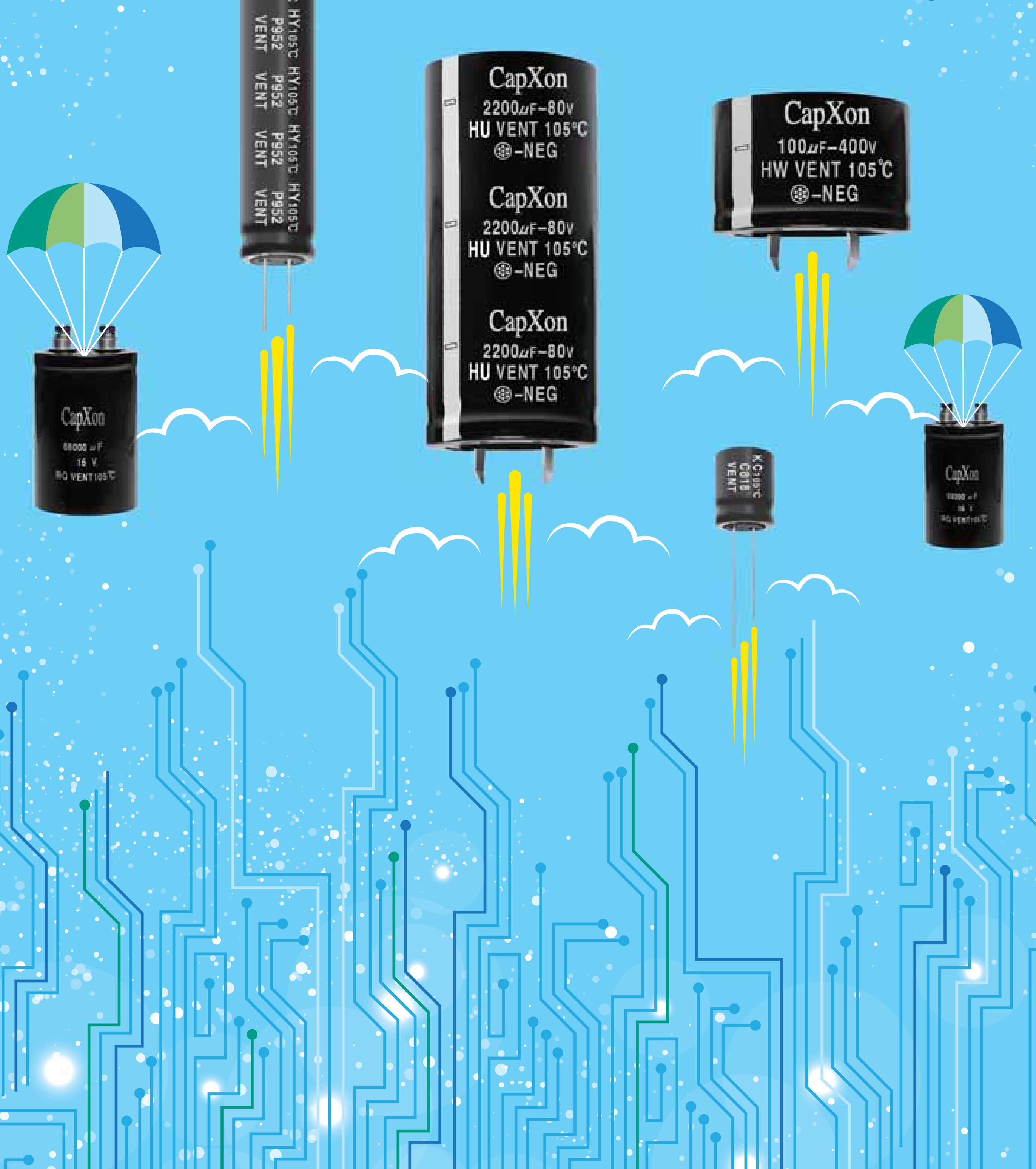
CapXon

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

2016 Annual Report



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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Ms. LIU Fang Chun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAI Chung Ching
Mr. LU Hong Te
Mr. TUNG Chin Chuan

AUDIT COMMITTEE

Mr. LAI Chung Ching *(Chairman)*
Mr. LU Hong Te
Mr. TUNG Chin Chuan

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

CHIEF FINANCIAL OFFICER

Ms. HU Szu Jung, Carol

COMPANY SECRETARY

Ms. CHAN Yin Fung

AUDITOR

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LEGAL ADVISER

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PRINCIPAL BANKERS

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

REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Grand Cayman KY1-1110
Cayman Islands

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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INVESTOR RELATIONS

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STOCK CODE

469

Dear Shareholders,

The year 2016 ended in a number of black swan events such as Britain's resolution to exit the European Union, and Donald Trump being elected as the President of the United States ("U.S.") of America. Looking ahead, three major trends are to be expected in terms of the depiction of the global economy in 2017: 1. Recovery of global economy will remain slow; 2. Financial expansion will replace quantitative easing monetary policies; and 3. Depression in raw materials market will come to an end. Despite the slow recovery of the global economy, and the ease of commodity price fluctuation, the quantitative easing monetary policies implemented by various governments across the globe have had limited effect under the "three low" vicious cycle – low growth, low inflation, and low interest rates. Also, President Trump may follow the economic and trading policies adopted by President Regan in the 1980s, stimulating domestic demand through reduction on corporate and individual taxation and increasing infrastructure and defense expenditure on one hand, while, increasing U.S. export trades through trade negotiation and requesting other countries to open their market for U.S. products and services, as well as forcing appreciation of the U.S. dollars against other currencies on the other hand. When such protectionism is raised, when global trade wars are on the verge of beginning, continental economies which are supported by domestic markets and demand are less affected, while areas and countries that are export-orientated would significantly suffer.

Broadly speaking, the global economy has not developed as expected in the 10 years since the global financial crisis in 2008. Constant black swan events have created an M-shaped recovery in the economy. The rises and falls have turned the economy from "New Normal" to "New Mediocre". Although the situation has improved slightly, it is still not optimistic. We must continue to pursue innovation and transformation in order to maintain our competitive advantages in the weakened environment and explore new business opportunities.

Passive component manufacturing is an industry characterized by high production volume and low unit price, and most of the products are applied within the 3C sector. In the future, the industry will benefit from other emerging application markets such as automotive electronics, high-end smart home appliances, smart meters, 4G LTE base stations, LED street lamps, safety control systems, industrial control and renewable energy resources equipment, and therefore serve as a stable anchor for the supply and production values of key electronic parts and components. In comparison, non-3C applications belong to the niche market, which is characterized by low production volume and high unit prices, and the demand and supply of such end products are less susceptible to fluctuations of the economic cycle. Passive component suppliers who are entering these sectors are developing miniaturized and modularized products and are adjusting their product portfolio in order to not only boost their gross profits, but also to avoid the operational risks arising from fluctuations of the economic cycles. The future of passive components is expected to look towards developing features such as high capacity, high voltage, high frequency, high resistance to heat, and miniaturization. Meanwhile, given the localization of industrial supply chains in the People's Republic of China (the "PRC"), relevant local brands will benefit from the continual expansion of the end-user market. Leveraging on the advantages of geographical proximity, these local brands will strengthen the local manufacturing chain, and enhance their supply chain competitiveness in electronic parts and components, which, in turn, will pose a threat to Taiwan's electronic parts and components businesses. As such, gross profit and price protectionism wars will still be the general trend affecting market share competition for the passive component market. In order to deal with their relatively disadvantageous position in terms of market share and price, local brands will have to compete by continuously investing in research and development ("R&D") and equipment, maintaining stable production capacity of various series of capacitors so as to meet market demand, while at the same time, coping with customers' requests for particular specifications on developing new products and assisting them through joint development, thereby ushering in development opportunities and future market demand for end products.

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

In 2016, the strategies for the Group's two major products were as follows:

1. OPERATIONS IN THE ALUMINUM FOIL MARKET

General economic recovery momentum remained weak in 2016. There were uncertainties looming over the financial market and economy, while emerging economies saw a gradual slowdown of economic growth. Deflation has led to sluggish consumption and weak global trade, leading to a failure of significant expansion in market demand for end-product consumption. This, together with the increased production capacity of formed foils in recent years, has not only resulted in insufficient sales orders and excessive production capacity, but also a higher unit cost of production, with such high costs and low selling prices affecting gross profit. Faced with such industrial features and the market conditions of excessive supply over demand, the Group has, after assessing the market situations and considering future potential supplies, prudently reduced its production capacity on a temporary basis to mitigate the impact of low gross profit through effective energy conservation and reducing consumption. Aluminum foils are the major raw materials of capacitors, and the Group has excellent production processing technologies for formed foils and a stable production capacity. In addition, the Group is also actively exploring the development potential of markets with high added value, to prepare for future market changes. The Group will continue to pay close attention to and deal with the future changes in the aluminum foils market with care.

Currently, the following key R&D and quality control techniques have been completed:

- Etched Aluminum Foil: ① The establishment of acid re-collecting system, which minimizes the usage of production acid and reduces environmental costs; and ② The installation of fast production lines for multiple-level etching and the trial production of high-CV etched aluminum foil.

- Formed foil: ① The formation technique of organic acid of high capacity and flexibility; ② automatic cleaning and crystallization system for production lines; ③ the automatic examination and control system for bath solution; ④ automatic record system for production lines operation; and ⑤ the heating pipes processing system for phosphoric acid.

2. OPERATIONS IN THE ELECTROLYTIC CAPACITOR MARKET

With the development of new future industries including artificial intelligence and block chain technology (crossing over into daily life application from financial technology), the commercial development of VR, AR, and MR application, the development of hardware industry must take place before software industry. With more and more resources being invested in R&D, the arrival of the digital economy will take place even sooner. Therefore during this year, the R&D of the mass production of electrolytic capacitors has been primarily aimed at addressing the high-ended products, including variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and vehicle-mounted electronic applications. Relevant demands have achieved a better result. In the future, the Group will be committed to meeting the requirements for specific tailor-made products, including miniaturization, high capacity, high voltage and high frequency, thereby gradually developing tailor-made products that are able to meet the front-end demand of the market and can be applied to different fields, developing customized products for different applications, promote the application of electrolytic capacitors in various fields, and expand the global market share of its electrolytic capacitor products.

- With the development of quick charging, the chargers now have an increasing charging output with a decreasing volume. In order for the solid-state capacitor to withstand high temperatures and meet the demand for miniaturization, we have developed series of miniaturized 125°C solid-state capacitor to fulfill the need of fast charging market;

- Developing LED lighting products, further developing fundamental raw materials (extremely long-life electrolyte, and aluminum foil, for instance), and enhancing our technical capability, such that the Company can reduce production cost while maintaining quality;

- With the decreasing size in industrial variable-frequency drives modules, and the protection needs of photovoltaic/wind power application market for a term of 15~30 years, we developed 7000~10000Hrs Snap-in products;

- Developing SMD ultra small size series (SV series) by maximizing negative foils on high specific volume titanium foils, which increase combined capacitance, satisfying the needs of ultra small size capacitors from customers;

- Developing 11 new series of products to increase the sales offering of energy saving LED lights;

- Commencing sample testings for shock resilient vehicle capacitors;

- Launching diversified service models, actively engaging in solutions, and developing special capacitors which fulfill customization needs;

- Developing production technology and materials for miniaturization and Low ESR solid-state capacitors;

- Successfully developing Hybrid solid/liquid-state capacitors of 50V~100V in trial production and trial mass production while developing high capacitance and 125°C high reliability series, in response to the needs of vehicle-mounted electronic market;

- Our dispersing formula is becoming mature, with its the current impregnation ratio, anti-pressure ability and lifespan expected to greatly reduce the material costs of high pressure solid-state capacitors.

In 2017, the technology industry very much looks forward to products in the areas of artificial intelligence, block chain, AR, VR, 360-degree panorama video, and commercial drone. Technology and product breakthroughs happen all the time. Technology giants around the world are putting their best efforts into: 1. achieving precise marketing campaigns through personalized usage of Big Data; 2. engaging heavily in customization and directly facing and networking with customers in order to engage the customers in the product's design and innovation concepts; and 3. with the appearance of smart cities, it is expected that the global metropolis population is expected will increase to 6.3 billion by 2050, which will bring about new business opportunities in areas of transportation, safety, healthcare, energy, and environment, etc. People now solve problems with all kinds of data. And as mobile cloud services have entered people's everyday life, with the sustained development of robotics technology, as well as the birth of platform economy and online celebrities' economy, we expect there will be more and more startups making use of platform economy to erode and damage traditional economy, or even to lead the future development of economy.

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

LIN Chin Tsun
Chairman

Hong Kong, 30 March 2017

Management Discussion and Analysis

FINANCIAL REVIEW

A summary of the financial results of the Group for the year ended 31 December 2016 (the "Year") is as follows:

- Revenue increased by approximately 11.49% to approximately RMB946,643,000.
- Gross profit increased by approximately 24.48% to approximately RMB238,936,000.
- Profit for the Year attributable to owners of the Company amounted to approximately RMB14,339,000 (for the year ended 31 December 2015: RMB3,780,000).

During the Year under review, the Group's revenue was approximately RMB946,643,000, representing an increase of approximately 11.49% over the corresponding period last year. Sales of aluminum electrolytic capacitors for the Year were approximately RMB928,376,000, representing an increase of approximately 15.52% as compared to that of RMB803,615,000 in the corresponding period last year. The increase in sales as compared to the corresponding period last year was due to improved performance as a result of successive shipments of the newly developed solid-state capacitors, high-voltage capacitors and charging pile products. Sales of aluminum foils for the Year were approximately RMB18,267,000, representing a decrease of approximately 59.86% as compared to that of RMB45,503,000 in the corresponding period last year. Such decrease was mainly due to the persistently weak recovery of the overall economy, the excessive supply over demand in the aluminum foils market, and the relatively more competitive selling prices of aluminum foils produced by Japanese manufacturers due to fluctuations in the Japanese Yen exchange rate. As a result, sales of aluminum foils of the Group were affected. In view of the market condition for aluminum foils and the future operation strategies of the Group, the Group has made an impairment loss for idle plant and equipment under the aluminum foils segment of approximately RMB27,596,000 during the Year. During the Year, the gross profit margin of the Group increased from approximately 22.61% in the corresponding period of last year to approximately 25.24% of this Year due to the proper control of general costs of the Group and the depreciation of the Renminbi.

BUSINESS REVIEW

The year 2016 ended with black swan events such as Britain's resolution to exit the European Union, and Donald Trump being elected as the President of the United States of America. An observation of the electronic component industry reveals that, due to a lack of demand momentum from end users, the entry of global sales of smart phones and the demand in other electronic industries into a mild growth stage, the overall growth rate for passive components has not been high. Under the effects of various uncertainties, consumption trends have been conservative. Although the central banks of major countries have successively implemented various quantitative easing monetary policies, they have had limited effect.

➢ MANUFACTURE AND SALE OF ALUMINUM FOILS

During the Year, after satisfying internal production demand, external sales of aluminum foils amounted to approximately RMB18,267,000, representing a decrease of approximately 59.86% as compared to RMB45,503,000 in the corresponding period last year. The proportion of aluminum foils in relation to the Group's total external sales decreased from approximately 5.36% in the corresponding Year last year to approximately 1.93% for the Year.

