

CapXon

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

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code : 469

Annual Report





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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*)

#### Non-Executive Directors

Ms. LIN I Chu  
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

### REMUNERATION COMMITTEE

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

### CHIEF FINANCIAL OFFICER

Ms. HU Szu Jung, Carol

### COMPANY SECRETARY

Ms. CHAN Yin Fung

### AUDITOR

Deloitte Touche Tohmatsu  
35/F One Pacific Place  
88 Queensway  
Hong Kong

### LEGAL ADVISER

Jones Day  
29th Floor  
Edinburgh Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

### PRINCIPAL BANKERS

Agricultural Bank of China  
Bank of China Limited  
Bank of Communications Co., Ltd.  
China Construction Bank Corporation  
China Merchants Bank  
Hua Nan Commercial Bank  
Mega International Commercial Bank Co., Ltd.  
Nanyang Commercial Bank Ltd.  
Ping An Bank Co., Ltd.

### REGISTERED OFFICE

Scotia Centre  
4th Floor  
P.O. Box 2804  
George Town  
Grand Cayman  
Cayman Islands

### HEAD OFFICE IN TAIWAN

5th Floor  
No. 165, Sec. 2, Datong Road  
Sijhih City  
Taipei County  
Taiwan  
R.O.C.



## CORPORATE INFORMATION

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 4207, 42nd Floor  
Office Tower  
Convention Plaza  
1 Harbour Road  
Wanchai  
Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 705  
Grand Cayman KY1-1107  
Cayman Islands

### BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
Shops 1712-16, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

### INVESTOR RELATIONS

#### Taiwan

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

#### Hong Kong

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

### WEBSITE

[www.capxongroup.com](http://www.capxongroup.com)

### STOCK CODE

469



## CHAIRMAN'S STATEMENT

Dear Shareholders,

The diverse application and development of information products has been driving the expansion of the electronic components market. However, with the onset of a low profit margin era, the electronics industry has transformed from a low volume, diversified and high margin professional market to a high volume and low margin consumer market. Relocating production systems to Mainland China or other places with low costs of production has become an inevitable trend to facilitate on-site supply by the downstream suppliers and the search for cheaper workforce and land resources.

For Taiwanese manufacturers, Mainland China is strategically located with an edge in production costs and a consumer market with immense growth potential; Hong Kong is a platform to tap into the international investment markets and a wide scope is offered in the utilization of the capital raised. In consideration of these various factors, the Company has formulated its three-pronged strategy of conducting research and development in Taiwan, production in Mainland China and fund raising in Hong Kong.

The global financial tsunami in 2009 prompted the consideration of totally different factors as follows:

1. Low-priced commodities become mainstream;
2. Recovery was viewed with uncertainty in 2009; and
3. Polarization of market demand.

Given the doubts over recession and uncertainties about future outlook, the Group has taken the following measures in response to the above changes:

1. In terms of market expansion: leveraging on the advantages of the Group's upstream and downstream production chains, the Group offers a one-stop service to its customers to cater for their needs and strives to secure more orders by different means;
2. In terms of customer relations: apart from maintaining the relationship with existing customers, the Group actively explores new products and engages in joint research & development to meet the design needs of the customers' new products so as to secure more new orders.

Capxon Electronic Technology (Yichang Sanxia) Co. Ltd., a subsidiary of the Company in Hubei, is engaged in the production and sale of etched foils and formed foils. Capxon Electronic Technology (Baotou) Co. Ltd., located in Baotou of Inner Mongolia, focuses on the production and sale of anode formed foils and completed the installation of production lines for formed foils in June 2008. The Group's production of anode foils fully satisfies internal demand. At the same time, the Group has made gradual inroads in the massive market of Mainland China.



## CHAIRMAN'S STATEMENT

With respect to the electrolytic capacitors, in addition to the continuous development of the V-chip type capacitors and conductive polymers market, the Group also continues to invest more resources in the research and development of the fire resistant capacitors, low-voltage and long-life capacitors, high temperature, long-life and energy-saving lamp capacitors, high ripple current, lower resistance and screw-type capacitors and audio capacitors and has attained remarkable research and development results so far. While continuously focusing on lowering operational costs, the Group remains wishful to cope with the recession of the electronics industry and prepare for the future regeneration of the industry through the dual effects of expanding its income base and costs reduction.

Looking forward, the Group's business objective is to become a high quality anode foils manufacturer and supplier, while continuously enhancing its leading position in both the domestic and overseas aluminum electrolytic capacitor markets. The Group will capitalize on the collective wisdom of its management team more effectively to leverage on its strengths and at the same time expand into new horizons in order to consolidate its business foundation and competitive edge. Meanwhile, the Group will also make every endeavour to push ahead to become an international market supplier by combining the competitive edges of Mainland China, Hong Kong and Taiwan with a view to creating maximum returns for its shareholders as a whole.

**LIN Chin Tsun**

*Chairman*

Hong Kong, 15 April 2010



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

A summary of the financial results of the Group for the year ended 31 December 2009 (the “Year”) is as follows:

- Revenue fell by approximately 15.08% to approximately RMB775,053,000.
- Gross profit increased by approximately 14.62% to approximately RMB150,959,000.
- Loss for the year attributable to owners of the Company amounted to approximately RMB6,438,000 (2008: RMB24,485,000).

Upon a review of the financial results for the Year, the Group’s revenue was approximately RMB775,053,000, representing a decrease of approximately 15.08% over the same period last year. The decrease was mainly attributable to the deteriorating operating environment and stagnant demand as a result of the financial tsunami. The sales of aluminum electrolytic capacitors for the Year was approximately RMB566,526,000, representing a decrease of approximately 12.60% over RMB648,193,000 of the same period last year and the sales of aluminum foils for the Year was approximately RMB208,527,000, representing a decrease of approximately 21.15% over RMB264,449,000 of the same period last year. However, the Group’s gross profit margin rose from approximately 14.43% for the corresponding period last year to approximately 19.48% for the Year. The improvement in the gross profit margin was mainly due to the Group’s tightened internal control over the sales unit price and gross profit as well as the decline in the price of raw materials.

### BUSINESS REVIEW

#### Manufacturing and sale of aluminum foils

During the Year, after satisfying internal production demand, external sales of aluminum foils amounted to approximately RMB208,527,000, representing a decrease of approximately 21.15% over RMB264,449,000 of last year. Its share of the Group’s total external sales decreased from approximately 28.98% in the previous year to approximately 26.90% for the Year.

Manufacturing and sale of high quality anode foils is one of the major businesses of the Group. Currently, the Group has successfully completed the laboratory research and development of the super high-voltage anode foils and the trial run of the pilot production lines. The Group possesses excellent technology for the production and processing of anode foils as well as stable production capacity.

Aluminum foils are the major raw materials of capacitors. Given the considerable gross profit margin of aluminum foils, huge demand from both domestic and overseas markets and the high quality demanded, the Group has positioned high quality anode foils as a major product in its sales strategy to provide adequate supply of quality raw materials for the Group’s own production of capacitors, thereby lowering the production costs and enhancing quality control. Besides, the anode foils can be sold to domestic and overseas capacitor manufacturers so as to enhance the Group’s revenue and gross profits.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Manufacturing and sale of capacitors

External sales of aluminum electrolytic capacitors during the Year reached approximately RMB566,526,000, representing approximately 73.10% of the Group's total external sales during the Year and a decrease of approximately 12.60% from RMB648,193,000 in the previous year.

At present, the Group's production technique for aluminum electrolytic capacitor is rather mature. In response to the demand arising from diverse application of electronic products, the Group's aluminum electrolytic capacitors feature a comprehensive range of sizes and specifications, and are characterized by long life, high capacitance, low resistance, energy-saving and heat and high voltage tolerance properties. A number of the Group's major products are equipped with these features, such as the SMD electrolytic capacitors, the conductive polymers and the products that have been recently introduced into the market after research and development featuring the flame retardant and safety vent construction design. In addition, the Group has also developed related products which meet the requirements of the automotive industry in terms of heat resistance, shock-proof, high ripple rejection and low resistance. The Group has obtained the ISO/TS 16949 certification for such products and became a qualified supplier of related electronic devices for the automotive industry.

### Green production system

Restriction of Hazardous Substances Directive 2002/95/EC ("RoHS") is an environmental protection directive enacted by the European Union in 2003 and came into effect in July 2006. It principally specifies the standards for raw materials used in, and the production and processing techniques applied for electronic products for compliance. In terms of the examination of the ingredients of the raw materials and the overall production process, the Group has installed related equipment and apparatuses in aid of quality control so as to ensure compliance with the requirements of the RoHS. By complying with the RoHS directive, the Group is taking up responsibilities in environmental protection, thereby winning the trust of its customers and creating green business opportunities.

## LIQUIDITY AND FINANCIAL RESOURCES

### Cash flows

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

During the Year, the Group had net cash inflows before foreign exchange adjustment of approximately RMB13,997,000 from operating, investing and financing activities, the details of which are set out below:

Net cash inflows from operating activities were approximately RMB28,782,000, mainly accounted for by the loss before taxation of approximately RMB3,582,000 for the Year together with the flow of funds as a result of the adjustments to finance costs and depreciation, movements in inventory, accounts receivable and accounts payable as well as various adjustments.

Net cash outflows from investing activities were approximately RMB160,189,000, mainly accounted for by the cash outflows of approximately RMB33,201,000 for the Group's acquisition of machinery and equipment for the production plants and the additions to pledged bank deposits in the amount of approximately RMB138,648,000.

Net cash inflows from financing activities were approximately RMB145,404,000, mainly accounted for by the bank borrowings of approximately RMB988,070,000, repayment of bank loans of approximately RMB785,608,000 and payment of loan interest of approximately RMB32,105,000.

