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 2019

# 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
Registered Public Interest Entity Auditors
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.

## 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 54, 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

# Chairman's Statement

Dear shareholders,

In 2019, global economic and trade tensions have created a climate of uncertainty with a decline in economic growth. Despite that a myriad of uncertainties still exists in 2020, the preliminary China-US trade agreement reached by the two countries suggested that the anticipated relief in trade tensions is likely to result in a reduction of overall global economic pressure and a rebound in economic growth. In view of this, in additional to the low base period in 2019, most international forecast institutions believe that the global economic and trade growth in 2020 will exceed that in 2019. However, given the outbreak of Novel Coronavirus (COVID-19), the extent of the epidemic's impact on global economy is to be observed in the future.

As for the global outlook in 2020, the economy remains dependent on trade frictions as a key factor. Economists stated that the subsequent development of the China-US trade war is critical to the global economic growth in 2020. Should global trade tensions further escalate, forthcoming uncertainties will affect the willingness to invest and consumer confidence of enterprises globally, pulling back the economic performance of each country. Accordingly, central banks of each country will make greater efforts to loosen their monetary policy to support the economy. With adequate capital in the financial market, the stock and bond markets may still perform well. However, any emergency such as the outbreak of Novel Coronavirus (COVID-19) will result in considerable fluctuations in the market due to the successive lockdown of countries. Nevertheless, the global economy will adjusted depending on the development of global pandemic in the future, if China and the US successfully reach an agreement in trade negotiations with no further escalation to trade conflicts, coupled with the support of loose monetary policy by central banks.

From an industrial perspective, passive components will continue to grow at a moderate pace in the coming years, mainly because the innovation of smart devices remains the key to driving business opportunities. Apart from 5G smartphones, wearable devices, corporate and automotive Internet of Things ("IoT") gadgets and robots will become the new driving force for the growth of smart devices, which is also affected by the progress of the China-US trade negotiations and the change of the pandemic situation.

As most passive components are in a relatively mature stage of their product lifetime, there is a 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, with most of the products applied within the 3C sector. In the future, the industry will benefit from other emerging application markets such as IoT, AI, Big Data, blockchain, cloud, information security, edge computing and 5G, and continuously support 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 price. The supply and demand of such end products are less susceptible to fluctuations of economic cycles. By entering into relevant sectors, developing miniaturized and modularized products and adjusting their product portfolios, passive component suppliers can boost their gross profits as well as avoid the operational risks arising from fluctuations of economic cycles. As for future market trends, passive components are expected to develop towards features such as high capacity, high voltage, high frequency, sustained high resistance to heat, and miniaturization. Increasing demand for the top three products, namely smart watches, head-mounted displays (HMD) and ear-worn devices, has led to the growing demand for niche products such as those for industrial and automotive purposes as well as the IoT. Nonetheless, as the global manufacturing hub is being transferred from Mainland China, the question lies in how to shift production lines while maintaining suppliers' support and the same quality. During the development of the China-US trade war, careful attention should be paid to global market changes in the future.

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

In 2020, the strategies for the Group's two major products are as follows:

## 1. OPERATIONS IN THE ALUMINUM FOIL MARKET

In 2019, the environmental problems for aluminum foil (the major raw material of passive components) were addressed gradually, as the industry witnessed its newly invested production lines to commence production successively during the year. This resulted in an oversupply and a sluggish market for the aluminum foil industry in the second half of 2019, which was directly reflected in sales as the aluminum foil price continued to slide. In response to such industrial characteristics and prevailing market conditions and having evaluated market conditions and potential supply in the future, the Group further reduced production costs and provided products with higher performance based on market demand. This is done by upgrading and renovating production lines, improving production technologies, widening the channels of its supply chain for major raw materials, and increasing R&D investment to enhance the performance of aluminum foils. Moreover, with planned expansion in overseas markets, the Group's products managed to enter the Japanese supply chain which enhanced the diversity of its marketing and sales capability. While collaborating with Japan, the management of aluminum foil manufacturers can be further improved. The above operational policy enabled such manufacturers to attain better results amidst the market downturn. To remain competitive with its operations, the Group has planned to set up six high-speed production lines for high-pressure formed foils within 2020. The production lines will commence operations in the second half of the year and are expected to increase the monthly production of high-pressure formed foils by 130,000 square meters. Should the plan come into fruition, the Group can lower existing costs and bolster product quality even further.

In 2020, the industry market will retain moderate growth. Increasingly rigorous environmental regulations will lift the production cost of aluminum foils, the major raw material of passive components, whose production capacity remains dominated by large-scale capacitor manufacturers. Prospective industry adjustments may lead to upward integration in the aluminum foil industry, i.e. the integration of the production of formed foils and etched aluminum foils into upstream foil production to meet the future requirements on quality, or downward integration, i.e. the integration of the production of formed foils and etched aluminum foils with downstream manufacturers of aluminum electrolytic capacitors ensuring that the end demand of customers is met. As aluminum foils are the principal raw materials of capacitors, the Group has excellent production processing technologies and a stable production capacity for formed foils to produce customized products satisfying customers' demand. In addition, the Group is actively exploring the developmental potential of markets with high added value in order to prepare for future market changes. The Group will stay attentive to and address the future changes in the aluminum foils market cautiously.

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

### ➢ ETCHED ALUMINUM FOILS

- **A new generation of high-speed etching production lines**
  In light of the existing high-speed etching production lines, the Group optimized production technology and equipment, conducted R&D to design a new generation of high-speed etching production lines, and completed equipment installation and commissioning. Consequently, the Group's production efficiency doubled that of the existing high-speed production lines, with room for improvement of the quality of etched aluminum foils.

- **Low-cost etching process**
  Through adjusting and improving the etching process and formula, a cheaper etching production process was developed. Given the same specifications and quality of the manufacturing of such foils, it has effectively reduced the production cost of etched aluminum foils.

### ➢ FORMED FOILS

- The Group targeted the energy conservation technology for organic acid formation which effectively improved the production efficiency.

- The Group's fast production lines for seven-segment formation were on average over 20% quicker than the original five-segment ones.

- By targeting R&D on capacity improvement technology of the organic acid formation process, the Group lifted such capacity by more than 2.0% compared with the original formation technology.

- The Group developed a new approach in evaluating the performance of formed foils and put it to formal use in October 2019. The new method produced results closer to the actual environment where formed foils were applied in capacitors, resulting in a more valuable reference in actual application.

- In January 2019, the Group completed the transformation of the foil-washing sewage recycling project and put it into operation, saving approximately 300 tons of water per day and significantly reducing water costs and sewage discharge.

- The Group finished the installation of a phosphoric acid recovery and treatment system and started the recovery of phosphoric acid from all the Group's production lines in October 2019. As such, the Group is able to recycle over 20 tons of phosphoric acid per month and thereby reduced cost.

## 2. OPERATIONS IN THE ELECTROLYTIC CAPACITOR MARKET

Multiple regions have embraced the 5G era with the arrival of IoT as the "Next Big Event". Developed by focusing on IoT and AI in the future, Artificial Intelligence of Things will lead a swift rise of the new economy and new industries. Regarding the R&D and mass production of capacitors, the Group primarily focused on high-end products such as variable-frequency drives, servo drives, chargers for communications bases and communications terminal products and in-vehicle electronic applications in the first half of 2019, with great achievements in addressing the relevant demand. In the future, the Group will commit more efforts to meet the requirements of special tailor-made products which consist of miniaturization, high capacity, high and ultrahigh voltage, high frequency and high temperature. The Group will also take steps in developing custom-made products that cater to the front-end demand of the market across different sectors. Furthermore, the Group will promote the market application of capacitors in various fields and expand the global market share of its capacitor products.

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

- The rapid advancement of 5G technology has offered the Group a broad market for the application of its low-impedance mini capacitors in the fields of IoT and AI.

- The Chinese market of mobile phone adapters has witnessed a surge in the consumption of high-voltage mini capacitors. More collaboration with end-customers in other projects further elevated the Group's position as a renowned aluminum electrolyte supplier among customers. With strenuous development of the quick-charging market, the Group has obtained a large number of orders as well as recognition from well-known brands.

- American customers have developed AA200V10μF (10*12.4) in-vehicle semi-solid surface mount device high-voltage aluminum electrolytic capacitors. Samples are currently under AEC-Q200 testing, with experimental data indicating the capability of the product to meet the design requirements from customers; regarding in-vehicle capacitors, the Group has tapped into the European and American markets and laid the foundation to enter the global industry of in-vehicle capacitors.

- Adapting to the stiff competition in the price war, the Group has attempted to replace the imported electrolytic paper of specifications for Mainland customers with domestic products. Meanwhile, the Group is also engaged in a strategic partnership with CRRC to develop the specific characteristics required for the Group's solid/semi solid products.

- With constant increase in global energy consumption, electronic products are demanding higher power efficiency and power density per unit of volume. Semiconductor materials (SIC/GaN) are continuously applied to new power devices, which in turn reduces the volume of power supply devices by 30% to 40%. Smaller high-voltage aluminum electrolytic capacitors have become a bottleneck for power source miniaturization. As such, the Group will endeavor to develop miniaturized high-voltage aluminum electrolytic capacitors (with volume shrunk by 10% to 20%) that will perform excellently in high frequency (100KHz to 500KHz) and are able to resist high temperatures.

Key areas such as IoT, AI, Big Data, blockchain, cloud, information security, edge computing and 5G have become essential competition areas for industry players and dominated the technology war between China and the US. It is anticipated that China and the US will continue to compete in the international standards of technology, and Mainland China will also develop its own standard by mobilizing its national strength and resources. The trend of "One World, Multiple Technological Standards" is expected to take shape gradually. More importantly, key technologies with accelerating iteration and growth will experience exponential growth and lead diverse interdisciplinary application to turn R&D concepts into market commercialization quickly.

Given the accelerated popularity and maturity of the new generation of telecommunications technology such as AI, IoT and 5G, the manufacturing sector has embarked on platform-based competition regarding the industry's ecosystems. As new smart manufacturing models gradually replace traditional ones, manufacturers must work on digital transformation to distinguish themselves from others in the era of digital economy. Meanwhile, industry alliances provide an important strategic direction in light of the digital transformation. This is because the alliance allows companies to work together on technology standards, R&D, industry chain and cooperate in the market. It also enables companies to realize industry integration and innovation across different sectors and disciplines, simultaneously establishing fresh competitive edges in the digital economy era.

Furthermore, the combination of edge computing, AI and IoT will generate greater impetus. At the same time, technologies that can create immersive experience, such as virtual reality, will continue to reshape people's perceptions of the digital world. Blockchain offers solutions to operational performance, enables interaction and connection in smart spaces, or helps establish safety nets to prevent network attacks amidst privacy and security concerns in an increasingly open system. Also, corporates must work as reliable suppliers in respect of security, reliability, information privacy and ethics to advance with forward-looking technologies that continuously create unlimited possibilities in the future. 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 in order 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 its current achievements, conduct innovation, and consolidate its established 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, 29 April 2020

## FINANCIAL REVIEW

A summary of the audited financial results of the Group for the year ended 31 December 2019 (the "Year") is set out below:

- Revenue increased by approximately 13.77% to approximately RMB1,367,861,000 (for the year ended 31 December 2018: RMB1,202,327,000).

- Gross profit increased by approximately 16.70% to approximately RMB397,786,000 (for the year ended 31 December 2018: RMB340,868,000).

- Profit for the Year attributable to owners of the Company amounted to approximately RMB92,731,000 (for the year ended 31 December 2018: RMB64,761,000).

During the Year under review, the Group's revenue was approximately RMB1,367,861,000, representing an increase of approximately 13.77% over the corresponding period of last year. Sales of capacitors for the Year amounted to approximately RMB1,288,397,000, representing an increase of approximately 9.87% as compared to RMB1,172,606,000 in the corresponding period of last year. Such increase was mainly due to the increase of sales to new customers. Sales of aluminum foils for the Year amounted to approximately RMB79,464,000, representing an increase of approximately 167.37% as compared to RMB29,721,000 in the corresponding period of last year. Such increase was mainly benefited from the implementation of the Group's improvement of upgraded technologies concerning production line as well as the function and quality of products, which strengthened customers' confidence in use and their trust towards the Group's products, thus increasing the sales of aluminum foils. During the Year, the Group's gross profit margin decreased to approximately 27.91% for the Year from approximately 28.35% for the corresponding period of last year.

## BUSINESS REVIEW

In 2019, global economic and trade tensions created a climate of uncertainty with sliding economic growths worldwide. In a review of global economic trends and outlook, it is indicated by an economic analyst that despite a myriad of uncertainties in 2020, the preliminary trade agreement recently reached by China and the US had mitigated such tense situation, which was expected to ease the pressure on global economy in general and rescue economic performance from declines. Considering the factor of low base period in 2019, major international forecast institutions believe that 2020 will possibly produce better economic and trade growth across the globe than 2019. Looking back at the global economic development trends in 2019, the unrest caused by the China-US trade war, Brexit as well as other political and economic situations exerted a material impact on global economy and sentiment and left a massive shock to industries. Consequently, key economic investigation institutions worldwide have raised a pessimistic view on economic outlook. Overall, the global economy climate faces challenges that are both treacherous and hard to identify amid uncertain economic prospects, coupled with even more uncertainties brought by the outbreak of Novel Coronavirus (COVID-19). Such a backdrop came in tandem with the favorable conditions brought by a low base period and the expected moderation in China-US trade situation, as well as the intelligent innovations driven by 5G, AI, IoT and other new technologies, all of which have generated fresh opportunities for industries and the economy. Under the dynamic interaction of these two forces, it remains to be seen as to how the future economic climate will evolve. Nevertheless, the Group shall invariably break through the dilemma with technological innovation and regain economic momentum.

Given numerous uncertainties, for the electronics sector, people's life has been slowly integrated with the popular AI, digital ecosystems, biohackers, transparent immersive experience and ubiquitous infrastructure. The continuous advancement of technologies, particularly wearable devices and unmanned carriers, will keep transforming human's life and competition intensively and thereby boosting the demand for technically upgrading electronic parts and components and their quantity.

## ➢ MANUFACTURE AND SALE OF ALUMINUM FOILS

During the Year, after satisfying internal production demand, the Group's external sales of aluminum foils amounted to approximately RMB79,464,000, representing an increase of approximately 167.37% as compared to approximately RMB29,721,000 in the corresponding period of last year.

The selling prices of aluminum foils in the market were stable in the first half of 2019, and decreased dramatically in the second half of the year mainly because the new production lines in the market were put into production successively, resulting in the oversupply in the aluminum foil market. To respond to such industrial characteristics and having assessed market dynamics and considered future market demand, the Group made specific adjustments such as technical upgrading of production lines, improvement of production techniques and faster R&D on improving the performance of aluminum foils, so as to improve the industry competitiveness of aluminum foils suppliers and reduce the impact of the market. Such adjustments were effective, as manifested in overall output, production costs and product performance. At the same time, process control and details management were added in the production of aluminum foils, to ensure that the quality of each square of aluminum foil produced is consistent, thereby strengthening customers' confidence in consumption and trust in the product. After the implementation of the above measures, in addition to ensuring the stable source of aluminum foil materials for the capacitor plants of the Group and the flexible demand of customers in external markets, the Group managed to address its market dilemma in the second half of the year by successfully exploring overseas markets and introduced its products to the Japanese supply chain.

Aluminum foils are the major raw material of capacitors. The Group has excellent production processing technologies for formed foils and a stable production capacity. 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 of aluminum foils:

## ➢ ETCHED ALUMINUM FOILS

- **A new generation of high-speed etching production lines**
  On the basis of existing high-speed etching production lines, the Group optimised production technology and equipment, conducted R&D to design a new generation of high-speed etching production lines, and completed equipment installation and commissioning. As a result, the Group's production efficiency doubled that of the existing high-speed production lines, with room for further improving the quality of etched aluminum foils.

- **Reducing the costs for etching**
  Through the adjustment and improvement of the etching process and formula, a cheaper etching production process was developed, which effectively reduced the production cost of etched aluminum foils.

## ➢ FORMED FOILS

- The Group focused its R&D on the energy conservation technology for organic acid formation, to effectively improve production efficiency.

- On average, the Group's fast production lines for seven-segment formation were over 20% quicker than the original five-segment ones.

- The Group focused its R&D on capacity improvement technology of the organic acid formation process, lifting such capacity by more than 2.0% compared with the original formation technology.

- The Group developed a new approach to evaluate the performance of formed foils and formally put it into use in October 2019. The new method produced results closer to the actual environment where formed foils were applied in capacitors, making it a more valuable reference in actual application.

- In January 2019, the Group completed the transformation of the foil-washing sewage recycling project and put it into operation, saving approximately 300 tons of water per day and significantly reducing water costs and sewage discharge.

- The Group finished installing a phosphoric acid recovery and treatment system and started the recovery of phosphoric acid from all of the Group's production lines in October 2019. As such, the Group is able to recycle over 20 tons of phosphoric acid per month and thereby reduced the cost.

