditions of the related grants was no longer met. Accordingly, the relevant government grants amounting to RMB22,626,000 were reclassified to other payables to the relevant government authorities.

29. SHARE CAPITAL

	Number of shares	**Amount** HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2017 and 31 December 2017 and 2018	1,500,000,000	150,000
Issued and fully paid:		
At 1 January 2017 and 31 December 2017 and 2018	844,559,841	84,456
Shown in the consolidated financial statements as (RMB'000)		82,244

30. CAPITAL RISK MANAGEMENT

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

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

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

31. FINANCIAL INSTRUMENTS

31a. CATEGORIES OF FINANCIAL INSTRUMENTS

	2018 RMB'000	2017 RMB'000
Financial assets		
Financial assets at amortised cost	**670,687**	–
Loans and receivables (including cash and cash equivalents)	**–**	517,854
Financial liabilities		
Amortised cost	**525,594**	376,870

31b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk

(i) Currency risk

The Group mainly operates in the PRC with transactions substantially entered into in RMB, and the exposure to exchange rate risks mainly arises from the foreign currency sales and purchases and the bank balances, and bank and other borrowings denominated in foreign currencies. Approximately 35.95% (2017: 36.19%) of the Group's sales and 10.47% (2017: 9.73%) 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 and other 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	
	2018 RMB'000	2017 RMB'000	**2018 RMB'000**	2017 RMB'000
Hong Kong Dollars ("HK$")	**307,065**	392,704	**97,307**	139,101
USD	**673,603**	738,899	**623,492**	850,250
New Taiwan Dollars ("NTD")	**138**	311	**15,721**	19,645
EUR	**2,890**	33,785	**117,219**	32,272
JPY	**19,004**	27,458	**255,107**	247,783

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.

31. FINANCIAL INSTRUMENTS *(continued)*

31b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the fluctuation of HK$, USD, NTD, EUR and JPY against the functional currencies of the respective 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 negative/positive number below indicates a decrease/increase in profit after tax (2017: increase/decrease in loss after tax) where the functional currencies of respective group entities strengthen 5% against the relevant foreign currencies, and vice versa:

	2018 **RMB'000**	2017 RMB'000
HK$ impact	**(9,173)**	(11,244)
USD impact	**765**	7,735
NTD impact	**629**	784
EUR impact	**4,280**	(63)
JPY impact	**9,443**	9,037

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate pledged deposit in a financial institution, fixed bank deposits and borrowings (see Note 25 for details of these borrowings).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings (see Note 25 for the details of these borrowings), pledged bank deposits and bank balances. The Group tends to keep its borrowings, pledged bank deposits, fixed bank deposits and bank balances at floating rates 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 (2017: 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 (2017: 25 basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2018 would decrease/increase by RMB101,000 (2017: post-tax loss for the year would increase/decrease by RMB86,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank and other borrowings.

31. FINANCIAL INSTRUMENTS *(continued)*

31b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk and impairment assessment

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position of the Group. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit approvals. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of IFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group also has concentration of credit risk on pledged bank deposits, fixed bank deposits and liquid funds which are deposited with banks with high credit rating. Other than the above, the Group does not have any other significant concentration of credit risk. The credit risk on pledged bank deposits, fixed bank deposits and bank balances is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The credit risk on pledged deposit in a financial institution is limited because the Group has considered that no deterioration in credit qualities of the financial institution, the management of the Group concludes that the financial institution is not considered a default and the impact of ECL is insignificant.

The Group has considered that credit risk on pledged deposit in a financial institution, pledged bank deposits, fixed bank deposits and bank balances has not increased significantly since initial recognition and has assessed the expected credit loss rate under 12m ECL method based on the Group's assessment in the risk of default of the respective counterparties.

As at 31 December 2018, the Group has assessed that the expected loss rates for pledged deposit in a financial institution, pledged bank deposits, fixed bank deposits and bank balances were immaterial. Thus no loss allowance for pledged deposit in a financial institution, pledged bank deposits, fixed bank deposits and bank balances was recognised.