General economic recovery remained uncertain while trading outlook has clearly tended to be conservative due to various factors. The over-supply and insufficient orders of formed foils also caused higher unit cost of production and negative gross profit. Faced with such industrial characteristics and market conditions of excessive supply over demand, the Group has, after assessing the market conditions and considering future potential factors, prudently reduced its production capacity temporarily, effectively achieving energy-saving and reducing consumption in order to offset the impact of low gross profit. Aluminum foils are the major raw materials of capacitors. The Group has excellent production processing technologies in place for formed foils and stable production capacity. Currently, all key R&D and quality control technical processes have been completed. In addition, the Group is still actively exploring markets with high added-value to improve our prospects in adapting towards future market changes. The Group will continue to pay close attention to the future developments of the aluminum foils markets with care.

Currently, the following key R&D and quality control technical processes have been completed:

- ➢ Etched Aluminum Foil: ① The establishment of acid re-collecting system, which minimizes the usage of production acid and reduces environmental costs; and ② The installation of fast production lines for multiple-level etching and the trial production of high-CV etched aluminum foil.

- ➢ Formed foil: ① The formation technique of organic acid of high capacity and flexibility; ② automatic cleaning and crystallization system for production lines; ③ the automatic examination and control system for bath solution; ④ automatic record system for production lines operation; and ⑤ the processing system of heating pipes for phosphoric acid.

➢ MANUFACTURE AND SALE OF CAPACITORS

The Group recorded external sales of aluminum electrolytic capacitors of approximately RMB928,376,000 during the Year, representing approximately 98.07% of the Group's total external sales, and an increase of approximately 3.43% from approximately 94.64% of the Group's total external sales for the same period last year.

The noticeable decrease in demand of various parts and components by end manufacturers was caused by the turbulence in the passive components industry as a result of the global political and economic turbulence, and the entry of the global sales of smart phones into a mild growth period. With the development of artificial intelligence and commercial application opportunities of VR, AR and MR, the R&D and production capacity of electrolytic capacitors of the Group primarily focused on addressing the high-ended products for the Year, including variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and vehicle-mounted electronic applications. Relevant demands have achieved a better result. In the future, the Group will endeavor to meet the requirements for specific customized products, including miniaturization, high capacity, high voltage, high frequency, and high temperature, so as to gradually develop the front-end demand in the market and customized products across various areas, promote the application of electrolytic capacitors in various sectors in the market, and expand the global market share of its electrolytic capacitor products.

- ➢ Further optimised the product designs and production techniques, reduce material costs and consumption during production, increase market competitiveness of the products;

- ➢ Miniaturized the specifications and size of the entire product series, optimize the features and life-span according to special requests by our customers, so as to fully open up the European market;

- ➢ Developed SMD liquid-state capacitors products;

- ➢ Developed LED lighting liquid-state capacitors products, with ultra-long life-span Radial products samples delivered for testing;

- ➢ Snap-in products samples with liquid-state high voltage capacitors development standard have been delivered for testing;

- ➢ With the development of the field of electricity charging piles, collaborated with customers to develop new charging modules;

- ➢ Developed fundamental raw material – coated high-proportion foil;
- ➢ Developed semi-solid-state capacitors miniaturized high capacity products: high capacity titanium foil design adopted for cathode foil, and increased the high temperature resistance of the products;
- ➢ Developed Low ESR thin solid-stated capacitors;
- ➢ Successfully developed miniaturized and high capacity products for quick cell phone chargers series; and
- ➢ Exclusive dispersion liquid for solid-state capacitors: developed high voltage solid-stated capacitor materials which increased the reliability and life-span of the solid-state capacitor.

LIQUIDITY AND FINANCIAL RESOURCES

➢ CASH FLOWS

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

During the Year, the Group had a total net cash inflow of approximately RMB27,529,000 from operating, investing, and financing activities before foreign exchange adjustment, the details of which are set out below:

Net cash inflow from operating activities was approximately RMB133,379,000, which was mainly due to the profit before tax for the Year of approximately RMB34,369,000, together with the changes in the flow of funds as a result of the adjustments for items including finance costs and depreciation, and the movements in inventories, accounts receivables, and accounts payables, etc.

Net cash outflow from investing activities was approximately RMB32,983,000, which was mainly due to the payment of approximately RMB39,135,000 for the purchase of machinery and equipment, and the net decrease in pledged bank borrowings of approximately RMB4,306,000.

Net cash outflow from financing activities was approximately RMB72,867,000, which was mainly due to borrowings of approximately RMB202,464,000 from banks, repayments of bank borrowings of approximately RMB275,459,000, interest payments on borrowings of approximately RMB2,398,000 and repayment of amount due to a related party of approximately RMB890,000.

As at 31 December 2016, the Group had cash and cash equivalents of approximately RMB123,362,000 (31 December 2015: RMB93,782,000), which were mainly denominated in Renminbi and U.S. dollars.

➢ **BORROWINGS**

As at 31 December 2016, the Group had bank borrowings of approximately RMB87,210,000 (31 December 2015: RMB158,052,000), which were mainly denominated in U.S. dollars, New Taiwan Dollars and Japanese Yen (31 December 2015: Renminbi, U.S. dollars and New Taiwan Dollars). Among such bank borrowings, approximately RMB44,150,000 (31 December 2015: RMB80,061,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of the bank borrowings:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within one year or on demand	**87,210**	158,052

PLEDGE OF ASSETS

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Bank deposits	**2,424**	6,730
Land use rights	**13,818**	14,239
Property, plant and equipment	**97,614**	99,048
	113,856	120,017

FINANCIAL RATIOS

As at 31 December 2016, the Group's gearing ratio (net debt divided by equity attributable to owners of the Company plus net debt) was approximately 23.59%, representing a decrease of approximately 2.28% as compared to 25.87% as at 31 December 2015. The decrease was mainly due to a reduction in bank borrowings of approximately RMB70,842,000, and an increase in cash and cash equivalents of approximately RMB29,580,000.

Below are the turnover days of the inventories, trade and bills receivables, and trade and bills payables of the Group during the Year:

	For the year ended 31 December	
	2016	2015
Inventory turnover	**76 days**	85 days
Trade and bills receivables turnover	**119 days**	130 days
Trade and bills payables turnover	**76 days**	67 days

The Group's turnover days of inventories and turnover days of trade and bills receivables decreased by about 9 days and 11 days, respectively, and the turnover days of trade and bills payables increased about 9 days, as compared to those for the corresponding period last year. The Group will continue to improve the management of its inventories, trade receivables and trade payables in order to achieve a more efficient use of its funds.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately RMB33,430,000 (31 December 2015: RMB35,975,000).

MATERIAL PROCEEDINGS

(a) During the year ended 31 December 2011, a customer filed an arbitration claim against the Company's subsidiary Capxon Electronic Industrial Company Limited ("Capxon Taiwan") with The Japan Commercial Arbitration Association (the "Arbitration Association"), claiming damages of JPY1,412,106,000 (equivalent to approximately RMB83,664,000 (2015: RMB76,113,000)) allegedly suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counter claim for JPY60,000,000 (equivalent to approximately RMB3,555,000 (2015: RMB3,234,000)) for damages caused, plus interest from 17 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

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

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB143,806,000 (2015: RMB130,927,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB77,732,000 (2015: RMB70,770,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB55,833,000 (2015: RMB50,833,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (equivalent to approximately RMB10,241,000 (2015: RMB9,324,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,399,000 (2015: RMB1,274,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. The final decision of the extraordinary appeal has not been reached by the Japan Supreme Court as at the date of this report. The directors of the Company (the "Directors") believe that Capxon Taiwan has sufficient grounds to the appeal. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage. Therefore, an aggregate amount of JPY3,220,549,420 (2015: JPY3,074,519,231), equivalent to approximately RMB190,864,000 (2015: RMB165,845,000), was accrued and included in trade and other payables as at 31 December 2016 as a result of the initial arbitral award.

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

FOREIGN EXCHANGE FLUCTUATIONS

The Group derives its revenue from operations principally in U.S. dollars and Renminbi, while its expenses are mainly denominated in Japanese Yen, Renminbi, U.S. dollars and New Taiwan dollars. As the revenue and expenses are denominated in different currencies, the exposure to exchange risks 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 could result in a material difference between the future and prevailing or historical exchange rates of Renminbi.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2016, the Group had approximately 2,382 employees in total. Salary, bonus and fringe benefits were determined with reference to the prevailing market terms, and the individual employee's performance, qualification and experience. During the Year, staff costs (including directors' emoluments) amounted to approximately RMB196,672,000 (for the year ended 31 December 2015: RMB183,190,000).

REGULATORY COMPLIANCE

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

FUTURE STRATEGIES AND PLANNING

From 2016 onwards, the three major discoveries of technology industry and the changing trends in competition are: 1. the growth rate of mobile phone industry is slowing down; 2. companies solely committed to hardware are transforming into integrated corporations for both hardware and software; and 3. seeking new creative momentum to return to the market. In the future of the technology industry, we see new patterns across five major categories: 1. leading corporations, such as those with specialized products or market position; 2. merger corporations: corporations that grew through mergers and acquisitions; 3. corporations with innovation and continuous investment on R&D; 4. corporations that provide solutions and customization; and 5. corporations that create values. As such, global technology industry will continue its cross-border transformation. The way in which we redefine our own values through change and reformation and how we turn the crisis around into opportunity will be the most important issue in 2017. We will also set the following objectives for our corporate transformation:

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

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

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

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

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

- ➢ Technical reforms:
  - developing HYBRID solid-state and liquid-state electrolyte, satisfying the needs of the vehicle-mounted electronic market;
  - developing fundamental raw materials for LED lightings series;
  - updating and upgrading conductive electrodes, heat exchanger, and power supply;
  - Establishing acid recollection equipment, which effectively reduces the usage of etching bath solution and lowers the material costs; and
  - Developing new chemical synthesizing technology, in anticipation of an increase of electrostatic capacity by 8-10%.

FUTURE PROSPECTS

In 2017, the technology industry will look forward to products in the areas of artificial intelligence, block chain, AR, VR, MR, 360-degree panorama video, and commercial drones. Breakthroughs in technology and products happen every day. Technology giants around the world are putting their best efforts into: 1. achieving precise marketing campaigns through precise personal usage of big data; 2. engaging customers and involving them in designing the products and creating new concepts through large-scale customization and direct customer contact; and 3. establishing smart cities; the global urban population is expected to increase to 6.3 billion by 2050, which will bring new business opportunities in areas of transportation, safety, healthcare, energy, and environment, etc. Problems are solved by utilizing all manner of data, and as mobile cloud services enter into everyday life, the sustained development of robotics technology, as well as the birth of platform economy and online celebrities economy, we expect there to be more and more startups that make use of platform economy to erode and damage traditional economy, and may even lead or dominate future economic development.

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 industry, innovative R&D, and to strive for excellence, as well as effectively control costs and enhance manufacturing efficiency, in order to maintain its competitiveness in the industry. With our technological R&D and product innovation services, the Group will serve and maintain a stable relationship with its existing customers. The Group will put forth effort to develop an industry-integrated production and marketing model, proactively explore new markets to meet mass production planning, as well as stabilize the value and revenue from the manufacturing industry, in order to reward the Company's shareholders for their support with profits.

DIRECTORS

EXECUTIVE DIRECTORS

Mr. Lin Chin Tsun (林金村), aged 68, is the chairman and president of the Group and is responsible for the strategic planning and major decision-making of the Group. Mr. Lin is also a director of various subsidiaries of the Company. Mr. Lin is the spouse of Ms. Chou Chiu Yueh, father of Mr. Lin Yuan Yu and Ms. Lin I Chu, and father-in-law of Ms. Liu Fang Chun. Mr. Lin established Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), a subsidiary of the Company, in June 1980 and has been the chairman since then. Mr. Lin possesses extensive technical and management experience in the aluminum electrolytic capacitors industry and was appointed as an executive Director on 15 April 2007. Mr. Lin is the chairman of the nomination committee of the Company and a member of the Company's remuneration committee.

Ms. Chou Chiu Yueh (周秋月), aged 64, is an executive Director and the vice-president of the Group and is responsible for the management, strategic planning and major decision making in Taiwan market. Ms. Chou is also a director of various subsidiaries of the Company. Ms. Chou is the spouse of Mr. Lin Chin Tsun. She joined Capxon Taiwan in June 1980 and has been the director of Capxon Taiwan since then. Ms. Chou was appointed as an executive Director on 15 April 2007. Ms. Chou is a member of the Company's nomination committee and remuneration committee.

Mr. Lin Yuan Yu (林元瑜), aged 40, is an executive Director and chief executive officer of the Group and is responsible for the overall management and strategic planning of the Group's anode foils business. Mr. Lin is also a director of various subsidiaries of the Company. Mr. Lin Yuan Yu is the son of Mr. Lin Chin Tsun and the spouse of Ms. Liu Fang Chun. He obtained a bachelor's degree in chemical engineering from the National Taiwan University (國立台灣大學) in 1999 and joined Capxon Taiwan as an engineer in May 2001. Mr. Lin joined Capxon Electronic Technology (Yichang Sanxia) Co. Ltd. ("Capxon Yichang"), a subsidiary of the Company, in April 2003 and has been the chairman of Capxon Yichang since then; he has acted as the general manager of the Taiwan branch of the Company's subsidiary Capxon Technology Limited since 1 October 2015, and as the vice-president of the Company's subsidiary Capxon Electronic (Shenzhen) Co., Ltd. ("Capxon Shenzhen") since 1 January 2017. Mr. Lin was appointed as an executive Director on 15 April 2007.

Ms. Lin I Chu (林薏竹), aged 37, is an executive Director and is a director of various subsidiaries of the Company. Ms. Lin is the daughter of Mr. Lin Chin Tsun. She obtained a bachelor's degree in international trading from Soochow University (東吳大學) and a master's degree in business administration from Meiji University (日本明治大學) in Japan. She joined the Group in April 2006 as the Japanese operations executive and was in January 2009 and on 1 September 2011 promoted respectively as head of the sales department and deputy general manager of the business and manufacturing department of Capxon Shenzhen. Ms. Lin was appointed as a non-executive Director on 15 April 2007 and was re-designated as an executive Director on 1 September 2011.

NON-EXECUTIVE DIRECTOR

Ms. Liu Fang Chun (劉芳均), aged 37, is a non-executive Director. Ms. Liu is the spouse of Mr. Lin Yuan Yu. Ms. Liu graduated from the National Taipei Teachers College (國立台北師範學院). She joined the Group in July 2005 as the chairman's assistant at Capxon Yichang. She was appointed as a non-executive Director on 15 April 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lai Chung Ching (賴崇慶), aged 81, obtained his bachelor's degree in accounting from the National Taipei University (國立台北大學) (formerly known as National Chung Hsing University (國立中興大學)) and has extensive experience in accounting, auditing, taxation, finance and corporate governance. Since 1967, Mr. Lai has been the member of the executive committee of the Taipei CPA Association (台北市會計師公會); from 1977 to 1983, he was the director and vice-president and in 1983, was elected as the president of the Taipei CPA Association (台北市會計師公會). Mr. Lai was elected as the president of the National Federal CPA Association (中華民國會計師公會全國聯合會) in 1991 and was awarded an outstanding alumnus corporate management award by National Taipei University. In addition, Mr. Lai was awarded the Golden Peak Award of Outstanding Corporation Leaders in R.O.C. (傑出企業領導人金峰獎) in 2001. In 2002, he was appointed as the chairman of the Education Foundation of Deloitte Touche Tohmatsu (財團法人台北市眾信教育基金會). Mr. Lai is currently the chairman of 科園育樂事業股份有限公司 and a member of the executive committee of Taipei CPA Association (台北市會計師公會). Mr. Lai was appointed as an independent non-executive Director on 15 April 2007. Mr. Lai is the chairman of the audit committee and remuneration committee of the Company and a member of the Company's nomination committee.