## ➢ MANUFACTURE AND SALE OF CAPACITORS

In respect of capacitors, the Group recorded external sales of approximately RMB1,288,397,000 for the Year, which accounted for approximately 94.19% of the Group's total external sales and represented a decrease of approximately 3.34% from approximately 97.53% 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 growth in the global sales of smartphones, there is a considerable demand for growth in 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. Hence, the Group is cautiously optimistic about the passive component industry for the years to come. Besides, in response to the application of AI, edge computing and blockchain for medical and industrial purposes and the growing business opportunities in the application of internet, as well as the potential business opportunities for wearable devices and unmanned carriers, visionary technologies such as 5G, AI and visual machinery will usher smart devices into a new era of diversity with various commodity service models evolving. Furthermore, to cater to the type and requirements of consumers, the information technology setup requirements of innovative service models are expected to emerge swiftly, to capture the software and hardware business opportunities in future businesses. In respect of the R&D and mass production of capacitors, the Group primarily worked on high-end products such as variable-frequency drives, servo drives, chargers for communications bases and communications 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 meet 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 that can be applied across different sectors, promote market application of capacitors in various fields, innovate 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:

- An AP25V330μF (10*10.5) semisolid surface mount device aluminum electrolytic capacitor has been developed that can resist a high temperature of 150℃. Samples have passed the comparison test by the customer and against Japanese products. The new product's characteristic parameters are fully in line with the standards of Japanese products, making it possible to replace them.

- At present, verification is underway for a relatively cheaper domestic carbonised electrolytic paper to replace such electrolytic paper used in solid monomer/oxidant specifications that requires no cleaning or carbonization.

- The Group has established a professional team for the integrated R&D and manufacturing of fast-charging capacitance. The team is equipped with manufacturing technology and production-testing equipment for high-end, leading fast-charging capacitance.

- Domestic high-purity negative foils (WF30CP070-2VF WF20CP050-2VF) will replace the imported ones, with samples under verification.

- Sample verification is also underway for domestic electrolytic paper to replace its imported counterparts used for liquid capacitors.

- In response to unstable input from power grids for televisions, a spindly guide pin product has been developed that can resist high voltages, which has passed strict high-voltage verification by the customer.

- In terms of improving the processing capacity of solid capacitors, the newly developed pre-treatment liquid has no effect on the capacitance's capacity characteristics and can reduce electric leakage, increase the compatibility of monomer oxidants and electrolytic paper. The new product can be applied to solid surface mount device products to reduce short circuit occurrence, address the problem of rising leakage current in reflow, improve the compatibility between post-treatment liquid and dispersion, and achieve higher product reliability and lower material costs.

## LIQUIDITY AND FINANCIAL RESOURCES

### ➢ CASH AND CASH EQUIVALENTS

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB177,445,000 (31 December 2018: RMB248,918,000), which were mainly held in Renminbi and US Dollars (31 December 2018: Renminbi and US Dollars).

### ➢ BORROWINGS

As at 31 December 2019, the Group had bank and other borrowings of approximately RMB205,637,000 (31 December 2018: RMB250,497,000), which were mainly denominated in Euro, US Dollars, New Taiwan Dollars and Japanese Yen (31 December 2018: US Dollars, New Taiwan Dollars, Japanese Yen, Euro and Renminbi). Among such bank borrowings, approximately RMB171,290,000 (31 December 2018: RMB200,266,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of bank and other borrowings:

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Within one year | **189,517** | 240,383 |
| More than one year but not exceeding two years | **4,104** | 7,018 |
| More than two years but not exceeding five years | **2,903** | 3,096 |
| More than five years | **9,113** | – |
| | **205,637** | 250,497 |

## PLEDGE OF ASSETS

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

| | **31 December 2019 RMB'000** | 31 December 2018 RMB'000 |
|---|---|---|
| Property, plant and equipment | **77,580** | 79,272 |
| Pledged bank deposits | **2,190** | 2,818 |
| Pledged deposit in a financial institution | **2,090** | 2,064 |
| Right-of-use assets | **10,805** | – |
| Land use rights | **–** | 11,159 |
| | **92,665** | 95,313 |

## FINANCIAL RATIOS

As at 31 December 2019, the Group's gearing ratio (net debt divided by the sum of equity attributable to owners of the Company and net debt) was approximately 37.12%, representing an increase of approximately 5.30% as compared with 31.82% as at 31 December 2018. Such increase was mainly due to the increase of trade and bills payable of approximately RMB75,891,000 and the decrease of cash and cash equivalents of approximately RMB71,473,000.

Below sets forth 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 | |
|---|---|---|
| | **2019** | 2018 |
| Inventory turnover | **78 days** | 77 days |
| Trade and bills receivable turnover | **124 days** | 119 days |
| Trade and bills payable turnover | **92 days** | 88 days |

The Group will continue to improve the management of its inventories, trade receivables and trade payables to achieve more efficient use of its funds.

## CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments contracted but not provided for in the consolidated financial statements amounting to approximately RMB98,180,000 (31 December 2018: RMB8,278,000).

## MATERIAL PROCEEDINGS

During the year ended 31 December 2011, a customer (the "Claimant") 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 RMB90,489,000 (2018: JPY1,412,106,000, equivalent to RMB87,959,000) allegedly suffered by the Claimant 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.

In August 2014, an arbitral award ("Arbitral Award") was made against Capxon Taiwan which was ordered to pay to the Claimant damages, interest on deferred payment and arbitration related expenses ("Damages") and the details are set out below:

(i) damages of JPY2,427,186,647, equivalent to RMB155,535,000 (2018: JPY2,427,186,647, equivalent to RMB151,172,000) including:

 (a) first claim of JPY1,311,973,002, equivalent to RMB84,072,000 (2018: JPY1,311,973,002, equivalent to RMB81,713,000) ("First Claim");

 (b) second claim of JPY942,366,339, equivalent to RMB60,387,000 (2018: JPY942,366,339, equivalent to RMB58,693,000) ("Second Claim"); and

 (c) third claim of JPY172,847,306, equivalent to RMB11,076,000 (2018: JPY172,847,306, equivalent to RMB10,766,000) ("Third Claim").

(ii) interest calculated at 6% per annum on deferred payment of the above as follows:

(a) First Claim accrued from 1 January 2011 until payment in full;

(b) Second Claim accrued from 1 July 2012 until payment in full; and

(c) Third Claim accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062, equivalent to RMB1,513,000 (2018: JPY23,618,062, equivalent to RMB1,471,000).

In October 2014, Capxon Taiwan filed a petition to the Tokyo Chiho Saibansho ("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 Supreme Court of Japan situated in Tokyo, which is the highest court in Japan, 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 Claimant 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 Claimant 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. The HK Court has yet to hand down its decision after the summons was heard on 26 September 2019 as of the date of this report.

In November 2017, the Claimant also filed an application to the Taiwan Shilin District Court ("Taiwan Court") for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan 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 a liquidator pursuant to the Laws of Taiwan. In April 2018, under the instructions issued by the Taiwan Court, certain property, plant and equipment in Taiwan were distrained by the Taiwan Court for enforcing the Arbitral Award. In February 2019, under the instructions issued by the Taiwan Court, the relevant property, plant and equipment were in auction, and Capxon Technology Limited, a wholly-owned subsidiary of the Company, has purchased such auctioned property, plant and equipment. The consideration for this auction amounting to NTD91,690,000 (equivalent to RMB20,106,000) was received and held by the Taiwan Court to settle Capxon Taiwan's liabilities below:

(a) secured bank borrowings of NTD80,953,000, equivalent to RMB17,751,000;

(b) settlements of the Damages to the Claimant of NTD6,990,000, equivalent to RMB1,533,000;

(c) other creditors of NTD377,000, equivalent to RMB83,000; and

(d) corresponding expenses and taxes arising from the auction of NTD3,370,000, equivalent to RMB739,000.

Besides, under the instructions issued by the Taiwan Court, additional payment amounting to NTD2,932,000, equivalent to RMB642,000, was made by Capxon Taiwan for settlement of the Damages to the Claimant of NTD2,765,000, equivalent to RMB606,000 and the arbitration related expenses of NTD167,000, equivalent to RMB36,000.

As at the date of this report, the winding-up procedures of Capxon Taiwan are still in progress.

The outcome of the hearings from the HK Court cannot be determined at this stage and the winding-up procedures of Capxon Taiwan are still in progress. Subsequent to the settlement made during the year ended 31 December 2019 to the Claimant amounting to RMB2,139,000, an aggregate amount of JPY3,622,932,971, equivalent to RMB232,159,000 (2018: JPY3,511,811,817, equivalent to RMB218,725,000), was recognised as at 31 December 2019 in respect of the Damages.

## FOREIGN EXCHANGE FLUCTUATIONS

The Group's revenue from operations is principally denominated in US Dollars and Renminbi, while its expenses are mainly denominated in Japanese Yen, Renminbi, US 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 between the future and prevailing or historical exchange rates of Renminbi.

## EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2019, the Group had approximately 2,348 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 RMB244,212,000 (for the year ended 31 December 2018: RMB239,609,000).

## COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Company is concerned, it 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

Below sets forth the three trends in the development of science and technology industries in 2020 leading a smart new era:

1. "People-oriented" smart technology: People-oriented smart space stands as one of the most important aspects in today's technology development. Future businesses must start from "people-oriented" and think about how technology will affect customers, employees, business partners, society or other important stakeholders. At the same time, the smart space based on the "people-oriented" concept represents that human beings can interact with technology systems in an increasingly open, interconnected, coordinated and intelligent ecosystem, and can integrate a host of elements such as individuals, processes, services and items in the physical space to create more real, highly interactive and highly automated experience.

2. Exponential growth of key technologies: In its outlook for the overall development of the high-tech industry in 2020, the Market Intelligence & Consulting Institute (MIC) of the Institute for Information Industry (III) pointed out the "exponential growth of key technologies". The key trend embodies IoT, AI, Big Data, blockchain, cloud, information security, edge computing and 5G. Their highly iterative development and mutual promotion will open up huge business opportunities for technological growth in 2020.

3. Separation of industrial chains will affect the global landscape of the technology industry: For industries, as trade conflicts keep emerging in countries around the world, the global industrial supply chain is accelerating its migration and developing new forms and models. According to the Science & Technology International Strategy Center (ISTI) under the Industrial Technology Research Institute (ITRI), China-US trade disputes intensified in 2019, while the Japan-Korea trade war also started, both of which will have a far-reaching impact on the global industrial chain for the next decade. As such, separation of industrial chains may serve as a new starting point for the future world order.

In general, the technology industry will manifest different development situations across such sub-fields as semiconductors, communications network, intelligent terminals and application software, amidst the increasing global economic and trade competition, the rapid evolution of new technologies and the deeper penetration of intelligent applications in human life. Therefore, 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, the Group will also transform its 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.
- ➢ Technological reforms: Currently, the Group expects to develop the following key technologies in relation to aluminum foils and electrolytic capacitors in 2020:
    - ➢ Aluminum foils
        - Technological development of manufacturing ultra-long-lifespan, ultrahigh stability inorganic acid formed aluminum foils used in aluminum electrolytic capacitors.
        - Development of the technology for manufacturing ultrahigh-speed formed aluminum foils.
        - Development of the technology for manufacturing ultrahigh capacity formed aluminum foils which are mainly applicable to miniaturized, high-capacity aluminum electrolytic capacitors.
        - Development of the technology for manufacturing ultrahigh-voltage (above 900VF) formed foils.
    - ➢ Capacitors
        - Foil and pin-type products developed for 5G products will be launched in the market shortly, which will lead the market development trend.
        - A new type of explosion-proof aluminum shells for small high-voltage products has been developed, with enhanced safety and competitiveness for such products.
        - With the application of 5G power supplies, the Group launches the 125°C 3000Hrs product under the Snap-in HH series to meet the requirement of power density, miniaturization and a 10-year lifespan in the application environment of fanless cooling systems.

## FUTURE PROSPECTS

Given the successive application of 5G worldwide in 2019, 2020 will witness the full launch of 5G across the globe as it emerges as a growth highlight that leads the future technology industry and generates a continuous stream of business opportunities for various electronic components in the future 5G communications system. Hence, so far as the technology sector is concerned, AI, 5G, high-performance computing (HPC) and experiential technology will doubtlessly become the key issues that drive "smart" life applications in the days to come, and stand as trends that cannot be overlooked by any market player. According to the Institute for Information Industry, in 5G networks, applications such as multi-player cloud games, augmented reality, virtual reality, smart manufacturing and vehicle-to-everything are based on low latency and supported by IoT. This will raise the demands for distributed computing and storage, draw particular attention from the edge computing market, and help promote the growth of scale of the network equipment market. The Institute for Information Industry also estimates that the shipment of 5G mobile phones will reach 260 million in 2020 and 540 million in 2021. The upgrade of the specifications of 5G parts and components will propel the industry growth for semiconductors, RF components, heat dissipation, circuit boards, passive components, antennas and memory. Therefore, with the comprehensive commercialization of 5G and its rapid growth in applications, the technology sector will embrace business opportunities from network equipment, base stations and mobile phones to relevant key parts and components. Nevertheless, the market shall not overlook and ignore the impact of novel coronavirus. With the lockdown of countries across the world successively due to the hazards caused by the virus, it has become the matter that needs to be paid close attention to in 2020 as to whether the economic model would step back from globalization to small region as a results of economy depression and close-door policy of countries.

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 the Group's 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 to meet mass production planning, as well as create industry value and revenue steadily, in order to reward the Company's shareholders for their support with profits.

# Directors and Senior Management Profiles

## DIRECTORS

### EXECUTIVE DIRECTORS

**Mr. Lin Chin Tsun (林金村)**, aged 71, 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 67, 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 43, 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 40, 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 has acted as the vice-president of Capxon Shenzhen since 1 April 2019. 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 41, is a non-executive Director. Ms. Liu is the spouse of Mr. Lin Yuan Yu. Ms. Liu graduated from the National Taipei Teachers College (國立台北師範學院). She joined the Group in July 2005 as the chairman's assistant at Capxon Yichang. She was appointed as a non-executive Director on 15 April 2007.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Hsieh King-Hu, Miles (謝金虎)**, Miles, aged 72, 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 59, 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 (董清銓)**, aged 67, 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). 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 47, 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 59, 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 50, is the chief of research and development, the deputy general manager in Taiwan and the executive deputy general manager of Capxon Shenzhen. 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 and as the executive deputy general manager of Capxon Shenzhen on 1 April 2019.

**Ms. Chan Yin Fung (陳燕鳳)**, aged 48, is the financial controller and company secretary of the Company. Ms. Chan holds a master's degree in corporate governance and a bachelor's degree in business administration majoring in accounting. Ms. Chan is a Fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an Associate of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She has extensive experience in the field of accounting, auditing, finance and corporate compliance. She joined the Group in July 2007.

# Environmental, Social and Governance Report

## 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 various efforts undertaken by the Group in fulfilling the principle of sustainable development and its social governance performance.

### SCOPE OF ESG REPORT

The ESG report covers the core business of the Group in Hong Kong and the People's Republic of China (the "PRC"). The ESG report describes the Group's overall environmental and social policies in the period from 1 January 2019 to 31 December 2019 (the "Year") and focused on the environmental and social performance of Capxon Electronic (Shenzhen) Co., Ltd. ("Capxon Shenzhen"), which operates the principal business under the Group, for the disclosure of key performance indicators of the Year. 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 the information on corporate governance, please refer to the Corporate Governance Report on pages 29 to 36 of the Annual Report of the Year.

### ESG REPORTING GUIDELINE

The ESG report is prepared in accordance with Appendix 27 "Environmental, Social and Governance Reporting Guide" of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited, and references of 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 Company, 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 contact us via email at capxon@biznetvigator.com.

## ESG MANAGEMENT

The Group believes that good ESG management can help boost the investment value of an enterprise and formulate long-term sustainable development strategies. The Board of Directors (the "Board") of the Group is responsible for monitoring the establishment of ESG strategies and reporting, while the management is responsible for implementing the ESG strategies in daily operation. From time to time, the Board reviews the ESG strategies through meetings and makes adjustment in light of the actual situation, so that the expectations and needs of the stakeholders can be fulfilled. In addition, the Group arranges independent assessment to ensure the effectiveness of ESG management.

## STAKEHOLDER ENGAGEMENT

The involvement of employees enabled the Group to clearly present the current environmental and social development level in the ESG report. The data collected provides a summary of the Group's environmental and social related work for the Year and lays a foundation for formulating our short-term and long-term sustainable development strategies.

The Group has commissioned an independent third-party consultant to assist in collecting stakeholders' opinions regarding ESG topics. Through conducting surveys with internal stakeholders, the Group has collected their opinions regarding ESG topics. Such internal survey effectively facilitates the Group's 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.

### STAKEHOLDERS COMMUNICATIONS

The Group communicates with different stakeholders through a wide range of channels and strives to listen and respond proactively to each stakeholders' expectations and requirements. The opinions of stakeholders are of great reference value for further improving our ESG performance and implementing good ESG management.

| Stakeholders | Requirements and Expectations | Means of Communication and Response |
|---|---|---|
| Governments and Regulators | • Compliance with national policies, laws and regulations<br>• Paying taxes on time | • Regular information reporting<br>• Examinations and inspections |
| Shareholders | • Returns<br>• Compliant operation<br>• Raise in company value | • General meetings<br>• Announcements<br>• Email, telephone communication and company website |
| Business Partners | • Operate with integrity<br>• Equal rivalry<br>• Performance of contracts<br>• Mutual benefits and win-win result | • Review and appraisal meetings<br>• Business communication<br>• Exchanges and discussions<br>• Engagement and cooperation |
| Customers | • Products and services of quality<br>• Health and safety<br>• Performance of contracts<br>• Operate with integrity | • Customer service center and hotlines<br>• Customer feedback surveys<br>• Customer communication meetings<br>• Social media platforms<br>• Calling for feedback |
| Environment | • Compliant emission<br>• Ecosystem protection | • Communication with local environmental departments<br>• Reporting |
| Industry | • Establish industrial standards | • Participation in industry forums |
| Employees | • Protection of rights<br>• Occupational health and safety<br>• Remunerations and benefits<br>• Career development<br>• Caring for employees | • Employee communication meetings<br>• House journal and intranet<br>• Employee mailbox<br>• Trainings and workshops<br>• Activities for employees |
| Community and the Public | • Improvement of community environment<br>• Participation in charity | • Company website<br>• Announcement |

## OUR VISION ON ENVIRONMENT AND SOCIETY

The Group principally operates businesses in the manufacture and sale of aluminium foils and capacitors, is at the leading position in vertically integrated aluminium electrolytic capacitor manufacturing industry in Asia, as well as one of the few manufacturers that can produce high-quality anode foils in the PRC. The Group was established in 1980 and listed on the Main Board of The Stock Exchange of Hong Kong in 2007 (Stock code: 469). During the operation, the Group underpin six core values of: Sincerity, Challenges, Breakthrough, Customers Come First, Obedience and Neatness. Meanwhile, we implemented the mechanism of green production and attached great importance to occupational health and safety with corresponding international certifications successfully obtained, in order to gain the trust from customers. The Group ensured quality control in the entire production process by inspecting the compositions of raw material and installing the relevant equipment and apparatuses. We also ensured that all the procedures are complied with the requirements of Restriction of Hazardous Substances Directive ("RoHS") to implement the green production mechanism comprehensively.