The Group's internal credit risk grading assessment comprises the following categories:

Category	Description	Trade receivables	Other financial assets
Performing	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL-not credit-impaired	12m ECL
Watch list	Debtor frequently repays after due dates	Lifetime ECL-not credit-impaired	12m ECL
Doubtful	There has been a significant increase in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL– not credit-impaired	Lifetime ECL– not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL– credit-impaired	Lifetime ECL– credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

31. FINANCIAL INSTRUMENTS *(continued)*

31b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk and impairment assessment *(continued)*

The estimated loss rates are estimated based on historical observed default rates over the expected lives of the debtors and are adjusted for forward-looking information, including but not limited to expected growth rate of the industry, that is available without undue cost or effort.

For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix for impairment allowance based on the historical credit losses experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the end of the reporting period, including time value of money where appropriate.

2018	*Note*	Internal credit rating	12-month or Lifetime ECL	Gross carrying amount RMB'000	Total RMB'000
Trade receivables	*19*	Performing	Lifetime ECL – not credit-impaired	280,520	
Trade receivables	*19*	Watch list	Lifetime ECL – not credit-impaired	79,804	
Trade receivables	*19*	Doubtful	Lifetime ECL – not credit-impaired	35,436	
Trade receivables	*19*	Loss	Lifetime ECL – credit-impaired	10,809	406,569
Other receivables	*19*	Performing	12m ECL	4,771	
Other receivables	*19*	Loss	Lifetime ECL – credit-impaired	897	5,668
Pledged deposit in a financial institution	*20*	Performing	12m ECL	2,064	2,064
Pledged bank deposits	*20*	Performing	12m ECL	2,818	2,818
Fixed bank deposits	*21*	Performing	12m ECL	28,221	28,221
Bank balances	*21*	Performing	12m ECL	247,735	247,735

31. FINANCIAL INSTRUMENTS *(continued)*

31b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk and impairment assessment *(continued)*

The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit-impaired/credit impaired).

Gross carrying amount

	Average loss rate	Trade receivables RMB'000
Internal credit rating		
Performing	0.30%	280,520
Watch list	5.64%	79,804
Doubtful	18.40%	35,436
Loss	100.00%	10,809
		406,569

Movements in the allowance for credit loss for trade receivables

For the year ended 31 December 2018

	Lifetime ECL (not credit-impaired) 2018 RMB'000	Lifetime ECL (credit-impaired) 2018 RMB'000	Total RMB'000
31 December 2017			
– IAS 39	–	18,188	18,188
Amount remeasured through opening accumulated losses upon application of IFRS 9	4,791	–	4,791
1 January 2018	4,791	18,188	22,979
Reclassification	3,685	(3,685)	–
Impairment losses recognised on trade receivables	4,139	–	4,139
Amount recovered during the year	(1,092)	–	(1,092)
Written off as uncollectible	–	(3,694)	(3,694)
Exchange realignment	342	–	342
31 December 2018	11,865	10,809	22,674

In the opinion of the directors of the Company, the trade receivables with ratings of watch list and doubtful at the end of the reporting period which have been past due over 90 days are not considered as in default by considering the expected subsequent and historical repayment from trade debtors.

31. FINANCIAL INSTRUMENTS *(continued)*

31b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Movements in the allowance for credit loss for trade receivables *(continued)*

For the year ended 31 December 2017

	2017 RMB'000
1 January 2017	18,098
Impairment losses recognised on receivables	2,663
Amount recovered during the year	(49)
Written off as uncollectible	(2,103)
Exchange realignment	(421)
31 December 2017	18,188

Movements in the allowance for credit loss for other receivables

For the year ended 31 December 2018

	Lifetime ECL (credit-impaired) 2018 RMB'000
1 January 2018	**694**
Impairment losses recognised on other receivables	**1,755**
Written off as uncollectible	**(1,552)**
31 December 2018	**897**

In the opinion of the directors of the Company, the other receivables with rating of performing at the end of the reporting period which have been past due over 90 days are not considered as in default by considering the expected subsequent and historical repayment from other debtors.

For the year ended 31 December 2017

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

31. FINANCIAL INSTRUMENTS *(continued)*

31b. 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 and other borrowings and ensures compliance with loan covenants.