As at 31 December 2009, the Group had cash and cash equivalents of approximately RMB70,663,000 (31 December 2008: RMB56,090,000), which were mainly denominated in Renminbi and US dollars.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Borrowings

As at 31 December 2009, the Group had total bank borrowings of approximately RMB692,492,000 (31 December 2008: RMB487,981,000), which were mainly denominated in Renminbi and US dollars. Such borrowings were mainly subject to floating interest rates. Set out below is an analysis of the repayment profile of the bank borrowings:

	<b>31 December 2009</b> <i>RMB'000</i>	31 December 2008 <i>RMB'000</i>
Within one year	<b>475,873</b>	447,653
In the second year	<b>201,674</b>	11,615
In the third to fifth year, inclusive	<b>14,945</b>	27,673
Beyond five years	—	1,040
	<b>692,492</b>	487,981

### CHARGE ON ASSETS

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

	<b>31 December 2009</b> <i>RMB'000</i>	31 December 2008 <i>RMB'000</i>
Bank deposits	<b>209,755</b>	71,107
Bills receivable	<b>1,573</b>	—
Investment properties	<b>9,863</b>	9,591
Prepaid lease payments	<b>26,144</b>	—
Property, plant and equipment	<b>361,869</b>	325,247
	<b>609,204</b>	405,945

### FINANCIAL RATIOS

As at 31 December 2009, the Group's gearing ratio (net debts divided by equity attributable to owners of the Company plus net debts) amounted to approximately 51.82%, representing an increase of approximately 7.28% as compared to 44.54% as at 31 December 2008. The increase was mainly attributable to the increase in the Group's bank borrowings and trade and bills payable of approximately RMB204,511,000 and approximately RMB44,523,000 respectively.

Set out below is the turnover (days) of the inventories, trade and bills payable, and trade and bills receivable of the Group during the Year:

	<b>For the year ended 31 December</b> <b>2009</b>	2008
Inventory turnover	<b>133 days</b>	111 days
Trade and bills receivable turnover	<b>132 days</b>	127 days
Trade and bills payable turnover	<b>61 days</b>	57 days



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's turnover days for inventory, trade and bills receivable and trade and bills payable were 22 days, 5 days and 4 days longer than those in the previous year. The Group will continue to improve the management of its inventories, trade receivable and trade payable in order to better utilize the available funds.

### CAPITAL COMMITMENTS

As at 31 December 2009, the Group had capital commitments contracted but not provided for amounting to approximately RMB14,465,000 (31 December 2008: RMB2,750,000).

### CONTINGENT LIABILITIES

During the year ended 31 December 2009, a customer filed a civil complaint in the People's Court of Baoan District in the PRC (the "Court") against a subsidiary of the Company, Capxon Electronic (Shenzhen) Co. Ltd. ("Capxon Shenzhen"), claiming product defect compensation of RMB29,144,000. Capxon Shenzhen placed a deposit of RMB7,000,000 to the Court in respect of such claim. The claim was rejected at first instance by the Court. In December 2009, the customer filed an appeal which is pending hearing. The directors of the Company, having sought legal advice, considered that the possibility of the outflow of resources relating to settlement is not probable, accordingly, no provision for any potential liability has been made in the consolidated financial statements. (31 December 2008: Nil)

### FOREIGN EXCHANGE FLUCTUATIONS

The Group derives its revenue principally in US dollars and New Taiwan dollars, whilst the expenses are mainly denominated in Japanese Yen, Renminbi, US dollars and New Taiwan dollars. As the revenue and expenses are denominated in different currencies, the exposure to exchange risks was mostly managed through natural hedges. However, in the event that Renminbi further appreciates, the Group will still be affected indirectly.

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

### EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2009, the Group had approximately 3,207 employees. Salary, bonus and benefits are determined with reference to prevailing market terms and individual performance, qualification and experience.

### FUTURE PLANS AND PROSPECTS

In 2010, the global economy is expected to recover gradually amid prudent and positive sentiments. The Group prudently plans its strategies for the future under such optimistic environment:

- 1. To continue its R&D of cost-saving measures, improve the planning of the assembling and production facilities for aluminum foils and capacitors in order to attain stable production**

The Group's research and development division will strive to be innovative and continue its efforts to develop technology, constantly upgrade product quality and significantly reduce the overall production costs in order to maintain competitiveness in the industry. Meanwhile, in order to meet the needs of the customers, the Group will engage in aluminum electrolytic capacitors products development and formulation of specifications simultaneously with the launch of new products.



## MANAGEMENT DISCUSSION AND ANALYSIS

### **2. To develop new sales channels for anode foils and markets for new capacitor products**

As the profit of the high quality anode foils market is considerable and the adequate supply of anode foils for internal production also facilitates the control of the production costs of aluminum electrolytic capacitors, the Group will be devoted to enhance its research and development of the production technology for anode foils as well as product quality in order to stabilize the sales channels of high quality anode foils, boost its market share and reap the profits generated by the high added value created by aluminum foils. With respect to the management of the electrolytic capacitors market, the Group's latest major direction in enhancing its operation of such business is the research and development, production and sale of SMD electrolytic capacitors and conductive polymer capacitors. In terms of research and development results, the Group successfully launched a smaller size SMD type conductive polymer capacitor, flame retardant capacitor, low-voltage and long life capacitor, low resistance capacitor and capacitor for audio applications in the prior period. During the current period, the Group focused on LED TV products applications and has launched after research and development LY and KY small and long series. In terms of sales channels, the Group will actively expand into the markets in Taiwan and Japan. Besides, the R&D division has also readjusted the property requirements of the ultra-low resistance and long-life FH series in response to the Japanese line of capacitor products applications. The Group will endeavor to capture more orders in the market during the current brewing period amid of the effect of order transfers so as to achieve promising results for its capacitors in 2010.

### **3. To maintain existing production scale and adjust the mode of accepting business orders**

Despite the prudent and positive market sentiments, to avoid the adversities experienced during the financial tsunami in 2008, the Group will maintain the existing production scale in 2010. Except for replacing the obsolete equipment, the Group will monitor its capital expenditure. As for the mode of accepting business orders, the Group will mainly target at bulk orders, mass production and gross profit margin enhancement with a view to delivering returns to the shareholders in the new year.



## DIRECTORS AND SENIOR MANAGEMENT PROFILES

### DIRECTORS

#### Executive Directors

**Mr. Lin Chin Tsun** (林金村), aged 61, is the chairman and president of the Group and is responsible for the strategic planning and major decision-making of the Group. 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 of the Company on 15 April 2007.

**Ms. Chou Chiu Yueh** (周秋月), aged 57, is an executive director of the Company and the vice-president of the Group and is responsible for the management, strategic planning and major decision making of Capxon Taiwan. Ms. Chou is the spouse of Mr. Lin Chin Tsun. She joined Capxon Taiwan in June 1980 and has been the executive director of Capxon Taiwan since then. Ms. Chou was appointed as an executive director of the Company on 15 April 2007.

**Mr. Lin Yuan Yu** (林元瑜), aged 33, is an executive director of the Company 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 Yuan Yu is the son of Mr. Lin Chin Tsun. 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. Mr. Lin was appointed as an executive director of the Company on 15 April 2007.

#### Non-executive Directors

**Ms. Lin I Chu** (林蕙竹), aged 30, is a non-executive director of the Company 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 has been promoted as the head of the sales department of the Company’s subsidiary Capxon Electronic (Shenzhen) Company Limited (“Capxon Shenzhen”) in January 2009. Ms. Lin was appointed as a non-executive director of the Company on 15 April 2007.

**Ms. Liu Fang Chun** (劉芳均), aged 30, is a non-executive director of the Company. 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 of the Company on 15 April 2007.



## DIRECTORS AND SENIOR MANAGEMENT PROFILES

### Independent Non-executive Directors

**Mr. Lai Chung Ching (賴崇慶)**, aged 74, 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 management. Since 1967, Mr. Lai has been the member of the executive committee of the Taiwan CPA Association (台北市會計師公會). From 1977 to 1980, he was the vice-president and in 1983, Mr. Lai was elected as the president of the Taiwan CPA Association (台北市會計師公會) and 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 alumni 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 a director of 科園育樂事業股份有限公司. Mr. Lai was appointed as an independent non-executive director of the Company on 15 April 2007.

**Mr. Lu Hong Te (呂鴻德)**, aged 49, 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 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) in 2003; as 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 and 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 2004. In addition, Mr. Lu is an external director (外部董事) of four companies including Everlight Chemical Industrial Corporation (1711) (台灣永光化學工業股份有限公司), AIPTEK International Inc. (6225) (天瀚科技股份有限公司), 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 which are listed in Taiwan; Mr. Lu is also currently an independent non-executive director of ANTA Sports Products Limited (2020) and China Lilang Limited (1234), both of whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited. Mr. Lu was appointed as an independent non-executive director of the Company on 15 April 2007.

**Mr. Tung Chin Chuan (董清銓)**, aged 57, 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 has been the manager of Hewlett-Packard Development Company, L.P. (惠普科技股份有限公司), and was also the vice-general manager and is a supervisor of Behavior Tech Computer Corporation (英群企業股份有限公司). He was once the general manager and director of Walton Chaintech Corporation (華東承啟科技股份有限公司), as well as the general manager and consultant of Premier Capital Management Corporation (首席財務管理顧問股份有限公司). In addition, Mr. Tung is an independent non-executive director of Tai Tien Electronics Co., Ltd. (泰藝電子股份有限公司). Mr. Tung was appointed as an independent non-executive director of the Company on 15 April 2007.



## DIRECTORS AND SENIOR MANAGEMENT PROFILES

### SENIOR MANAGEMENT

**Ms. Lee Feng Mei (李鳳美)**, aged 37, is the chief of Capxon Taiwan's overall operations. Ms. Lee obtained her international business degree from the Chungyu Institute of Technology (崇佑技術學院) and joined Capxon Taiwan in September 1992 as an operations engineer and was appointed as the head of the sales department in June 2002.

**Ms. Hu Szu Jung, Carol (胡思蓉)**, aged 49, is the chief financial officer of the Group and the chief of Capxon Taiwan's finance operations. Ms. Hu obtained her bachelor's degree in corporate management from the Private Chinese Culture University (中國文化大學). She worked at Soyo Computer Inc. (梅捷企業股份有限公司) as the assistant vice president of the administration department from 1991 to 2001 and joined Capxon Taiwan in July 2003. She is principally responsible for the financial advisory and overall financial operations of Capxon Taiwan.

**Mr. Lu Yen Chen, Denson (呂晏丞)**, aged 40, is the chief of Capxon Taiwan's research and development. Mr. Lu obtained his bachelor's degree in chemical engineering from the National Chung Hsing University (國立中興大學). He joined Capxon Taiwan in July 2000 and is responsible for the research and development of Capxon Taiwan.

**Mr. Lin Jen Te, Matt (林仁德)**, aged 41, is the chief of the finance operations of the Capxon Shenzhen. Mr. Lin obtained his bachelor's degree in accounting at Shih Chien University (實踐大學). Prior to joining the Group, Mr. Lin was the vice president of Sunrise CPA Limited (日正聯合會計師事務所). He joined Capxon Shenzhen in November 2002 and is responsible for the overall financial operations of Capxon Shenzhen.