Mr. Lu Hong Te (呂鴻德), aged 56, obtained his doctorate degree in business from the National Taiwan University (國立台灣大學) and is currently the professor of Chung Yuan Christian University. He was once appointed as Secretary General of the Chinese Society for Training and Development (中華民國訓練協會) in 1990; as consultant of Taiwan Institute of Economic Research (台灣經濟研究院) and Taiwan Entrepreneurs Society Taipei/Toronto (多倫多台商會) respectively in 2001; as expert consultant of Chinese Association for Industrial Technology Advancement (中華民國產業科技發展協進會) and member of the appraisal committee of the Chinese Management Association (社團法人中華民國管理科學學會) in 2003. From 2004 to the end of 2015, Mr. Lu acted as consultant of the China Trading Committee (大陸經貿委員會) of the Taiwan Electrical and Electronic Manufacturers Association (台灣區電機電子工業同業公會). In addition, Mr. Lu is an independent director of Uni-President Enterprises Corp. (1216) (統一企業股份有限公司) (appointed on 26 June 2015), Firich Enterprise Co., Ltd. (8076) (伍豐科技股份有限公司) and Lanner Electronics Inc. (6245) (立端科技股份有限公司), all of these companies are listed in Taiwan; Mr. Lu is also currently an independent non-executive director of ANTA Sports Products Limited (2020), China Lilang Limited (1234) and China SCE Property Holdings Limited (1966), all of whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited. On 1 January 2014, Mr. Lu ceased to be an independent director of the Taiwan-listed company AIPTEK International Inc. (6225) (天瀚科技股份有限公司) upon expiry of his term of appointment. Mr. Lu was appointed as an independent non-executive Director on 15 April 2007. Mr. Lu is a member of the Company's audit committee, nomination committee and remuneration committee.

Mr. Tung Chin Chuan (董清銓), aged 64, 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 consultant of Premier Capital Management Corporation (首席財務管理顧問股份有限公司). Since 11 August 2016, Mr. Tung ceased to act as the supervisor of ACTi Corporation (建騰創達科技股份有限公司) which is a public limited company in Taiwan. Mr. Tung was appointed as an independent non-executive Director on 15 April 2007. Mr. Tung is a member of the Company's audit committee, nomination committee and remuneration committee.

SENIOR MANAGEMENT

Ms. Lee Feng Mei (李鳳美), aged 44, 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 56, 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 47, is the chief of research and development and the deputy general manager in Taiwan. Mr. Lu obtained his bachelor's degree in chemical engineering from the National Chung Hsing University (國立中興大學). He joined the Group in July 2000 and is responsible for the research and development. Mr. Lu was promoted as the deputy general manager of a subsidiary in Taiwan on 1 September 2011.

Ms. Chan Yin Fung (陳燕鳳), aged 45, 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.

The environmental, social and governance report (the "ESG Report") issued by the Company provides information on the Group's principles and actions as a corporate citizen in electronics industry. The ESG Report elaborates on the various work undertaken by the Group in fulfilling the principle of sustainable development and its social and governance performance in 2016. For information relating to corporate governance, please refer to the "Corporate Governance Report" set out on pages 23 to 30.

SCOPE OF ESG REPORT

The ESG Report covers the core activities of the Group in Hong Kong and mainland China. The ESG Report describes the Group's overall environmental and social policies, including environmental and social related key performance indicators ("KPIs") of our Shenzhen factory, which is owned by Capxon Shenzhen. The Group will continue to monitor the performance in environmental and social matters, and will consider covering more aspects of our operations in the ESG Report in the future.

The ESG Report covers the same period as the Group's annual report, which is from 1 January to 31 December 2016.

REPORTING GUIDELINES

The Company has prepared the ESG Report in accordance and complied with the provisions of the Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

STAKEHOLDER ENGAGEMENT

We have invited our employees from various departments of the Group to participate in the preparation of the ESG Report in order to obtain a clearer understanding of our sustainability performance. The data we collected not only provides a conclusion in relation to the Group's environmental and social related work in 2016, but also sets a basis for the Group's short-term and long-term sustainability development strategies. The Group will increase the involvement of stakeholders to collect their valuable and constructive comments and suggestions for our development.

INFORMATION AND FEEDBACK

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

OUR VALUES

The Group is one of the Asia's leading vertically integrated aluminum electrolytic capacitor makers, and is also one of the few manufacturers that can produce high-quality anode foils in China. The Group was established in 1980 and was listed on the Stock Exchange in 2007. The Group operates under these six core values: Sincerity; Challenges; Progress; Customers-come-first; Obedience; and Neatness. The Group ensures quality control in the entire production process by inspecting the raw material components and installing the relevant equipment and apparatuses. We make sure that all the procedures comply with the Restriction of Hazardous Substance Directive (RoHS) and carry out green production practices in order to win the trust of our customers. The Group's principal businesses include manufacturing and sale of aluminum foils and capacitors. For the year ended 31 December 2016, the Group operated four factories in mainland China and a branch in Taiwan.

GREEN OPERATIONS

The Group aims to enhance our performance in environmental protection, as we understand that environmental protection is a social responsibility that cannot be neglected. We have clear environmental targets, including complying with the law, controlling pollution, making our production cleaner, reducing resources consumption, conserving natural resources, decreasing the production of toxic substances and continuously improving and beautifying the environment. In relation to environmental protection, the Group has set up annual environmental targets in order to reduce the negative impacts of the Group's business on the environment. The Group has been certified by the ISO14001: 2004 Environmental Management System, the IECQ QC08000: 2012 Hazardous Substance Process Management System and the ISO14064: 2006 Green House Gas Emission Management System.

Capxon Shenzhen has been continuously monitoring its greenhouse gas (GHG) emissions. Capxon Shenzhen has engaged a third party certification body to carry out verification of Capxon Shenzhen's GHG emissions based on the requirement of the Specification with Guidance for Verification of the Organization's GHG Emissions (《組織的溫室氣體排放量化和報告規範及指南》) (SZDB/Z 69-2012), Interim Measures for the Administration of Carbon Emissions in Shenzhen (《深圳市碳排放權交易暫行管理辦法》) and other related technical rules. The GHG emissions verification statement has to be submitted to the municipal government. The following information are the major results of the GHG emissions verification in 2016.

PAPERLESS OFFICE

We hope to create a paperless office by reducing our paper consumption. All internal announcements, memoranda and notices are published on our intranet, while documents are circulated electronically and transferred by e-mail. Meanwhile, in order to optimize the use of paper, we encourage our employees to use double-sided copying and printing, and we require informal documents to be printed on recycled paper.

WASTE DISPOSAL

Conserving resources and reducing pollution are crucial for protecting the scarce resources of the Earth. The Group continuously asks for the concerted efforts of all departments to comply with the laws and regulations regarding reducing, recycling and reusing waste from production. Capxon Shenzhen recycles 100% of its raw materials waste. Discarded raw materials are sent to recycling stations for professional treatment or are recycled by the suppliers. On the other hand, we trade in our consumable goods to avoid squandering resources. Through the concerted efforts of each of our departments, our total volume of waste generated by Capxon Shenzhen for the year of 2016 is on a downward trend, representing a reduction of 2% in waste generated per ten thousand manufactured when compared to 2015. The Group strictly complies with the laws and regulations on hazardous waste, and has formed policies to manage hazardous waste to reduce the environmental impacts of the hazardous waste.

WASTEWATER TREATMENT

The Group mainly uses water to clean its electronic parts. To reduce water consumption, we adopt a water recirculation system. In 2016, the water consumption of Capxon Shenzhen was around 311,000 cubic meters, and the average water consumption per product was around 0.6 cubic centimeters. The Group not only focuses on water consumption, but also pays attention to wastewater discharge, as we understand that the discharge of wastewater could damage our ecosystem. As such, we closely monitor the wastewater generation from our production processes to ensure that the water quality of our effluents meets the national standards and will not cause a negative impact on the environment. We set up clear procedures for wastewater treatment to ensure that the wastewater has been treated by biochemical processes and water purification processes before discharging. We have also established a wastewater analysis laboratory to analyze the water quality of our effluents, and an external qualified party has been engaged to measure the indicators of the effluents. We also regularly inspect and maintain the wastewater treatment work in order to ensure that our equipment is working properly. To achieve our goal of zero wastewater discharge, the effluents must meet the Class 2 requirements of the Guangdong Provincial Standard of Discharge Limits of Water Pollutants (《水污染物排放限值》) (DB4426-2001).

GAS EMISSIONS

Since the Group's main source of carbon emissions is the use of energy, we have developed several energy-saving measures to reduce our carbon emissions. According to the Specification for Guidance on Verification of the Organization's GHG Emissions (《組織的溫室氣體排放量化和報告規範及指南》) (SZDB/Z 69-2012), Interim Measures for the Administration of Carbon Emissions in Shenzhen (《深圳市碳排放權交易暫行管理辦法》) and other related technical requirements, the total amount of GHG emissions should include direct GHG emissions and energy indirect GHG emissions. Based on the above calculation method, the total GHG emissions of Capxon Shenzhen in 2016 were around 59,000 tons of CO_2. The rate of our coal consumption by manufacturing per one hundred million has been decreased by around 2% when compared to 2015. With regard to our GHG emissions, we will review our calculation methods continuously to ensure they are compliant with Hong Kong's regulations.

TREASURING RESOURCES

The Group mainly consumes electricity, diesel and petrol for industrial production, air-conditioning operation and transportation. Through establishing certain mechanisms, technological innovation, publicity and training, the Group's awareness of energy conservation has been enhanced, which has helped us to successfully establish an energy management system and be awarded the ISO50001 Energy Management Certification. We became the first enterprise to obtain this certification in Guangming New District, Shenzhen.

MECHANISM ESTABLISHMENT

We have implemented a comprehensive energy-saving mechanism, including the development of an energy-saving system and the establishment of an evaluation system and reward and penalty program, in order to strengthen our management and refine our work. We emphasize the involvement of people from various positions and departments in the energy-saving system to ensure that every energy-saving action can be effectively implemented. The system not only involves the participation of chairman or management team, but also the employees at all levels. In the energy-saving system, the management team holds meetings from time to time to discuss energy-saving matters, and check the implementation of various departments in accordance with the energy-saving and consumption reduction targets, to carry out energy-saving publicity, to conduct energy-saving technology training, and to foster and strengthen the energy-saving awareness of our employees. We have also set up different energy management positions, which are responsible for checking every energy meter, properly recording and accurately counting our energy consumption, and conducting energy conservation publicity. Moreover, we have worked out a practical energy-saving and emissions reduction plan in accordance with our actual conditions and have refined the relevant work details. We have set annual energy conservation targets and appointed energy conservation officers in each department. To be more sustainable in the future, we will conduct performance assessments and implement incentive mechanisms to achieve our energy-saving targets.

In order to accomplish the energy-saving targets, we have established an all-rounded evaluation system, which conducts a stringent evaluation of all our departments according to the energy-saving targets and implemented policies. The Group has a clear energy resources management program with defined energy conservation measures on the use of electricity, water, oil and paper. We have also considered whether the person in charge in each department understands each employee's ability when allocating the energy conservation targets to the individual employee. The Group has established a comprehensive reward and penalty program according to the evaluation results. We reward those departments or personnel who make outstanding achievements in energy-saving technological innovations, energy-saving management and energy-saving inventions, and penalize departments or personnel for wasting energy. In particular, we reward and provide appropriate incentives to employees who are able to decrease energy consumption with progressive, feasible and effective methods, carry out special training on our energy-saving system to improve the energy conservation management and performance of relevant employees, in order to share the benefits of energy-conservation with our employees.

TECHNOLOGICAL INNOVATION

Being a high-tech and innovative company in mainland China, in addition to establishing the mechanisms, we also work on the technical upgrades of three areas, including technological innovation, work process innovation, and operational energy center transformation, in order to engage in energy conservation and environmental protection and to improve energy efficiency and production efficiency.

In terms of renewal of energy-saving techniques, the Group has introduced energy-saving appliances and equipment to replace outdated equipment and facilities that are inefficient and consume high amounts of energy. To improve work processes and decrease energy usage, we worked on several retrofitting projects, such as air compressor resources integration, equipment automation, lighting transformation, boiler transformation, motor replacement and ultraviolet (UV) lamp replacement, etc. We keep tracking our energy-saving retrofitting projects for one year. If we discover anything unusual, we instruct the retrofitting company to resolve the issue. In 2015, Capxon Shenzhen replaced inefficient air compressors with high-pressure air compressors and installed a high-performance 850HP air compressor to replace 10 separate 100HP air compressors, saving around 56,500kWh of electricity consumption per month. In addition, Capxon Shenzhen replaced its 1,500W UV lighting with 400W light-emitting diode (LED) for its impressing machine, saving around 17,000kWh of electricity consumption per month. In the past few years, Capxon Shenzhen has also replaced conventional light bulbs with LEDs, saving around 18 tons of coal equivalent (tce) which can be translated into reduction of electricity consumption.

The Group understands that an innovative program is needed to match the upgraded hardware. Therefore, by focusing on energy consumption of our production equipment, we have strengthened the procedures for the manufacturing process. The number of machines in operation is now determined by the volume of sales orders in order to maximize the utilization of our equipment. To save energy, we lower the temperature of cleaning machines and recycle the residual heat of the air compressors for heating water used in our employees' dormitory. In addition, to reduce water consumption, the Group collects and purifies wastewater to clean electronic components.

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

PUBLICITY AND TRAINING

The Group has actively promoted energy conservation and raised our employees' awareness of energy conservation this year in order to encourage the employees to implement the energy-saving measures and achieve the energy-saving targets. We hope to stop wasteful behaviors in the Group and accomplish our goals by encouraging our employees to take the responsibility of saving water, electricity and coal, by turning off the tap after use and switching off the lights when not in use. The Group is committed to providing energy-saving training to our employees. Besides introducing to our new employees the energy consumption of the Group's main products and major energy-saving equipment, the Group also conducts professional training according to the needs of different positions. Moreover, we posted some energy-saving posters, and carried out energy conservation work, so as to fully mobilize the employees to participate in energy-saving and emission reduction projects. Promotional methods, including providing training and posting slogans, played a beneficial role in promoting the Group's annual energy-saving targets.

PEOPLE-ORIENTED

Our employees, who are crucial to the development of the Group are one of the valuable resources of the Group. The Group is committed to create such corporate values as Sincerity, Challenge, Progress, Customers-come-first, Obedience and Neatness. We strive to provide a comfortable working environment to our employees and build a career platform for our employees to develop their talent. We strictly abide by the applicable labour laws and regulations and ensure that the interests of employees are not harmed. According to our established recruitment processes, we attract and preserve talent who meet the Group's strategic requirements through various channels such as the talent market and the internet. All candidates will be treated fairly, without any discrimination against gender, age, race, religion belief or physical disability if they meet relevant job requirements. The Group implements the concept of income adjustment according to the specific performance of the employee. Our employees' performance is reviewed annually for promotion and salary adjustments. Besides the basic remuneration and statutory holidays according to the national rules and regulations, the Group also provides paid leave, holiday gifts, travel and other benefits. Based on the number of years worked at the Group, we also provide employees with travel subsidies when they return home in Chinese New Year.