The Group relies on bank and other borrowings as a significant source of liquidity. As at 31 December 2018, the Group has available unutilised short-term bank loan facilities of RMB251,331,000 (2017: RMB60,849,000). Details of bank and other borrowings are set out in Note 25.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. The maturity dates for 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 rates, 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	Undiscounted cash flows – over 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
2018					
Non-derivative financial liabilities					
Trade and other payables	–	271,443	–	271,443	271,443
Bank and other borrowings					
– fixed-rates	3.04	202,082	–	202,082	200,266
– variable-rates	3.08	41,186	11,511	52,697	50,231
Amounts due to related parties	–	3,654	–	3,654	3,654
		518,365	11,511	529,876	525,594

	Weighted average effective interest rate %	Undiscounted cash flows – on demand or less than 1 year RMB'000	Undiscounted cash flows – over 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
2017					
Non-derivative financial liabilities					
Trade and other payables	–	256,123	–	256,123	256,123
Bank and other borrowings					
– fixed-rates	3.02	74,917	–	74,917	74,070
– variable-rates	1.82	41,915	–	41,715	41,714
Amounts due to related parties	–	4,963	–	4,963	4,963
		377,918	–	377,918	376,870

31. FINANCIAL INSTRUMENTS *(continued)*

31c. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS AT AMORTISED COST

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

32. OPERATING LEASES

Minimum lease payments expenses under operating leases during the year for rented premises are RMB1,474,000 (2017: RMB4,951,000).

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:

	2018 RMB'000	2017 RMB'000
Within one year	**5,642**	705
In the second to fifth years inclusive	**5,251**	918
	10,893	1,623

Leases are negotiated and rental are fixed for a period from one to three years (2017: one to two years).

33. CAPITAL COMMITMENTS

	2018 RMB'000	2017 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**8,278**	18,934

34. 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:

	2018 RMB'000	2017 RMB'000
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**175,448**	74,070
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**20,326**	17,455
Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu *(Note)*	**12,773**	24,259
	208,547	115,784

The expiry dates of the above guarantees fall within the period from January 2019 to July 2021 (2017: January 2018 to December 2018).

As at 31 December 2018, Ms. Chou Chiu Yueh and Ms. Lin I Chu *(Note)* pledged their property to a bank to secure banking facilities of NTD30,000,000 (equivalent to RMB6,758,000) (2017: NTD50,000,000 (equivalent to RMB10,947,000)) granted to the Group.

As at 31 December 2017, Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh and Mr. Lin Yuan Yu pledged their property to a bank to secure banking facilities of NTD150,000,000 (equivalent to RMB32,839,000) granted to the Group. The pledged property was released during the current year.

Note: Mr. Lin Yuan Yu and Ms. Lin I Chu are close family members of the ultimate controlling parties. All of them are directors and shareholders of the Company.

34. RELATED PARTY DISCLOSURES *(continued)*

(II) RELATED PARTY BALANCES

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

(III) COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2018 RMB'000	2017 RMB'000
Short-term benefits	**9,928**	9,854
Post-employment benefits	**170**	169
Performance related incentive payment	**3,018**	65
	13,116	10,088

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.

35. 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 RMB87,959,000 (2017: RMB81,375,000)) allegedly suffered by the Customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (equivalent to RMB3,737,000 (2017: RMB3,458,000)) 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 which was ordered to pay to the Customer damages in an aggregate sum of:

(i) damages of JPY2,427,186,647 (equivalent to RMB151,172,000 (2017: RMB139,871,000));

(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 RMB81,713,000 (2017: RMB75,605,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB58,693,000 (2017: RMB54,305,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (equivalent to approximately RMB10,766,000 (2017: RMB9,961,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to RMB1,471,000 (2017: RMB1,361,000)).

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.

35. MATERIAL PROCEEDINGS *(continued)*

(a) (continued)

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. In May 2018, the HK Court dismissed Capxon Taiwan's application to set aside the enforcement order and adjourned the charging order proceedings to November 2018 for Capxon Taiwan and the Customer to file further evidence.

In September 2018, the Customer applied to the HK Court for discovery of documents and disclosure of certain information of Capxon Taiwan and Lancom Limited, a subsidiary of Capxon Taiwan, by way of summons which is scheduled to be heard on 26 September 2019.