## GREEN OPERATIONS

Environmental protection is the responsibility that should not be overlooked by enterprises. Therefore, we have formulated a clear environmental approach to enhance our environmental performance, including compliance with laws, pollution control, clean production, consumption reduction, conservation of resources, reduction of toxic substances, continual improvement of and beautifying the environment. To protect the environment, the Group has set up annual environmental targets for reducing adverse environmental impacts caused by the business. We adhere to the principle of "Producing the Right Product at the Right Time with the Right Quality" to provide customers with high-value, eco-friendly, low-carbon and quality products. Capxon Shenzhen has obtained the certifications of ISO14001:2015 Environmental Management System and IECQ QC080000:2017 Hazardous Substance Process Management System.

## PAPERLESS OFFICE

The Group strives to attain paperless office and has formulated annual target on reducing paper consumption. In order to achieve paperless office, the Group has executed various measures on reducing paper usage, including publishing all general notices, broadcasts and memoranda via the Group's intranet system, circulating documents through electronic means and transmitting information 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.

## WASTE DISPOSAL

Conservation of resources and pollution reduction is one of the major environmental targets of the Group. The Group is dedicated to managing waste effectively by uniting each department, improving environmental sanitation, reducing pollution to the environment and reusing waste materials to create an innocuous, safe, resourceful and economical environment. Capxon Shenzhen has a waste separation policy, which non-recyclable waste is required for separate storage and to be sent to landfill at the same day, while recyclable waste is forwarded to qualified recycling company regularly after segregation to reduce the waste disposal pressure to the landfill. In the treatment process of hazardous waste, Capxon Shenzhen strictly complies with laws and regulations relating to hazardous waste, including but not limited to the Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Wastes. Capxon Shenzhen performs the collection and separation of hazardous waste. Some of the wastes are recycled by raw materials suppliers and the remaining is treated by compliant and qualified wastes treatment companies holding relevant permits or recognized by environmental institutions. Through effective management of hazardous waste collection and treatment, we reduce the impacts on the environment as far as possible. During the Year, all hazardous waste of Capxon Shenzhen was recycled and transferred legally.

## EMISSIONS MANAGEMENT

Wastewater and exhaust gas generation are generated from the Group's production process. Thus, vigorous supervision on the wastewater and exhaust gas generated is in place to minimize the environmental impact from the Group's operation and comply with relevant laws and regulations, such as the Water Pollution Prevention and Control Law of the People's Republic of China and Atmospheric Pollution Prevention and Control Law of the People's Republic of China. We have established clear operating procedures for wastewater treatment station, ensuring that wastewater must be treated by biochemical processes and water purification processes before discharging. The Group carries out regular quality inspections on wastewater discharges and commissions qualified independent third party to conduct testing. In order to ensure proper functioning of wastewater treatment system, the Group inspects and repairs wastewater treatment facilities regularly. Wastewater is discharged only after being treated in wastewater treatment station in accordance with the class II standard of 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 were as follows:

| Water Pollutants | Concentration of Discharges | Concentration Limit of the DB44/26-2001 Standard for Discharges |
|---|---|---|
| pH Value | 6.86-7.66 | 6-9 |
| Fluoride (mg/L) | ≤0.20 | 10 |
| Chemical Oxygen Demand (mg/L) | ≤20 | 110 |
| Phosphate (mg/L) | ≤0.16 | 1 |
| Zinc (mg/L) | ≤0.03 | 3 |

Only a small amount of industrial exhaust gas is generated in the production process of the Group. To minimize the environmental impact brought by exhaust gas, the Group stipulates that all exhaust gas must be emitted at the height through smokestacks. The Group performs regular examinations and maintenance on the smokestacks to ensure that the equipment is in proper operating condition. The Group has commissioned qualified independent third party to carry out periodic exhaust gas examinations to ensure the requirements set forth in the Guangdong Provincial Standard of Emission Standard of Air Pollutants for Boilers (DB44/765-2019) are fulfilled.

During the Year, the concentrations of exhaust gas emitted by Capxon Shenzhen were as follows:

| Air Pollutants | Concentration of Emission | Concentration Limit of the DB44/765-2019 Standard for Emission |
|---|---|---|
| Nitrogen Oxides (mg/m$^3$) | ≤134 | 150 |
| Sulphur Dioxide (mg/m$^3$) | ≤27 | 50 |
| Smoke (mg/m$^3$) | ≤6.2 | 20 |

## RESOURCES CONSERVATION

The Group's main energy consumptions are electricity, diesel and petrol for industrial production and transportation. We strive to control the energy use through systems establishment, technological advancement, publicity and trainings. Capxon Shenzhen has obtained the ISO50001:2011 Energy Management System certification and endeavors to be an enterprise with sound energy management system.

### ESTABLISHMENT OF MANAGEMENT SYSTEM

The Group has established a comprehensive energy management system, in which energy saving system, resources management procedures, target evaluation system and a reward-and-punishment scheme are included. The participation of each employee in energy conservation and consumption reduction is an important element which safeguards the effective execution of all energy conservation measures. Therefore, the energy management system of the Group has clearly specified respective energy conservation duties of different units. Directors, the management and every level of employees are required to put the relevant measures into practices and perform their own responsibilities. Under the energy saving system, the management is required to occasionally convene meetings on energy conservation and consumption reduction, as well as formulating feasible energy saving and emission reduction plan and implementing specific energy saving measures based on the actual situation, to attain energy conservation goals in each working unit. Furthermore, dedicated officers are appointed at each working unit to ensure the efficient use of resources.

In addition, the promotion of energy saving measures is introduced to raise employees' awareness. The Group undertakes timely assessments pertaining to energy saving goals achievement, and implements reward-and-punishment scheme according to the assessment results. With the aim to achieve the energy saving goals, the Group has established an all-round energy saving target evaluation system, evaluating departmental performance on energy conservation in strict accordance to their respective energy consumption data, energy saving goals and measures implemented.

With reference to the evaluation results, the Group rewards departments or personnel that have an outstanding performance in technological advancement, management and innovation work related to energy saving, or punishes the departments or personnel that waste energy. Besides, recognition and incentives are given to personnel who have provided useful suggestions on raising product quality and quantity, and energy conservation and consumption reduction measures or other personnel who have provided specific trainings regarding improvement of the management standard on and capability of energy conservation and consumption reduction for relevant employees. Employee contributions are a part of the annual assessment and evaluation, so as to share the benefits of energy conservation with them.

## ENERGY CONSERVATION AND EMISSION REDUCTION

The technological advancement on energy conservation is essential for energy conservation. As a hi-tech and innovative enterprise in the PRC, the Group has set up an energy management system, working mainly on three aspects to enhance the technologies, including energy conservation technological advancement, reformation of working procedures and energy management center establishment, to reach the goals of energy conservation and environmental protection, and enhancement in energy efficiency and production efficiency.

In terms of technological advancement on energy conservation, the Group actively introduces energy efficient appliances and equipment and eliminates obsolete equipment and facilities with high energy consumption and low efficiency. Reducing energy consumption by enhancing technology, the Group had completed various energy saving renovation projects, such as air compressor resource integration, automation equipment transformation, lighting transformation, boiler transformation, ultraviolet lamp replacement, etc. During the Year, the Group has modified the energy saving design of the semi-automatic rubber sleeve machine in the production line as proposed by an employee to reduce the heat lost and increase the energy efficiency. Also, the Group has replaced the obsolete computer monitors to liquid-crystal display monitors and reduced the amount of lights while fulfilling the lighting requirements as an effort to increase energy efficiency. After executing the energy saving renovation projects, the Group will monitor and record the energy consumption for a year. If any unusual conditions are discovered, the Group will request the renovation company to handle with.

The Group understands that renovation is needed to cooperate with the update of hardware. Therefore, with respect to the energy consumption of production facilities, we have adjusted the methods of working arrangement of production units. The number of operating machines is now determined by the number of work orders, so as to facilitate the efficiency of equipment. In order to further reduce energy consumption and make good use of resources, the Group lowers the heating temperature of washing machines and recycles residual heat of air compressors for water heating in accommodations of employees. In addition, with the aim to reduce water consumption, we have increased the capability of producing pure water to reduce the amount of water required for acid-base neutralisation and has purified the recycled wastewater for washing the electronic components. The Group also requires employees to conduct regular inspection of water storage facilities to avoid waste of drinking water.

In order to have a better understanding of energy consumption data, the Group continues to collect data through the energy management center set up by the China Certification and Inspection Group. Corrective, preventive and management measures are taken to optimize and improve the energy consumption projects. Apart from that, the energy management center helps to evaluate the Group's energy efficiency level and identify its energy-saving potential based on energy statistics and analysis on energy saving performance. The Group will formulate energy optimization and management measures and enhance energy-saving technologies according to the evaluation outcomes.

## PUBLICITY AND TRAINING

To encourage all employees' participation in energy conservation and emission reduction and to reach the energy saving goals, the Group enhances publicity on energy saving and consumption reduction to raise their energy saving awareness. The Group provides pre-job training, including introduction on energy consumption of major products of the Group and major energy-saving equipment, to new employees, allowing them to understand the Group's energy saving approach, policies and rules. For different departments, the Group provides respective professional training related to environmental management standards to boost and improve employees' energy saving skills and knowledge on energy saving, consumption reduction, and new techniques and technologies on energy conservation. Besides, energy conservation posters are displaced in workplace to remind employees in taking responsibilities in resource conservation, such as 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 its development. The Group endeavors to emphasize the corporate values of sincerity, challenges, breakthrough, customer-come-first, obedience and neatness. The Group strives to provide a favourable working environment and harmonious working atmosphere for employees by creating a career platform that enables employees to demonstrate their talents and strictly complying with the applicable labor laws and regulations, including but not limited to the Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China.

### EMPLOYEES' RIGHTS AND INTERESTS

The Group recruits talents through various channels, including the talent market and the Internet, according to the recruitment procedures. All candidates with capabilities that fulfil the job requirements enjoy equal opportunities, regardless of their gender, age, race or religion. The Group strictly verifies the identification documents of candidates to prevent mis-employment of child labor. Moreover, the Group prohibits any forms of forced labor. Detailed job descriptions including the 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 labor contracts during the employment period to avoid forced labor. Any overtime working will only be arranged after obtaining the consent of employees or labor representatives to ensure that employees' working hours and rest period are in line with the requirement of the Labor Law of the People's Republic of China. If the employee needs to work overtime, one's overtime working must be voluntary. The Group will also provide with overtime payment according to relevant laws and regulations. During the Year, the Group did not employ any child labor or forced labor.

### REMUNERATION AND BENEFITS

Remuneration adjustment and promotion are considered based on employee's annual appraisal review and evaluation on working performance. On top of basic salary, statutory holidays and insurance, the Group provides employees with other benefits such as paid leave, festive gifts and allowance for working under high temperature. Based on employees' seniority, travel subsidies are also provided accordingly for their travels to hometown during the Chinese New Year.

The Group advocates the culture of work-life balance and creates friendly and harmonious working environment. Capxon Shenzhen has established a yoga room, two standard basketball courts and a garden for employees for free to enjoy complimentary refreshment after work. During the Year, Capxon Shenzhen held several activities, such as lottery, the 10th Award Presentation Ceremony on International Workers' Day and company trips, to raise employees' 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 as Major" as the principle of safety production, establishes an all-round labor health and safety policy and strictly complies with the relevant laws and regulations, including but not limit to the Production Safety Law of the People's Republic of China and Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases. The Group also provides health and safety education to raise employees' awareness of safety production and to reduce the possible occurrence of accidents. The Group performs the "Five Simultaneous Ideas" (i.e. planning, arranging, inspecting, summarizing, and evaluating safety simultaneously in the course of production) and "Four Principles for Accidents" (i.e. intolerance of unclear investigations, unimplemented preventive 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 labor disciplines) will be subjected to serious punishment by the Group. Capxon Shenzhen has obtained the OHSAS18001:2007 Occupational Health and Safety Management System certification, which recognizes its effort in protecting the health and safety of employees.

## LABOR SAFETY AND HYGIENE POLICY

The Group attaches great attention to the health and safety of employees in the workplace. Thus, the Group has entrusted independent third party consultant to carry out an all-round evaluation on occupational hazards in workplace, and analyse on various factors, including the potential risk, use of personal protective equipment and hygiene management. With the full analysis conducted by the consultant, the Group can identify most of the potential hazards, and take improvement actions to reduce such risk. The employees working in positions with potential occupational disease concerns are required to have a health check at least once a year. The Group will arrange re-designation or leaves immediately, and schedule resumption of work after passing health check for employees who are or likely diagnosed any occupational diseases. On top of that, the Group has formulated comprehensive safety production and operation guidelines for employees operating machines and participating in dangerous work. The Group required employees to strictly follow the guidelines during operation, and the management to sign the safety production responsibility agreement and to carry out regular safety examination.

The Group arranges routine and regular maintenance for machines and equipment to ensure that all equipment passes safety inspection and are of normal functioning. With an aim to enhance safety awareness of departments, raise safety production standards and implement accountability, we entered safety production agreements with each department head to pledge responsibilities in educating, guiding and supervising employees' execution on production safety responsibilities and obligations, achieving 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.

## ADEQUATE PROTECTIVE EQUIPMENT AND SUPPLIES

Providing employees with adequate safety equipment and supplies is essential for achieving safety production. Apart from the provisions of personal protective equipment such as earplugs, protective masks, face masks and insulated gloves, the Group has installed different large-scale protective facilities, such as automatic mechanical sealing equipment, exhaust ventilation fans and exhaust and antiviral system, to prevent dust, poison, noise and high temperature. The Group places various emergency equipments in the workplace, such as first aid kits, emergency shower and eyewash facilities, in case of emergencies.

## PUBLICITY AND EDUCATION

Apart from providing equipment to protect employees' safety and health, the Group advocates publicity and education to complement production safety. The Group actively organizes events to promote production safety and posts reminders at the workplace in reminding employees the safety. Also, the Group places emphasis on employees' safety education by organizing regular trainings on occupational hygiene and safety. The policies, background knowledge, requirements and precautions for production safety are covered in the trainings with illustration of relevant case study to allow employees to have a better understanding of relevant contingency measures and control procedures to be executed in case of emergency. Employees have to pass the tests after the trainings upon the commencement of work, so as 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 capabilities on emergency response, while the management will undertake an assessment after drills to improve the overall emergency plans on the hazards and to ensure effectiveness of the plan.

## ELITE TRAINING

Confronting the rapid changing market, the Group attempted to build a strong talent pool for its rapid development and efficient operation. The Group conducts routine employee appraisals to examine employees' working performance and establishes the promotion mechanism under the principles of fair, just and non-discrimination. In regard to employee 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, with an aim to advance their expertise, management skills and problem-solving ability. We provided comprehensive training resources 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 according to our annual operating plans and targets, the needs for training in each department and the applicability of training. Training courses, covering various aspects such as system training, skills training and new joiner training program, are conducted in accordance with the plan. Employees are required to undergo examination after training and fill in a set of questionnaires for their feedback on the level, applicability, trainers' quality and overall satisfaction regarding the training.

### TYPES OF TRAINING

The Group provided pre-job training, on-the-job training and professional training to the employees. In order to foster employee engagement in our operation, all new employees are required to participate in the 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 of our policies on environmental protection, occupational safety and product quality, the Group arranges various trainings on 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 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 organized 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 technical assistance. The Group also provides professional training to enhance execution capability and specific professional skills of specialists. Since employees' professional knowledge is critical to enhancing product quality, employees engaged in quality assurance, research and development, instrument calibration, internal audit and environmental monitoring management must receive training related to operational knowledge of green products and practical skills, and obtain relevant professional certification. Each department will conduct an evaluation to assess and validate the employees' qualification annually. Furthermore, the Group places great emphasis on quality control and aims to offer customers best quality products. The employees responsible for quality control are required to pass an additional assessment and obtain certifications. 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 of quality of products from suppliers. In the meantime, we formulate strict standards on the environment, labor rights protection and ethics for suppliers. The Group develops transparent and fair procurement procedures and suppliers' management procedures. Our requirements towards suppliers safeguard the Group's brand prestige and business operation, and reflect our values on ethical business practices. The Group strives to assist suppliers to raise their standards on quality, environment and service etc., to sustain the relationship of mutual support and prosperity.