**Mr. Long Chung Hsin, Andrew (龍中興)**, aged 51, is the chief of Capxon Yichang's finance operations. Mr. Long obtained his bachelor's degree in accounting at Fu Jen Catholic University (輔仁大學). Prior to joining the Group, Mr. Long was the vice president of 深圳市聯動技術科技有限公司 and the financial controller of Shanghai Metersbonwe Fashion & Accessories Co., Ltd. He joined, left and rejoined Capxon Yichang in August 2005, August 2007 and January 2009 respectively, and is responsible for the operations of Capxon Yichang.

**Ms. Chan Yin Fung (陳燕鳳)**, aged 38, is the financial controller and company secretary of the Company. Ms. Chan holds a master's degree in corporate governance and a bachelor's degree in business administration majoring in accounting. Ms. Chan is a Fellow of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and an Associate of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She has extensive experience in the field of accounting, auditing, finance and corporate compliance. She joined the Group in July 2007.



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

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 Group's corporate values and will continue to enhance its disclosure practices to display an exemplary corporate governance practice.

It is the Board's belief that a sound corporate governance system has been and will remain as an instrumental element to the healthy growth of the Group.

### Compliance with the CG Code

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") and the rules on the Corporate Governance Report (the "CG Rules") as set out respectively in Appendices 14 and 23 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2009.

The following outlines how the Company has adopted and complied with the CG Code and the CG Rules 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 to the Listing Rules.

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 ended 31 December 2009.

#### B. BOARD OF DIRECTORS

The Board comprises three executive directors who are the Chairman and President, Vice-President and Chief Executive Officer respectively, two non-executive directors 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, by category of directors:

**Executive directors:**

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

**Non-executive directors:**

Ms. LIN I Chu  
Ms. LIU Fang Chun

**Independent non-executive directors:**

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



## CORPORATE GOVERNANCE REPORT

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 11 to 13.

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

Directors can attend Board meetings either in person or by electronic means of communication. Five Board meetings were held during the year ended 31 December 2009. 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 (*non-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 Officer

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.



## CORPORATE GOVERNANCE REPORT

### Non-Executive Directors

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

### C. REMUNERATION OF DIRECTORS

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 and specific remuneration packages of all executive directors. In formulating the remuneration policy, the committee takes into consideration factors such as salaries paid by comparable companies, employment conditions and responsibilities, and individual performance of the directors, senior management, and the general staff. The committee can seek independent professional advice to complement its own resources to discharge its duties.

The remuneration 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.

During the year ended 31 December 2009, one meeting was held by the remuneration committee to discuss remuneration related matters including approval of the bonus payments for the directors and senior management. The meeting was attended by all the members of the remuneration committee.

Details of the emoluments and options of each director, on a named basis, are set out in note 12 to the consolidated financial statements and in the section headed "Share Options" in the directors' report respectively.



## CORPORATE GOVERNANCE REPORT

### D. AUDIT COMMITTEE

The Board established the audit committee pursuant to a resolution of the Directors passed on 15 April 2007 with specific written terms of reference which deal clearly with its authority and responsibilities. The committee is primarily responsible for reviewing the financial reporting process and internal control procedures of the Group. The committee is also responsible for making recommendation to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors. 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 ended 31 December 2009. The committee reviewed, together with the management and the external auditors, the consolidated financial statements for the year ended 31 December 2008 and for the six months ended 30 June 2009, the accounting principles and practices adopted by the Group and statutory compliance. In addition to reviewing the Group's internal control system, the committee also reviewed the independence of the external auditors and approved the remuneration and terms of engagement of the external auditors. 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 OF DIRECTORS

The Company does not have a nomination committee. Currently all new appointments and re-appointments to the Board are considered by the Board 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

Deloitte Touche Tohmatsu, the external auditors of the Company, were responsible for providing services in connection with the review of the Group's financial statements for the six months ended 30 June 2009 and the audit of the financial statements of the Group for the year ended 31 December 2009.

For the year ended 31 December 2009, the total remuneration in respect of review and audit services provided by Deloitte Touche Tohmatsu for the Group amounted to approximately RMB1,328,000 and in respect of non-audit services provided by Deloitte Touche Tohmatsu amounted to approximately RMB281,000.

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 auditors of the Company for 2010.

# CORPORATE GOVERNANCE REPORT

## G. ATTENDANCE OF INDIVIDUAL DIRECTORS AT MEETINGS

The attendance of individual directors at meetings of the Board, the remuneration committee and the audit committee is set out in the table below:

Name of director	Meetings attended/Meetings held in 2009		
	Board	Remuneration Committee	Audit Committee
Mr. LIN Chin Tsun	5/5	1/1	N/A
Ms. CHOU Chiu Yueh	5/5	1/1	N/A
Mr. LIN Yuan Yu	4/5	N/A	N/A
Ms. LIN I Chu	4/5	N/A	N/A
Ms. LIU Fang Chun	3/5	N/A	N/A
Mr. LAI Chung Ching	5/5	1/1	3/3
Mr. LU Hong Te	3/5	1/1	2/3
Mr. TUNG Chin Chuan	4/5	1/1	3/3

## 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 auditors of the Company regarding their responsibilities for the financial statements of the Group is set out in the independent auditor's report on pages 29 and 30.

## I. INTERNAL CONTROLS

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

During the year, the Board appointed an external consultant Grant Thornton Specialist Services Limited to conduct a review of the internal control system of the Group and the results of the internal control review were submitted to the audit committee for consideration after the year end. The audit committee has reviewed the results of the internal control review and is satisfied with the adequacy of the system of internal control of the Group.



## DIRECTORS' REPORT

The directors of the Company (the "Directors") are pleased to present their annual report together with the audited consolidated financial statements for the year ended 31 December 2009.

### PRINCIPAL ACTIVITIES

The Company is an investment holding company. Principal activities and particulars of the Company's subsidiaries are set out in note 36 to the consolidated financial statements.

An analysis of the Group's sales and operating results for the year by principal activities is set out in note 7 to the consolidated financial statements.

### 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 24.38% and 44.53%, respectively.

None of the Directors, their 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 ended 31 December 2009 are set out in the consolidated statement of comprehensive income on page 31.

The board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2009.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 15 to the consolidated financial statements.

### INVESTMENT PROPERTIES

Details of the movements in investment properties during the year and particulars of investment properties are set out in note 16 to the consolidated financial statements and on page 85, respectively.

### BORROWINGS

Borrowings repayable on demand or within one year are classified under current liabilities. Details of the long term borrowings are set out in note 26 to the consolidated financial statements.

### PENSION SCHEMES

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



## DIRECTORS' REPORT

### SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 28 to the consolidated financial statements.

### RESERVES

Details of the movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 34 and in note 35 to the consolidated financial statements, respectively.

As at 31 December 2009, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately RMB428,698,000.

### FIVE-YEAR FINANCIAL SUMMARY

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

### DIRECTORS

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

#### Executive Directors

Mr. LIN Chin Tsun (*Chairman and President*)

Ms. CHOU Chiu Yueh (*Vice-President*)

Mr. LIN Yuan Yu (*Chief Executive Officer*)

#### Non-Executive Directors

Ms. LIN I Chu

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, Ms. Lin I Chu, Mr. Lu Hong Te and Mr. Tung Chin Chuan retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

### DIRECTORS' SERVICE CONTRACTS

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

### INDEPENDENT NON-EXECUTIVE DIRECTORS' CONFIRMATION OF INDEPENDENCE

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



## DIRECTORS' REPORT

### DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the paragraph headed "Connected Transactions" and in note 32 to the consolidated financial statements, no contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the following connected transaction requires disclosure in the annual report of the Company. The connected transaction which also constitutes related party transactions is set out in note 32 to the consolidated financial statements.

#### **Non-exempt continuing connected transaction subject to reporting, announcement and independent shareholders' approval requirements**

##### *Purchase of raw materials from Ele Con Co., Ltd. ("Ele Con")*

Ele Con supplies cathode foils to the Group. On 12 April 2007, the Company (for itself and on behalf of its subsidiaries) entered into a purchase agreement with Ele Con (the "Ele Con Agreement") pursuant to which the Group will purchase cathode foils from Ele Con (the "Ele Con Transaction"). The Ele Con Agreement expired on 31 December 2009. On 30 December 2009, the Company (on behalf of the Group) and Ele Con (on behalf of Ele Con Group) entered into a purchase agreement pursuant to which the Group agreed to purchase cathode foils from Ele Con Group for a term of three years from 1 January 2010 to 31 December 2012.

Ele Con is owned as to 30% by Ms. Liu Fang Chun who is a non-executive Director and therefore, the Ele Con Transaction constitutes a continuing connected transaction of the Company under Chapter 14A.35 of the Listing Rules and is subject to the reporting, announcement and independent shareholders' approval requirements.

The Company has applied to the Stock Exchange for a waiver from strict compliance with the announcement and independent shareholders' approval requirements pursuant to Rule 14A.42(3) of the Listing Rules and the Stock Exchange has agreed to grant such a waiver to the Company from compliance with the announcement and independent shareholders' approval requirements in respect of the Ele Con Transaction.

The amount of purchase prices payable by the Group to Ele Con for supplying cathode foils to the Group shall be determined by the parties after arm's length negotiation and by reference to the market rate and therefore, shall be no less favourable than those obtainable from third parties.

For the year ended 31 December 2009, the total purchases of raw materials from Ele Con by the Group amounted to approximately RMB6,074,000 which have not exceeded the maximum aggregate annual amounts for the Ele Con Transaction in respect of the year ended 31 December 2009 as disclosed in the prospectus issued by the Company on 24 April 2007 (the "Prospectus").

## DIRECTORS' REPORT

The independent non-executive Directors have reviewed the Ele Con Transaction and were of the opinion that the Ele Con Transaction had been entered into:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether it is on normal commercial terms, on terms no less favourable to the Group than terms available from independent third parties; and
- (iii) in accordance with the terms of the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board of Directors engaged the auditor of the Company to perform certain agreed upon procedures in respect of the continuing connected transaction of the Group. The auditor has reported the factual findings on these procedures to the Board of Directors.

In respect of all continuing connected transaction and connected transactions, the Company has complied with the disclosure requirements under the Listing Rules in force from time to time.

During the year, certain mechanisms were in place to ensure that the terms of the Group's existing and future connected transactions are in the best interests of the Company and the shareholders as a whole. Such mechanisms included review of the transactions entered into or proposed to be entered into between the Group and Ele Con and any related parties by the independent non-executive Directors, and all executive and non-executive Directors were not counted in the quorum and abstained from voting at the meetings at which resolutions on any connected transactions were decided.