As a friendly employer, we aim to promote the concept of work-life balance to our employees to create a harmonious working environment. For example, Capxon Shenzhen has erected a yoga room, two standard basketball courts and a garden for employees to use for free, in order to let our employees relieve their physical and mental fatigue after work. In addition, Capxon Shenzhen provides free movies and karaoke facilities from time to time as employee entertainment.

We strictly abide by local employment laws and regulations in all of our offices. We have never had any issues of forced labour or child labour. We are committed to defending the legitimate rights of our employees. By arranging proper working hours and providing appropriate wage levels, the Group strives to boost employee morale and ensure that forced labour is not used in the Group. To prevent any child labour issues from arising, the Group conducts a strict assessment of our employees, including confirming the authenticity of the identity cards and the examination of other certificates of our employees to ensure that the Group has not employed any child labour. We did not employ any child labour or forced labour in 2016.

HEALTH AND SAFETY

As a responsible employer, "Safety first, Precaution crucial" is our main safety guideline for our employees. We established an all-rounded health and safety policy based on the national labour health and safety laws and regulations to prevent occupational hazards. We also carried out health and safety workshops for our employees to prevent any accidents during working process. The Group has consistently carried out certain policies, including the "Five Simultaneous Ideas" (i.e. planning, setting, checking, concluding and reviewing safety and production simultaneously) and the "Four Principles for Nontolerance" (i.e. nontolerance for unclear explanations, unimplemented actions, unclear responsibilities and uneducated personnel). Penalties are given if an employee violates the "Three Restricted Rules" (i.e. refusal to work, to follow commands and to follow labour rules). In 2016, we achieved the goal of zero accidents.

HEALTH AND SAFETY POLICY

We pay close attention to any potential occupational hazards in the workplace. Every year, the Group commissions a qualified occupational health technical service organization to inspect our workplace for occupational hazards. Our employees who are in a potential position with specific health concerns are required to undergo a physical check-up. If any suspected or confirmed occupational health issues are identified on an employee, we immediately arrange the employee to transfer to another position or arrange the employee to take sick leave. Only those who have passed the physical check-up are permitted to return to work. Moreover, as some of our employees are required to operate machines or engage in dangerous activities, the Group has established a comprehensive set of guidelines for production and operation safety. The Group not only requires our employees to strictly follow these operating procedures, but also requires our management to monitor safety performance twice a day. The stability of our machinery is crucial to the safety of our employees, therefore daily and regular maintenance and safety checks are necessary. All machinery must pass safety checks before they are used to minimize safety risks.

SAFETY EQUIPMENT

Prevention of injury and illness is crucial for creating a safe workplace. We would not be able to achieve our goals of safety production and zero accident without proper protective equipment. To ensure the health and safety of our employees, the Group provides personal protective equipment, such as earplugs, protective masks, face masks, etc. Moreover, we also installed different large-scale protective equipment, such as automatic mechanical sealing equipment, exhaust ventilation fans, exhaust and antiviral installations, etc. The Group also takes potential emergency situations into consideration and provides different emergency equipment in the workplace, such as first aid kits.

PUBLICITY AND EDUCATION

Apart from providing a safe workplace to employees, publicity and education both play important roles in health and safety. Employee safety is closely associated with their daily activities, therefore we place safety notices at the workplace and actively organize production safety promotion events. Furthermore, we attach importance to the safety education of our employees. We organize occupational safety trainings regularly and hold monthly workshops on occupational safety. Content of the training sessions not only cover the principles of production safety, regulations, operating skills, and employees' rights and responsibilities in production safety, but also include analysis of case studies. The training is designed for the employees to easily understand emergency measures and control procedures. Apart from providing safety knowledge, we also require our employees to pass tests of related training before working.

ELITE TRAINING

The Group is committed to promoting training and development activities for our employees, which aim to advance their expertise, management competence and problem-solving skills. The Group also provides comprehensive training resources and a learning environment that enhances learning effectiveness, in order to achieve continuous innovation and maintain our competitive edge. An annual training plan is set according to the Group's annual business plan and objectives, and each department is proactively consulted and their needs for training are assessed. Training provided by the Group includes pre-job training, on-the-job training and professional training. Capxon Shenzhen fully subsidized the fees of over 800 internal and external training sessions for our employees in 2016, which is equivalent to around 3,000 hours of training in total. To evaluate training effectiveness, we invite our employees to fill in questionnaires to obtain their feedback on the level and applicability of the training, quality of the trainer and the overall satisfaction.

TRAINING TYPE

The Group provides pre-job training to new employees in order to allow them to better fit in their roles. The training includes introduction of the Group's history, corporate culture, business philosophy, quality policy, organizational structure, operational procedures, quality insurance, machinery operation manuals, safety precautions, the Occupational Health and Safety Assessment Series (OHSAS) 18000, and Electronic Industry Code of Conduct (《電子行業行為準則》), etc. The training also enhances the environmental awareness of our employees. Besides theoretical pre-job training lessons, the Group coordinates with each department and provides counseling for new employees to let them have a thorough understanding of the contents and requirements of their work. Other than pre-job training, we also offer specific on-the-job training to improve their knowledge and skills in their respective positions and departments. On-the-job training includes the following aspects: management effectiveness, health and safety, product quality and technical support. Apart from on-the-job training, the Group also provides professional training to enhance the executive competencies and specific targeted professional skills. We established an Annual Training Program (《年度教育培訓計劃》) which includes training on various systems, skills training, and new staff training, etc. We understand the importance of the impact of an employee's professional knowledge which could make an impact on our products. As such, all employees who are engaged in quality assurance, design and development, instrument calibration, internal audit and environmental monitoring management, must participate in training related to operational knowledge and skills of the green products, and obtain the relevant certifications. Each department is required to validate the qualifications of their staff every year. In addition, the Group places great emphasis on the quality control of products and we aim to provide the best quality products to our customers. As such, employees who are responsible for quality assurance are required to pass the relevant assessments and obtain the relevant certifications.

SUPPLY CHAIN MANAGEMENT

The Group relies on various suppliers to support our business and provide the best quality products to our customers. We understand that effective supply chain management is one of the most important parts of our operational process. We established environmental, social and ethical standards to evaluate the integrity of our suppliers. All suppliers are required to work standing on the concept of sustainable development and the principle of perpetual progress. On the other hand, the Group also established a transparent and fair procurement procedure for entering into contractual arrangements with suppliers. The requirements are not only set to protect the Group's reputation and business but also set to promote the importance of complying with business ethics when dealing with other companies.

SELECTION OF SUPPLIERS

In order to implement, maintain, and enhance our quality policies, systems and standards, and to fulfill the environmental protection responsibilities of the Group, we have set strict requirements for our suppliers. The Group has established a clear supplier selection policy to add and select competitive suppliers with good quality operations. The suppliers are required to fulfill the requirements of ISO9001 Quality Management System and the IECQ QC80000 Hazardous Substance Process Management System. We also set sustainability standards for suppliers to assist our suppliers in improving their product quality, environmental standard and services, so that a mutually supportive and beneficial relationship has been built between the Group and our suppliers. We established a series of assessment questionnaires to evaluate our suppliers, covering areas of ethics, health and safety, employment policies, human rights and environmental performance. The assessment questionnaires include our selection criteria for our suppliers, including whether they have set up an environmental management system, and whether they have conducted product safety testing, etc. We arrange on-site audit checks to ensure the reliability of the questionnaires. Our key material suppliers are required to obtain certifications by a third-party certification bodies, such as ISO9001 certifications, and to have no non-compliance issues. We also give priority to suppliers who have ISO9001, ISO/TS16949 Quality Management Systems – Particular Requirements for the Application of ISO9001:2008 for Automotive Production and Relevant Service Part Organizations, ISO14001 and IECQ QC8000 certifications. All suppliers of the Group must respect the individual human rights of their employees and comply with the relevant laws, regulations and directives in their corresponding operating countries and communities.

SUSTAINABLE AUDIT

After selecting the supplier, we monitor its performance on a continuing basis. We set different policies as guidelines for inspecting and improving the supplier performance. The policies include monthly performance reviews and procedures improvement for fulfilling sales requirement and achieving sustainable growth. In order to ensure the quality of our products, the Group assesses our major suppliers in five key aspects on a monthly basis, including quality, delivery, service, cost, and technology. The Group has set high environmental standards for the materials used by our suppliers. If a third-party certification body confirms the presence of abnormal environmental substances in their review process, our rating of the supplier will drop to zero. The Group gives first priority to the best suppliers based on the results of the review.

SERVING OUR CUSTOMERS

The Group is committed to providing the best quality products to our customers. We strive to be more customer-oriented by providing quality products that meet their requirements as closely as possible. To deliver on the Group's promises, we implemented the relevant quality assurance controls in order to provide good quality services to our customers. We also place great emphasis on customer feedback. To enhance customer's confidence in the Group, we strive not only to provide satisfactory after-sale services to our customers, but also to promptly provide effective solutions to the complaints from our customers. The Group strictly complies with the laws and regulations related to advertising, labeling and privacy matters of the products.

TESTING AND QUALITY ASSURANCE

The Group applies specific testing and checking methods as part of their procedures. To ensure product quality, we have established different departments which are responsible for raw material procurement and products manufacturing processes, so that every process, from raw materials procurement, product production to product shipment, is appropriately inspected and checked. Based on the customers' requirements of the products' quality, outlook and eco-labels, we conduct a series of comprehensive checks, including checking the product specifications and operating standards, the implementation of AEC-Q200, the environmental hazardous substances and RoHS, to ensure that customers receive their products that meet their specific requirements. The Group understands the importance of learning from its mistakes. If substandard products are discovered in the inspection process, we identify the causes of the problems and propose corrective and preventative measures. After imposing the measures, we assess closely on their effectiveness and improve the procedures to prevent re-occurrence of the same situation. Moreover, we have an excellent policy for product identification and tracking, which ensures that appropriate records and identification marks are made throughout the entire production process, from the procurement of raw materials, to the shipping of parts, and to the customer's finished products. The tracking system allows us to trace the problematic raw materials or production parts quickly amongst the entire production process, in order to identify any issues in environmental substances management.

CUSTOMER FEEDBACK

We attach great importance to customer feedback, and we regularly survey the rate of our customers' satisfaction of our products, and carefully analyze our customers' requirements and implement improvement plans to raise our customer satisfaction rate. Focusing on the items with low customer satisfaction, we work out a plan and control the production process to ensure that product quality and efficiency meet the customers' requirements. In 2016, we gained recognition from our customers, and received an average of over 90% positive feedback from our customers. We have established a complete customer feedback system that enables our sales center to instantly form a cross-functional team to analyze and review the products' quality, safety and service quality issues. After we receive the result from the cross-functional team, we choose the most suitable way to address the problems and we provide a full report to the customer within 3 working days. We believe in the importance of safeguarding the health and safety of our customers and ensuring customer satisfaction.

COMMITMENT TO INTELLECTUAL PROPERTY

As part of our promises in protecting third parties' intellectual property rights and privacy matter, the Group only uses its clients' trademarks, patents, and technology with their consent and authorization. We strengthen our internal information management to prevent our employees from disclosing any documents and information related to intellectual property in any ways. In addition, the Group also enhances the awareness of our employees in protecting intellectual property by providing regular intellectual property training, so our employees can learn specific ways and methods to protect intellectual property. We held one relevant training in 2016, which involved a total of 16 participants for a total of 4 hours.

ANTI-CORRUPTION

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

CARE FOR COMMUNITY

As a socially responsible enterprise, the Group is committed to building a close and long-term relationship with the community and creating a high-quality living environment for the public. Throughout the year, we joined community service, contributed donations and participated in fundraising and sponsorship events to show our care and support to the society. We cooperate with non-government organizations and socially responsible companies on a continuous basis to act in the interests of the well-being of the community. To enhance employees' benefits, Capxon Shenzhen offers help to internal employees with difficulties and lead them to work contentedly and live a happy life. In 2016, we established the Capxon Community Care Foundation and organized child sponsorship activities to support the family members of our employees who passed away. In addition, while upholding the valuable principles such as "leading by example" and "seeking excellence and perfection", we encourage our employees to take part in volunteering work and services in the community in order to continuously strengthen the Group's cooperation with the community. In 2016, we contributed a total of HKD60,851 through various donations, fundraising, and sponsorship projects to support community development. In addition, in order to strengthen our connection with the community, we actively participated in different public welfare events including cultural events, sports activities, competitions organized by local communities, business associations and unions.

CORPORATE GOVERNANCE PRACTICES

The board of Directors (the "Board") and the management of the Company treasure the confidence and trust of the shareholders of the Company in the ability and vision of the management team and have pledged to maintain an open and responsive attitude in shareholders' communications that are on a par with other leading corporations in the industry. The Board has been adamant in upholding best practice in corporate governance to ensure the timeliness, transparency and fairness of disclosure to maximize the corporate values of the Group and will continue to enhance its disclosure practices to display an exemplary corporate governance practice.

It is the Board's belief that a sound corporate governance system has been and will remain one of the key elements of the healthy growth of the Group.

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

(i) Code provision A.6.7 of the CG Code stipulates that independent non-executive directors should also attend general meetings. Mr. Lu Hong Te, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 27 May 2016 due to personal reasons.

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

The following outlines how the Company has adopted and complied with the CG Code to achieve good corporate governance.

A. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions.

All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code during the Year.

B. BOARD OF DIRECTORS

The Board comprises four executive Directors, one non-executive Director and three independent non-executive Directors. One of the independent non-executive Directors possesses appropriate accounting and related financial management expertise as required by the Listing Rules. The following sets out the composition of the Board (including gender, ethnicity, age, length of service) during the Year and up to the date of this annual report, by category of Directors:

		Gender	Ethnicity	Age	Length of service
Executive Directors:					
Mr. LIN Chin Tsun	*(Chairman and President)*	Male	Chinese	68	Approx. 10 years
Ms. CHOU Chiu Yueh	*(Vice-President)*	Female	Chinese	64	Approx. 10 years
Mr. LIN Yuan Yu	*(Chief Executive Officer)*	Male	Chinese	40	Approx. 10 years
Ms. LIN I Chu		Female	Chinese	37	Approx. 10 years
Non-executive Director:					
Ms. LIU Fang Chun		Female	Chinese	37	Approx. 10 years
Independent non-executive Directors:					
Mr. LAI Chung Ching		Male	Chinese	81	Approx. 10 years
Mr. LU Hong Te		Male	Chinese	56	Approx. 10 years
Mr. TUNG Chin Chuan		Male	Chinese	64	Approx. 10 years

The Board, led by the Chairman, sets the overall directions, strategies and policies of the Group. The Board has a balance of skills and experience appropriate for the requirements of the business of the Group. The executive Directors have extensive management experience in the aluminum electrolytic capacitor and aluminum foil manufacturing industry. The Board has the required knowledge, experience and capabilities to operate and develop the Group's business and implement its business strategies. The biographical details and experience of the Directors and senior management are set out on pages 13 and 14.

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

Directors can attend Board meetings either in person or by electronic means of communication. Four Board meetings were held during the Year. Details of attendance of Board meetings of each of the members of the Board are set out in "Attendance of Individual Directors at Meetings" below.

Directors have timely access to relevant information prior to each Board meeting to enable them to make an informed decision and to discharge their duties and responsibilities.