### SELECTION OF SUPPLIERS

The Group imposes clear policies on suppliers selection to implement quality assurance policies and fulfil corporate responsibility for environmental protection. Suppliers for major raw materials are required to obtain relevant certifications, such as ISO9001 Quality Management System and IECQ QC080000 Hazardous Substance Process Management System, from third party certification organisations, in a view to select competitive suppliers operating with good quality. Other suppliers who have obtained certifications from third party certification organizations will be given priority during the selection. The Group evaluates suppliers' performance on health and safety policies, employment policies, human right protection and environmental protection. The evaluations include the establishment of an environmental management system and conduct of product safety examination. We 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.

### CONTINUAL ASSESSMENT

We formulate guidelines, including procedures on monthly suppliers' performance review and improvement, to continually inspect and improve suppliers' performance, in order 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, namely 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 prudently performs gate-keeping duties and is dedicated to providing products with the best quality to our customers. We also believed that health and safety and satisfaction of customers are the foundation for long term development of our business. Therefore, we uphold the philosophy of customer-oriented and strive to offer the best product that meets customers' requirements by adopting relevant supervision measures. The Group highly values the opinion of our customers and is committed to providing satisfactory after-sale services. Any complaints from our customers will be handled promptly with an effective solution. We stipulate that information provided in all marketing material shall be true and correct and 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 of raw materials, production process and finished products in accordance with the Product Quality Law of the People's Republic of China. 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. During the Year, the Group has obtained the certification of ISO9001:2015 Quality Management System for the design and production of aluminium electrolytic capacitors (export sales).

We also inspect quality of product, appearance and labels on customer's request to ensure that the products meet their requirements. If there are any substandard products found during the inspection, we will label and separate them, and analyze the causes behind 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. On top of that, the Group has formulated comprehensive product identification and tracking policy so that dedicated record and identification marks on 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 with our products. We analyse customers' needs, implement improvement policies to increase their satisfaction. With respect to projects with lower customers' satisfaction, the Group not only implement improvement plans, but also monitor the effectiveness of such policies. The Group has established a comprehensive customer feedback mechanism, by setting up a cross-department team upon the receipt of complaints. The cross-departmental team will review and analyze the quality and safety of the product as well as service quality. The team will adopt the most appropriate approach and submit a full report to the customer within three working days.

## INTELLECTUAL PROPERTY AND PRIVACY PROTECTION

Intellectual property and privacy protection have always been one of the main focuses of the Group. The Group abides by the relevant laws and regulations, including but not limited to the Trademark Law of the People's Republic of China and the Patent Law of the People's Republic of China. In order to protect the intellectual property of customers, the Group will only employ their patents, trademarks and technologies after granting their authorization.

We organize regular trainings related to intellectual property to raise employees' awareness of intellectual property protection. In an attempt to protect privacy of customers, we enter confidential agreements with employees according to their positions and strengthen internal information management 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 has formulated a rigid anti-corruption and anti-bribery policies, and strictly complied 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 and the Anti-Money Laundering Law of the People's Republic of China. Under the anti-corruption policy, 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 of violations of business integrity and verification request, the Group will carry out timely investigation, collect evidence and announce the results of the investigation. We might seek legal solutions when necessary. Besides, the Group keeps the identity of whistleblower confidential so as to protect them from retaliation or other discriminatory behaviors.

## 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 activities to make contributions to community. To enhance our ties and connection with the community, we participate in various charitable activities such as cultural events, sports activities and competitions which are organized by local communities, business associations and labor union.

## MAJOR KEY PERFORMANCE INDICATORS

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

| Environmental indicators | 2019 | 2018 |
|---|---|---|
| **Emission from vehicles and stationary combustion source** | | |
| Nitrogen oxides (kg) | **4,820** | 3,942 |
| Sulphur dioxide (kg) | **7** | 7 |
| Particulate matter (kg) | **318** | 275 |
| **Greenhouse gases** | | |
| Total emission of greenhouse gases (t $CO_2$e) | **75,683** | 76,142 |
| Emission of greenhouse gases per 10 thousands products produced (t $CO_2$e/10 thousands products) | **0.19** | 0.18 |
| Direct emission (Scope 1) (t $CO_2$e) | **3,062** | 3,211 |
| Energy indirect emission (Scope 2) (t $CO_2$e) | **72,410** | 72,614 |
| Other indirect emission (Scope 3) (t $CO_2$e) | **211** | 317 |
| **Waste** | | |
| Total amount of non-hazardous waste produced (t) | **503** | 564 |
| Amount of non-hazardous waste produced per 10 thousands products produced (kg/10 thousands products) | **1.29** | 1.35 |
| Total amount of hazardous waste produced (t) | **225** | 237 |
| Amount of hazardous waste produced per 10 thousands products produced (kg/10 thousands products) | **0.58** | 0.57 |
| **Use of resources** | | |
| Total energy consumption (MWh) | **87,762** | 88,617 |
| Energy consumption per 10 thousands products produced (MWh/10 thousands products) | **0.23** | 0.21 |
| Consumption of non-renewable energy (MWh) | **11,453** | 12,093 |
| Electricity purchased for consumption (MWh) | **76,309** | 76,524 |
| Total water consumption ($m^3$) | **329,368** | 327,953 |
| Water consumption per 10 thousands products produced ($m^3$/10 thousands products) | **0.84** | 0.79 |
| Amount of materials used for paper packaging (tonnes) | **3,069** | 2,641 |
| Amount of packaging materials used per 10 thousands products produced (kg/10 thousands products) | **7.87** | 6.34 |

| Employment indicators | 2019 | 2018 |
|---|---|---|
| **Numbers of employees** | **2,126** | 2,093 |
| By gender | | |
| Male | **1,207** | 1,211 |
| Female | **919** | 882 |
| By age | | |
| Above 50 years old | **168** | 69 |
| Between 30 to 50 years old | **1,495** | 1,467 |
| Below 30 years old | **463** | 557 |

## 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 is 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 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 | 71 | Approx. 13 years |
| Ms. CHOU Chiu Yueh | *(Vice-President)* | Female | Chinese | 67 | Approx. 13 years |
| Mr. LIN Yuan Yu | *(Chief Executive Officer)* | Male | Chinese | 43 | Approx. 13 years |
| Ms. LIN I Chu | | Female | Chinese | 40 | Approx. 13 years |
| ***Non-executive Director:*** | | | | | |
| Ms. LIU Fang Chun | | Female | Chinese | 41 | Approx. 13 years |
| ***Independent non-executive Directors:*** | | | | | |
| Mr. HSIEH King-Hu, Miles | | Male | Chinese | 72 | Approx. 3 years |
| Mr. LU Hong Te | | Male | Chinese | 59 | Approx. 13 years |
| Mr. TUNG Chin Chuan | | Male | Chinese | 67 | Approx. 13 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 16 and 17.

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 have met 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 set out clearly 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, two meetings were held by the remuneration committee to discuss remuneration related matters, which included approval of salary increment for and bonus payments to the Directors and senior management and review of the terms of the Directors' service agreements/appointment letters. Details of attendance of the remuneration committee meetings 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 nil to HK$1,000,000.

Details of the emoluments of each Director, on a named basis, are set out in note 12 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 set out clearly 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 2018 and for the six months ended 30 June 2019, 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 set out clearly 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 and evaluated the performance and the contribution of each of the retiring Directors standing for re-election 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 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.

The nomination procedures and process for new appointments and re-appointments to the Board are as follows:

- The evaluation, recommendation, nomination, selection and appointment or re-appointment of each proposed Director shall be assessed and considered by the nomination committee and the Board against the selection criteria and the Board Diversity Policy.
- In the appointment of a proposed Director, the nomination committee shall evaluate the candidate's eligibility based on the selection criteria. If multiple candidates are involved, the nomination committee shall prioritize them according to the Company's needs and the candidates' respective qualification.
- In the re-appointment of a Director at the forthcoming annual general meeting of the Company, the nomination committee shall review the overall contributions of the Director, such as the Director's service, participation and performance in the Board, and whether the Director still meets the selection criteria.

## 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 | 1,682 |
| Non-audit services | 608 |
| | 2,290 |

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 2019, provision of taxation services and submission of declaration of investments on behalf of the Company to the relevant authority in Taiwan.

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 2020.

## 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 2019 | | | | |
|---|---|---|---|---|---|
| Name of Director | Board | Remuneration Committee | Audit Committee | Nomination Committee | Annual General Meeting |
| Mr. LIN Chin Tsun | 4/4 | 2/2 | N/A | 1/1 | 1/1 |
| Ms. CHOU Chiu Yueh | 4/4 | 2/2 | N/A | 1/1 | 1/1 |
| Mr. LIN Yuan Yu | 4/4 | N/A | N/A | N/A | 1/1 |
| Ms. LIN I Chu | 3/4 | N/A | N/A | N/A | 1/1 |
| Ms. LIU Fang Chun | 3/4 | N/A | N/A | N/A | 0/1 |
| Mr. HSIEH, King-Hu, Miles | 4/4 | 2/2 | 3/3 | 1/1 | 1/1 |
| Mr. LU Hong Te | 4/4 | 2/2 | 3/3 | 1/1 | 1/1 |
| Mr. TUNG Chin Chuan | 4/4 | 2/2 | 3/3 | 1/1 | 1/1 |

## H. FINANCIAL REPORTING

The Board aims at presenting a comprehensive, balanced and understandable assessment of the Group's performance, position and prospects. Management provides such explanation and information to enable the Board to make an informed assessment of the matters put before the Board for approval.

The Directors acknowledge their responsibilities for preparing the financial statements of the Group.

The statement of the external auditor of the Company regarding their responsibilities for the financial statements of the Group is set out in the independent auditor's report on pages 42 to 46.

## 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 54, 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 54, 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 had 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 has adopted 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 2019, 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 2019, 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; and (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 40 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 15 and pages 18 to 28, respectively, and in note 33 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 top five 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 top five suppliers were 11.38% and 37.85%, respectively.

None of the Directors, their close associates or any shareholders (who, to the knowledge of the Directors, owned 5% or more of the Company's share capital) has a beneficial interest in the Group's top five suppliers for the Year.

## 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 47.

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 15 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 26 to the consolidated financial statements.

## PENSION SCHEMES

Details of the pension schemes are set out in note 31 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 30 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 50.

As at 31 December 2019, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB438,818,000 (31 December 2018: RMB442,336,000).

## FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 110.

## 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, Mr. Lin Chin Tsun, Mr. Lin Yuan Yu and Mr. Hsieh King-Hu, Miles will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

None of the 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' INDEPENDENCE CONFIRMATION

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 provide 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 36 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 and 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 36 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 2019, 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 (Cap. 571 of the laws of Hong Kong) (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 2019.

(2) Value Management Holding Limited ("VMHL"), of which Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh are directors, owns 374,585,006 shares of the Company. 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 of the Company 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 of the Company 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 of the Company held by VMHL under the SFO.

Save as disclosed above, as at 31 December 2019, 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 2019, 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 2019.

Save as disclosed above, the Directors are not aware of any other persons who, as at 31 December 2019, 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 of the Company, 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 was 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 sufficient public float as required under the Listing Rules.

## AUDITOR

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

On behalf of the Board

**LIN Chin Tsun**
*Chairman*

Hong Kong, 29 April 2020

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 47 to 109, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 the arbitration claim against the Company's subsidiary in Taiwan ("Capxon Taiwan") by the Japan Commercial Arbitration Association ("Arbitration Association") as a key audit matter due to the estimation uncertainty in respect of the ultimate outcome of the arbitration claim.<br><br>As disclosed in Notes 4, 24 and 37 to the consolidated financial statements, an aggregate amount of RMB232,159,000 was provided for as at 31 December 2019, in respect of damages, interest and arbitration related expenses as a result of an arbitral award ("Arbitral Award") from a customer ("Claimant") against Capxon Taiwan received in August 2014.<br><br>*Enforcement of the Arbitral Award in Taiwan*<br><br>In November 2017, the Claimant filed an application to the Taiwan Shilin District Court ("Taiwan 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 a liquidator pursuant to the Laws of Taiwan. In April 2018, under the instructions issued by the Taiwan Court, certain property, plant and equipment in Taiwan were distrained by the Taiwan Court for enforcing the settlement of the Arbitral Award. In February 2019, under the instructions issued by the Taiwan Court, the property plant and equipment were in auction and the Group has purchased such auctioned property, plant and equipment. Part of the auction consideration was transferred to the Claimant for the settlement of Arbitral Award amounting to RMB2,139,000. | Our procedures in relation to the provision for damages included:<br><br>• Reading the documents, including the Group's correspondence with its legal representatives and the Claimant, the Arbitral Award decision issued by the Arbitration Association, and the decision granting the recognition of the Arbitral Award and related enforcement instructions issued by the Taiwan Court and the enforcement order issued by the HK Court, ("Documents") in connection with the arbitration claim;<br><br>• Obtaining an understanding of the legal opinion on the arbitration claim issued by the Group's legal representatives and discussing the recent development of the arbitration claim with the Group's legal representatives; and<br><br>• Verifying the aggregate amount of the provision for damages to the Documents in connection with the arbitration claim in respect of the Arbitral Award. |

## KEY AUDIT MATTERS *(continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Provision for damages*** *(continued)*<br><br>*Enforcement of the Arbitral Award in Hong Kong*<br><br>In September 2017, the Claimant applied 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 Claimant to file further evidence.<br><br>In September 2018, the Claimant 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. As of the date of approval of these consolidated financial statements, the HK Court has yet to hand down its decision after the summons was heard on 26 September 2019.<br><br>Due to the fact that the outcome of the hearing from the HK Court cannot be determined at this stage and the winding up procedures of Capxon Taiwan are 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 arbitration claim.<br><br>Details of the proceedings during the year are set out in Note 37. | |

## 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 Wong Lam Ching.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
29 April 2020

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

| | NOTES | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|---|
| Revenue | 5 | **1,367,861** | 1,202,327 |
| Cost of sales | | **(986,075)** | (861,459) |
| Gross profit | | **381,786** | 340,868 |
| Other income | 6(a) | **19,704** | 14,968 |
| Other expenses | 6(b) | **(47,971)** | (38,233) |
| Other gains and losses | 7 | **(2,272)** | (1,203) |
| Impairment losses under expected credit loss model, net of reversal | 8 | **(12,304)** | (4,802) |
| Distribution and selling costs | | **(78,740)** | (80,486) |
| Administrative expenses | | **(120,507)** | (102,551) |
| Interest on provision for damages | 24 | **(9,224)** | (8,756) |
| Finance costs | 9 | **(9,220)** | (7,205) |
| Profit before tax | | **121,252** | 112,600 |
| Income tax expense | 10 | **(28,705)** | (48,955) |
| Profit for the year | 11 | **92,547** | 63,645 |
| **Other comprehensive expense** | | | |
| ***Item that may be subsequently reclassified to profit or loss:*** | | | |
| Exchange differences arising on translation of foreign operations | | **(9,123)** | (16,538) |
| Total comprehensive income for the year | | **83,424** | 47,107 |
| Profit (loss) for the year attributable to: | | | |
| Owners of the Company | | **92,731** | 64,761 |
| Non-controlling interests | | **(184)** | (1,116) |
| | | **92,547** | 63,645 |
| Total comprehensive income (expense) for the year attributable to: | | | |
| Owners of the Company | | **83,631** | 47,953 |
| Non-controlling interests | | **(207)** | (846) |
| | | **83,424** | 47,107 |
| Earnings per share (RMB cents) | 14 | | |
| – Basic | | **10.98** | 7.67 |

# Consolidated Statement of Financial Position

At 31 December 2019

| | NOTES | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **519,674** | 491,426 |
| Right-of-use assets | 16(a) | **29,138** | – |
| Land use rights | 16(b) | **–** | 21,667 |
| Intangible assets | 17 | **4** | 8 |
| Pledged deposit in a financial institution | 21 | **2,090** | 2,064 |
| Deposits paid for acquisition of property, plant and equipment | | **33,269** | 25,842 |
| Deferred tax asset | 18 | **2,190** | – |
| | | **586,365** | 541,007 |
| CURRENT ASSETS | | | |
| Inventories | 19 | **215,489** | 204,188 |
| Land use rights | 16(b) | **–** | 681 |
| Trade and other receivables | 20 | **599,711** | 435,047 |
| Tax recoverable | | **183** | 795 |
| Pledged bank deposits | 21 | **2,190** | 2,818 |
| Fixed bank deposits | 22 | **45,000** | 28,221 |
| Bank balances and cash | 22 | **177,445** | 248,918 |
| | | **1,040,018** | 920,668 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 23 | **388,602** | 289,459 |
| Lease liabilities | 29 | **4,398** | – |
| Provision for damages | 24 | **232,159** | 218,725 |
| Contract liabilities | 25 | **2,393** | 6,906 |
| Amounts due to related parties | 27 | **3,979** | 3,654 |
| Tax liabilities | | **30,464** | 37,747 |
| Bank and other borrowings | 26 | **189,517** | 240,383 |
| | | **851,512** | 796,874 |
| NET CURRENT ASSETS | | **188,506** | 123,794 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **774,871** | 664,801 |
| NON-CURRENT LIABILITIES | | | |
| Lease liabilities | 29 | **3,242** | – |
| Deferred income | 28 | **–** | 750 |
| Deferred tax liabilities | 18 | **25,135** | 6,987 |
| Bank and other borrowings | 26 | **16,120** | 10,114 |
| | | **44,497** | 17,851 |
| NET ASSETS | | **730,374** | 646,950 |

| | NOTE | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| CAPITAL AND RESERVES | | | |
| Share capital | 30 | **82,244** | 82,244 |
| Share premium and reserves | | **647,547** | 563,916 |
| Equity attributable to owners of the Company | | **729,791** | 646,160 |
| Non-controlling interests | | **583** | 790 |
| TOTAL EQUITY | | **730,374** | 646,950 |