The final decision of the charging order hearing has not been reached by the HK Court as of the date of approval of these 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. In April 2018, the shareholders of Capxon Taiwan passed a resolution to voluntarily wind up Capxon Taiwan and appointed liquidator pursuant to the Laws of Taiwan. As at 31 December 2018, certain property, plant and equipment in Taiwan, with carrying value of RMB10,995,000 (31 December 2017: nil), were distrained by the Taiwan Shilin District Court for enforcing the Arbitral Award. The relevant property, plant and equipment are still used by the Group as at 31 December 2018. Subsequent to 31 December 2018, under the instruction issued by the Taiwan Shilin District Court, the relevant property, plant and equipment was in auction, and Capxon Technology Limited, a wholly owned subsidiary of the Company, has purchased such auctioned property, plant and equipment. As at the date of approval of these consolidated financial statements, the wind up of Capxon Taiwan is still in progress.

The outcome of the hearing from the HK Court cannot be determined at this stage and the wind up of Capxon Taiwan is still in progress. Therefore, an aggregate amount of JPY3,511,811,817 (2017: JPY3,366,180,618), equivalent to RMB218,725,000 (2017: RMB193,980,000), was provided as at 31 December 2018 in respect of:

(i) damages amounting to JPY2,427,186,647, equivalent to RMB151,172,000 (2017: RMB139,871,000);

(ii) interest on deferred payment of (i) above amounting to JPY1,061,007,108 (2017: JPY915,375,909), equivalent to RMB66,082,000 (2017: RMB52,748,000); and

(iii) arbitration related expenses as a result of the Arbitral Award amounting to JPY23,618,062, equivalent to RMB1,471,000 (2017: RMB1,361,000)

(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 (the "PRC Action"). In December 2014, the court ruled that the complainant had failed to provide sufficient evidence and accordingly the court ruled in favor of Capxon Shenzhen. The customer subsequently filed an appeal against the court's decision. In May 2017, the Higher People's Court of Guangdong Province issued its final judgement, whereby it rejected 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.

36. PLEDGE OF ASSETS

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

	2018 RMB'000	2017 RMB'000
Property, plant and equipment	**79,272**	10,864
Pledged bank deposits	**2,818**	1,205
Pledged deposit in a financial institution	**2,064**	–
Land use rights	**11,159**	–
	95,313	12,069

37. 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 2018 RMB'000	**Financing cash flows RMB'000**	**Other changes *(Note i)* RMB'000**	**At 31 December 2018 RMB'000**
Bank and other borrowings *(Note ii)*	**115,784**	**128,685**	**6,028**	**250,497**
Accrued interest expenses *(Note iii)*	**246**	**(7,225)**	**7,205**	**226**
Amounts due to related parties	**4,963**	**(1,309)**	**–**	**3,654**
	120,993	**120,151**	**13,233**	**254,377**

	At 1 January 2017 RMB'000	Financing cash flows RMB'000	Other changes *(Note i)* RMB'000	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 costs recognised (Note 8) and interim dividend declared (Note 12).

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

(iii) The accrued interest expenses represent the interest expenses accrued for the bank and other borrowings and are 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.

38. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

GENERAL INFORMATION OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2018 and 2017 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 Direct 2018 %	Direct 2017 %	Indirect 2018 %	Indirect 2017 %	Principal activities
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	Registered: RMB265,000,000 (2017: RMB100,000,000) Fully paid: RMB224,258,862.76 (2017: 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)* 青海凱普松	The PRC/the PRC	RMB99,000,000	–	–	**100**	100	Inactive
Capxon Shenzhen *(Note ii)* 深圳豐賓	The PRC/the PRC	Registered: US$43,880,000 (2017: US$73,880,000) Fully paid: US$54,880,000 (2017: US$73,880,000)	**9.11**	6.77	**90.89**	93.23	Manufacture and sale of capacitors
Capxon Taiwan 台灣豐賓	Taiwan/Taiwan	Authorised: NTD620,000,000 Issued and fully paid: NTD532,410,000	**96.54**	96.54	–	–	Inactive
Capxon Technology Limited 凱普松科技有限公司	British Virgin Islands/ Taiwan	US$1,700,000	**100**	100	–	–	Trading of capacitors
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 of capacitors