Apart from the family relationships among the members of the Board as set out below, there are no other financial, business, family or other material/relevant relationships among members of the Board:

- Ms. Chou Chiu Yueh *(Vice-President)* is the spouse of Mr. Lin Chin Tsun *(Chairman and President)*;
- Mr. Lin Yuan Yu *(Chief Executive Officer)* is the son of Mr. Lin Chin Tsun *(Chairman and President)* and Ms. Chou Chiu Yueh *(Vice-President)*;
- Ms. Liu Fang Chun *(non-executive Director)* is the spouse of Mr. Lin Yuan Yu *(Chief Executive Officer)*; and
- Ms. Lin I Chu *(executive Director)* is the daughter of Mr. Lin Chin Tsun *(Chairman and President)* and Ms. Chou Chiu Yueh *(Vice-President)*.

Under the leadership of the Chief Executive Officer, the management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Group. The Board delegates appropriate aspects of its management and administration functions to the management who shall report to the Board. The Board reviews on a periodic basis such delegations to ensure that they remain appropriate.

CHAIRMAN AND CHIEF EXECUTIVE

The role of the Chairman is separate from that of the Chief Executive Officer so as to delineate their respective areas of responsibility. They receive significant support from the Directors and the senior management team.

The Chairman is responsible for the strategic planning and major decision-making of the Group as well as for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. The Chief Executive Officer is responsible for the overall management and strategic planning of the Group's anode foils business.

NON-EXECUTIVE DIRECTORS

The independent non-executive Directors have diversified backgrounds and experience in different industries, and one of them has an appropriate accounting qualification as required by the Listing Rules. With their expertise, they offer experience, independent judgment and advice on the overall management of the Group. Their responsibilities include maintaining a balance between the interests of all shareholders of the Company as a whole. They are also members of the audit, nomination and remuneration committees.

The Company has received an annual confirmation of independence from each of the independent non-executive Directors. The Company is of the view that all the independent non-executive Directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and considers them to be independent.

The term of appointment of all the non-executive Directors is three years. Under the Company's Articles of Association, one-third of all Directors (whether executive or non-executive) is subject to retirement by rotation and re-election at each annual general meeting provided that every Director shall be subject to retirement at least once every three years.

TRAINING FOR DIRECTORS

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

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

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

C. REMUNERATION COMMITTEE

The Board established the remuneration committee on 15 April 2007 with specific written terms of reference which deal clearly with its authority and responsibilities. The committee is responsible for formulating and reviewing the remuneration policy; determining the remuneration packages of individual executive Directors and senior management; and making recommendations to the Board on the remuneration of non-executive Directors. In formulating the remuneration policy, the committee takes into consideration factors such as salaries paid by comparable companies, time commitment, employment conditions and responsibilities. The committee can seek independent professional advice to complement its own resources to discharge its duties.

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

During the Year, three meetings were held by the remuneration committee to discuss remuneration related matters which included review of the terms of the Directors' service agreements/appointment letters, and approval of bonus payments to senior management and executive Directors. Details of attendance of remuneration committee meetings of each of the members of the remuneration committee are set out in "Attendance of Individual Directors at Meetings" below.

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

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

D. AUDIT COMMITTEE

The Board established the audit committee pursuant to a resolution of the Directors passed on 15 April 2007 with specific written terms of reference which deal clearly with its authority and responsibilities. The committee is primarily responsible for reviewing the financial reporting process, risk management and internal control procedures of the Group. The committee is also responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditor, approving the remuneration and terms of engagement of the external auditor and considering any questions of resignation or dismissal of such auditor. The committee can seek independent professional advice to complement its own resources to discharge its duties.

The committee comprises all the independent non-executive Directors. Mr. Lai Chung Ching 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 2015 and for the six months ended 30 June 2016, the accounting principles and practices adopted by the Group and statutory compliance. In addition to reviewing the risk management and internal control systems and the effectiveness of the internal audit function of the Group, the committee also reviewed the independence of the external auditor and approved the remuneration and terms of engagement of the external auditor. Details of attendance of audit committee meetings of each of the members of the audit committee are set out in "Attendance of Individual Directors at Meetings" below.

E. NOMINATION COMMITTEE

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

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

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

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

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

All new appointments and re-appointments to the Board are considered by the nomination committee whose deliberations are based on the following criteria:

- independent mind and has integrity;
- possession of core competencies, including but not limited to financial literacy, that meet the current needs of the Company and complement the skills and competencies of the existing Directors on the Board;
- ability to commit time and effort to carry out duties and responsibilities effectively; and
- possession of a good track record of experience at a senior level in corporations/organizations.

F. AUDITORS' 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	1,168
Non-audit services	535
	1,703

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 2016 and provision of taxation services.

The audit committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Deloitte Touche Tohmatsu be re-appointed as the external auditor of the Company for 2017.

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 2016				
Name of Director	Board	Remuneration Committee	Audit Committee	Nomination Committee	Annual General Meeting
Mr. LIN Chin Tsun	4/4	3/3	N/A	1/1	1/1
Ms. CHOU Chiu Yueh	4/4	3/3	N/A	1/1	1/1
Mr. LIN Yuan Yu	3/4	N/A	N/A	N/A	1/1
Ms. LIN I Chu	4/4	N/A	N/A	N/A	1/1
Ms. LIU Fang Chun	4/4	N/A	N/A	N/A	1/1
Mr. LAI Chung Ching	4/4	3/3	3/3	1/1	1/1
Mr. LU Hong Te	4/4	3/3	3/3	1/1	0/1
Mr. TUNG Chin Chuan	3/4	3/3	2/3	1/1	1/1

H. FINANCIAL REPORTING

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

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

The statement of the external auditor of the Company regarding their responsibilities for the financial statements of the Group is set out in the independent auditor's report on pages 37 to 41.

I. SHAREHOLDERS' RIGHTS

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

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

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

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

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

(ii) Procedures for Putting Enquiries to the Board

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

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

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

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

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

J. RISK MANAGEMENT AND INTERNAL CONTROLS

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

RISK MANAGEMENT SYSTEM

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

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of these objectives.
- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication with the Board and on-going monitoring of the residual risks.

Based on the risk assessments conducted in 2016, 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 communication 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 2016, no significant control deficiency was identified.

INTERNAL AUDITORS

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

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

EFFECTIVENESS OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

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

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

K. INVESTOR RELATIONS

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

The Directors 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 35 to the consolidated financial statements.

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

BUSINESS REVIEW

The business review of the Group for the Year as required under Schedule 5 to the Companies Ordinance (Cap. 622 of the laws of Hong Kong) can be found in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Environmental, Social and Governance Report" on pages 3 to 5, pages 6 to 12 and pages 15 to 22 respectively, and in note 29 to the consolidated financial statements. These discussions form part of this Directors' Report.

MAJOR CUSTOMERS AND SUPPLIERS

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

The percentages of purchases for the Year attributable to the Group's largest supplier and the Group's five largest suppliers were 13.29% and 47.61%, respectively.

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

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the consolidated statement of profit or loss and other comprehensive income on page 42.

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

PROPERTY, PLANT AND EQUIPMENT

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

BORROWINGS

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the Group's borrowings are set out in note 23 to the consolidated financial statements.

PENSION SCHEMES

Details of the pension schemes are set out in note 25 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the Year are set out in note 27 to the consolidated financial statements.

RESERVES

Details of the movements in reserves of the Group during the Year are set out in the consolidated statement of changes in equity on page 45.

As at 31 December 2016, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB380,188,000 (31 December 2015: RMB399,041,000).

FIVE-YEAR FINANCIAL SUMMARY

A five-year financial summary of the Group is set out on page 94.

DIRECTORS

The Directors during the Year and up to the date of this report were:

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Ms. LIU Fang Chun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. LAI Chung Ching
Mr. LU Hong Te
Mr. TUNG Chin Chuan

In accordance with Article no. 87 of the Company's Articles of Association, Mr. Lin Yuan Yu, Ms. Liu Fang Chun and Mr. Lai Chung Ching will retire from office by rotation at the forthcoming annual general meeting. Mr. Lin Yuan Yu and Ms. Liu Fang Chun, being eligible, offer themselves for re-election. Mr. Lai Chung Ching has informed the Company that he will not offer himself for re-election at the forthcoming annual general meeting.

DISCLOSURE OF INFORMATION OF DIRECTORS/CHIEF EXECUTIVES

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules, the changes of information of Directors/chief executives subsequent to the publication of the interim report of the Company for the six months ended 30 June 2016 are as follows:

Mr. Lin Yuan Yu has acted as the vice-president of the Company's subsidiary Capxon Electronic (Shenzhen) Co., Ltd. since 1 January 2017.

DIRECTORS' SERVICE CONTRACTS

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

INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

The Company has received an independence confirmation from each of the independent non-executive Directors and considers each of them to be independent.

PERMITTED INDEMNITY PROVISION

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

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in note 32 to the consolidated financial statements, no transaction, arrangement or contract of significance in relation to the Company's business to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions are set out in note 32 to the consolidated financial statements. The related party transactions either did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

SHARE OPTIONS

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Share Option Scheme") on 3 April 2007. No options have been granted under the Share Option Scheme since its adoption.

A summary of the Share Option Scheme is set out below:

1. **Purpose of the Share Option Scheme**
   The purpose of the Share Option Scheme is to recognize and acknowledge the contributions of the participants to the Group by granting options to them as incentives or rewards.

2. **Participants of the Share Option Scheme**
   (i) any executive and employee of the Group; or

   (ii) any director (including non-executive directors and independent non-executive directors) of the Group; or

   (iii) any consultant, adviser and/or agent of the Group.

3. **Total number of shares available for issue under the Share Option Scheme and % of issued share capital at 30 March 2017**
   The maximum number of shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of the Group must not in aggregate exceed 84,455,984 shares (approximately 10% of the issued share capital of the Company).

4. **Maximum entitlement of each participant under the Share Option Scheme**
   The maximum entitlement for each participant is that the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares of the Company in issue. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the Share Option Scheme.

5. **The period within which the shares must be taken up under an option**
   The period commencing from the date of grant and expiring at 5:00 p.m. on the business day (being a day on which the Stock Exchange is open for the business of dealing in securities ("Business Day"))(i) preceding the fifth anniversary of the date of grant or (ii) preceding the expiry of the Share Option Scheme, whichever is the earlier.

6. **The minimum period for which an option must be held before it can be exercised**
   No option may be exercised until the expiry of 12 months after the date of grant.

7. **The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made, or loans for such purposes must be repaid**
   Nil.

8. The basis of determining the exercise price

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

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

9. The remaining life of the Share Option Scheme

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

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

As at 31 December 2016, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange, were as follows:

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

Notes:

(1) This percentage has been compiled based on the total number of issued shares (i.e. 844,559,841 shares) of the Company as at 31 December 2016.

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

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

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

Save as disclosed above, as at 31 December 2016, 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 2016, 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 2016.

Save as disclosed above, the Directors are not aware of any other persons who, as at 31 December 2016, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Year.

REMUNERATION POLICY

The remuneration policy of the employees of the Group takes into account prevailing market terms, individual performance, qualifications and competence.

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

The Company has adopted the Share Option Scheme to provide incentive to the directors and eligible employees of the Group, details of the said scheme are set out in the paragraph headed "Share Options" above.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the Year.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in the Company's Articles of Association or in the Companies Law of the Cayman Islands, being the jurisdiction in which the Company is incorporated.

REVIEW BY AUDIT COMMITTEE

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

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that, as at the date of this report, the Company has maintained the sufficient public float as required under the Listing Rules.

AUDITOR

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

On behalf of the Board

LIN Chin Tsun
Chairman

Hong Kong, 30 March 2017

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 42 to 93, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Provision for damages	
We identified the provision for damages associated with litigation in respect of the arbitral award against a subsidiary of the Company by The Japan Commercial Arbitration Association (the "Arbitration Association") as a key audit matter due to the high estimation uncertainty in respect of the ultimate outcome of the litigation. As disclosed in notes 4, 22 and 33(a) to the consolidated financial statements, an aggregate amount of approximately RMB190,864,000 (2015: RMB165,845,000) was provided for as at 31 December 2016, in respect of damages, interest and arbitration related expenses as a result of an arbitral award against the Company's subsidiary in Taiwan ("Taiwan Subsidiary") received in August 2014. In February 2017, the Tokyo High Court rejected the appeal, and the Taiwan Subsidiary then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected the Taiwan Subsidiary's request for a permission to file an appeal. The final decision of the extraordinary appeal has not yet been reached by the Japan Supreme Court up to the date of this report. Where the final damages award is more or less than expected, an overprovision or underprovision may arise, which would be recognised in profit or loss for the period in which the ultimate outcome is reached. Due to the fact that the outcome of the appeal to the Japan Supreme Court cannot be determined at this stage, there is a material uncertainty in respect of the ultimate outcome of the litigation.	Our procedures in relation to the provision for damages included: • Reading the documents in connection with the arbitral award from the Arbitration Association, decision in relation to the arbitral award issued by the Tokyo District Court, decision in relation to the rejection of the appeal issued by the Tokyo High Court, the documents in connection with the appeal to the Japan Supreme Court and a request for a permission to file an appeal to the Tokyo High Court and the decision in relation to the rejection issued by Tokyo High Court of the request for a permission to file an appeal; • Obtaining an understanding of the legal opinion on the litigation issued by the Group's legal representatives and discussing the recent development of the litigation with the Group's legal representatives; • Checking the calculation of the aggregate amount of the provision for damages to the documents in connection with the litigation in respect of the arbitral award; and • Assessing whether the disclosures in respect of the provision for damages in the consolidated financial statements are sufficient and appropriate.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of property, plant and equipment used in the Group's aluminium foils segment	
We identified the valuation of property, plant and equipment used in the Group's aluminium foils segment as a key audit matter due to the recurring loss of the aluminium foils segment and the excessive production capacity as a result of weak market demand during the years ended 31 December 2016 and 2015. As disclosed in notes 4 and 14 to the consolidated financial statements, during the year ended 31 December 2016, as a result of the recurring loss of Capxon Electronic Technology (Qinghai) Co. Ltd. (凱普松電子科技(青海)有限公司), a subsidiary of the Company, the Group carried out a review of the recoverable amount of the related property, plant and equipment of the subsidiary which are used in the Group's aluminum foils segment. The recoverable amounts of these property, plant and equipment, whose value in use are determined to be insignificant, have been determined as the assets' fair value less cost to sell by reference to valuations of their fair value which are higher than value in use amounts. These valuations are performed by an independent qualified professional valuer. The review led to the recognition of an impairment loss of RMB27,596,000 (2015: RMB3,500,000) in profit or loss for the year ended 31 December 2016. The carrying value of the Group's property, plant and equipment used in the Group's aluminium foils segment as at 31 December 2016 was approximately RMB171,315,000 (net of accumulated impairment loss of approximately RMB32,976,000).	Our procedures in relation to valuation of property, plant and equipment used in the Group's aluminium foils segment included: • Obtaining the cash flow forecast prepared by the management of the Group and the independent external valuation in respect of these property, plant and equipment from the management of the Group; • Evaluating management's key assumptions including those related to future cash flows forecast, growth rates and discounted rate applied to the future cash flows; • Evaluating the independent external valuer' competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of the key valuation assumptions; • Checking, on a sample basis, the accuracy and relevance of the input data used in the valuation; and • Checking, on a sample basis, the market value of the property, plant and equipment in the second hand market.

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 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.

- 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.