The consolidated financial statements on pages 47 to 109 were approved and authorised for issue by the Board of Directors on 29 April 2020 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 2019

| | 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)* | (Accumulated losses) retained profits RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2018 | 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** |
| Profit (loss) for the year | **–** | **–** | **–** | **–** | **–** | **–** | **92,731** | **92,731** | **(184)** | **92,547** |
| Other comprehensive expense for the year | **–** | **–** | **–** | **–** | **(9,100)** | **–** | **–** | **(9,100)** | **(23)** | **(9,123)** |
| Total comprehensive (expense) income | **–** | **–** | **–** | **–** | **(9,100)** | **–** | **92,731** | **83,631** | **(207)** | **83,424** |
| Appropriation | **–** | **–** | **–** | **23,779** | **–** | **–** | **(23,779)** | **–** | **–** | **–** |
| At 31 December 2019 | **82,244** | **436,626** | **(30,753)** | **144,505** | **(18,230)** | **3,650** | **111,749** | **729,791** | **583** | **730,374** |

*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 of 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 to 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 2019

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax | **121,252** | 112,600 |
| Adjustments for: | | |
| Amortisation of intangible assets | **4** | 4 |
| Amortisation of land use rights | **–** | 685 |
| Bank interest income | **(1,443)** | (1,402) |
| Interest income from refundable rental deposits | **(80)** | – |
| Depreciation of property, plant and equipment | **44,177** | 41,963 |
| Depreciation of right-of-use assets | **5,631** | – |
| Finance costs | **9,220** | 7,205 |
| Impairment losses under expected credit loss model, net of reversal | **12,304** | 4,802 |
| Loss (gain) on disposals of property, plant and equipment | **3,157** | (1,928) |
| Government grants released | **(750)** | – |
| Net write-down (reversal of write-down) of inventories | **17,478** | (150) |
| Interest on provision for damages and foreign exchange loss of RMB1,251,000 (2018: foreign exchange loss of RMB10,104,000) arising on retranslation of the related provision at exchange rate prevailing at the end of the reporting period | **10,475** | 18,860 |
| Operating cash flows before movements in working capital | **221,425** | 182,639 |
| Increase in inventories | **(28,799)** | (43,896) |
| Increase in trade and other receivables | **(178,703)** | (1,451) |
| Increase in trade and other payables | **99,450** | 28,047 |
| (Decrease) increase in contract liabilities | **(4,502)** | 5,064 |
| Settlement of Arbitral Award (as defined in Note 4) | **(2,139)** | – |
| Cash generated from operations | **106,732** | 170,403 |
| Income tax paid | **(19,488)** | (23,883) |
| NET CASH FROM OPERATING ACTIVITIES | **87,244** | 146,520 |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | **(49,326)** | (86,903) |
| Placement of fixed bank deposits | **(45,000)** | (28,221) |
| Deposits paid for acquisition of property, plant and equipment | **(33,269)** | (25,842) |
| Payments for refundable rental deposits | **(419)** | – |
| Placement of pledged bank deposits | **(2,190)** | (1,839) |
| Withdrawal of fixed bank deposits | **28,221** | – |
| Withdrawal of pledged bank deposits | **2,818** | 226 |
| Interest received | **1,443** | 1,402 |
| Proceeds on disposal of property, plant and equipment | **33** | 13,274 |
| Placement of pledged deposit in a financial institution | **–** | (2,064) |
| NET CASH USED IN INVESTING ACTIVITIES | **(97,689)** | (129,967) |
| FINANCING ACTIVITIES | | |
| New bank and other borrowings raised | **273,284** | 409,338 |
| Advance from (repayments to) related parties | **325** | (1,309) |
| Repayment of bank and other borrowings | **(321,629)** | (280,653) |
| Interest paid | **(9,039)** | (7,225) |
| Interest paid on lease liabilities | **(403)** | – |
| Payments of lease liabilities | **(4,642)** | – |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | **(62,104)** | 120,151 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | **(72,549)** | 136,704 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | **248,918** | 108,446 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | **1,076** | 3,768 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash | **177,445** | 248,918 |

## 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 40.

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 16 | Leases |
| IFRIC 23 | Uncertainty over Income Tax Treatments |
| Amendments to IFRS 9 | Prepayment Features with Negative Compensation |
| Amendments to IAS 19 | Plan Amendment, Curtailment or Settlement |
| Amendments to IAS 28 | Long-term Interests in Associates and Joint Ventures |
| Amendments to IFRSs | Annual Improvements to IFRSs 2015-2017 Cycle |

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

### IFRS 16 "*LEASES*"

The Group has applied IFRS 16 for the first time in the current year. IFRS 16 superseded IAS 17 "Leases" ("IAS 17"), and the related interpretations.

#### Definition of a lease

The Group has elected 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" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

#### As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

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

### IFRS 16 "*LEASES*" *(continued)*

**As a lessee** *(continued)*

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application; and

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rates applied by the relevant group entities range from 5.00% to 5.66%.

| | At<br>1 January 2019<br>RMB'000 |
|---|---|
| Operating lease commitments disclosed as at 31 December 2018 | 10,893 |
| Lease liabilities discounted at relevant incremental borrowing rates | 9,441 |
| Less: Practical expedient – leases with lease terms ending within 12 months from the date of initial application | (45) |
| Lease liabilities as at 1 January 2019 | 9,396 |
| Analysed as | |
| Current | 4,793 |
| Non-current | 4,603 |
| | 9,396 |

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

### IFRS 16 "*LEASES*" *(continued)*

**As a lessee** *(continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | *Notes* | Right-of-use assets RMB'000 |
|---|---|---|
| Right-of-use assets relating to operating leases recognised upon application of IFRS 16 | | 9,396 |
| Reclassified from land use rights | *(a)* | 22,348 |
| Adjustments on refundable rental deposits at 1 January 2019 | *(b)* | 95 |
| | | 31,839 |
| By class: | | |
| Leasehold lands | | 22,348 |
| Leased properties | | 9,491 |
| | | 31,839 |

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

| | *Notes* | Carrying amounts previously reported at 31 December 2018 RMB'000 | Adjustments RMB'000 | Carrying amounts under IFRS 16 at 1 January 2019 RMB'000 |
|---|---|---|---|---|
| NON-CURRENT ASSETS | | | | |
| Right-of-use assets | *(a) - (c)* | – | 31,839 | 31,839 |
| Land use rights | *(a)* | 21,667 | (21,667) | – |
| CURRENT ASSETS | | | | |
| Land use rights | *(a)* | 681 | (681) | – |
| Trade and other receivables | *(b)* | 435,047 | (95) | 434,952 |
| CURRENT LIABILITIES | | | | |
| Lease liabilities | *(c)* | – | 4,793 | 4,793 |
| NON-CURRENT LIABILITIES | | | | |
| Lease liabilities | *(c)* | – | 4,603 | 4,603 |

*Notes:*

(a) Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of IFRS 16, the land use rights amounting to RMB22,348,000 were reclassified to right-of-use assets.

(b) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied as other receivables. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB95,000 was adjusted to refundable rental deposits paid and right-of-use assets.

(c) Upon application of IFRS 16, the Group recognised lease liabilities amounting to RMB9,396,000.

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

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

### 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 17 | Insurance Contracts[1] |
| Amendments to IFRS 3 | Definition of a Business[2] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current[5] |
| Amendments to IAS 1 and IAS 8 | Definition of Material[4] |
| Amendments to IFRS 9, IAS 39 and IFRS 7 | Interest Rate Benchmark Reform[4] |

[1] Effective for annual periods beginning on or after 1 January 2021.
[2] 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.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 January 2020.
[5] Effective for annual periods beginning on or after 1 January 2022.

In addition to the above new and amendments to IFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in IFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the amendments to 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.

### AMENDMENTS TO IAS 1 AND IAS 8 "DEFINITION OF MATERIAL"

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all IFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial positions and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

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

### CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING 2018 (THE "NEW FRAMEWORK") AND THE AMENDMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS STANDARDS

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, the reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain IFRSs have been updated to the New Framework, whilst some IFRSs are still referred to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

### AMENDMENTS TO IAS 1 "CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT"

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that a liability should be classified as non-current if an entity has the right, as the classification should not be affected by management intentions or expectations to settle the liability within 12 months;
- clarify that if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying IAS 32 "Financial Instruments: Presentation".

Based on the Group's outstanding liabilities as at 31 December 2019, the application of the amendments will not result in reclassification of the Group's liabilities.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the IFRSs issued by IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance (the "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 of IFRS 2 "Share-based Payment", leasing transactions that are accounted for in accordance with IFRS 16 (since 1 January 2019) or IAS 17 (before application of IFRS 16), 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.

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

### BASIS OF CONSOLIDATION *(continued)*

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

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

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

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

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 or 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 "Financial Instruments" ("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.

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

### LEASES

**Definition of a lease (upon application of IFRS 16 in accordance with transitions in note 2)**

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

**The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)**

*Allocation of consideration to components of a contract*

For a contract that contains a lease component and one or more additional lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component.

*Short-term leases*

The Group applies the short-term lease recognition exemption to leases of office equipment that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

*Right-of-use assets*

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

Right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful lives and the lease terms.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

*Refundable rental deposits*

Refundable rental deposits paid are accounted under IFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

*Lease liabilities*

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

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

### LEASES *(continued)*

**The Group as a lessee (upon application of IFRS 16 in accordance with transitions in note 2)** *(continued)*

*Lease liabilities (continued)*

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

*Lease modifications*

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

**The Group as a lessee (prior to 1 January 2019)**

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.

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.

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

### 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 recognised 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 each reporting period. Income and expenses items are translated at the average exchange rates for the period. 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.

Effective 1 January 2019, any specific borrowing that remain outstanding after the related asset is ready for its intended use or sale is included in the general borrowing pool for calculation of capitalisation rate on general borrowings. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

### GOVERNMENT GRANTS

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

### RETIREMENT BENEFIT COSTS AND TERMINATION BENEFITS

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

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

### 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 and annual 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 deferred tax assets and liabilities are not recognised if the temporary difference arises 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

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

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

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

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 "Income Taxes" requirements to right-of-use assets and lease liabilities separately. Temporary differences on initial recognition of the relevant right-of-use assets and lease liabilities are not recognised due to application of the initial recognition exemption. Temporary differences arising from subsequent revision to the carrying amounts of right-of-use assets and lease liabilities, resulting from remeasurement of lease liabilities and lease modifications, that are not subject to initial recognition exemption are recognised on the date of remeasurement or modification.

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

### TAXATION *(continued)*

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 to the same taxable entity by the same taxation authority.

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 are tangible assets that are 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). property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Freehold lands are not depreciated and are measured at cost less subsequent accumulated impairment losses.

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 any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

#### Ownership interests in leasehold land and building

When the Group makes payments for ownership interests of properties which include both leasehold land and building elements, the entire consideration is allocated between the leasehold land and the building elements in proportion to the relative fair values 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 "right-of-use assets" (upon application of IFRS 16) or "land use rights" (before application of IFRS 16) in the consolidated statement of financial position. When the consideration cannot be allocated reliably between non-lease building element and undivided interest in the underlying leasehold land, the entire properties are classified as property, plant and equipment.

Depreciation is recognised so as to write off the cost of assets 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.

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 acquired separately

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 recognised 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.

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

### INTANGIBLE ASSETS *(continued)*

**Internally-generated intangible assets – 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 recognised in profit or loss in the period in which it is incurred.

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

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.

### IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

At the end of the reporting period, the Group reviews the carrying amounts of its property, plant and equipment, right-of-use assets, and intangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amounts of property, plant and equipment, right-of-use assets, and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, corporate assets are allocated to individual cash generating units when a reasonable and consistent basis of allocation can be established, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be established. The Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, the recoverable amount is determined for the cash-generating unit or group of cash-generating units to which the corporate asset belongs, and is compared with the carrying amount of the relevant cash-generating unit or group of cash-generating units.

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.

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

### IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS *(continued)*

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. For corporate assets or portion of corporate assets which cannot be allocated on a reasonable and consistent basis to a cash-generating unit, the Group compares the carrying amount of a group of cash-generating units, including the carrying amounts of the corporate assets or portion of corporate assets allocated to that group of cash-generating units, with the recoverable amount of the group of cash-generating units. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit or the group of cash-generating units. 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 or a group of cash-generating units) 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 or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### 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.

### PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group has a present obligation (legal or constructive) 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.

### FINANCIAL INSTRUMENTS

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

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

### FINANCIAL INSTRUMENTS *(continued)*

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 payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

#### Financial assets

*Classification and subsequent measurement of financial assets*

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. 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*

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including trade and other receivables, pledged deposit in a financial institution, pledged bank deposits, fixed bank deposits and bank balances) which are subject to impairment under IFRS 9. 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, 12-month ECL ("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 trade receivables which are credit-impaired and the trade receivables backed by bills issued by reputable PRC banks is assessed individually and the ECL on the remaining balances is 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)*

*Impairment of 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.

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 (continued)*

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events 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. 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;
- Past-due status;
- Nature, size and industry of debtors; and
- Internal credit rating.

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)*

*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 are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of the 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 a 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.

## 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

As at 31 December 2019, the Group recognised a provision for damages associated with the arbitration claim 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 JPY3,622,932,971, equivalent to RMB232,159,000 (2018: JPY3,511,811,817, equivalent to RMB218,725,000), was provided as at 31 December 2019, in respect of damages, interest and arbitration related expenses as a result of an arbitral award ("Arbitral Award") from a customer ("Claimant") 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 winding up procedures of Capxon Taiwan are 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 arbitration claim. Details of which is set out in Note 37.

### PROVISION OF ECL FOR TRADE RECEIVABLES

The ECL on trade receivables which are credit-impaired and trade receivables backed by bills issued by reputable PRC banks is assessed individually and the ECL on the remaining balances is assessed collectively using a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. 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 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.

As at 31 December 2019, the carrying amount of trade receivables is RMB544,047,000, net of allowance for credit losses of RMB33,925,000 (2018: RMB383,895,000, net of allowance for credit losses of RMB22,674,000). The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in Note 33.

## 5. REVENUE AND SEGMENT INFORMATION

### (i) DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS RECOGNISED AT A POINT IN TIME BY GEOGRAPHICAL MARKETS AND PRODUCT TYPES

| | **For the year ended 31 December 2019** | | |
|---|---|---|---|
| | **Capacitors RMB'000** | **Aluminum foils RMB'000** | **Total RMB'000** |
| The PRC | **1,107,913** | **77,889** | **1,185,802** |
| Taiwan | **11,520** | **–** | **11,520** |
| Other Asian countries *(Note)* | **130,798** | **1,575** | **132,373** |
| Europe *(Note)* | **36,552** | **–** | **36,552** |
| America and Africa | **1,614** | **–** | **1,614** |
| | **1,288,397** | **79,464** | **1,367,861** |

| | For the year ended 31 December 2018 | | |
|---|---|---|---|
| | Capacitors RMB'000 | Aluminum foils RMB'000 | Total RMB'000 |
| 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 |
| | 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.

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

### (ii) PERFORMANCE OBLIGATIONS FROM CONTRACTS WITH CUSTOMERS

The Group is principally engaged in manufacturing and sale of capacitors and aluminum foils under its own brand name. Revenue is recognised at a point in time, when control of the goods has transferred, being when the goods have been delivered 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 not yet been recognised.

The contracts for sales of 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.

### (iii) SEGMENT REVENUE AND RESULTS

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 |

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

**For the year ended 31 December 2019**

| | Capacitors RMB'000 | Aluminum foils RMB'000 | Segment total RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| External sales | 1,288,397 | 79,464 | 1,367,861 | – | 1,367,861 |
| Inter-segment sales | – | 217,567 | 217,567 | (217,567) | – |
| Segment revenue | 1,288,397 | 297,031 | 1,585,428 | (217,567) | 1,367,861 |
| Segment profit | 134,818 | 25,362 | 160,180 | (4,344) | 155,836 |
| Interest income | | | | | 1,443 |
| Unallocated corporate expenses | | | | | (16,332) |
| Finance costs | | | | | (9,220) |
| Interest on provision for damages | | | | | (9,224) |
| Exchange loss arising on retranslation of provision for damages | | | | | (1,251) |
| Profit before tax | | | | | 121,252 |

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

### (iii) SEGMENT REVENUE AND RESULTS *(continued)*

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 |

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

Inter-segment sales are charged at prevailing market rates.

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

### (iii) SEGMENT REVENUE AND RESULTS *(continued)*

**Segment assets and liabilities**

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| **Segment assets** | | |
| Capacitors | 1,319,871 | 1,052,760 |
| Aluminum foils | 298,171 | 359,086 |
| Total segment assets | 1,618,042 | 1,411,846 |
| Unallocated assets | 8,341 | 49,829 |
| Consolidated assets | 1,626,383 | 1,461,675 |
| **Segment liabilities** | | |
| Capacitors | 582,389 | 501,268 |
| Aluminum foils | 64,665 | 72,817 |
| Total segment liabilities | 647,054 | 574,085 |
| Unallocated liabilities | 248,955 | 240,640 |
| Consolidated liabilities | 896,009 | 814,725 |

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

- all assets, other than right-of-use assets, 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, lease liabilities, other borrowings of the Company and provision for damages of Capxon Taiwan, are allocated to reportable segments.