## 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 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.



## DIRECTORS' REPORT

### **3. *Total number of shares available for issue under the Share Option Scheme and % of issued share capital at 15 April 2010***

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 paid***

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' REPORT

### Pre-IPO Share Option Scheme

On 3 April 2007, the Company also approved and adopted a share option scheme entitling the Board to grant share options at its discretion before the listing of the shares (the "Pre-IPO Share Option Scheme"). A summary of the Pre-IPO Share Option Scheme is set out below:

#### 1. *Purpose of the Pre-IPO Share Option Scheme*

The purpose of the Pre-IPO Share Option Scheme is to recognize and acknowledge the contributions of the participants to the growth of the Group by granting options to them as incentives or rewards.

#### 2. *Participants of the Pre-IPO Share Option Scheme*

Any executive, director and/or employee of the Group who is in full-time employment of the Group at the time when an option is granted.

#### 3. *Total number of shares available for issue under the Pre-IPO Share Option Scheme and % of issued shared capital at 15 April 2010*

15,500,000 shares being the maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme and 14,900,000 of which have been granted (representing respectively 1.84% and 1.76% of the issued share capital of the Company).

#### 4. *Maximum entitlement of each participant under the Pre-IPO Share Option Scheme*

There is no restriction on the number of shares of the Company issued and to be issued upon exercise of the options granted to each participant in any 12-month period.

#### 5. *The period within which the shares must be taken up under an option*

The period commencing from the date of grant and ending on such date as determined by the Board but in any event not exceeding 5 years from the date of grant.

#### 6. *The minimum period for which an option must be held before it can be exercised and the exercise price*

Pursuant to the terms of the Pre-IPO Share Option Scheme, no option may be exercised until the expiry of 12 months after the date of vesting.

- (i) 20% of the options shall vest on each of the first and second anniversary of the date of grant at a price of HK\$0.465 per share representing 50% of HK\$0.93 being the price of the Company's shares offered under the Prospectus (the "Offer Price"); and
- (ii) 60% of the options shall vest on the third anniversary of the date of grant at a price of HK\$0.465 per share representing 50% of the Offer Price.

At the annual general meeting of the Company held on 5 June 2008, the shareholders of the Company approved an amendment to the terms of the outstanding options granted under the Pre-IPO Share Option Scheme such that the holders may exercise such options at any time during the option period from 17 April 2007 to 16 April 2012 after the respective dates of vesting.

## DIRECTORS' REPORT

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 paid*

Nil.

8. *The remaining life of the Pre-IPO Share Option Scheme*

The Pre-IPO Share Option Scheme was valid and effective for the period commencing on 3 April 2007 and expired on the Business Day preceding the Listing Date.

Details of the share options granted on 17 April 2007 pursuant to the Pre-IPO Share Option Scheme which remained outstanding as at 31 December 2009 are as follows:

	Date of grant	Exercise price per share	Number of options outstanding as at 1 January 2009	Lapsed during the year	Number of options outstanding as at 31 December 2009
<b>Employees</b>	17 April 2007	HK\$0.465	4,200,000	(900,000)	3,300,000
<b>Directors</b>					
Mr. LIN Chin Tsun	17 April 2007	HK\$0.465	3,200,000	–	3,200,000
Ms. CHOU Chiu Yueh	17 April 2007	HK\$0.465	2,300,000	–	2,300,000
Mr. LIN Yuan Yu	17 April 2007	HK\$0.465	1,900,000	–	1,900,000
Ms. LIU Fang Chun	17 April 2007	HK\$0.465	900,000	–	900,000
Ms. LIN I Chu	17 April 2007	HK\$0.465	900,000	–	900,000
<b>Chief Financial Officer</b>					
Ms. HU Szu Jung, Carol	17 April 2007	HK\$0.465	900,000	–	900,000
			<u>14,300,000</u>	<u>(900,000)</u>	<u>13,400,000</u>

Notes:

- Pursuant to the rules of the Pre-IPO Share Option Scheme, 20% of the options shall vest on the first anniversary of the date of grant at an exercise price of HK\$0.465 per share (the "First Tranche"), 20% of the options shall vest on the second anniversary of the date of grant (the "Second Tranche") at an exercise price of HK\$0.465 per share, and 60% of the options shall vest on the third anniversary of the date of grant at an option price of HK\$0.465 per share. The Board may at its absolute discretion adjust the number of the options to be vested in the First Tranche and the Second Tranche either upwards or downwards based on the performance of the relevant grantees in the year immediately preceding the vesting of the options in the relevant tranches as determined by the Directors.
- Following an amendment to the terms of the outstanding options granted under the Pre-IPO Share Option Scheme on 5 June 2008, options may be exercised by a participant, in whole or in part, at any time during the period commencing from 17 April 2007 to 16 April 2012 after the respective dates of vesting in accordance with note 1 above.
- Save as disclosed above, no option granted under the Pre-IPO Share Option Scheme was exercised, cancelled or lapsed during the year ended 31 December 2009.
- The Pre-IPO Share Option Scheme has expired at the close of business on 4 May 2007 and no further options may be granted thereunder.

## DIRECTORS' REPORT

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

As at 31 December 2009, 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 for Securities Transactions by Directors of Listed Issuers (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 (a) and approximate percentage of shareholding (b) <sup>(1)</sup>		Interest in underlying shares <sup>(4)</sup>	Total interest (a) and approximate percentage of shareholding (b) <sup>(1)</sup>	
		(a)	(b)		(a)	(b)
Mr. LIN Chin Tsun	Beneficial owner	101,657,378	66.90	3,200,000	570,473,947	67.55
	Interest of controlled corporation	395,360,783 <sup>(2)</sup>		–		
	Interest of spouse	67,955,786		2,300,000		
Ms. CHOU Chiu Yueh	Beneficial owner	67,955,786	66.90	2,300,000	570,473,947	67.55
	Interest of controlled corporation	395,360,783 <sup>(2)</sup>		–		
	Interest of spouse	101,657,378		3,200,000		
Mr. LIN Yuan Yu	Beneficial owner	13,161,622	46.73	1,900,000	397,475,621	47.06
	Interest of controlled corporation	374,585,006 <sup>(3)</sup>		–		
	Interest of spouse	6,928,993		900,000		
Ms. LIN I Chu	Beneficial owner	9,429,777	45.47	900,000	384,914,783	45.58
	Interest of controlled corporation	374,585,006 <sup>(3)</sup>		–		
Ms. LIU Fang Chun	Beneficial owner	6,928,993	46.73	900,000	397,475,621	47.06
	Interest of spouse	387,746,628		1,900,000		
Mr. TUNG Chin Chuan	Beneficial owner	3,386,000	0.40	–	3,386,000	0.40
Ms. HU Szu Jung, Carol	Beneficial owner	243,991	0.03	900,000	1,143,991	0.14

## DIRECTORS' REPORT

### 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 2009.
- (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.
- (4) These represent interests in underlying shares in respect of share options granted by the Company, the details of which are set out in the paragraph headed "Share Options" in this report.

Save as disclosed above, as at 31 December 2009, 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 SHAREHOLDERS

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 2009, 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 or indirectly	Approximate percentage of shareholding*
Value Management Holding Limited	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 2009.

Save as disclosed above, the Directors are not aware of any other persons who, as at 31 December 2009, had interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.



## DIRECTORS' REPORT

### MANAGEMENT CONTRACTS

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

### REMUNERATION POLICY

The remuneration policy of the employees of the Group is formulated by the remuneration committee which takes into account 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 Pre-IPO Share Option Scheme and the Share Option Scheme to provide incentive to the directors and eligible employees of the Group, details of the said schemes 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 ended 31 December 2009.

### 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.

### AUDIT COMMITTEE

The Company's audit committee is composed of all the three independent non-executive Directors. The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2009 (including the accounting principles and practices), internal controls and financial reporting matters with the management of the Company.

### 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 the Company has maintained throughout the year ended 31 December 2009 the amount of 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, 15 April 2010



## INDEPENDENT AUDITOR'S REPORT

**Deloitte.**  
德勤

**TO THE SHAREHOLDERS OF  
CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 83, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## INDEPENDENT AUDITOR'S REPORT

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

15 April 2010

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	7	775,053	912,642
Cost of sales		<u>(624,094)</u>	<u>(780,939)</u>
Gross profit		150,959	131,703
Other income	8a	6,470	18,724
Selling and distribution costs		(30,933)	(38,156)
Administrative expenses		(64,203)	(66,202)
Other expenses	8b	(33,770)	(16,024)
Finance costs	9	<u>(32,105)</u>	<u>(47,257)</u>
Loss before taxation		(3,582)	(17,212)
Taxation	10	<u>(2,537)</u>	<u>(7,529)</u>
Loss for the year	11	<u>(6,119)</u>	<u>(24,741)</u>
<b>Other comprehensive expense</b>			
Exchange difference arising on translation		<u>(652)</u>	<u>(3,965)</u>
Total comprehensive expense for the year		<u>(6,771)</u>	<u>(28,706)</u>
Loss for the year attributable to:			
Owners of the Company		(6,438)	(24,485)
Minority interests		<u>319</u>	<u>(256)</u>
		<u>(6,119)</u>	<u>(24,741)</u>
Total comprehensive expense attributable to:			
Owners of the Company		(7,051)	(28,513)
Minority interests		<u>280</u>	<u>(193)</u>
		<u>(6,771)</u>	<u>(28,706)</u>
Loss per share – Basic (RMB cents)	14	<u>(0.76)</u>	<u>(2.90)</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	678,616	724,328
Investment properties	16	9,863	9,591
Prepaid lease payments	17	25,531	26,144
Intangible assets	18	10,562	11,209
Deferred tax assets	19	1,284	1,755
Pledged bank deposits	20	4,500	–
		<u>730,356</u>	<u>773,027</u>
<b>CURRENT ASSETS</b>			
Inventories	21	226,693	227,399
Prepaid lease payments	17	613	613
Trade and other receivables	22	358,505	264,371
Amount due from a related party	23	–	167
Pledged bank deposits	20	205,255	71,107
Bank balances and cash	24	70,663	56,090
		<u>861,729</u>	<u>619,747</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	25	151,058	118,099
Bank borrowings	26	475,873	447,653
Amounts due to related parties	23	6,686	36,582
Tax payables		2,265	5,572
		<u>635,882</u>	<u>607,906</u>
<b>NET CURRENT ASSETS</b>		<u>225,847</u>	<u>11,841</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>956,203</u>	<u>784,868</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
<b>NON-CURRENT LIABILITIES</b>			
Bank borrowings	26	<b>216,619</b>	40,328
Defined benefit obligations	27	<b>5,763</b>	5,426
		<b>222,382</b>	45,754
		<b>733,821</b>	739,114
<b>CAPITAL AND RESERVES</b>			
Share capital	28	<b>82,244</b>	82,244
Reserves		<b>642,507</b>	648,080
Equity attributable to owners of the Company		<b>724,751</b>	730,324
Minority interests		<b>9,070</b>	8,790
		<b>733,821</b>	739,114