38. 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		
			2018 %	2017 %	2018 %	2017 %	
Dongguan Capxon Trading Limited* *(Note iii)* 東莞凱普松貿易有限公司	The PRC/the PRC	RMB1,000,000	–	N/A	100	N/A	Trading of capacitors
Easy Chance Limited 宜邦有限公司	Hong Kong/Taiwan	Authorised: HK$10,000 Issued and fully paid: HK$100	–	–	100	100	Trading and investment holding
Gold Wish Limited	British Virgin Islands/ Taiwan	US$30,000,000	100	100	–	–	Investment holding
Lancom Limited 龍球有限公司	Hong Kong/Taiwan	HK$85,137,200	–	–	96.54	96.54	Inactive
Mega Tender Limited 緯成有限公司	Hong Kong/the PRC	HK$10,000	100	100	–	–	Trading of aluminum foils
Multiple Investments Ltd.	British Virgin Islands/ Taiwan	Authorised: US$5,000,000 Issued and fully paid: US$2,300,000	100	100	–	–	Investment holding
Waystech Trading Limited 威達貿易有限公司	British Virgin Islands/ Taiwan	US$1,034,699	100	100	–	–	Investment holding
Wei Rong Electronic (Shenzhen) Co., Ltd.* 威容電子(深圳)有限公司 *(Note iv)*	The PRC/the PRC	Registered: US$13,000,000 Fully paid: US$11,000,000	–	N/A	100	N/A	Manufacture and sale of capacitors
Yichang Fengshuo Equipment Co., Ltd. *(Note ii)* 宜昌豐碩設備有限公司	The PRC/the PRC	HK$132,790,000 (2017: HK$8,000,000)	–	–	100	100	Manufacture and sale of equipment and investment holding

* For identification purpose only

None of the subsidiaries had issued 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) Being established in the PRC on 9 January 2018.

(iv) Being established in the PRC on 11 July 2018.

39. FINANCIAL INFORMATION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Pledged deposit in a financial institution	**2,064**	–
Investments in subsidiaries	**515,011**	515,011
	517,075	515,011
CURRENT ASSETS		
Other receivables	**295**	241
Amounts due from subsidiaries *(Note i)*	**132,251**	366,334
Bank balances	**47,470**	10,055
	180,016	376,630
CURRENT LIABILITIES		
Other payables and accruals	**4,783**	1,843
Amounts due to subsidiaries	**150,596**	364,866
Other borrowings	**7,018**	–
	162,397	366,709
NET CURRENT ASSETS	**17,619**	9,921
TOTAL ASSETS LESS CURRENT LIABILITIES	**534,694**	524,932
NON-CURRENT LIABILITIES		
Other borrowings	**10,114**	–
NET ASSETS	**524,580**	524,932
CAPITAL AND RESERVES		
Share capital	**82,244**	82,244
Share premium and reserves *(Note ii)*	**442,336**	442,688
TOTAL EQUITY	**524,580**	524,932

Notes:

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

(ii) Movements of the reserves of the Company

	Share premium RMB'000	**(Accumulated losses) retained profits** RMB'000	**Total** RMB'000
At 1 January 2017	436,626	(56,438)	380,188
Profit for the year	–	99,130	99,130
Dividend recognised as distribution	–	(36,630)	(36,630)
At 31 December 2017	436,626	6,062	442,688
Loss for the year	–	(352)	(352)
At 31 December 2018	**436,626**	**5,710**	**442,336**

Five-Year Financial Summary

	Year ended 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
RESULTS					
Revenue	989,625	849,188	946,643	1,069,104	**1,202,327**
(Loss) profit for the year	(144,027)	3,041	13,714	(1,812)	**63,645**

	As at 31 December				
	2014 RMB'000	2015 RMB'000	2016 RMB'000	2017 RMB'000	**2018** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,288,337	1,157,458	1,184,092	1,209,946	**1,461,675**
Total liabilities	(643,954)	(518,542)	(554,452)	(605,312)	**(814,725)**
	644,383	638,916	629,640	604,634	**646,950**
Attributable to:					
Owners of the Company	641,258	636,084	627,399	602,998	**646,160**
Non-controlling interests	3,125	2,832	2,241	1,636	**790**
	644,383	638,916	629,640	604,634	**646,950**