**Geographical information**

The geographical information about the Group's non-current assets (excluding pledged deposit in a financial institution and deferred tax asset) by geographical location of the assets are detailed below:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| The PRC | 568,204 | 527,390 |
| Taiwan | 13,881 | 11,553 |
| | 582,085 | 538,943 |

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

### (iii) SEGMENT REVENUE AND RESULTS *(continued)*

**Geographical information** *(continued)*

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

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Revenue from external customers: | | |
| The PRC | **1,185,802** | 1,018,091 |
| Taiwan | **11,520** | 17,771 |
| Other Asian countries | **132,373** | 125,500 |
| Europe | **36,552** | 39,239 |
| America and Africa | **1,614** | 1,726 |
| | **1,367,861** | 1,202,327 |

**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 or segment assets:

**For the year ended 31 December 2019**

| | Capacitors RMB'000 | Aluminum foils RMB'000 | Total RMB'000 |
|---|---|---|---|
| Additions to non-current assets *(Note)* | **71,201** | **14,324** | **85,525** |
| Depreciation and amortisation | **38,149** | **11,663** | **49,812** |
| Impairment losses on trade receivables recognised, net | **11,358** | **963** | **12,321** |
| Impairment losses on other receivables reversed, net | **–** | **(17)** | **(17)** |
| Loss on disposals of property, plant and equipment | **3,042** | **115** | **3,157** |
| Net write-down (reversal of) of inventories | **17,485** | **(7)** | **17,478** |

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

### (iii) SEGMENT REVENUE AND RESULTS *(continued)*

**Other segment information** *(continued)*

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 losses on trade receivables recognised (reversed), net | 3,557 | (510) | 3,047 |
| Impairment losses on other receivables recognised, net | 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) |

*Note:* Non-current assets exclude financial assets.

## 6. OTHER INCOME/EXPENSES

### (a) OTHER INCOME

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Bank interest income | **1,443** | 1,402 |
| Government grants *(Note)* | **17,266** | 10,277 |
| Sales of scrap material | **50** | 297 |
| Interest income from refundable rental deposits | **80** | – |
| Others | **865** | 2,992 |
| | **19,704** | 14,968 |

*Note:* During the year ended 31 December 2019, the Group recognised government grants of RMB17,266,000 (2018: RMB10,277,000), including the release of deferred government grants during the year of RMB750,000 (2018: nil), which are the incentives in engaging in the production of capacitors.

### (b) OTHER EXPENSES

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Research and development costs | **45,819** | 35,835 |
| Depreciation of property, plant and equipment *(Note)* | **–** | 1,671 |
| Others | **2,152** | 727 |
| | **47,971** | 38,233 |

*Note:* A subsidiary of the Company ceased operation during the year ended 31 December 2017 and the relevant equipment was relocated to other production plants of the Group during the year ended 31 December 2018. The related depreciation before the relocation is included in other expenses.

## 7. OTHER GAINS AND LOSSES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| (Loss) gain on disposals of property, plant and equipment | **(3,157)** | 1,928 |
| Net foreign exchange gain (loss) | **885** | (3,131) |
| | **(2,272)** | (1,203) |

## 8. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Impairment losses recognised (reversed) in respect of | | |
| – Trade receivables | **12,321** | 3,047 |
| – Other receivables | **(17)** | 1,755 |
| | **12,304** | 4,802 |

Details of impairment assessment are set out in Note 33.

## 9. FINANCE COSTS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Interest on bank and other borrowings | **8,817** | 7,205 |
| Interest on lease liabilities | **403** | – |
| Total borrowing costs | **9,220** | 7,205 |

## 10. INCOME TAX EXPENSE

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Current tax: | | |
| – PRC Enterprise Income Tax ("EIT") | **23,560** | 30,029 |
| – Taiwan Corporate Income Tax | **3,521** | 1,983 |
| PRC dividend withholding tax | **–** | 13,030 |
| | **27,081** | 45,042 |
| (Over)underprovision in prior years | | |
| – EIT | **(14,579)** | – |
| – Taiwan Corporate Income Tax | **315** | – |
| | **(14,264)** | – |
| Deferred tax *(Note 18)* | **15,888** | 3,913 |
| | **28,705** | 48,955 |

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%.

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of the Group's subsidiaries in the PRC is 25% except stated below.

During the year ended 31 December 2018, Capxon Electronic (Shenzhen) Co., Ltd. (豐賓電子(深圳)有限公司) ("Capxon Shenzhen"), a subsidiary of the Company, was uncertain whether it satisfied the requirements of high technology development enterprise and Capxon Shenzhen applied the tax rate of 25% in calculating the EIT. During the year ended 31 December 2019, upon the completion of PRC tax audit and the finalisation of the EIT for the year ended 31 December 2018 of Capxon Shenzhen with the tax bureau, Capxon Shenzhen satisfied the requirements of high technology development enterprise which was subject to a preferential tax rate of 15% for the year ended 31 December 2018. Accordingly, overprovision for EIT amounting to RMB14,579,000 has been recognised during the year ended 31 December 2019. Capxon Shenzhen is entitled to the preferential tax rate until the financial year ending 31 December 2021.

On 16 May 2019, Capxon Electronic Technology (Baotou) Co., Ltd. (凱普松電子科技(包頭)有限公司) ("Capxon Baotou") is included in the Catalogue of Encouraging Industries in Western China published by Inner Mongolia Development and Reform Commission and Capxon Baotou is subject to a preferential tax rate of 15% for the year ended 31 December 2019. Capxon Baotou is entitled to the preferential tax rate until the financial year ending 31 December 2020.

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, entity engaging in research and development activities are entitled to claim up to 175% of the qualifying research and development expenses so incurred starting from 2018 as tax deductible expenses when determining their assessable profits for that year ("Super Deduction").

Under the Income Tax Law in Taiwan, the corporate income tax rate of the Group's subsidiaries in Taiwan is 20% (2018: 20%).

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

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:

**2019**

| | The PRC | | Taiwan | | Hong Kong | | Others Note | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Profit (loss) before tax | 135,402 | | 3,947 | | (2,363) | | (15,734) | | 121,252 | |
| Tax at the statutory tax rate | 33,851 | 25.0 | 789 | 20.0 | (390) | 16.5 | – | – | 34,250 | 28.2 |
| Tax effect of: | | | | | | | | | | |
| Deductible temporary differences not recognised | 8,577 | 5.7 | 6 | 0.2 | – | – | – | – | 8,583 | 6.3 |
| Utilisation of deductible temporary differences not recognised | (1,790) | (1.2) | – | – | (8) | 0.3 | – | – | (1,798) | (1.3) |
| Expenses not deductible for tax | 1,692 | 1.1 | 2,726 | 69.0 | 398 | (16.8) | – | – | 4,816 | 3.5 |
| Tax losses not recognised | 5,313 | 3.5 | – | – | – | – | – | – | 5,313 | 3.9 |
| Utilisation of tax losses previously not recognised | (2,030) | (1.3) | – | – | – | – | – | – | (2,030) | (1.5) |
| Super Deduction for research and development expenses | (8,197) | (5.4) | – | – | – | – | – | – | (8,197) | (6.0) |
| Withholding tax for undistributed profits in subsidiaries | 16,919 | 11.1 | – | – | – | – | – | – | 16,919 | 12.4 |
| (Over)underprovision in respect of prior years | (14,579) | (9.6) | 315 | 8.0 | – | – | – | – | (14,264) | (10.5) |
| Income tax at concessionary tax rate | (14,887) | (11.0) | – | – | – | – | – | – | (14,887) | (12.3) |
| Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income at the Group's effective rate | 24,869 | 18.4 | 3,836 | 97.2 | – | – | – | – | 28,705 | 23.7 |

2018

| | The PRC | | Taiwan | | Hong Kong | | Others Note | | 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 |

*Note:* Entities incorporated in the Cayman Islands and the British Virgin Islands are not subject to income tax. The expenses incurred by the Company incorporated in the Cayman Islands and its subsidiaries incorporated in the British Virgin Islands are not deductible for tax purpose in any jurisdictions.

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

## 11. PROFIT FOR THE YEAR

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Profit for the year has been arrived at after charging: | | |
| Employee benefit expenses (including directors' emoluments *(Note 12)*): | | |
| Wages, salaries and allowances | **245,723** | 222,107 |
| Retirement benefit scheme contributions *(Note 31)* | **18,689** | 17,502 |
| | **264,412** | 239,609 |
| Less: amount capitalised in inventories | **(154,780)** | (142,949) |
| | **109,632** | 96,660 |
| Amortisation of intangible assets (included in administrative expenses) | **4** | 4 |
| Amortisation of land use rights | **–** | 685 |
| Depreciation of property, plant and equipment | | |
| – capitalised in inventories | **39,123** | 37,160 |
| – recognised in administrative expenses | **5,054** | 3,132 |
| – recognised in other expenses | **–** | 1,671 |
| Depreciation of right-of-use assets | **5,631** | – |
| Total depreciation and amortisation | **49,812** | 42,652 |
| Auditor's remuneration | | |
| – audit services | **1,682** | 1,131 |
| – non-audit services | **608** | 666 |
| | **2,290** | 1,797 |
| Cost of inventories recognised as an expense (including net write-down of inventories of RMB17,478,000 (2018: net reversal of write-down of inventories of RMB150,000))# | **986,075** | 861,459 |

# During the year ended 31 December 2019, certain aged inventories are written down to the net realisable values after considering the age and condition of the inventories. As a result, write-down of inventories of RMB17,478,000 (2018: a net reversal of write-down of inventories of RMB150,000) has been recognised and included in the cost of sales during the year ended 31 December 2019.

## 12. 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 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| EXECUTIVE DIRECTORS(1): | | | | | |
| Lin Chin Tsun | – | 2,879 | 1,000 | 28 | 3,907 |
| Chou Chiu Yueh | – | 1,440 | 800 | 20 | 2,260 |
| Lin Yuan Yu | – | 1,734 | 800 | 3 | 2,537 |
| Lin I Chu | – | 1,538 | 800 | 28 | 2,366 |
| NON-EXECUTIVE DIRECTOR(2): | | | | | |
| Liu Fang Chun | – | 723 | 800 | 10 | 1,533 |
| INDEPENDENT NON-EXECUTIVE DIRECTORS(3): | | | | | |
| Lu Hong Te | 243 | – | – | – | 243 |
| Hsieh King-Hu, Miles | 165 | – | – | – | 165 |
| Tung Chin Chuan | 165 | – | – | – | 165 |
| | 573 | 8,314 | 4,200 | 89 | 13,176 |

## 12. 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 |
|---|---|---|---|---|---|
| 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 |

*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 not exceeding 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.

## 12. 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 (2018: five) were directors of the Company and details of their emoluments are set out above.

During the years ended 31 December 2019 and 31 December 2018, no emoluments were paid by the Group to any of the directors 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.

## 13. DIVIDEND

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

## 14. EARNINGS PER SHARE

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

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share<br>Profit for the year attributable to owners of the Company | **92,731** | 64,761 |

| | **2019** | 2018 |
|---|---|---|
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic earnings per share | **844,559,841** | 844,559,841 |

Diluted earnings per share is not presented for the years ended 31 December 2019 and 31 December 2018 as there were no potential ordinary shares outstanding during both years.

## 15. 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 2018 | 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 |
| Additions | **–** | **–** | **2,651** | **49,872** | **11,699** | **441** | **10,505** | **75,168** |
| Transfer | **–** | **–** | **–** | **19,371** | **–** | **–** | **(19,371)** | **–** |
| Disposals | **–** | **–** | **–** | **(7,925)** | **(1,116)** | **(1,402)** | **–** | **(10,443)** |
| Exchange realignment | **211** | **363** | **–** | **–** | **23** | **16** | **–** | **613** |
| At 31 December 2019 | **5,478** | **9,992** | **271,899** | **891,597** | **83,293** | **10,400** | **15,776** | **1,288,435** |
| DEPRECIATION AND IMPAIRMENT | | | | | | | | |
| At 1 January 2018 | – | 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 |
| Provided for the year | **–** | **184** | **6,131** | **29,621** | **7,553** | **688** | **–** | **44,177** |
| Eliminated on disposals | **–** | **–** | **–** | **(5,006)** | **(967)** | **(1,280)** | **–** | **(7,253)** |
| Exchange realignment | **–** | **133** | **–** | **–** | **22** | **11** | **–** | **166** |
| At 31 December 2019 | **–** | **4,218** | **91,418** | **611,100** | **53,948** | **8,077** | **–** | **768,761** |
| CARRYING VALUES | | | | | | | | |
| At 31 December 2019 | **5,478** | **5,774** | **180,481** | **280,497** | **29,345** | **2,323** | **15,776** | **519,674** |
| At 31 December 2018 | 5,267 | 5,728 | 183,961 | 243,794 | 25,347 | 2,687 | 24,642 | 491,426 |

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, over the following terms:

| | |
|---|---|
| Buildings | Over the shorter of the terms of the leases, or 20 years – 50 years |
| Plant and machinery | 10 years |
| Office and other equipment | 5 years |
| Motor vehicles | 5 years |

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

The carrying value of properties shown above comprises:

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Properties: | | |
| Freehold in Taiwan | **11,252** | 10,995 |
| In the PRC | **180,481** | 183,961 |
| | **191,733** | 194,956 |

As at 31 December 2019, 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 RMB4,654,000 (2018: RMB5,098,000). The directors of the Company expect to obtain the building ownership certificates for these buildings in 2020.

The Group has pledged property, plant and equipment with a carrying value of RMB77,580,000 (2018: RMB79,272,000) to secure general banking facilities granted to the Group.

## 16. RIGHT-OF-USE ASSETS/LAND USE RIGHTS

### (a) RIGHT-OF-USE ASSETS

| | Leasehold lands RMB'000 | Leased properties RMB'000 | Total RMB'000 |
|---|---|---|---|
| **As at 1 January 2019** | | | |
| Carrying amount | **22,348** | **9,491** | **31,839** |
| **As at 31 December 2019** | | | |
| Carrying amount | **21,664** | **7,474** | **29,138** |
| **For the year ended 31 December 2019** | | | |
| Depreciation charge | **684** | **4,947** | **5,631** |
| Expenses relating to short-term leases and lease with lease terms end within 12 months of the date of initial application of IFRS 16 | | | **217** |
| Total cash outflow for leases | | | **5,262** |
| Additions to right-of-use assets | | | **2,930** |

For both years, the Group leases various offices, warehouses and factories for its operations. Lease contracts are entered into for fixed terms of 14 months to 3 years without extension and termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

## 16. RIGHT-OF-USE ASSETS/LAND USE RIGHTS *(continued)*

### (a) RIGHT-OF-USE ASSETS *(continued)*

In addition, the Group owns several industrial buildings where its manufacturing facilities are primarily located. The Group is the registered owner of these property interests, including the underlying leasehold lands for 47 years to 50 years. Lump sum payments were made upfront to acquire these property interests. The leasehold land components of these owned properties are presented separately only if the payments made can be allocated reliably.

The leasehold lands and leased properties are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

As at 31 December 2019, the Group has pledged right-of-use assets with a carrying amount of RMB10,805,000 to secure general banking facilities granted to the Group.

During the year, the Group entered into new lease agreements for the use of leased properties for 2 years. On the lease commencement, the Group recognised right-of-use assets of RMB2,930,000 and lease liabilities of RMB2,886,000, which constitute non-cash transactions.

The Group regularly entered into short-term leases for office equipment.

### (b) LAND USE RIGHTS

| | 2018<br>RMB'000 |
|---|---|
| Land use rights in the PRC | 22,348 |
| Analysed for reporting purpose as: | |
| Current assets | 681 |
| Non-current assets | 21,667 |
| | 22,348 |

As at 31 December 2018, the Group has pledged land use rights with a carrying value of RMB11,159,000 to secure general banking facilities granted to the Group.

## 17. INTANGIBLE ASSETS

| | Licences RMB'000 |
|---|---|
| COST | |
| At 1 January 2018 | 2,416 |
| Exchange realignment | 54 |
| At 31 December 2018 | 2,470 |
| Exchange realignment | **43** |
| At 31 December 2019 | **2,513** |
| AMORTISATION | |
| At 1 January 2018 | 2,405 |
| Exchange realignment | 53 |
| Charge for the year | 4 |
| At 31 December 2018 | 2,462 |
| Exchange realignment | **43** |
| Charge for the year | **4** |
| At 31 December 2019 | **2,509** |
| CARRYING VALUES | |
| At 31 December 2019 | **4** |
| At 31 December 2018 | 8 |

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.

## 18. DEFERRED TAX ASSET/LIABILITIES

The following is the analysis of deferred tax asset (liabilities) for financial reporting purposes:

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Deferred tax asset | **2,190** | – |
| Deferred tax liabilities | **(25,135)** | (6,987) |
| | **(22,945)** | (6,987) |

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

| | Accelerated tax depreciation<br>RMB'000 | ECL provision on trade receivables<br>RMB'000 | Undistributable profits of subsidiaries<br>RMB'000 | Others<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | – | – | (3,648) | 267 | (3,381) |
| Charge to profit or loss | – | – | (3,646) | (267) | (3,913) |
| Exchange realignment | – | – | 307 | – | 307 |
| At 31 December 2018 | – | – | (6,987) | – | (6,987) |
| Charge to profit or loss | **(1,159)** | **2,190** | **(16,919)** | **–** | **(15,888)** |
| Exchange realignment | **–** | **–** | **(70)** | **–** | **(70)** |
| At 31 December 2019 | **(1,159)** | **2,190** | **(23,976)** | **–** | **(22,945)** |

As at 31 December 2019, deferred tax liabilities of RMB23,976,000 (2018: RMB6,987,000) 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 as the directors of the Company consider that these subsidiaries will continue to distribute dividend in the foreseeable future. Under the EIT Law, withholding tax with tax rate of 10% 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 (2019: nil) 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 RMB104,132,000 (2018: RMB76,993,000) arising from the net write-down of inventories, ECL on trade and other receivables, impairment of property, plant and equipment and impairment of deposits paid for the acquisition of property, plant and equipment. No deferred tax asset has been recognised in relation to such deductible temporary differences 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 RMB98,472,000 (2018: RMB91,864,000) 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 2024 (2018: 2023), five years from the years in which the losses were originated, to offset against future taxable profits.