The consolidated financial statements on pages 31 to 83 were approved and authorised for issue by the Board of Directors on 15 April 2010 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 2009

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (Note i)	Share option reserve RMB'000	Statutory reserve RMB'000 (Note ii)	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008	82,244	436,626	(30,289)	2,525	62,437	27,021	176,371	756,935	9,227	766,162
Loss for the year	-	-	-	-	-	-	(24,485)	(24,485)	(256)	(24,741)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(4,028)	-	(4,028)	63	(3,965)
Total comprehensive expense	-	-	-	-	-	(4,028)	(24,485)	(28,513)	(193)	(28,706)
Sub-total	82,244	436,626	(30,289)	2,525	62,437	22,993	151,886	728,422	9,034	737,456
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	(244)	(244)
Recognition of equity-settled share-based payments	-	-	-	2,366	-	-	-	2,366	-	2,366
Strike-off of subsidiaries	-	-	(464)	-	-	-	-	(464)	-	(464)
Appropriation	-	-	-	-	6,377	-	(6,377)	-	-	-
At 31 December 2008	82,244	436,626	(30,753)	4,891	68,814	22,993	145,509	730,324	8,790	739,114
Loss for the year	-	-	-	-	-	-	(6,438)	(6,438)	319	(6,119)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(613)	-	(613)	(39)	(652)
Total comprehensive (expense) income	-	-	-	-	-	(613)	(6,438)	(7,051)	280	(6,771)
Sub-total	82,244	436,626	(30,753)	4,891	68,814	22,380	139,071	723,273	9,070	732,343
Recognition of equity-settled share-based payments	-	-	-	1,478	-	-	-	1,478	-	1,478
Release upon forfeiture of vested share options	-	-	-	(354)	-	-	354	-	-	-
Appropriation	-	-	-	-	2,110	-	(2,110)	-	-	-
At 31 December 2009	82,244	436,626	(30,753)	6,015	70,924	22,380	137,315	724,751	9,070	733,821

## Notes:

- (i) The capital reserve represents 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 ("PRC"), the Group is required to make appropriation to the statutory reserve fund at 10% of its profits after tax based on its statutory financial statements. The statutory reserve fund may only be used, upon approval by the relevant authority, to offset accumulated losses or to increase the capital.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	<b>(3,582)</b>	(17,212)
Adjustments for:		
Amortisation of intangible assets	<b>1,769</b>	1,806
Amortisation of prepaid lease payments	<b>613</b>	586
Bank interest income	<b>(2,601)</b>	(3,288)
Depreciation of investment properties	<b>75</b>	75
Depreciation of property, plant and equipment	<b>68,208</b>	67,967
Finance costs	<b>32,105</b>	47,257
Impairment loss on trade receivables	<b>16,833</b>	3,790
Loss on disposal of property, plant and equipment	<b>998</b>	159
(Reversal of) impairment loss on inventories	<b>(2,415)</b>	9,688
Share-based payment expenses	<b>1,478</b>	2,366
Operating cash flows before movements in working capital	<b>113,481</b>	113,194
Decrease in inventories	<b>3,121</b>	17,007
(Increase) decrease in trade and other receivables	<b>(110,967)</b>	166,539
Decrease in amounts due from related parties	<b>167</b>	2,183
Increase (decrease) in trade and other payables	<b>32,959</b>	(88,616)
Decrease in amounts due to related parties	<b>(4,943)</b>	(3,686)
Increase (decrease) in defined benefit obligations	<b>337</b>	(1,045)
Cash generated from operations	<b>34,155</b>	205,576
Income tax paid	<b>(5,373)</b>	(12,885)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>28,782</b>	192,691

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
<b>INVESTING ACTIVITIES</b>		
Additions to pledged bank deposits	<b>(138,648)</b>	–
Purchase of property, plant and equipment	<b>(33,201)</b>	(53,192)
Additions to intangible assets	<b>(1,124)</b>	(73)
Receipt of government grant	<b>10,049</b>	–
Proceeds on disposal of property, plant and equipment	<b>134</b>	2,743
Interest received	<b>2,601</b>	3,288
Release of pledged bank deposits	<b>–</b>	22,570
	<hr/>	<hr/>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(160,189)</b>	(24,664)
<b>FINANCING ACTIVITIES</b>		
New bank borrowings raised	<b>988,070</b>	481,861
Repayment of bank borrowings	<b>(785,608)</b>	(652,538)
Interest paid	<b>(32,105)</b>	(47,257)
(Repayment to) advance from related parties	<b>(24,953)</b>	25,155
Dividends paid to minority shareholders	<b>–</b>	(244)
	<hr/>	<hr/>
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>	<b>145,404</b>	(193,023)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>13,997</b>	(24,996)
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>576</b>	(17,698)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>56,090</b>	98,784
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>	<b>70,663</b>	56,090
	<hr/>	<hr/>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 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"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company is an investment holding company. Particulars and principal activities of its subsidiaries are set out in Note 36.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the same as the functional currency of the Company.

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

In the current year, the Group has applied the following new and revised International Accounting Standards ("IASs"), Amendments and International Financial Reporting Interpretations Committee Interpretations ("IFRIC") ("new and revised IFRSs").

IAS 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

The application of the new and revised IFRSs has no material effect on the results, assets and liabilities of the Group for the current or prior accounting periods.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

However, the application of IAS 1 and IFRS 8 has resulted in certain changes in the presentation and disclosure, as follows:

IAS 1 (Revised) has introduced terminology changes (including reversed titles for the financial statements) and changes in the format and content of the financial statements.

IFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reporting segments (see Note 7) but changes in the basis of measurement of segment profit or loss.

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs May 2008 <sup>1</sup>
IFRSs (Amendments)	Improvements to IFRSs April 2009 <sup>2</sup>
IAS 24 (Revised)	Related Party Disclosures <sup>6</sup>
IAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>1</sup>
IAS 32 (Amendment)	Classification of Rights Issues <sup>4</sup>
IAS 39 (Amendment)	Eligible Hedged Items <sup>1</sup>
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters <sup>3</sup>
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters <sup>5</sup>
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions <sup>3</sup>
IFRS 3 (Revised)	Business Combinations <sup>1</sup>
IFRS 9	Financial Instruments <sup>7</sup>
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement <sup>6</sup>
IFRIC 17	Distributions of Non-cash Assets to Owners <sup>1</sup>
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2010

<sup>4</sup> Effective for annual periods beginning on or after 1 February 2010

<sup>5</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>7</sup> Effective for annual periods beginning on or after 1 January 2013

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except that certain financial instruments are measured at fair values at initial recognition, as explained in the accounting policies set out below.

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

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amounts receivable for goods sold in the normal course of business, net of sales taxes.

Revenue from sale of goods is recognised when the goods are delivered and title has been passed.

Interest income from a financial asset 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### **Property, plant and equipment**

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

No depreciation is provided in respect of freehold land.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category 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.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period in which the item is derecognised.

### **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 lessor***

Rental income from operating leases is recognised in profit or loss on a straight line basis over the term of the relevant lease.

#### ***The Group as lessee***

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### **Leasehold land and building**

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight line basis.

### **Investment properties**

Investment properties are properties held for rentals.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is charged so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

### **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 the 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 re-translation 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) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses 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 (the translation reserve).

### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets which are assets that necessary 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### Government grants

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. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. 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 and 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 the reporting period. Actuarial gains and losses which exceed 10 per cent of the greater of the present value of the Group's defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight line basis over the average period until the amended benefits become vested.

The amount recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income and 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### **Taxation** *(continued)*

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. Deferred tax is 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 deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Intangible assets**

Intangible assets acquired separately and with finite useful lives 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.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### Research and development expenditures

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 (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. Cost is calculated using the weighted average method.

### 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 instrument. 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 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### Financial instruments *(continued)*

#### *Financial assets*

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

#### *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, amount due from a related party, 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 loss on financial assets below).

#### *Impairment of financial assets*

Loan and receivables are assessed for indicators of impairment at the end of the reporting period. Financial assets are 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;
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### **Financial instruments** *(continued)*

#### ***Financial liabilities and equity***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

#### ***Other financial liabilities***

Other 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.

#### ***Equity instruments***

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

#### ***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. 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 is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### **Share-based payment transactions**

##### ***Equity-settled share-based payment transactions***

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimated during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment in share option reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### Impairment losses on tangible and intangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets 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. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

### Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at 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. Where 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 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.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, management of the Group makes various estimates about the carrying amounts of assets and liabilities based on past experience, expectations of the future and other information. The key source of estimation uncertainty that can significantly affect the amounts recognised in the consolidated financial statements is disclosed below.

### Allowances for bad and doubtful debts

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of doubtful debts requires the use of estimates. Where the expectation of future cash receipts is different from the original estimate, such difference will impact the carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed. As at 31 December 2009, the carrying amount of trade receivables is RMB310,618,000 (net of allowance for doubtful debts of RMB32,609,000) (2008: carrying amount of RMB251,256,000, net of allowance for doubtful debts of RMB15,776,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### Allowance for inventories

Management exercises their estimates in making allowance for inventories. Management 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. As at 31 December 2009, the carrying amount of inventories is RMB226,693,000 (net of allowance for inventories of RMB5,826,000) (2008: carrying amount of RMB227,399,000, net of allowance for inventories of RMB8,241,000).

## 5. 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 26 and 23 respectively, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and retained profits.

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.

## 6. FINANCIAL INSTRUMENTS

### 6a. Categories of financial instruments

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	596,151	387,182
<b>Financial liabilities</b>		
Amortised cost	<u>838,328</u>	<u>628,155</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS *(continued)*

### 6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from (to) related parties, trade and other payables, pledged bank deposits, bank balances 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. The 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 66.04% (2008: 54.15%) of the Group's sales and 48.94% (2008: 39.04%) of the Group's purchase are denominated in currencies other than the functional currency of the respective group entities.