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

- 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 Chiu Mei Hing.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	**2016 RMB'000**	2015 RMB'000
Revenue	5	**946,643**	849,118
Cost of sales		**(707,707)**	(657,164)
Gross profit		**238,936**	191,954
Other income	6A	**8,005**	12,470
Other gains and losses	7	**(1,116)**	(2,493)
Impairment loss on property, plant and equipment		**(27,596)**	(3,500)
Distribution and selling costs		**(59,374)**	(55,637)
Administrative expenses		**(79,607)**	(81,746)
Other expenses	6B	**(33,582)**	(29,830)
Provision for damages	33(a)	**(8,899)**	(7,398)
Finance costs	8	**(2,398)**	(9,573)
Profit before tax		**34,369**	14,247
Income tax expense	9	**(20,655)**	(11,206)
Profit for the year	10	**13,714**	3,041
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		**–**	1,677
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		**(22,990)**	(10,185)
Other comprehensive expense for the year		**(22,990)**	(8,508)
Total comprehensive expense for the year		**(9,276)**	(5,467)
Profit (loss) for the year attributable to:			
Owners of the Company		**14,339**	3,780
Non-controlling interests		**(625)**	(739)
		13,714	3,041
Total comprehensive expense attributable to:			
Owners of the Company		**(8,685)**	(5,174)
Non-controlling interests		**(591)**	(293)
		(9,276)	(5,467)
Earnings per share (RMB cents)	13		
– Basic		**1.70**	0.45

Consolidated Statement of Financial Position

At 31 December 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**443,879**	499,603
Land use rights	*15*	**38,419**	39,453
Intangible assets	*16*	**153**	382
Deposits paid for acquisition of property, plant and equipment		**34,903**	36,564
		517,354	576,002
CURRENT ASSETS			
Inventories	*18*	**154,529**	142,069
Land use rights	*15*	**1,031**	1,031
Trade and other receivables	*19*	**383,336**	335,737
Tax recoverable		**2,056**	2,107
Pledged bank deposits	*20*	**2,424**	6,730
Bank balances and cash	*21*	**123,362**	93,782
		666,738	581,456
CURRENT LIABILITIES			
Trade and other payables	*22*	**416,327**	318,580
Bank borrowings	*23*	**87,210**	158,052
Amounts due to related parties	*24*	**4,334**	4,984
Tax liabilities		**20,119**	10,120
		527,990	491,736
NET CURRENT ASSETS		**138,748**	89,720
TOTAL ASSETS LESS CURRENT LIABILITIES		**656,102**	665,722
NON-CURRENT LIABILITIES			
Deferred income	*26*	**22,698**	23,010
Deferred tax liabilities	*17*	**3,764**	3,796
		26,462	26,806
NET ASSETS		**629,640**	638,916

	NOTES	2016 RMB'000	2015 RMB'000
CAPITAL AND RESERVES			
Share capital	27	**82,244**	82,244
Share premium and reserves		**545,155**	553,840
Equity attributable to owners of the Company		**627,399**	636,084
Non-controlling interests		**2,241**	2,832
TOTAL EQUITY		**629,640**	638,916

The consolidated financial statements on pages 42 to 93 were approved and authorised for issue by the Board of Directors on 30 March 2017 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 2016

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 *(Note i)*	Statutory reserve RMB'000 *(Note ii)*	Translation reserve RMB'000	Other reserve RMB'000 *(Note iii)*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015	82,244	436,626	(30,753)	101,801	27,006	3,650	20,684	641,258	3,125	644,383
Profit (loss) for the year	–	–	–	–	–	–	3,780	3,780	(739)	3,041
Other comprehensive (expense) income for the year	–	–	–	–	(10,573)	–	1,619	(8,954)	446	(8,508)
Total comprehensive (expense) income	–	–	–	–	(10,573)	–	5,399	(5,174)	(293)	(5,467)
Appropriation	–	–	–	472	–	–	(472)	–	–	–
At 31 December 2015	82,244	436,626	(30,753)	102,273	16,433	3,650	25,611	636,084	2,832	638,916
Profit (loss) for the year	**–**	**–**	**–**	**–**	**–**	**–**	**14,339**	**14,339**	**(625)**	**13,714**
Other comprehensive (expense) income for the year	**–**	**–**	**–**	**–**	**(23,024)**	**–**	**–**	**(23,024)**	**34**	**(22,990)**
Total comprehensive (expense) income	**–**	**–**	**–**	**–**	**(23,024)**	**–**	**14,339**	**(8,685)**	**(591)**	**(9,276)**
Appropriation	**–**	**–**	**–**	**4,250**	**–**	**–**	**(4,250)**	**–**	**–**	**–**
At 31 December 2016	**82,244**	**436,626**	**(30,753)**	**106,523**	**(6,591)**	**3,650**	**35,700**	**627,399**	**2,241**	**629,640**

Notes:

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

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

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

(iii) During the years ended 31 December 2013 and 2014, the Group accounted for the acquisition on additional interests of subsidiaries as equity transaction and the difference between the carrying amount of non-controlling interests and the fair value of the consideration paid, amounting to RMB3,650,000, was recognised in other reserve.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
OPERATING ACTIVITIES		
Profit before tax	**34,369**	14,247
Adjustments for:		
Amortisation of intangible assets	**229**	1,711
Amortisation of land use rights	**1,034**	1,034
Bank interest income	**(691)**	(1,062)
Depreciation of property, plant and equipment	**58,842**	66,364
Finance costs	**2,398**	9,573
Impairment loss on trade receivables	**1,353**	5,305
Impairment loss on other receivables	**–**	556
Impairment loss on property, plant and equipment	**27,596**	3,500
Loss on disposals of property, plant and equipment	**9,767**	3,335
Provision for the defined benefit pension plans	**–**	36
Government grants	**(3,728)**	(7,183)
Reversal of impairment loss on trade receivables	**(3,293)**	(4,673)
Reversal of write-down of inventories	**(14,261)**	(3,780)
Provision for damages (net of corresponding foreign exchange loss of RMB903,000 (2015: RMB5,088,000) arising on retranslation of the related provision at exchange rate prevailing at the end of the reporting period)	**9,802**	12,486
Operating cash flows before movements in working capital	**123,417**	101,449
Decrease in defined benefit obligations	**–**	(1,604)
Decrease in inventories	**1,801**	26,371
(Increase) decrease in trade and other receivables	**(43,481)**	32,625
Increase in amounts due to related parties	**240**	187
Increase (decrease) in trade and other payables	**62,007**	(10,322)
Cash generated from operations	**143,984**	148,706
Income tax paid	**(10,605)**	(9,171)
NET CASH FROM OPERATING ACTIVITIES	**133,379**	139,535
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(39,135)**	(26,116)
Placement of pledged bank deposits	**(2,424)**	(6,730)
Withdrawal of pledged bank deposits	**6,730**	18,106
Proceeds on disposal of property, plant and equipment	**1,155**	4,559
Interest received	**691**	1,062
Deposits paid for acquisition of property, plant and equipment	**–**	(8,379)
Additions to intangible assets	**–**	(19)
NET CASH USED IN INVESTING ACTIVITIES	**(32,983)**	(17,517)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(275,459)**	(519,233)
Interest paid	**(2,398)**	(9,573)
Repayment to related parties	**(890)**	(8,544)
New bank borrowings raised	**202,464**	394,717
Receipts of government grants	**3,416**	5,581
NET CASH USED IN FINANCING ACTIVITIES	**(72,867)**	(137,052)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**27,529**	(15,034)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**2,051**	653
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**93,782**	108,163
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**123,362**	93,782

1. GENERAL

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

The Company is an investment holding company. Particulars and principal activities of its subsidiaries are set out in Note 35.

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")

APPLICATION OF NEW AND AMENDMENTS TO IFRSs

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

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

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

NEW AND AMENDMENTS TO IFRSs IN ISSUE BUT NOT YET EFFECTIVE

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers[1]
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 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014–2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

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

IFRS 9 *FINANCIAL INSTRUMENTS*

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

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

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

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

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

IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

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

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

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

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

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

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

IFRS 16 *LEASES*

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows except for the short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating cash flows.

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

IFRS 16 *LEASES* *(continued)*

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB3,219,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

The principal accounting policies are set out below.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

No depreciation is provided in respect of freehold land.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

LEASING

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

The Group as lessee

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

LEASEHOLD LAND AND BUILDING

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

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

FOREIGN CURRENCIES

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

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

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

BORROWING COSTS

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

GOVERNMENT GRANTS

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

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

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

RETIREMENT BENEFIT COSTS

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

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained profits and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

SHORT-TERM AND OTHER LONG-TERM EMPLOYEE BENEFITS

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

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

TAXATION

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

INTANGIBLE ASSETS

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss in the period when the asset is derecognised.

Research and development expenditure

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

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

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

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

– the ability to use or sell the intangible asset;

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

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

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

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

INVENTORIES

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

FINANCIAL INSTRUMENTS

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities at amortised cost

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised is a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

PROVISION FOR DAMAGES

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

In August 2014, Capxon Taiwan received the arbitral award from the Arbitration Association which required Capxon Taiwan to compensate the customer damages in an aggregate sum of damages of Japanese Yen ("JPY") 2,427,186,647 plus interest on deferred payment and arbitration related expenses.

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. The final decision of the extraordinary appeal has not been reached by the Japan Supreme Court up to the date of this report. The directors of the Company believe that Capxon Taiwan has sufficient grounds to the appeal. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage. Where the actual future damages payments are more or less than expected, overprovision or underprovision for damages may arise, which would be recognised in profit or loss for the period in which the ultimate outcome of the appeal is reached. Therefore, an aggregate amount of JPY3,220,549,420 (2015: JPY3,074,519,231), equivalent approximately to RMB190,864,000 (2015: RMB165,845,000), was accrued and included in trade and other payables as at 31 December 2016 as a result of the initial arbitral award.

IMPAIRMENT ON PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses, if any. These carrying amounts are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The review comprises a comparison of the carrying amount and recoverable amount of the property, plant and equipment. Where the actual future cash flows or fair value less costs to sell are less or more than expected, or unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, impairment loss may arise. The recurring loss of the aluminium foils segment and the excessive production capacity as a result of weak market demand lead to an impairment loss recognised in property, plant and equipment used in the Group's aluminium foils segment. As at 31 December 2016, the carrying amount of property, plant and equipment used in aluminium foils segment is RMB171,315,000 (net of accumulated impairment loss of RMB32,976,000) (2015: carrying amount of RMB224,642,000, net of accumulated impairment loss of RMB5,380,000).

ESTIMATED IMPAIRMENT OF TRADE RECEIVABLES

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are different from expected, a material impairment or reversal may arise.

As at 31 December 2016, the carrying amount of trade receivables is RMB336,091,000 (net of allowance for doubtful debts of RMB18,098,000) (2015: carrying amount of RMB280,531,000, net of allowance for doubtful debts of RMB19,864,000).

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

ALLOWANCE FOR INVENTORIES

The Group exercises their estimates in making allowance for inventories. The Group reviews the inventory listing at the end of the reporting period, and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in operation. Management estimates the net realisable value for such items based primarily on the latest invoice prices, sales after year end and current market conditions. As at 31 December 2016, the carrying amount of inventories is RMB154,529,000 (net of allowance for inventories of RMB23,937,000) (2015: RMB142,069,000, net of allowance for inventories of RMB40,356,000).

5. REVENUE AND SEGMENTAL INFORMATION

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

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

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

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

SEGMENT REVENUE AND RESULTS

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

For the year ended 31 December 2016

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

5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

SEGMENT REVENUE AND RESULTS *(continued)*

For the year ended 31 December 2015

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	803,615	45,503	849,118	–	849,118
Inter-segment sales	–	89,041	89,041	(89,041)	–
Segment revenue	803,615	134,544	938,159	(89,041)	849,118
Segment profit (loss)	74,909	(35,510)	39,399	5,263	44,662
Interest income					1,062
Unallocated corporate expenses					(9,418)
Finance costs					(9,573)
Provision for damages					(7,398)
Foreign exchange loss arising on retranslation of provision for damages					(5,088)
Profit before tax					14,247

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

Inter-segment sales are charged at prevailing market rates.

5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

SEGMENT ASSETS AND LIABILITIES

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

	2016 RMB'000	2015 RMB'000
Segment assets		
Capacitors	**841,657**	778,314
Aluminium Foils	**644,131**	660,700
Total segment assets	**1,485,788**	1,439,014
Elimination – inter-segment balances	**(302,687)**	(282,445)
Unallocated assets	**991**	889
Consolidated assets	**1,184,092**	1,157,458
Segment liabilities		
Capacitors	**223,395**	251,364
Aluminium Foils	**440,661**	382,520
Total segment liabilities	**664,056**	633,884
Elimination – inter-segment balances	**(302,687)**	(282,445)
Unallocated liabilities	**193,083**	167,103
Consolidated liabilities	**554,452**	518,542

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

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

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

5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

GEOGRAPHICAL INFORMATION

The geographical information about the Group's non-current assets by geographical location of the assets are detailed below:

	2016 RMB'000	2015 RMB'000
The PRC	**506,386**	565,712
Taiwan	**10,968**	10,290
	517,354	576,002

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

	2016 RMB'000	2015 RMB'000
Revenue from external customers:		
The PRC	**760,804**	679,358
Taiwan	**17,536**	16,547
Other Asian countries *(Note)*	**143,723**	130,880
Europe *(Note)*	**23,256**	17,718
Americas and Africa *(Note)*	**1,324**	4,615
	946,643	849,118

Note: The countries of the external customers included in these categories comprised Korea, Japan, Vietnam, Singapore, India, Germany and others (2015: Korea, Japan, Vietnam, Singapore, India, Germany, Italy, Russia, Spain and others). No further analysis by countries of these categories is presented because the revenue from each individual country is insignificant to the total revenue.

INFORMATION ABOUT MAJOR CUSTOMERS

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

5. REVENUE AND SEGMENTAL INFORMATION *(continued)*

OTHER SEGMENT INFORMATION

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

For the year ended 31 December 2016

	Capacitors RMB'000	**Aluminum foils RMB'000**	**Total RMB'000**
Depreciation and amortisation	**30,869**	**29,236**	**60,105**
Additions to non-current assets	**33,605**	**7,191**	**40,796**
Impairment loss on trade receivables	**923**	**430**	**1,353**
Reversal of impairment loss on trade receivables	**(3,293)**	**–**	**(3,293)**
Loss on disposals of property, plant and equipment	**6,521**	**3,246**	**9,767**
Reversal of write-down of inventories	**(11,430)**	**(2,831)**	**(14,261)**
Impairment loss on property, plant and equipment	**–**	**27,596**	**27,596**

For the year ended 31 December 2015

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

6. OTHER INCOME/EXPENSES

A. OTHER INCOME

	2016 RMB'000	2015 RMB'000
Bank interest income	**691**	1,062
Government grant *(note)*	**3,728**	7,183
Sales of scrap material	**1**	38
Others	**3,585**	4,187
	8,005	12,470

Note: During the year ended 31 December 2016, the Group recognised government grants of RMB3,416,000 (2015: RMB5,581,000), which subsidise the production of aluminium foils and capacitors products, upon receipt from government authorities in the PRC, as the predetermined conditions set out by the government authorities have been fulfilled. In addition, the amount also includes the release of deferred income of RMB312,000 (2015: RMB1,602,000). Details of the deferred income are set out in Note 26.