## 19. INVENTORIES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Raw materials | **107,080** | 96,764 |
| Work in progress | **23,956** | 14,568 |
| Finished goods | **84,453** | 92,856 |
| | **215,489** | 204,188 |

## 20. TRADE AND OTHER RECEIVABLES

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Trade receivables – contracts with customers | **577,972** | 406,569 |
| Less: allowance for credit losses | **(33,925)** | (22,674) |
| Total trade receivables | **544,047** | 383,895 |
| Other receivables | **4,910** | 5,668 |
| Less: allowance for credit losses | **(880)** | (897) |
| | **4,030** | 4,771 |
| Prepayments for purchase of inventories | **17,342** | 15,352 |
| Value added tax recoverable | **14,572** | 9,962 |
| Prepayments and deposits | **17,130** | 18,702 |
| Refundable rental deposits | **1,618** | 1,258 |
| Others | **972** | 1,107 |
| | **51,634** | 46,381 |
| Total trade and other receivables | **599,711** | 435,047 |

Refundable rental deposits paid were adjusted upon the initial application of IFRS 16. Details of the adjustments are set out in Note 2.

As at 1 January 2018, trade receivables from contracts with customers, net of allowance for credit losses, amounted to RMB398,245,000.

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

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 losses presented based on the invoice dates at the end of the reporting period.

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| 0–60 days | **373,923** | 279,751 |
| 61–90 days | **86,634** | 45,895 |
| 91–180 days | **77,065** | 54,349 |
| 181–270 days | **6,425** | 3,900 |
| | **544,047** | 383,895 |

At 31 December 2019, the trade receivables (before allowance for credit losses) include trade receivables backed by the bills issued by the reputable PRC banks amounting to RMB52,062,000 (2018: RMB6,205,000). All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with an aggregate carrying amount (net of allowances for credit losses) of RMB34,879,000 (2018: RMB39,846,000) which are past due as at the reporting date. Out of these past due balances, RMB12,880,000 (2018: 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 and these balances are assessed for ECL under provision matrix. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables are set out in Note 33.

## 21. PLEDGED DEPOSIT IN A FINANCIAL INSTITUTION/PLEDGED BANK DEPOSITS

Pledged deposits represent deposits pledged to a financial institution and banks to secure banking facilities granted to the Group. Deposits amounting to RMB2,190,000 (2018: RMB2,818,000) are pledged to secure short-term bank loans and are therefore classified as current assets. A deposit amounting to RMB2,090,000 (2018: RMB2,064,000) is pledged to secure a long-term loan and is therefore classified as non-current asset.

Pledged deposit in a financial institution carries fixed interest rate of 0.5% (2018: 0.5%) per annum.

Pledged bank deposits carry variable interest rate of 0.08% (2018: 0.08%) per annum.

Details of impairment assessment are set out in Note 33.

## 22. 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% (2018: 0.0001% to 0.48%) per annum.

Fixed bank deposits carry interest at fixed rate of 1.76% (2018: 2.00%) per annum.

Details of impairment assessment are set out in Note 33.

## 23. TRADE AND OTHER PAYABLES

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| Trade and bills payables | **287,118** | 211,227 |
| Payroll payables | **26,164** | 23,816 |
| Payable to PRC government authorities | **22,482** | 22,626 |
| Other tax payable | **15,525** | 8,833 |
| Accruals | **25,017** | 9,183 |
| Others | **12,296** | 13,774 |
| | **388,602** | 289,459 |

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:

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| 0–60 days | **181,184** | 104,838 |
| 61–90 days | **28,849** | 42,283 |
| 91–180 days | **57,945** | 42,672 |
| 181–270 days | **536** | 4,127 |
| 271–360 days | **523** | 1,444 |
| Over 360 days | **18,081** | 15,863 |
| | **287,118** | 211,227 |

## 24. PROVISION FOR DAMAGES

**Movements in the provision for damages**

| | **2019 RMB'000** | 2018 RMB'000 |
|---|---|---|
| 1 January | **218,725** | 193,980 |
| Interest on provision for damages | **9,224** | 8,756 |
| Exchange loss arising on retranslation recognised in profit or loss | **1,251** | 10,104 |
| Settlements of Arbitral Award | **(2,139)** | – |
| Exchange realignment | **5,098** | 5,885 |
| 31 December | **232,159** | 218,725 |

Details of the provision for damages are set out in Note 37.

## 25. CONTRACT LIABILITIES

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Capacitors | **1,329** | 6,344 |
| Aluminum foils | **1,064** | 562 |
| | **2,393** | 6,906 |

At 1 January 2018, contract liabilities amounted to RMB1,842,000.

The Group receives a portion of the contract value as deposit from customer when it signs an agreement with a customer. 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, which are expected to be recognised as revenue within one year. During the year ended 31 December 2019, revenue recognised in the current year relating to contract liabilities at the beginning of the year is RMB6,906,000 (2018: RMB1,842,000).

## 26. BANK AND OTHER BORROWINGS

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Secured bank borrowings* | **55,333** | 87,633 |
| Unsecured bank borrowings | **140,061** | 103,782 |
| | **195,394** | 191,415 |
| Secured other borrowings* | **10,243** | 17,132 |
| Unsecured other borrowings | **–** | 41,950 |
| | **10,243** | 59,082 |
| Total bank and other borrowings | **205,637** | 250,497 |
| The carrying amounts of the above borrowings are repayable: | | |
| Within one year | **189,517** | 240,383 |
| More than one year but not more exceeding two years | **4,104** | 7,018 |
| More than two years but not more exceeding five years | **2,903** | 3,096 |
| More than five years | **9,113** | – |
| | **205,637** | 250,497 |
| Less: Amounts due within one year shown under current liabilities | **(189,517)** | (240,383) |
| Amount shown under non-current liabilities | **16,120** | 10,114 |

* All secured bank and other borrowings are guaranteed by the Company's directors and shareholders as disclosed in Note 36 (i).

The Group's bank and other borrowings include fixed-rate borrowings of RMB171,290,000 (2018: RMB200,266,000) which carry interest ranging from 1.00% to 3.30% (2018: 1.11% to 3.78%) 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) ranging from 1.25% to 4.70% (2018: 1.24% to 5.34%) per annum.

## 26. BANK AND OTHER BORROWINGS *(continued)*

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 | Japanese Yen ("JPY") RMB'000 |
|---|---|---|---|
| **At 31 December 2019** | **10,243** | **171,289** | **9,000** |
| At 31 December 2018 | 58,229 | 117,219 | 17,429 |

## 27. AMOUNTS DUE TO RELATED PARTIES

| Name of related party | Relationship | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|---|
| Lin Chin Tsun | Director | **3,725** | 3,654 |
| Chou Chiu Yueh | Director | **254** | – |
| At 31 December | | **3,979** | 3,654 |

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

## 28. DEFERRED INCOME

| | 2019 RMB'000 | 2018 RMB'000 |
|---|---|---|
| Carrying amount of deferred government grants | | |
| At 1 January | **750** | 750 |
| Released to profit or loss during the year | **(750)** | – |
| At 31 December | **–** | 750 |

## 29. LEASE LIABILITIES

| | 31/12/2019 RMB'000 |
|---|---|
| Lease liabilities payable: | |
| Within one year | **4,398** |
| Within a period of more than one year but not more than two years | **3,242** |
| | **7,640** |
| Less: Amounts due for settlement within 12 months shown under current liabilities | **(4,398)** |
| Amounts due for settlement after 12 months shown under non-current liabilities | **3,242** |

## 30. SHARE CAPITAL

| | Number of shares | Amount HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.1 each | | |
| Authorised: | | |
| At 1 January 2018 and 31 December 2018 and 2019 | 1,500,000,000 | 150,000 |
| Issued and fully paid: | | |
| At 1 January 2018 and 31 December 2018 and 2019 | 844,559,841 | 84,456 |
| Shown in the consolidated financial statements as (RMB'000) | | 82,244 |

## 31. RETIREMENT BENEFIT PLANS

### DEFINED CONTRIBUTION PENSION SCHEMES

The employees of the Company's subsidiaries in the PRC are members of state-managed retirement pension scheme 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 municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in Taiwan.

The total expenses recognised in profit or loss during the year are RMB18,689,000 (2018: RMB17,502,000) 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.

## 32. 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 debts 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 26 and 27, and lease liabilities disclosed in Note 29, 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.

# 33. FINANCIAL INSTRUMENTS

## 33a. CATEGORIES OF FINANCIAL INSTRUMENTS

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at amortised cost | **776,420** | 670,687 |
| **Financial liabilities** | | |
| Amortised cost | **557,676** | 525,594 |

## 33b. 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, bank and other borrowings, and lease liabilities. 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 31.12% (2018: 35.95%) of the Group's sales and 9.03% (2018: 10.47%) of the Group's purchases are denominated in currencies other than the functional currencies 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) denominated in currencies other than the functional currencies of the relevant group entities at the end of the reporting period are as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2019** **RMB'000** | 2018 RMB'000 | **2019** **RMB'000** | 2018 RMB'000 |
| **The Group** | | | | |
| USD | **243,919** | 288,496 | **12,310** | 59,223 |
| EUR | **6,813** | 2,890 | **171,289** | 117,219 |
| JPY | **3,614** | 265 | **241,159** | 236,367 |

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

## 33. FINANCIAL INSTRUMENTS *(continued)*

### 33b. 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 USD, 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 number below indicates a decrease in profit after tax and a positive number below indicates an increase in profit after tax where the functional currencies of respective group entities strengthen 5% against the relevant foreign currencies, and vice versa:

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| USD impact | **(9,239)** | (8,798) |
| EUR impact | **6,151** | 4,280 |
| JPY impact | **11,823** | 11,631 |

*(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.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings, pledged bank deposits and bank balances. The Group tends to keep its borrowings, pledged bank deposits and bank balances at floating 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 (2018: 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 rate had been 25 basis point (2018: 25 basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2019 would decrease/increase by RMB74,000 (2018: RMB101,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank and other borrowings.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### 33b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Credit risk and impairment assessment**

Credit risk refers to the risk that the Group's counterparties' default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposure is primarily attributable to trade and other receivables, pledged deposit in a financial institution, pledged bank deposits, fixed bank deposits and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risk associated with its financial assets.

*Trade receivables arising from contract with customers*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. The Group only accepts bills issued by reputable PRC banks if the debtors present the bank bills for settlement and therefore the management of the Group considers the credit risk arising from these bills is insignificant. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. The Group does not have significant concentration of credit risk on trade receivables from the customers.

In addition, the Group performs impairment assessment under ECL model on trade balances individually or based on provision matrix. Except for the credit-impaired debtors and trade receivables backed by bills issued by the reputable PRC banks, which are assessed for impairment individually, the remaining trade receivables are grouped under a provision matrix based on shared credit risk characteristics by reference to repayment histories for recurring customers and current past due exposure for the new customers. A net impairment of RMB12,321,000 (2018: RMB3,047,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

*Pledged deposit in a financial institution/pledged bank deposits/fixed bank deposits/bank balances*

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. Accordingly, the directors of the Company consider that the 12m ECL on such balances is insignificant for both years.

The Group has concentration of credit risk on pledged deposit in a financial institution. In addition, 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 Group assessed 12m ECL for pledged bank deposits, fixed bank deposits and bank balances by reference to information relating to probability of default and loss given default of their respective credit rating grades published by external credit rating agencies. 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 Group has assessed 12m ECL for pledged deposit in a financial institution based on internal crediting rating. The credit risk on pledged deposit in a financial institution is limited because the management of the Group has considered that there is no deterioration in credit quality of the financial institution.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### 33b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Credit risk and impairment assessment** *(continued)*

*Other receivables*

For other receivables (2019: including refundable rental deposits), the directors of the Company make periodic individual assessment on the recoverability of other receivables based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. Except for credit-impaired debtors which are assessed under lifetime ECL, the Group assessed 12m ECL for other receivables. A net reversal of impairment of RMB17,000 (2018: impairment of RMB1,755,000) is recognised during the year. Details of the quantitative disclosures are set out below in this note.

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 sources | 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 |

# 33. FINANCIAL INSTRUMENTS *(continued)*

## 33b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Credit risk and impairment assessment *(continued)*

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| | Notes | External credit rating | Internal credit rating | 12m or lifetime ECL | Gross carrying amount 2019 RMB'000 | 2019 RMB'000 | 2018 RMB'000 | 2018 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Trade receivables – contract with customers | *20* | N/A | *(Note 1)* | Lifetime ECL (provision matrix) | **507,481** | | 382,495 | |
| | | N/A | *(Note 2)* | Lifetime ECL | **52,062** | | 6,205 | |
| | | N/A | Loss | Credit-impaired | **18,429** | **577,972** | 17,869 | 406,569 |
| Other receivables (2019: including refundable rental deposits) | *20* | N/A | *(Note 3)* | 12m ECL | **5,648** | | 4,771 | |
| | | N/A | Loss | Credit-impaired | **880** | **6,528** | 897 | 5,668 |
| Pledged deposit in a financial institution | *21* | N/A | Performing | 12m ECL | | **2,090** | | 2,064 |
| Pledged bank deposits | *21* | A | N/A | 12m ECL | | **2,190** | | 2,818 |
| Fixed bank deposits | *22* | Baa2 | N/A | 12m ECL | | **45,000** | | 28,221 |
| Bank balances | *22* | Baas – A | N/A | 12m ECL | | **177,158** | | 247,735 |

*Notes:*

1. For trade receivables, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors that are credit-impaired and are assessed individually with the loss rate of 100% and trade receivables backed by bills issued by the reputable PRC banks, the Group determines the ECL on the remaining balances by using a provision matrix, grouped by internal credit ratings.

2. The amounts represent the trade receivables backed by bills issued by reputable PRC banks. The loss allowance is assessed individually under lifetime ECL. The management considers the probability of default is negligible on the basis of high credit ratings of the banks issuing the bills and the credit risk of these bills is insignificant.

3. For the purposes of internal credit risk management, the Group uses historical repayment information to assess whether credit risk has increased significantly since initial recognition and if so, those amounts are assessed individually under lifetime ECL. For those amounts considered as credit-impaired due to the overdue of the balances and non-repayment from the counterparties. ECL has been recognised with the loss rate of 100%.

As part of the Group's credit risk management, the Group applies internal credit ratings for its customers. The ECL on credit-impaired debtors with gross carrying amount of RMB18,429,000 (2018: RMB17,869,000) as at 31 December 2019 and the trade receivables backed by bills issued by reputable PRC banks is assessed individually. The following table provides information about the exposure to credit risk for not credit-impaired trade receivables which are assessed based on provision matrix within lifetime ECL.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### 33b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Credit risk and impairment assessment** *(continued)*

**Gross carrying amount**

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Average loss rate** | **Trade receivables RMB'000** | Average loss rate | Trade receivables RMB'000 |
| **Internal credit rating** | | | | |
| Performing | **0.75%** | **269,426** | 0.56% | 267,424 |
| Watch list | **3.81%** | **164,214** | 1.64% | 79,677 |
| Doubtful | **9.78%** | **73,841** | 5.65% | 35,394 |
| | | **507,481** | | 382,495 |

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

During the year ended 31 December 2019, the Group provided net allowance for credit losses for not credit-impaired trade receivables of RMB10,841,000 (2018: RMB3,047,000) based on the provision matrix. During the year ended 31 December 2019, net allowance for credit losses of RMB1,480,000 (2018: nil) were made on credit-impaired debtors.

The following table shows the movements of lifetime ECL that has been recognised for trade receivables under the simplified approach.

| | **Lifetime ECL (not credit–impaired) RMB'000** | **Lifetime ECL (credit-impaired) RMB'000** | **Total RMB'000** |
|---|---|---|---|
| As at 1 January 2018 | 4,791 | 18,188 | 22,979 |
| Reclassification | 3,685 | (3,685) | – |
| ECL 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 |
| As at 31 December 2018 | **11,865** | **10,809** | **22,674** |
| Reclassification | **(7,060)** | **7,060** | **–** |
| Transfer to credit-impaired | **(169)** | **169** | **–** |
| ECL recognised on trade receivables | **15,496** | **2,821** | **18,317** |
| Amount recovered during the year | **(4,655)** | **(1,341)** | **(5,996)** |
| Written off as uncollectible | **–** | **(1,196)** | **(1,196)** |
| Exchange realignment | **19** | **107** | **126** |
| As at 31 December 2019 | **15,496** | **18,429** | **33,925** |

In the opinion of the directors of the Company, the carrying amount of certain trade receivables, net of allowance for credit losses, which have been past due over 90 days at the end of the reporting period of RMB12,880,000 (2018: RMB27,328,000) are not considered as in default as the directors of the Company consider the recoverability of these debts are high based on historical experience.

## 33. FINANCIAL INSTRUMENTS *(continued)*

### 33b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Credit risk and impairment assessment** *(continued)*

**Gross carrying amount** *(continued)*

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

The following tables show reconciliation of loss allowances that has been recognised for the other receivables which are credit-impaired.

| | Lifetime ECL (credit-impaired) RMB'000 |
|---|---|
| As at 1 January 2018 | 694 |
| Impairment losses recognised on other receivables | 1,755 |
| Written off as uncollectible | (1,552) |
| As at 31 December 2018 | 897 |
| Impairment losses recognised on other receivables | **2** |
| Amount recovered during the year | **(19)** |
| As at 31 December 2019 | **880** |

During the year ended 31 December 2018, other receivables amounting to RMB1,755,000 was considered as credit-impaired due to the overdue of the balances and non-repayment from the counterparties. Except as aforesaid, the management of the Group has considered the not credit-impaired other receivables are of consistently low historical default rate, and concluded that credit risk inherent in the Group's not credit-impaired other receivables is insignificant for both years.