The carrying amount of the Group's monetary assets (representing trade and other receivables, bank balances and amount due from a related party) and monetary liabilities (representing trade and other payables, amounts due to related parties 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	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Hong Kong Dollars ("HKD")	24,249	28,310	17,222	39,999
United States Dollars ("USD")	100,734	99,032	151,522	155,664
New Taiwan Dollars ("NTD")	13,251	7,663	3,485	33
Euro ("EUR")	–	–	788	1,150
Japanese Yen ("JPY")	2,603	–	29,835	21,152

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS (continued)

### 6b. 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 RMB 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. The strengthening of RMB against the foreign currencies by 5% will give rise to the following profit (loss) after tax, and vice versa:

	2009 RMB'000	2008 RMB'000
HKD impact	(264)	438
USD impact	1,905	2,124
NTD impact	(366)	(287)
EUR impact	30	44
JPY impact	1,021	794

##### (ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 26 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. It is the Group's policy to keep its borrowings and 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, the 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. The management considered the cash flow interest rate risk in relation to variable-rate pledged bank deposits and bank balances is insignificant. Therefore, 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 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 points higher/lower and all other variables were held constant, the Group's post-tax loss for the year would increase/decrease by RMB1,092,000 (2008 increase/decrease by: RMB738,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS *(continued)*

### 6b. Financial risk management objectives and policies *(continued)*

#### **Credit risk**

As at 31 December 2009, 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, the 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 the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. 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. 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 %	Less than 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Total carrying amount RMB'000
<b>2009</b>					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	–	139,150	–	139,150	139,150
Bank borrowings					
– fixed rate	5.31	112,921	–	112,921	110,000
– variable rate	3.8	379,776	233,082	612,858	582,492
Amounts due to related parties	–	6,686	–	6,686	6,686
		<u>638,533</u>	<u>233,082</u>	<u>871,615</u>	<u>838,328</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 6. FINANCIAL INSTRUMENTS (continued)

### 6b. Financial risk management objectives and policies (continued)

#### Liquidity risk (continued)

	Weighted average effective interest rate %	Less than 1 year RMB'000	Over 1 year RMB'000	Undiscounted cash flows RMB'000	Total carrying amount RMB'000
2008					
<b>Non-derivative financial liabilities</b>					
Trade and other payables	–	103,592	–	103,592	103,592
Bank borrowings					
– fixed rate	6.93	97,774	–	97,774	94,500
– variable rate	5.5	372,577	44,764	417,341	393,481
Amounts due to related parties					
– fixed rate	4.04	3,001	–	3,001	3,000
– interest-free	–	33,582	–	33,582	33,582
		<u>610,526</u>	<u>44,764</u>	<u>655,290</u>	<u>628,155</u>

The amounts included above for variable interest rate bank borrowings are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

### 6c. Fair value

The fair value 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 recorded at amortised cost in the consolidated financial statements approximate to their fair values.

## 7. REVENUE AND SEGMENTAL INFORMATION

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

The Group has adopted IFRS 8 "Operating Segments" with effect from 1 January 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers (the executive directors of the Company) for the purpose of allocating resources to segments and to assess its performance. In contrast, the predecessor standard IAS 14 "Segment Reporting" ("IAS 14") required an entity to identify two sets of segments (business and geographical) using a risks and return approach.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

In the past, the Group's primary reporting format was business segments. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14. The adoption of IFRS 8 has resulted in a change in the basis of measurement of segment profit or loss. In the past, certain other income and certain expenses were classified as unallocated while under IFRS 8, they are grouped as part of segment profit or loss. The group's operating segment under IFRS 8 are identical to the business segments under IAS 14, namely:

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

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment for the year.

#### For the year ended 31 December 2009

	Capacitors <i>RMB'000</i>	Aluminum foils <i>RMB'000</i>	Elimination <i>RMB'000</i>	Total <i>RMB'000</i>
External sales	566,526	208,527	–	775,053
Inter-segment sales	–	206,073	(206,073)	–
Segment sales	<u>566,526</u>	<u>414,600</u>	<u>(206,073)</u>	<u>775,053</u>
Segment profit	<u>13,001</u>	<u>28,338</u>	<u>(4,487)</u>	<u>36,852</u>
Interest income				2,601
Unallocated expense				(10,930)
Finance costs				<u>(32,105)</u>
Loss before taxation				<u>(3,582)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

### Segment revenues and results *(continued)*

For the year ended 31 December 2008

	Capacitors RMB'000	Aluminum foils RMB'000	Elimination RMB'000	Total RMB'000
External sales	648,193	264,449	–	912,642
Inter-segment sales	–	310,915	(310,915)	–
Segment sales	<u>648,193</u>	<u>575,364</u>	<u>(310,915)</u>	<u>912,642</u>
Segment (loss) profit	<u>(854)</u>	<u>21,793</u>	<u>17,060</u>	37,999
Interest income				3,288
Unallocated expenses				(11,242)
Finance costs				<u>(47,257)</u>
Loss before taxation				<u>(17,212)</u>

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit (loss) earned (incurred) by each segment without allocation of interest income, corporate expenses and finance costs. However, the related bank balances and cash and the bank borrowings of the reportable segment are reported to the Group's chief decision makers as part of segment assets and liabilities. This is the measure reported to the Group's chief decision makers for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

### Segment assets and liabilities

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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
<b>Segment assets</b>		
Capacitors	1,006,612	812,102
Aluminum Foils	620,295	632,033
Elimination	<u>(36,310)</u>	<u>(56,050)</u>
Total segment assets	1,590,597	1,388,085
Unallocated assets	<u>1,488</u>	<u>4,689</u>
Consolidated assets	<u>1,592,085</u>	<u>1,392,774</u>
<b>Segment liabilities</b>		
Capacitors	639,514	371,552
Aluminum Foils	253,615	309,545
Elimination	<u>(36,310)</u>	<u>(56,050)</u>
Total segment liabilities	856,819	625,047
Unallocated liabilities	<u>1,445</u>	<u>28,613</u>
Consolidated liabilities	<u>858,264</u>	<u>653,660</u>

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

- all assets, other than the bank and cash balance of the Company, are allocated to reportable segments; and
- all liabilities, other than the accruals and bank borrowings of the Company, are allocated to reportable segments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. REVENUE AND SEGMENTAL INFORMATION *(continued)*

### Segment assets and liabilities *(continued)*

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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
The PRC	701,275	748,265
Taiwan	<u>23,297</u>	<u>23,007</u>
	<u>724,572</u>	<u>771,272</u>

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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Sales to external customers:		
The PRC	591,272	624,862
Taiwan	48,206	145,611
Other Asian countries <i>(Note)</i>	119,666	109,115
Europe <i>(Note)</i>	12,861	24,788
United States of America	<u>3,048</u>	<u>8,266</u>
	<u>775,053</u>	<u>912,642</u>

*Note:* The countries of the external customers included in these two categories included Korea, Malaysia, Germany, Poland and others. No further analysis by countries of these two categories is presented because the revenue from each individual country is insignificant to the total revenue.

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

### Other segment information

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

For the year ended 31 December 2009

	Capacitors <i>RMB'000</i>	Aluminum foils <i>RMB'000</i>	Total <i>RMB'000</i>
Depreciation and amortisation	39,340	31,325	70,665
Additions to non-current assets <i>(Note)</i>	19,146	15,179	34,325
Impairment loss on trade receivables	<u>14,303</u>	<u>2,530</u>	<u>16,833</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 7. REVENUE AND SEGMENTAL INFORMATION (continued)

### Other segment information (continued)

For the year ended 31 December 2008

	Capacitors RMB'000	Aluminum foils RMB'000	Total RMB'000
Depreciation and amortisation	38,498	31,936	70,434
Additions to non-current assets (Note)	24,389	28,876	53,265
Impairment loss on trade receivables	3,426	364	3,790
Impairment loss on property, plant and equipment	–	480	480

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

## 8. OTHER INCOME/EXPENSES

### a. Other Income

	2009 RMB'000	2008 RMB'000
Bank interest income	2,601	3,288
Government grants (Note)	605	8,595
Rental income	526	553
Others	2,738	6,288
	<b>6,470</b>	<b>18,724</b>

Note: The amount represents mainly income tax refunds as a result of reinvestment of dividends declared by the Group's subsidiaries in the PRC.

### b. Other Expenses

	2009 RMB'000	2008 RMB'000
Impairment loss on trade receivables	16,833	3,790
Research and development costs	9,183	6,382
Loss on disposal of property, plant and equipment	998	159
Net foreign exchange losses	2,563	4,089
Impairment loss on property, plant and equipment	–	480
Others	4,193	1,124
	<b>33,770</b>	<b>16,024</b>

## 9. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on bank borrowings		
– wholly repayable within five years	32,087	47,221
– not wholly repayable within five years	–	27
Interest on amount due to a related party	18	9
	<b>32,105</b>	<b>47,257</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 10. TAXATION

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Current tax:		
– PRC Enterprise Income Tax	1,968	5,107
– Taiwan Corporate Income Tax	845	3,482
	<u>2,813</u>	<u>8,589</u>
(Over) underprovision in prior years:		
– PRC Enterprise Income Tax	(747)	12
Deferred tax ( <i>Note 19</i> ):		
– Current year	120	(1,072)
– Attributable to a change in tax rate	351	–
	<u>471</u>	<u>(1,072)</u>
	<u>2,537</u>	<u>7,529</u>

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

Corporate income tax in Taiwan is charged at 25% (2008: 25%).

The reduction of the corporate income tax rate in Taiwan to 20% was approved on 27 May 2009. The new rate is effective from 1 January 2010 onwards.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. For companies that were qualified for incentive tax rate of 15% under old law or regulations, their tax rate will progressively increase to 18%, 20%, 22%, 24% and 25% in year 2008, 2009, 2010, 2011 and 2012, respectively. For companies that were granted exemption and reliefs ("Tax Benefit") for PRC Enterprise Income Tax, the New Law and Implementation Regulations allowed them to continue to enjoy the Tax Benefit until their respective expiry dates. For companies that were previously subject to tax rate of 33%, the New Law and Implementation Regulations have changed the tax rate from 33% to 25% from 1 January 2008.