B. OTHER EXPENSES

	2016 RMB'000	2015 RMB'000
Research and development costs	**31,293**	26,137
Others	**2,289**	3,693
	33,582	29,830

7. OTHER GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Loss on disposals of property, plant and equipment	**(9,767)**	(3,335)
Impairment loss on trade receivables	**(1,353)**	(5,305)
Impairment loss on other receivables	**–**	(556)
Reversal of impairment loss on trade receivables *(Note)*	**3,293**	4,673
Net foreign exchange gain	**6,711**	2,030
	(1,116)	(2,493)

Note: In prior years, the Group made impairment loss against the long outstanding balances with several debtors. During the year ended 31 December 2016, the Group received the repayments from the counterparties. Accordingly, the Group recognised the reversal of impairment loss.

8. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank borrowings	2,398	9,281
Interest on amount due to a director	–	292
	2,398	9,573

9. INCOME TAX EXPENSE

	2016 RMB'000	2015 RMB'000
Current tax:		
– PRC Enterprise Income Tax	15,285	8,250
– Taiwan Corporate Income Tax	3,398	2,697
	18,683	10,947
Under(over)provision in prior years:		
– PRC Enterprise Income Tax	2,333	–
– Taiwan Corporate Income tax	(361)	(608)
	1,972	(608)
Deferred tax *(Note 17)*:		
– Current year	–	867
	20,655	11,206

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

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

In February 2014, Capxon Shenzhen was approved for 3 years as enterprise that satisfied the condition as high technology development enterprise and is subject to a preferential tax rate of 15% in 2013, 2014 and 2015. In March 2017, Capxon Shenzhen was approved for 1 year as enterprise that satisfied the condition as high technology development enterprise and is subject to a preferential tax rate of 15% in 2016.

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

9. INCOME TAX EXPENSE *(continued)*

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

2016

	The PRC		Taiwan		Hong Kong		Others[(1)]		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit (loss) before tax	40,225		6,939		(10,624)		(2,171)		34,369	
Tax at the statutory tax rate	10,056	25.0	1,180	17.0	(1,753)	16.5	–	–	9,483	27.6
Tax effect of:										
Deductible temporary differences not recognised	7,955	19.8	3	0.0	101	1.0	–	–	8,059	33.5
Utilisation of deductible temporary differences not recognised	(4,882)	(12.1)	–	–	–	–	–	–	(4,882)	(14.2)
Expenses not deductible for tax	2,150	5.3	3,803	54.8	1,652	(15.5)	–	–	7,605	22.1
Under(over) provision in prior years	2,333	5.8	(361)	(5.2)	–	–	–	–	1,972	5.7
Income not subject to tax	(1,749)	(4.3)	(1,589)	(22.9)	–	–	–	–	(3,338)	(9.7)
Tax loss not recognised	12,390	30.8	–	–	–	–	–	–	12,390	36.0
Income tax on concessionary tax rate and tax exemption	(10,634)	(26.4)	–	–	–	–	–	–	(10,634)	(30.9)
Income tax expense reported in the consolidated statement of profit or loss and other comprehensive income at the Group's effective rate	17,619	43.9	3,036	43.7	–	–	–	–	20,655	70.1

2015

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

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

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

10. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit for the year has been arrived at after charging:		
Employee benefit expenses (including directors' emoluments *(Note 11)*):		
Wages, salaries and allowances	**183,826**	172,102
Defined contribution pension schemes *(Note 25 (II))*	**12,846**	11,052
Defined benefit pension plan *(Note 25 (I))*	**–**	36
	196,672	183,190
Amortisation of intangible assets		
– in cost of sales	**–**	1,444
– in administrative expenses	**229**	267
Amortisation of land use rights	**1,034**	1,034
Auditor's remuneration (including audit and non-audit services)	**1,703**	1,978
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB14,261,000 (2015: RMB3,780,000)) *(Note)*	**707,707**	657,164
Depreciation of property, plant and equipment	**58,842**	66,364

Note: During the year ended 31 December 2016, certain aged inventories which were written-down in prior years were sold. As a result, a reversal of write-down of inventories of approximately RMB14,261,000 (2015: RMB3,780,000) has been recognised and included in the cost of sales in the current year.

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

Details of the emoluments paid or payable to the directors and the chief executive for both years disclosed pursuant to the Listing Rules and Hong Kong Companies Ordinance are as follows:

DIRECTORS AND THE CHIEF EXECUTIVE

Name of directors	Fee RMB'000	Salaries and allowances RMB'000	Performance related incentive payment *(Note)* RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2016					
EXECUTIVE DIRECTORS[1]:					
Lin Chin Tsun	–	2,550	202	–	2,752
Chou Chiu Yueh	–	1,276	184	18	1,478
Lin Yuan Yu	–	1,522	184	25	1,731
Lin I Chu	–	886	184	24	1,094
NON-EXECUTIVE DIRECTOR[2]:					
Liu Fang Chun	–	638	100	9	747
INDEPENDENT NON-EXECUTIVE DIRECTORS[3]:					
Lai Chung Ching	237	–	–	–	237
Lu Hong Te	145	–	–	–	145
Tung Chin Chuan	145	–	–	–	145
	527	6,872	854	76	8,329

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

DIRECTORS AND THE CHIEF EXECUTIVE *(continued)*

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

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

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

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

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

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

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

FIVE HIGHEST PAID EMPLOYEES

Of the five individuals with the highest emoluments in the Group, four (2015: four) were directors of the Company and details of their emoluments are set out above. The emoluments of the remaining individual are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and allowances	**741**	717
Performance related incentive payment	**15**	15
	756	732

During the years ended 31 December 2016 and 31 December 2015, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director or the chief executive waived or agreed to waive any emoluments during both years.

12. DIVIDENDS

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

13. EARNINGS PER SHARE

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

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share		
Profit for the year attributable to owners of the Company	**14,339**	3,780

	2016	2015
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	**844,559,841**	844,559,841

Diluted earnings per share is not presented for the years ended 31 December 2016 and 2015 as there were no potential dilutive ordinary shares outstanding during both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land in Taiwan RMB'000	Buildings in Taiwan RMB'000	Buildings in the PRC RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2015	4,380	8,418	262,061	856,221	51,127	9,662	9,983	1,201,852
Additions	–	–	1,175	2,677	44	140	23,515	27,551
Transfer	–	–	–	16,738	5,578	–	(22,316)	–
Disposals/written-off	–	–	–	(29,299)	(2,207)	(133)	(857)	(32,496)
Exchange adjustment	85	164	–	–	16	–	–	265
At 31 December 2015	4,465	8,582	263,236	846,337	54,558	9,669	10,325	1,197,172
Additions	**–**	**–**	**570**	**1,260**	**61**	**516**	**38,389**	**40,796**
Transfer	**–**	**–**	**–**	**24,644**	**7,533**	**1,210**	**(33,387)**	**–**
Disposals/written-off	**–**	**–**	**–**	**(28,582)**	**(1,390)**	**(943)**	**(621)**	**(31,536)**
Exchange adjustment	**560**	**604**	**–**	**–**	**25**	**9**	**–**	**1,198**
At 31 December 2016	**5,025**	**9,186**	**263,806**	**843,659**	**60,787**	**10,461**	**14,706**	**1,207,630**
DEPRECIATION AND IMPAIRMENT								
At 1 January 2015	–	2,627	61,592	550,768	29,766	7,450	–	652,203
Provided for the year	–	200	5,876	55,327	4,561	400	–	66,364
Eliminated on disposals	–	–	–	(22,499)	(1,983)	(120)	–	(24,602)
Impairment loss recognised in profit or loss	–	–	–	3,500	–	–	–	3,500
Exchange adjustment	–	52	–	–	52	–	–	104
At 31 December 2015	–	2,879	67,468	587,096	32,396	7,730	–	697,569
Provided for the year	**–**	**209**	**5,954**	**46,281**	**5,802**	**596**	**–**	**58,842**
Eliminated on disposals	**–**	**–**	**–**	**(18,603)**	**(1,216)**	**(795)**	**–**	**(20,614)**
Impairment loss recognised in profit or loss	**–**	**–**	**–**	**19,479**	**616**	**36**	**7,465**	**27,596**
Exchange adjustment	**–**	**265**	**–**	**–**	**90**	**3**	**–**	**358**
At 31 December 2016	**–**	**3,353**	**73,422**	**634,253**	**37,688**	**7,570**	**7,465**	**763,751**
CARRYING VALUE								
At 31 December 2016	**5,025**	**5,833**	**190,384**	**209,406**	**23,099**	**2,891**	**7,241**	**443,879**
At 31 December 2015	4,465	5,703	195,768	259,241	22,162	1,939	10,325	499,603

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

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

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

During the year ended 31 December 2016, as a result of the recurring loss of Capxon Electronic Technology (Qinghai) Co. Ltd. (凱普松電子科技(青海)有限公司) ("Capxon Qinghai") (2015: Capxon Qinghai), a subsidiary of the Company, the Group carried out a review of the recoverable amounts of the related property, plant and equipment of the subsidiary which are used in the Group's aluminum foils segment. The review led to the recognition of an impairment loss of RMB27,596,000 (2015: RMB3,500,000) which has been recognised in profit or loss for the year ended 31 December 2016. The recoverable amounts of these property, plant and equipment, whose value in use are determined to be insignificant, have been determined as the assets' fair value less cost to sell by reference to the valuations of their fair value which are higher than their value in use amounts. These valuations are performed by independent qualified professional valuers.

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

The carrying value of properties shown above comprises:

	2016 **RMB'000**	2015 RMB'000
Properties:		
Freehold in Taiwan	**10,858**	10,168
In the PRC	**190,384**	195,768
	201,242	205,936

As at 31 December 2016, the Group did not obtain building ownership certificates for buildings located in Baotou City, Inner Mongolia Autonomous Region, the PRC, with a carrying value of approximately RMB5,986,000 (2015: RMB6,430,000). The directors of the Company expect to obtain the building ownership certificates for these buildings in year 2017.

The Group has pledged property, plant and equipment with a net book value of approximately RMB97,614,000 (2015: RMB99,048,000) to secure general banking facilities granted to the Group.

15. LAND USE RIGHTS

	2016 **RMB'000**	2015 RMB'000
Land use rights in the PRC	**39,450**	40,484
Analysed for reporting purpose as:		
Current assets	**1,031**	1,031
Non-current assets	**38,419**	39,453
	39,450	40,484

The Group has pledged land use rights with a net book value of approximately RMB13,818,000 (2015: RMB14,239,000) to secure general banking facilities granted to the Group.

At 31 December 2016, the Group did not obtain land use right certificates of land use rights with a carrying amount of approximately RMB15,733,000 (2015: RMB16,082,000). The directors of the Company expect to obtain the land use right certificates in year 2017.

16. INTANGIBLE ASSETS

	Trademark, patents and licences RMB'000
COST	
At 1 January 2015	20,284
Exchange adjustment	85
Additions	19
At 31 December 2015	20,388
Exchange adjustment	**220**
At 31 December 2016	**20,608**
AMORTISATION AND IMPAIRMENT	
At 1 January 2015	18,210
Exchange adjustment	85
Charge for the year	1,711
At 31 December 2015	20,006
Exchange adjustment	**220**
Charge for the year	**229**
At 31 December 2016	**20,455**
CARRYING VALUES	
At 31 December 2016	**153**
At 31 December 2015	382

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

17. DEFERRED TAX

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

	Inventories and doubtful debts allowance RMB'000	Post-employee benefits pension RMB'000	Tax losses RMB'000	Withholding tax provided RMB'000	Total RMB'000
At 1 January 2015	310	150	270	(3,472)	(2,742)
Charge to profit or loss	(477)	(116)	(274)	–	(867)
Exchange realignment	167	(34)	4	(324)	(187)
At 31 December 2015	–	–	–	(3,796)	(3,796)
Exchange realignment	**–**	**–**	**–**	**32**	**32**
At 31 December 2016	**–**	**–**	**–**	**(3,764)**	**(3,764)**

No deferred taxation has been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC subsidiaries amounting to RMB125,326,000 (2015: RMB62,910,000), as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

At the end of the reporting period, the Group has deductible temporary differences of RMB73,131,000 (2015: RMB60,220,000) arising from the inventories and doubtful debts allowance and impairment loss on property, plant and equipment. No deferred tax asset has been recognised in respect of the deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At the end of the reporting period, the Group has unused tax losses of RMB136,330,000 (2015: RMB86,770,000) 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 2021, five years from the year in which the loss was originated, to offset against future taxable profits.

18. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**54,805**	53,740
Work in progress	**24,524**	6,302
Finished goods	**75,200**	82,027
	154,529	142,069

19. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade and bills receivables	**354,189**	300,395
Less: allowance for doubtful debts	**(18,098)**	(19,864)
Total trade receivables	**336,091**	280,531
Advances to suppliers	**7,810**	1,600
Value added tax recoverable	**18,362**	32,990
Prepayments	**11,446**	12,981
Others	**9,627**	7,635
Total trade and other receivables	**383,336**	335,737

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

	2016 RMB'000	2015 RMB'000
0–60 days	**187,826**	158,310
61–90 days	**58,871**	61,976
91–180 days	**85,464**	56,139
181–270 days	**3,915**	3,243
271–360 days	**–**	636
Over 360 days	**15**	227
	336,091	280,531

Before accepting any new customers, the Group assesses the potential customer's credit quality and defines its credit limit based on results from investigation of historical credit records of these customers. Each customer is subject to a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. 98% (2015: 93%) of the trade receivables that are neither past due nor impaired have good credit quality under the internal assessment by the Group.

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of RMB5,769,000 (2015: RMB17,800,000) which were past due as at the reporting date but for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The directors of the Company considered that as there has not been a significant deterioration in credit quality of these debtors and there are continuing subsequent settlement, the amounts are still recoverable.

19. TRADE AND OTHER RECEIVABLES *(continued)*

AGING OF TRADE RECEIVABLES WHICH WERE PAST DUE BUT NOT IMPAIRED

	2016 RMB'000	2015 RMB'000
One to six months past due	**5,758**	17,757
Over six months past due	**11**	43
Total	**5,769**	17,800

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS

	2016 RMB'000	2015 RMB'000
1 January	**19,864**	18,783
Impairment losses recognised on receivables	**1,353**	5,305
Amount recovered during the year	**(3,293)**	(4,673)
Written off as uncollectible	**(265)**	–
Exchange adjustment	**439**	449
31 December	**18,098**	19,864

Included in the allowance for doubtful debts were individually impaired debtors with an aggregate balance of RMB18,098,000 (2015: RMB19,864,000), which had been in severe financial difficulties. The Group did not hold any collateral over these balances.

MOVEMENT IN THE ALLOWANCE FOR DOUBTFUL DEBTS FOR OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
1 January	**694**	138
Amount provided during the year	**–**	556
31 December	**694**	694

20. PLEDGED BANK DEPOSITS

These represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB2,424,000 (2015: RMB6,730,000) were pledged to secure short-term bank loans and are therefore classified as current assets.

The pledged bank deposits carry variable interest rates which range from 0.02% to 0.45% (2015: 0.01% to 0.45%) per annum.

21. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market interest rates which range from 0.0001% to 2.3% (2015: 0.01% to 0.75%) per annum.

22. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade and bills payables	**181,599**	113,955
Advances from customers	**5,828**	6,189
Payroll payables	**14,931**	14,275
Accruals	**14,054**	9,471
Land use rights payable	**5,481**	5,481
Provision for damages	**190,864**	165,845
Others	**3,570**	3,364
	416,327	318,580

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

	2016 RMB'000	2015 RMB'000
0–60 days	**145,835**	78,679
61–90 days	**7,638**	8,366
91–180 days	**9,439**	6,513
181–270 days	**375**	2,426
271–360 days	**113**	1,318
Over 360 days	**18,199**	16,653
	181,599	113,955

MOVEMENT IN THE PROVISION FOR DAMAGES

	2016 RMB'000	2015 RMB'000
1 January	**165,845**	150,169
Additional provision in the year	**8,899**	7,398
Exchange adjustment	**16,120**	8,278
31 December	**190,864**	165,845

23. BANK BORROWINGS

	2016 RMB'000	2015 RMB'000
Bank borrowings	**87,210**	158,052
Secured	**87,210**	104,530
Unsecured	**–**	53,522
	87,210	158,052
Carrying amount repayable:*		
Within one year and shown under current liabilities	**87,210**	158,052

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

The Group's bank borrowings included fixed-rate borrowings of RMB44,150,000 (2015: RMB80,061,000) which carry interest ranged from 1.50% to 1.58% (2015: 1.53% to 5.90%) per annum and are repayable within one year. The remaining balances are variable-rate borrowings which carry interest at the ranges of effective interest rates (which are also equal to contracted interest rates) of 1.05% to 2.45% (2015: 1.31% to 6.44%) per annum.

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

	United States Dollars ("USD") RMB'000	JPY RMB'000
At 31 December 2016	**44,150**	**19,421**
At 31 December 2015	**86,074**	**5,283**

24. AMOUNTS DUE TO RELATED PARTIES

Name of related party	Relationship	2016 RMB'000	2015 RMB'000
Lin Chin Tsun	Director	**3,725**	3,485
Lin I Chu	Director	**609**	1,499
		4,334	4,984

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

25. RETIREMENT BENEFIT PLANS

(I) DEFINED BENEFIT PENSION PLAN

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

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

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

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

Investment risk — The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan has a relatively balanced investment in equity securities and debt instruments. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets should be invested in equity securities to leverage the return generated by the fund.

Interest risk — A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Salary risk — The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan liability.

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

	2016 **RMB'000**	2015 RMB'000
Current service cost	–	36
Components of defined benefit costs recognised in profit or loss	–	36
Remeasurement on the net defined benefit liability: Release of actuarial gains and losses upon termination of the defined benefit pension plan	–	(1,677)
Components of defined benefit costs recognised in other comprehensive income	–	(1,677)
Total	–	(1,641)

25. RETIREMENT BENEFIT PLANS *(continued)*

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

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

Movements in the present value of the defined benefit obligations in both years were as follows:

	2016 RMB'000	2015 RMB'000
Defined benefit obligations at beginning of the year	–	5,486
Current service cost	–	36
Release of actuarial gains and losses upon termination of the defined benefit pension plan	–	(1,677)
Liabilities extinguished on settlements	–	(3,764)
Exchange difference	–	(81)
Defined benefit obligations at end of the year	–	–

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

	2016 RMB'000	2015 RMB'000
Fair value of plan assets at beginning of the year	–	707
Assets distributed on settlements	–	(707)
Fair value of plan assets at end of the year	–	–

(II) DEFINED CONTRIBUTION PENSION SCHEMES

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

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes the lower of HK$1,500 as defined in the Mandatory Provident Fund Scheme Ordinance per month or 5% of relevant monthly payroll costs as a mandatory contribution to the scheme, which contribution is matched by the employee.

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

The total expenses recognised in profit or loss during the year were RMB13,066,000 (2015: RMB11,052,000) represents contributions payable/paid to these plans by the Group at rates specified in the rules of the schemes. All the contributions had been paid over to the schemes as at the end of the reporting period.

26. DEFERRED INCOME

	2016 **RMB'000**	2015 RMB'000
CARRYING VALUE		
At 1 January	**23,010**	24,612
Released to profit or loss during the year	**(312)**	(1,602)
At 31 December	**22,698**	23,010

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

27. SHARE CAPITAL

	Number of shares	**Amount HK$'000**
Ordinary shares of HK$0.1 each		
Authorised:		
At 1 January 2015 and 31 December 2015 and 2016	1,500,000,000	150,000
Issued and fully paid:		
At 1 January 2015 and 31 December 2015 and 2016	844,559,841	84,456
Shown in the consolidated financial statements as (RMB'000)		82,244

28. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of bank borrowings and amounts due to related parties disclosed in Notes 23 and 24, respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, share premium and various reserves.

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

29. FINANCIAL INSTRUMENTS

29A. CATEGORIES OF FINANCIAL INSTRUMENTS

	2016 **RMB'000**	2015 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**471,504**	388,677
Financial liabilities		
Amortised cost	**295,242**	298,065

29B. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Market risk

(i) Currency risk

The Group mainly operates in the PRC with transactions substantially entered into in RMB, and the exposure to exchange rate risks mainly arises from the foreign currency sales and purchases and the bank balances and bank borrowings denominated in foreign currency. Approximately 44.64% (2015: 43.21%) of the Group's sales and 10.85% (2015: 35.28%) of the Group's purchases are denominated in currencies other than the functional currency of the respective group entities.

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

	Assets		**Liabilities**	
	2016 **RMB'000**	2015 RMB'000	**2016** **RMB'000**	2015 RMB'000
Hong Kong Dollars ("HKD")	**26,007**	21,281	**946**	560
USD	**176,321**	91,179	**45,932**	90,657
New Taiwan Dollars ("NTD")	**292**	3,299	**197**	197
Euro ("EUR")	**4,230**	2,516	**–**	–
JPY	**143**	1,058	**20,064**	5,612

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

29. FINANCIAL INSTRUMENTS *(continued)*

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

Market risk *(continued)*

(i) Currency risk (continued)

Sensitivity analysis

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

The following table details the Group's sensitivity to a 5% increase and decrease in the functional currencies of respective group entities against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in profit after tax where the functional currencies of respective group entities strengthen 5% against the relevant foreign currencies, and vice versa:

	2016 **RMB'000**	2015 RMB'000
HKD impact	**955**	777
USD impact	**5,010**	9
NTD impact	**4**	116
EUR impact	**176**	94
JPY impact	**(825)**	(186)

(ii) Interest rate risk

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

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate borrowings. Management considered the cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances is insignificant. The analysis is prepared assuming the borrowings outstanding at the end of the reporting period were outstanding for the whole year. A 25 basis point (2015: 25 basis point) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis point (2015: 25 basis point) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2016 would decrease/increase by RMB82,000 (2015: RMB105,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

29. FINANCIAL INSTRUMENTS *(continued)*

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

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2016, the Group has available unutilised short-term bank loan facilities of approximately RMB425,367,000 (2015: RMB395,933,000). Details of bank borrowings are set out in Note 23.

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

29. FINANCIAL INSTRUMENTS *(continued)*

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

Liquidity risk *(continued)*

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

	Weighted average effective interest rate %	Undiscounted cash flows – on demand or less than 1 year RMB'000	Total carrying amount RMB'000
2016			
Non-derivative financial liabilities			
Trade and other payables	–	203,698	203,698
Bank borrowings			
– fixed-rate	1.54	44,398	44,150
– variable-rate	1.70	43,396	43,060
Amounts due to related parties	–	4,334	4,334
		295,826	295,242

	Weighted average effective interest rate %	Undiscounted cash flows – on demand or less than 1 year RMB'000	Total carrying amount RMB'000
2015			
Non-derivative financial liabilities			
Trade and other payables	–	135,029	135,029
Bank borrowings			
– fixed-rate	2.11	80,635	80,061
– variable-rate	3.54	78,537	77,991
Amounts due to related parties	–	4,984	4,984
		299,185	298,065

29C. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

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

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

30. OPERATING LEASES

Minimum lease payments paid under operating leases during the year for rented premises is approximately RMB5,013,000 (2015: RMB5,096,000).

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

	2016 **RMB'000**	2015 RMB'000
Within one year	**2,864**	4,836
In the second to fifth year inclusive	**355**	1,944
	3,219	6,780

Leases are negotiated and rental are fixed for a period from one to two years (2015: one to two years).

31. CAPITAL COMMITMENTS

	2016 **RMB'000**	2015 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**33,430**	35,975

32. RELATED PARTY DISCLOSURES

(I) RELATED PARTY TRANSACTION

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

Name of related party	**Nature of transaction**	**2016** **RMB'000**	2015 RMB'000
Lin I Chu *(Note)*	Interest expense	**–**	292

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

32. RELATED PARTY DISCLOSURES *(continued)*

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

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

	2016 RMB'000	2015 RMB'000
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**44,150**	79,502
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**27,513**	38,846
Lin Yuan Yu *(Note)*	**–**	26,000
Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu *(Note)*	**15,547**	13,704
	87,210	158,052

Note: Mr. Lin Chin Tsun and Ms. Chou Chu Yueh are ultimate controlling shareholders of the Company. Mr. Lin Yuan Yu is close family member of the controlling shareholders. All of them are directors and shareholders of the Company.

The expiry dates of the above guarantees fall within the period from January 2017 to December 2017 (2015: January 2016 to December 2016).

As at 31 December 2016, Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh, Mr. Lin Yuan Yu and Ms. Lin I Chu pledged properties to certain banks to secure banking facilities of NTD200,000,000 (2015: NTD165,000,000) (approximately RMB42,980,000 (2015: RMB32,555,000) granted to the Group.

(III) RELATED PARTY BALANCES

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

(IV) COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

	2016 RMB'000	2015 RMB'000
Short-term benefits	**9,885**	9,089
Post-employment benefits	**152**	160
	10,037	9,249

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

33. MATERIAL PROCEEDINGS

(a) During the year ended 31 December 2011, a customer filed an arbitration claim against Capxon Taiwan with the Arbitration Association, claiming damages of JPY1,412,106,000 (equivalent to approximately RMB83,664,000 (2015: RMB76,113,000)) allegedly suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (equivalent to approximately RMB3,555,000 (2015: RMB3,234,000) for damages caused, plus interest from 17 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

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

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB143,806,000 (2015: RMB130,927,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB77,732,000 (2015: RMB70,770,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB55,833,000 (2015: RMB50,833,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (equivalent to approximately RMB10,241,000 (2015: RMB9,324,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,399,000 (2015: RMB1,274,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. The final decision of the extraordinary appeal has not been reached by the Japan Supreme Court as at the date of this report. The directors of the Company believe that Capxon Taiwan has sufficient grounds to the appeal. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage. Therefore, an aggregate amount of JPY3,220,549,420 (2015: JPY3,074,519,231), equivalent to approximately RMB190,864,000 (2015: RMB165,845,000), was accrued and included in trade and other payables as at 31 December 2016 as a result of the initial arbitral award.

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

34. PLEDGE OF ASSETS

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

	2016 RMB'000	2015 RMB'000
Property, plant and equipment	97,614	99,048
Land use rights	13,818	14,239
Bank deposits	2,424	6,730
	113,856	120,017

35. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

GENERAL INFORMATION OF SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2016 and 2015 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
			Direct		Indirect		
			2016 %	2015 %	2016 %	2015 %	
Capxon Electronic Technology (Baotou) Co., Ltd. *(Note i)* 凱普松電子科技(包頭)有限公司	The PRC	RMB100,000,000	–	–	100	100	Manufacture and sale of aluminium foil
Capxon Electronic Technology (Yichang Xanxin) Co., Ltd. *(Note ii)* 凱普松電子科技(宜昌三峽)有限公司	The PRC	US$30,000,000	–	–	100	100	Manufacture and sale of aluminium foil
Capxon Qinghai *(Note i)* 凱普松電子科技(青海)有限公司	The PRC	RMB99,000,000	–	–	100	100	Manufacture and sale of aluminium foils
Capxon Shenzhen *(Note ii)* 豐賓電子(深圳)有限公司	The PRC	US$73,880,000	6.77	6.77	93.23	93.23	Manufacture and sale of capacitors
Capxon Taiwan 豐賓電子工業股份有限公司	Taiwan	Registered: NTD620,000,000 Issued and fully paid: NTD532,410,000	96.54	96.54	–	–	Trading
Capxon Technology Limited 凱普松科技有限公司	British Virgin Islands	US$1,700,000	100	100	–	–	Trading
Capxon Trading (Shenzhen) Co., Ltd.* *(Note ii)* 凱普松貿易(深圳)有限公司	The PRC	US$700,000	–	–	100	100	Trading
Easy Chance Ltd. 宜邦有限公司	Hong Kong	HK$10,000	–	–	100	100	Trading and investment holding

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

GENERAL INFORMATION OF SUBSIDIARIES *(continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
			Direct		Indirect		
			2016 %	2015 %	**2016** %	2015 %	
Evercon Limited 艾美康有限公司	Hong Kong	US$1,000,000	**100**	100	**–**	–	Inactive
Gold Wish Ltd.	British Virgin Islands	US$30,000,000	**100**	100	**–**	–	Investment holding
Lancom Ltd. 龍球有限公司	Hong Kong	HK$85,137,200	**–**	–	**96.54**	96.54	Trading
Mega Tender Ltd. 緯成有限公司	Hong Kong	HK$10,000	**100**	100	**–**	–	Trading
Multiple Investments Ltd.	British Virgin Islands	US$2,300,000	**100**	100	**–**	–	Investment holding
Shenzhen Capxon New Energy Electronic Technology Co., Ltd.* *(Note i)* 深圳市凱普松新能源電子科技有限公司	The PRC	RMB5,000,000	**–**	–	**100**	100	Inactive
Waystech Trading Ltd. 威達貿易有限公司	British Virgin Islands	US$1,034,699	**100**	100	**–**	–	Investment holding
Yichang Fengshuo Equipment Co., Ltd. *(Note ii)* 宜昌豐碩設備有限公司	The PRC	HK$8,000,000	**–**	–	**100**	100	Manufacture and sale of equipment

* For identification purpose only

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

Notes:

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

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

36. FINANCIAL INFORMATION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSET		
Investments in subsidiaries	**521,841**	521,841
CURRENT ASSETS		
Other receivables	**299**	280
Amounts due from subsidiaries	**377,721**	375,702
Bank balances	**693**	608
	378,713	376,590
CURRENT LIABILITIES		
Other payables and accruals	**2,219**	1,258
Amounts due to subsidiaries	**435,903**	415,888
	438,122	417,146
NET CURRENT LIABILITIES	**(59,409)**	(40,556)
TOTAL ASSETS LESS CURRENT LIABILITIES	**462,432**	481,285
CAPITAL AND RESERVES		
Share capital	**82,244**	82,244
Share premium and reserves	**380,188**	399,041
TOTAL EQUITY	**462,432**	481,285
Loss for the year	**(18,853)**	(15,817)

Five-Year Financial Summary

	Year ended 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
RESULTS					
Revenue	970,975	1,072,741	989,625	849,188	**946,643**
(Loss) profit for the year	(2,205)	5,990	(144,027)	3,041	**13,714**

	As at 31 December				
	2012 RMB'000	2013 RMB'000	2014 RMB'000	2015 RMB'000	**2016** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,547,895	1,445,952	1,288,337	1,157,458	**1,184,092**
Total liabilities	(772,424)	(662,479)	(643,954)	(518,542)	**(554,452)**
	775,471	783,473	644,383	638,916	**629,640**
Attributable to:					
Owners of the Company	764,454	773,835	641,258	636,084	**627,399**
Non-controlling interests	11,017	9,638	3,125	2,832	**2,241**
	775,471	783,473	644,383	638,916	**629,640**