The Group writes off an other receivable when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings.

**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 2019, the Group has available unutilised short-term and long-term bank loan facilities of RMB171,345,000 (2018: RMB251,331,000). Details of bank and other borrowings are set out in Note 26.

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.

# 33. FINANCIAL INSTRUMENTS *(continued)*

## 33b. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Liquidity risk *(continued)*

The table includes both interest and principal cash flows. To the extent that interest flows are floating 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 |
|---|---|---|---|---|---|
| **2019** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade and other payables | – | 348,060 | – | 348,060 | 348,060 |
| Bank and other borrowings | | | | | |
| – fixed-rates | 3.05 | 173,669 | – | 173,669 | 171,290 |
| – variable-rates | 2.54 | 19,015 | 17,999 | 37,014 | 34,347 |
| Amounts due to related parties | – | 3,979 | – | 3,979 | 3,979 |
| | | 544,723 | 17,999 | 562,722 | 557,676 |
| Lease liabilities | 5.84 | 4,716 | 3,320 | 8,036 | 7,640 |

| | 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 |
| Amount due to a related party | – | 3,654 | – | 3,654 | 3,654 |
| | | 518,365 | 11,511 | 529,876 | 525,594 |

## 33c. 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.

## 34. OPERATING LEASES

Minimum lease payments expenses under operating leases during the year ended 31 December 2018 for rented premises were RMB1,474,000.

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<br>RMB'000 |
|---|---|
| Within one year | 5,642 |
| In the second to fifth years inclusive | 5,251 |
| | 10,893 |

## 35. CAPITAL COMMITMENTS

| | **2019<br>RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **98,180** | 8,278 |

## 36. 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 and a financial institution to support facilities granted by those banks and financial institution to the Group as follows:

| | **2019<br>RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Guarantees provided by: | | |
| Lin Chin Tsun | **260,243** | 175,448 |
| Lin Chin Tsun and Chou Chiu Yueh | **–** | 20,326 |
| Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu | **34,564** | 12,773 |
| Lin Yuan Yu and Chou Chiu Yueh | **29,955** | – |
| | **324,762** | 208,547 |

The expiry dates of the above guarantees fall within the period from November 2020 to May 2034 (2018: January 2019 to July 2021).

As at 31 December 2019, Ms. Chou Chiu Yueh and Ms. Lin I Chu pledged their property to a bank to secure banking facilities of NTD30,000,000 (equivalent to RMB6,913,000) (2018: NTD30,000,000 (equivalent to RMB6,758,000)) granted to the Group.

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.

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

### (ii) RELATED PARTY BALANCES

Details of the Group's outstanding balance with related parties are set out in Note 27.

### (iii) COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

| | **2019**<br>**RMB'000** | 2018<br>RMB'000 |
|---|---|---|
| Short-term benefits | **10,595** | 9,928 |
| Post-employment benefits | **179** | 170 |
| Performance related incentive payment | **4,268** | 3,018 |
| | **15,042** | 13,116 |

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.

## 37. MATERIAL PROCEEDINGS

During the year ended 31 December 2011, the Claimant filed an arbitration claim against Capxon Taiwan with the Arbitration Association, claiming damages of JPY1,412,106,000, equivalent to RMB90,489,000 (2018: JPY1,412,106,000, equivalent to RMB87,959,000) allegedly suffered by the Claimant 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.

In August 2014, an Arbitral Award was made against Capxon Taiwan which was ordered to pay to the Claimant damages, interest on deferred payment and arbitration related expenses ("Damages") and the details are set out below:

(i) damages of JPY2,427,186,647, equivalent to RMB155,535,000 (2018: JPY2,427,186,647, equivalent to RMB151,172,000) including:

- (a) first claim of JPY1,311,973,002, equivalent to RMB84,072,000 (2018: JPY1,311,973,002, equivalent to RMB81,713,000) ("First Claim");
- (b) second claim of JPY942,366,339, equivalent to RMB60,387,000 (2018: JPY942,366,339, equivalent to RMB58,693,000) ("Second Claim");
- (c) third claim of JPY172,847,306, equivalent to RMB11,076,000 (2018: JPY172,847,306, equivalent to RMB10,766,000) ("Third Claim");

(ii) interest calculated at 6% per annum on the above deferred payment as follows:

- (a) First Claim accrued from 1 January 2011 until payment in full;
- (b) Second Claim accrued from 1 July 2012 until payment in full;
- (c) Third Claim accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062, equivalent to RMB1,513,000 (2018: JPY23,618,062, equivalent to RMB1,471,000).

## 37. MATERIAL PROCEEDINGS *(continued)*

In October 2014, Capxon Taiwan filed a petition to the Tokyo Chiho Saibansho ("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 Supreme Court of Japan situated in Tokyo, which is the highest court in Japan, 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 Claimant 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 Claimant to file further evidence.

In September 2018, the Claimant 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. The HK Court has yet to hand down its decision after the summons was heard on 26 September 2019 as of the date of approval of these consolidated financial statements.

In November 2017, the Claimant also filed an application to the Taiwan Shilin District Court ("Taiwan Court") for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan 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 a liquidator pursuant to the Laws of Taiwan. In April 2018, under the instructions issued by the Taiwan Court, certain property, plant and equipment in Taiwan were distrained by the Taiwan Court for enforcing the settlement of the Arbitral Award. In February 2019, under the instructions issued by the Taiwan Court, the relevant property, plant and equipment were in auction, and Capxon Technology Limited, a wholly owned subsidiary of the Company, has purchased such auctioned property, plant and equipment. The consideration for this auction amounting to NTD91,690,000 (equivalent to RMB20,106,000) was received and held by the Taiwan Court to settle Capxon Taiwan's liabilities below:

i. secured bank borrowings of NTD80,953,000, equivalent to RMB17,751,000;

ii. settlements of the Damages to the Claimant of NTD6,990,000, equivalent to RMB1,533,000;

iii. other creditors of NTD377,000, equivalent to RMB83,000; and

iv. corresponding expenses and taxes arising from the auction of NTD3,370,000, equivalent to RMB739,000.

Besides, under the instructions issued by the Taiwan Court, additional payment amounting to NTD2,932,000, equivalent to RMB642,000, was made by the Group for the settlement of the Damages to the Claimant of NTD2,765,000, equivalent to RMB606,000 and the arbitration related expenses of NTD167,000, equivalent to RMB36,000.

As at the date of approval of these consolidated financial statements, the winding-up procedures are still in progress.

The outcome of the hearing from the HK Court cannot be determined at this stage and the winding-up procedures of Capxon Taiwan are still in progress. Subsequent to the settlement made during the year ended 31 December 2019 to the Claimant amounting to RMB2,139,000, an aggregate amount of JPY3,622,932,971, equivalent to RMB232,159,000 (2018: JPY3,511,811,817, equivalent to RMB218,725,000), was recognised as at 31 December 2019 in respect of the Damages.

## 38. PLEDGE OF OR RESTRICTION ON ASSETS

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

| | 2019<br>RMB'000 | 2018<br>RMB'000 |
|---|---|---|
| Property, plant and equipment | **77,580** | 79,272 |
| Right-of-use assets | **10,805** | – |
| Land use rights | **–** | 11,159 |
| Pledged bank deposits | **2,190** | 2,818 |
| Pledged deposit in a financial institution | **2,090** | 2,064 |
| | **92,665** | 95,313 |

### RESTRICTION ON ASSETS

In addition, lease liabilities of RMB7,640,000 are recognised with related right-of-use assets of RMB7,474,000 as at 31 December 2019. The lease agreements do not impose any covenants other than the security interests in the leased assets and refundable rental deposits that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

## 39. 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.

| | Bank and other borrowings<br>RMB'000<br>*(Note i)* | Accrued interest expenses<br>RMB'000<br>*(Note ii)* | Lease liabilities<br>RMB'000 | Amounts due to related parties<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2018 | 115,784 | 246 | – | 4,963 | 120,993 |
| Financing cash flows | 128,685 | (7,225) | – | (1,309) | 120,151 |
| Interest expenses | – | 7,205 | – | – | 7,205 |
| Exchange realignment | 6,028 | – | – | – | 6,028 |
| At 31 December 2018 | 250,497 | 226 | – | 3,654 | 254,377 |
| Adjustment upon application of IFRS 16 | **–** | **–** | **9,396** | **–** | **9,396** |
| At 1 January 2019 | **250,497** | **226** | **9,396** | **3,654** | **263,773** |
| Financing cash flows | **(48,345)** | **(9,039)** | **(5,045)** | **325** | **(62,104)** |
| New leases entered | **–** | **–** | **2,886** | **–** | **2,886** |
| Interest expenses | **–** | **8,817** | **403** | **–** | **9,220** |
| Exchange realignment | **3,485** | **–** | **–** | **–** | **3,485** |
| At 31 December 2019 | **205,637** | **4** | **7,640** | **3,979** | **217,260** |

*Notes:*

(i) 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.

(ii) 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".

## 40. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

### GENERAL INFORMATION OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2019 and 2018 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 2019 % | Direct 2018 % | Indirect 2019 % | Indirect 2018 % | Principal activities |
|---|---|---|---|---|---|---|---|
| Capxon Baotou* *(Note i)*<br>凱普松包頭 | The PRC/the PRC | Registered:<br>RMB425,700,000<br>(2018: RMB265,000,000)<br>Fully paid:<br>RMB289,225,419<br>(2018: RMB224,258,863) | **–** | – | **100** | 100 | Manufacture and sale of aluminum foils |
| Capxon Electronic Technology (Yichang Xanxia) Co., Ltd.* *(Note ii)*<br>凱普松電子科技(宜昌三峽)有限公司 | The PRC/the PRC | Registered:<br>US$30,000,000 | **–** | – | **100** | 100 | Manufacture and sale of aluminum foils |
| Capxon Electronic Technology (Qinghai) Co., Ltd* *(Note i)*<br>凱普松電子科技(青海)有限公司 | The PRC/the PRC | Registered:<br>RMB99,000,000 | **–** | – | **100** | 100 | Inactive |
| Capxon Shenzhen* *(Note ii)*<br>深圳豐賓 | The PRC/the PRC | Registered:<br>US$43,880,000<br>Fully paid:<br>US$43,880,000 | **11.40** | 9.11 | **88.60** | 90.89 | Manufacture and sale of capacitors |
| Capxon Taiwan*<br>台灣豐賓 | Taiwan/Taiwan | Authorised:<br>NTD620,000,000<br>Issued and fully paid:<br>NTD532,410,000 | **96.54** | 96.54 | **–** | – | Inactive |
| Capxon Technology Limited<br>凱普松科技有限公司 | British Virgin Islands/ Taiwan | Authorised, issued and fully paid:<br>US$1,700,000 | **100** | 100 | **–** | – | Trading of capacitors |
| Capxon Trading (Shenzhen) Co., Ltd.* *(Note ii)*<br>凱普松貿易(深圳)有限公司 | The PRC/the PRC | Registered and fully paid:<br>US$700,000 | **–** | – | **100** | 100 | Trading of capacitors |
| Dongguan Capxon Trading Limited*# *(Note i)*<br>東莞凱普松貿易有限公司 | The PRC/the PRC | Registered and fully paid:<br>RMB1,000,000 | **–** | – | **100** | 100 | Trading of capacitors and deregistered in January 2020 |

## 40. 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 Direct 2019 % | Direct 2018 % | Indirect 2019 % | Indirect 2018 % | Principal activities |
|---|---|---|---|---|---|---|---|
| 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 | Authorised, issued and fully paid: US$30,000,000 | **100** | 100 | – | – | Investment holding |
| Lancom Limited 龍球有限公司 | Hong Kong/Taiwan | Authorised, issued and fully paid: HK$85,137,200 | – | – | **96.54** | 96.54 | Inactive |
| Mega Tender Limited 緯成有限公司 | Hong Kong/the PRC | Authorised, issued and fully paid 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 | Authorised, issued and fully paid: US$1,034,699 | **100** | 100 | – | – | Investment holding |
| Wei Rong (Shenzhen) Co., Ltd. * *(Note ii)* 威容電子(深圳)有限公司 | The PRC/the PRC | Registered and fully paid: US$13,000,000 | – | – | **100** | 100 | 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 | Registered and fully paid: HK$208,699,000 (2018: HK$132,790,000) | – | – | **100** | 100 | Manufacture and sale of equipment and investment holding |

* For identification purpose only

\# Deregistered in January 2020

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.

## 41. FINANCIAL INFORMATION OF THE COMPANY

| | **2019** **RMB'000** | 2018 RMB'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | **515,011** | 515,011 |
| Right-of-use assets | **29** | – |
| Pledged deposit in a financial institution | **2,090** | 2,064 |
| | **517,130** | 517,075 |
| CURRENT ASSETS | | |
| Other receivables | **306** | 295 |
| Amounts due from subsidiaries *(Note i)* | **58,061** | 132,251 |
| Bank balances | **5,916** | 47,470 |
| | **64,283** | 180,016 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | **6,532** | 4,783 |
| Amounts due to subsidiaries | **43,555** | 150,596 |
| Lease liabilities | **21** | – |
| Other borrowings | **7,107** | 7,018 |
| | **57,215** | 162,397 |
| NET CURRENT ASSETS | **7,068** | 17,619 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **524,198** | 534,694 |
| NON-CURRENT LIABILITY | | |
| Other borrowings | **3,136** | 10,114 |
| NET ASSETS | **521,062** | 524,580 |
| CAPITAL AND RESERVES | | |
| Share capital | **82,244** | 82,244 |
| Share premium and reserves *(Note ii)* | **438,818** | 442,336 |
| TOTAL EQUITY | **521,062** | 524,580 |

## 41. FINANCIAL INFORMATION OF THE COMPANY *(continued)*

*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 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|
| At 1 January 2018 | 436,626 | 6,062 | 442,688 |
| Loss for the year | – | (352) | (352) |
| At 31 December 2018 | 436,626 | 5,710 | 442,336 |
| Loss for the year | – | (3,518) | (3,518) |
| At 31 December 2019 | **436,626** | **2,192** | **438,818** |

## 42. EVENT AFTER REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ("COVID-19") has spreaded across different countries in early 2020. The subsequent quarantine measures as well as the travel restrictions imposed by the governments of various countries have resulted in a negative impact on the operations of the Group since February 2020, as most of the Group's operations are located in the PRC and the major suppliers/customers of the Group are located in the PRC.

The Group has suspended its manufacturing activities since February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities for its capacitors segment, which is located in Shenzhen of Guangdong province, and the operation of the production plant of the Group's aluminium foil business segment located in Baotou City of Inner Mongolia Autonomous Region since late February 2020 and have reached their normal capacity as of the date of this report.

The operation of another production plant of the Group's aluminum foil business segment located in Yichang of Hubei province ("Yichang Production Plant"), where lockdown measures and other travel restrictions had been imposed by the Chinese government, was suspended since the end of the Chinese New Year holiday in 2020. The operation of the Yichang Production Plant has not been resumed as of the date of this report.

In addition, the operations of certain of the Group's customers and suppliers are also located in the PRC and overseas. The outbreak of COVID-19 is expected to have negative effect to these counterparties in different aspects, which in turn, may affect the recoverability of Group's trade receivables and also the carrying amounts of the Group's inventories and property, plant and equipment.

Given the dynamic nature of these circumstances and unpredictability of future development, including government policies and measures in response to COVID-19, the management of the Group is still unable to estimate the potential financial impact to the Group and the actual effects, if any, will be reflected in the Group's consolidated financial statements for the year ending 31 December 2020.

# Five-Year Financial Summary

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2015<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000<br>*(Note 1)* | **2019**<br>**RMB'000**<br>*(Note 2)* |
| **RESULTS** | | | | | |
| Revenue | 849,188 | 946,643 | 1,069,104 | 1,202,327 | **1,367,861** |
| Profit (loss) for the year | 3,041 | 13,714 | (1,812) | 63,645 | **92,547** |

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | 2015<br>RMB'000 | 2016<br>RMB'000 | 2017<br>RMB'000 | 2018<br>RMB'000<br>*(Note 1)* | **2019**<br>**RMB'000**<br>*(Note 2)* |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 1,157,458 | 1,184,092 | 1,209,946 | 1,461,675 | **1,626,383** |
| Total liabilities | (518,542) | (554,452) | (605,312) | (814,725) | **(896,009)** |
| | 638,916 | 629,640 | 604,634 | 646,950 | **730,374** |
| Attributable to: | | | | | |
| Owners of the Company | 636,084 | 627,399 | 602,998 | 646,160 | **729,791** |
| Non-controlling interests | 2,832 | 2,241 | 1,636 | 790 | **583** |
| | 638,916 | 629,640 | 604,634 | 646,950 | **730,374** |

*Notes:*

(1) On 1 January 2018, the Group had applied IFRS 9 and IFRS 15. Accordingly, certain information for the years ended 31 December 2015, 2016 and 2017 which was prepared under IAS 39 and IAS 18 may not be comparable to the years ended 31 December 2018 and 2019.

(2) On 1 January 2019, the Group has applied IFRS 16. Accordingly, certain information for the years ended 31 December 2015, 2016, 2017 and 2018 which was prepared under IAS 17 may not be comparable to the year ended 31 December 2019.