Certain subsidiaries operating in the PRC are eligible for certain tax holidays and concessions and were exempted from the PRC Enterprise Income Tax for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 10. TAXATION (continued)

The taxation for the year can be reconciled to the loss before taxation per the consolidated statement of comprehensive income as follows:

### 2009

	The PRC		Taiwan		Hong Kong		Others <sup>(1)</sup>		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(Loss) /profit before taxation	<u>8,030</u>		<u>2,047</u>		<u>(2,804)</u>		<u>(10,855)</u>		<u>(3,582)</u>	
Tax at the statutory tax rate	2,008	25.0	512	25.0	(463)	(16.5)	-	-	2,057	(57.4)
Tax effect of:										
Lower tax rates for specific provinces										
or enacted by local authority	(1,005)	(12.5)	-	-	-	-	-	-	(1,005)	28.1
Expenses not deductible for tax	6,525	81.2	-	-	916	32.7	-	-	7,441	(207.8)
Utilisation of tax losses previously										
not recognised	(5,560)	(69.2)	-	-	-	-	-	-	(5,560)	155.2
Overprovision in prior years	(747)	(9.3)	-	-	-	-	-	-	(747)	20.9
Additional charges for the										
undistributed profit in Taiwan	-	-	978	47.8	-	-	-	-	978	(27.3)
Income not subject to tax	-	-	(525)	(25.6)	(453)	(16.2)	-	-	(978)	27.3
Decrease in opening deferred										
tax asset resulting from decrease										
in applicable tax rate	-	-	351	17.1	-	-	-	-	351	(9.8)
Income tax expense reported in the consolidated statement of comprehensive income at the Group's effective rate	<u>1,221</u>	<u>15.2</u>	<u>1,316</u>	<u>64.3</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,537</u>	<u>(70.8)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 10. TAXATION (continued)

2008

	The PRC		Taiwan		Hong Kong		Others <sup>(1)</sup>		Total	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
(Loss) /profit before taxation	<u>(20,297)</u>		<u>500</u>		<u>7,919</u>		<u>(5,334)</u>		<u>(17,212)</u>	
Tax at the statutory tax rate	(5,074)	25.0	125	25.0	1,307	16.5	-	-	(3,642)	21.2
Tax effect of:										
Lower tax rates for specific provinces or enacted by local authority	(1,586)	7.8	-	-	-	-	-	-	(1,586)	9.2
Expenses not deductible for tax	4,017	(19.8)	-	-	64	0.8	-	-	4,081	(23.7)
Tax losses not recognised	6,125	(30.2)	-	-	439	5.5	-	-	6,564	(38.1)
Additional charges for the undistributed profit in Taiwan	-	-	2,602	520.4	-	-	-	-	2,602	(15.1)
Underprovision in prior years	-	-	12	2.4	-	-	-	-	12	(0.1)
Income not subject to tax	-	-	-	-	(1,810)	(22.8)	-	-	(1,810)	10.5
Withholding tax for the divided income received from a Taiwan subsidiary	-	-	1,308	261.6	-	-	-	-	1,308	(7.6)
Income tax expense reported in the consolidated statement of comprehensive income at the Group's effective rate	<u>3,482</u>	<u>(17.2)</u>	<u>4,047</u>	<u>809.4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,529</u>	<u>(43.7)</u>

<sup>(1)</sup> The expenses were incurred by the holding company incorporated in the Cayman Islands and are not deductible under any jurisdictions.

Details of deferred taxation for the year are set out in Note 19.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 11. LOSS FOR THE YEAR

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Loss for the year has been arrived at after charging (crediting):		
Employee benefit expenses (including directors' emoluments ( <i>Note 12</i> )):		
Wages, salaries and allowances	91,287	96,217
Equity-settled share option expenses	1,478	2,366
Defined contribution pension scheme	4,771	4,969
Defined benefit pension plan	170	552
	<u>97,706</u>	<u>104,104</u>
Amortisation of intangible assets (included in administrative expenses)	1,769	1,806
Amortisation of prepaid lease payments	613	586
Auditor's remuneration	1,328	1,644
Cost of inventories recognised as an expense (including reversal of impairment loss on inventories of RMB2,415,000 (2008: impairment loss on inventories of RMB9,688,000))	624,094	780,939
Depreciation of property, plant and equipment	68,208	67,967
Depreciation of investment properties	75	75

*Note:* Inventories which had been provided for allowance in prior years were sold during the year. The impairment loss recognised was reversed accordingly.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid or payable to the directors of the Company for both years are as follows:

Name of directors	Fee RMB'000	Salaries and allowances RMB'000	Performance related incentive payment RMB'000	Share- based payment RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
<b>2009</b>						
Lin Chin Tsun	–	2,642	–	340	–	2,982
Chou Chiu Yueh	–	1,322	–	244	42	1,608
Lin Yuan Yu	–	1,221	–	202	21	1,444
Liu Fang Chun	–	661	149	96	8	914
Lin I Chu	–	686	358	96	38	1,178
Lai Chung Ching	215	–	–	–	–	215
Lu Hong Te	119	–	–	–	–	119
Tung Chin Chuan	119	–	–	–	–	119
	<b>453</b>	<b>6,532</b>	<b>507</b>	<b>978</b>	<b>109</b>	<b>8,579</b>
<b>2008</b>						
Lin Chin Tsun	–	2,672	223	535	–	3,430
Chou Chiu Yueh	–	1,337	111	385	45	1,878
Lin Yuan Yu	–	1,231	102	318	22	1,673
Liu Fang Chun	–	669	56	151	8	884
Lin I Chu	–	642	53	151	40	886
Lai Chung Ching	216	–	–	–	–	216
Lu Hong Te	119	–	–	–	–	119
Tung Chin Chuan	120	–	–	–	–	120
	<b>455</b>	<b>6,551</b>	<b>545</b>	<b>1,540</b>	<b>115</b>	<b>9,206</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

### Employees

The five highest paid individuals of the Group for both years were all directors of the Company and details of their emoluments are set out above.

During each of the two years ended 31 December 2009, 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. None of the directors waived any emoluments during both years.

## 13. DIVIDENDS

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

## 14. LOSS PER SHARE

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

	<b>2009</b> <b>RMB'000</b>	2008 RMB'000
<b>Loss</b>		
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	<u>(6,438)</u>	<u>(24,485)</u>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>844,559,841</u>	<u>844,559,841</u>

No diluted loss per share is presented for either of the two years ended 31 December 2009 as all share options are anti-dilutive.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land in Taiwan RMB'000	Buildings in Taiwan RMB'000	Buildings in the PRC RMB'000	Plant and machinery RMB'000	Office and other equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST								
At 1 January 2008	5,093	11,184	223,761	676,045	33,150	11,012	18,418	978,663
Additions	-	-	2,757	28,227	4,455	57	17,696	53,192
Transfer	-	-	4,771	10,503	-	-	(15,274)	-
Disposals	-	-	-	(4,250)	(678)	-	-	(4,928)
Exchange adjustment	(388)	(851)	-	(58)	(316)	(171)	-	(1,784)
At 31 December 2008	4,705	10,333	231,289	710,467	36,611	10,898	20,840	1,025,143
Additions	-	-	10,551	5,357	1,747	455	15,091	33,201
Transfer	-	-	-	7,183	635	5	(7,823)	-
Receipt of government grant (Note)	-	-	-	(10,049)	-	-	-	(10,049)
Disposals	-	-	(1,190)	(5,307)	(448)	(589)	-	(7,534)
Exchange adjustment	172	376	-	9	143	76	-	776
At 31 December 2009	4,877	10,709	240,650	707,660	38,688	10,845	28,108	1,041,537
DEPRECIATION								
At 1 January 2008	-	2,581	12,727	196,271	17,466	5,975	-	235,020
Provided for the year	-	340	7,513	54,704	4,504	906	-	67,967
Eliminated on disposals	-	-	-	(1,636)	(390)	-	-	(2,026)
Impairment loss recognised in profit or loss	-	-	-	-	-	-	480	480
Exchange adjustment	-	(197)	-	(53)	(276)	(100)	-	(626)
At 31 December 2008	-	2,724	20,240	249,286	21,304	6,781	480	300,815
Provided for the year	-	342	8,171	54,462	4,142	1,091	-	68,208
Eliminated on disposals	-	-	(1,178)	(4,295)	(399)	(530)	-	(6,402)
Exchange adjustment	-	110	-	8	122	60	-	300
At 31 December 2009	-	3,176	27,233	299,461	25,169	7,402	480	362,921
CARRYING VALUE								
At 31 December 2009	4,877	7,533	213,417	408,199	13,519	3,443	27,628	678,616
At 31 December 2008	4,705	7,609	211,049	461,181	15,307	4,117	20,360	724,328

Note: The amount represents government grant received by the Group in 2009 in relation to its acquisition of plant and machinery in prior years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

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

Freehold land	Not depreciated
Buildings	2% – 4.5%
Plant and machinery	9%
Office and other equipment	18%
Motor vehicles	18%

The carrying value of properties shown above comprises:

	<b>2009</b> <b>RMB'000</b>	2008 RMB'000
Properties:		
Freehold in Taiwan	<b>12,410</b>	12,314
Medium-term lease in the PRC	<b>213,417</b>	211,049
	<b>225,827</b>	223,363

As at 31 December 2009, the Group had not obtained building ownership certificates for buildings located in Baotou City, Inner Mongolia Autonomous Region, the Mainland China, with a carrying value of approximately RMB32,619,000 (31 December 2008: RMB34,362,000). The directors of the Company expect to obtain the building ownership certificates for these buildings in 2010.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 16. INVESTMENT PROPERTIES

RMB'000

COST	
At 1 January 2008	11,790
Exchange adjustment	(897)
	<hr/>
At 31 December 2008	10,893
Exchange adjustment	397
	<hr/>
At 31 December 2009	11,290
	<hr/>
DEPRECIATION AND IMPAIRMENT	
At 1 January 2008	1,328
Exchange adjustment	(101)
Provided for the year	75
	<hr/>
At 31 December 2008	1,302
Exchange adjustment	50
Provided for the year	75
	<hr/>
At 31 December 2009	1,427
	<hr/>
CARRYING VALUE	
At 31 December 2009	9,863
	<hr/>
At 31 December 2008	9,591
	<hr/>

The fair value of the Group's investment properties at 31 December 2009 was NTD46,180,000, equivalent to approximately RMB9,949,000 (31 December 2008: NTD46,013,000, equivalent to approximately RMB9,565,000). The fair value has been arrived at based on a valuation carried out by CCIS Real Estate Joint Appraisers Firm, an independent valuer not connected with the Group. The valuation was determined by reference to recent market prices for similar properties in the same locations and conditions.

The above investment properties are situated in Taiwan and held under freehold and are depreciated on a straight line basis at the following rates per annum:

Freehold land	Not depreciated
Buildings	2%

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 17. PREPAID LEASE PAYMENTS

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Medium-term land use rights in the PRC	<u>26,144</u>	<u>26,757</u>
Analysed for reporting purpose as:		
Current assets	<u>613</u>	613
Non-current assets	<u>25,531</u>	<u>26,144</u>
	<u>26,144</u>	<u>26,757</u>

The amount represents the land use rights for leasehold interest in land which are located in the PRC under medium-term leases.

## 18. INTANGIBLE ASSETS

	<b>Patents and licences <i>RMB'000</i></b>
<b>COST</b>	
At 1 January 2008	17,399
Additions	<u>73</u>
At 31 December 2008	17,472
Additions	1,124
Exchange adjustment	<u>(3)</u>
At 31 December 2009	<u>18,593</u>
<b>AMORTISATION</b>	
At 1 January 2008	4,457
Charge for the year	<u>1,806</u>
At 31 December 2008	6,263
Charge for the year	1,769
Exchange adjustment	<u>(1)</u>
At 31 December 2009	<u>8,031</u>
<b>CARRYING VALUES</b>	
At 31 December 2009	<u>10,562</u>
At 31 December 2008	<u>11,209</u>

The above patents and licences were acquired from third parties and have estimated useful lives of 5 to 10 years over which the assets are amortised on the straight line basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 19. DEFERRED TAX

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

	<b>Inventories and doubtful debts allowance RMB'000</b>	<b>Post- employee benefits pension RMB'000</b>	<b>Total RMB'000</b>
At 1 January 2008	683	–	683
Credit to profit or loss	944	128	1,072
At 31 December 2008	1,627	128	1,755
Effect of change in tax rate	(325)	(26)	(351)
(Charge) credit to profit or loss	(190)	70	(120)
At 31 December 2009	1,112	172	1,284

At 31 December 2009, the Group had unused tax losses of RMB29,722,000 (2008: RMB51,963,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses can be carried forward up to five years (2013 to 2014) from the year (2008 and 2009) in which the loss was originated to offset future taxable profits.

Under the relevant tax laws in the PRC and Taiwan, withholding tax is imposed on dividends declared in respect of profits earned by the PRC and Taiwan subsidiaries (profits earned from 1 January 2008 onwards for PRC subsidiaries). Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to retained profits of the PRC and Taiwan subsidiaries amounting to RMB10,117,000 and RMB93,171,000 respectively (31 December 2008: RMB8,189,000 and RMB84,695,000 respectively) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 20. PLEDGED BANK DEPOSITS

These represent deposits pledged to banks to secure banking facilities granted to the Group. Deposits amounting to RMB205,255,000 (31 December 2009: RMB71,107,000) have been pledged to secure short-term bank loans and are therefore classified as current assets. The remaining deposits amounting to RMB4,500,000 (31 December 2008: Nil) have been pledged to secure long-term borrowings and are therefore classified as non-current assets.

The pledged bank deposits carry variable interest rate which range from 0.01% to 4.14% (31 December 2008: 0.02% to 4%) per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 21. INVENTORIES

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Raw materials	82,371	83,552
Work in progress	18,321	56,937
Finished goods	126,001	86,910
	<u>226,693</u>	<u>227,399</u>

## 22. TRADE AND OTHER RECEIVABLES

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Trade and bills receivables	343,227	267,032
Less: Allowance for doubtful debts	<u>(32,609)</u>	<u>(15,776)</u>
Total trade receivables	310,618	251,256
Advances to suppliers	17,467	2,699
Value added tax recoverable	16,545	1,669
Deposit for litigation claim (Note 33)	7,000	–
Others	6,875	8,747
Total trade and other receivables	<u>358,505</u>	<u>264,371</u>

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 date at the end of the reporting date:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
0 – 60 days	145,835	98,726
61 – 90 days	73,911	54,930
91 – 180 days	74,059	75,831
181 – 270 days	10,791	11,453
271 – 360 days	3,041	1,797
Over 360 days	2,981	8,519
	<u>310,618</u>	<u>251,256</u>

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. 89% (2008: 87%) of the trade receivables that are neither past due nor impaired have good credit quality under the internal assessment by the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

Included in the Group's trade and bills receivables balance are debtors with aggregate carrying amount of RMB33,600,000 (2008: RMB32,657,000) 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 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.

#### Ageing of trade receivables which were past due but not impaired

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
One to six months past due	28,048	32,117
Over six month past due	5,552	540
Total	<u>33,600</u>	<u>32,657</u>

#### Movement in the allowance for doubtful debts

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
1 January	15,776	11,986
Impairment losses recognised on receivables	16,833	3,790
31 December	<u>32,609</u>	<u>15,776</u>

Included in the allowance for doubtful debts were individually impaired debtors with an aggregate balance of RMB32,609,000 (2008: RMB15,776,000), which had been in severe financial difficulties. The Group did not hold any collateral over these balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 23. AMOUNTS DUE FROM (TO) RELATED PARTIES

Name of related party	Relationship	2009 RMB'000	2008 RMB'000
<b>Amount due from a related party</b>			
Shenzhen Capxon Electronic Co., Ltd. ("SZ Capxon")	Note i, vi	–	167
<b>Amounts due to related parties</b>			
Lin I Chu	Director	–	3,000
Chou Chiu Yueh	Director	5	14,278
Ele Con Co., Ltd. ("Ele Con")	Note ii, vii	2,784	7,763
Fung Yue Technology Limited ("Fung Yue")	Note iii, vii	3,700	3,664
Hill Source Electron (Shenzhen) Co., Ltd. ("Hill Source")	Note iv	197	200
Capxon Electronic Technology (Renhua) Co., Ltd. ("Capxon Renhua")	Note iii	–	7,677
		<b>6,686</b>	<b>36,582</b>

*Notes:*

- (i) In the opinion of the directors of the Company, Mr. Lin Chin Tsun, an executive director of the Company, can exercise significant influence over SZ Capxon.
- (ii) It is owned as to 30% by Ms. Liu Fang Chun who is a non-executive director of the Company.
- (iii) Fung Yue is wholly owned by Mr. Lin Chin Tsun. Capxon Renhua is a subsidiary of Fung Yu.
- (iv) In the opinion of the directors, Mr. Lin Chin Tsun, an executive director of the Company, can exercise significant influence over Hill Source.
- (v) Other than an amount of RMB3,000,000 due to Ms. Lin I Chu, which carried fixed interest rate at 4.04% per annum and was fully repaid on 9 March 2009, the above balances are interest-free, unsecured and repayable on demand.
- (vi) The balance for 2008 was in trade nature and aged over 60 days based on the invoice date at the end of the reporting period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 23. AMOUNTS DUE FROM (TO) RELATED PARTIES (continued)

Notes: (continued)

(vii) The balances for both years were in trade nature and repayable on demand. The following is an aged analysis of amount due to related parties based on the invoice date at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
0 – 60 days	1,042	464
61- 90 days	588	397
91 – 180 days	1,154	–
181 – 270 days	–	2,172
271 – 360 days	–	1,668
Over 360 days	3,700	6,726
	<u>6,484</u>	<u>11,427</u>

## 24. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market interest rates which range from 0.01% to 0.36% (2008: 0.02% to 1.7%) per annum.

## 25. TRADE AND OTHER PAYABLES

	2009 RMB'000	2008 RMB'000
Trade and bills payables	126,805	82,282
Advances from customers	3,851	4,913
Payroll payables	8,495	6,807
Accruals	7,695	5,897
Others	4,212	18,200
	<u>151,058</u>	<u>118,099</u>

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

	2009 RMB'000	2008 RMB'000
0 – 60 days	58,649	12,706
61- 90 days	21,083	16,096
91 – 180 days	30,968	30,422
181 – 270 days	1,907	7,189
271 – 360 days	801	2,367
Over 360 days	13,397	13,502
	<u>126,805</u>	<u>82,282</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 26. BANK BORROWINGS

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Secured	489,114	394,301
Unsecured	203,378	93,680
	<u>692,492</u>	<u>487,981</u>
Carrying amount repayable:		
Within one year	475,873	447,653
More than one year, but not exceeding two years	201,674	11,615
More than two years but not more than five years	14,945	27,673
More than five years	–	1,040
	<u>692,492</u>	<u>487,981</u>
Less: Amounts due within one year shown under current liabilities	<u>(475,873)</u>	<u>(447,653)</u>
Amounts due over one year	<u>216,619</u>	<u>40,328</u>

The Group's bank borrowings included fixed-rate borrowings of RMB110,000,000 (2008: RMB94,500,000) which carry interest at 5.31% (2008: 6.14% to 7.72%) 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 1.95% to 5.62% (2008: 1.60% to 8.32%) 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:

	EUR <i>RMB'000</i>	USD <i>RMB'000</i>	HKD <i>RMB'000</i>	JPY <i>RMB'000</i>
<b>At 31 December 2009</b>	<b>788</b>	<b>139,643</b>	–	<b>28,360</b>
At 31 December 2008	1,150	101,421	27,294	21,152

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 27. RETIREMENT BENEFIT PLANS

### (i) Defined benefit obligations

The Company's subsidiary incorporated in Taiwan, Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), has a defined benefit pension plan, covering substantially all of its employees who were recruited by Capxon Taiwan before the implementation of the Employee Pension Act on 1 July 2005. The defined benefit pension plan requires contributions to be made to separately administered funds.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 December 2009 by Greatfine Wealth Management Consulting Inc., a member of the Actuarial Society of Taiwan. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2009	2008
Discount rate	2.0%	2.5%
Expected return on plan assets	2.0%	2.5%
Expected rate of salary increase	2.0%	2.0%

The actuarial valuation showed that the market value of plan assets was RMB636,000 (2008: RMB566,000) and that the actuarial value of these assets represented 11% (2008: 10%) of the benefits that had accrued to members.

Amounts recognised in the profit or loss in respect of these defined benefit plans are as follows:

	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Current service cost	154	219
Interest cost	110	182
Expected return on plan assets	(14)	(27)
Actuarial losses (gains) recognised in the year	(80)	178
Total	170	552

The charge for the year is included in the employee benefits expense in the profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 27. RETIREMENT BENEFIT PLANS *(continued)*

### (i) Defined benefit obligations *(continued)*

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

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Present value of defined benefit obligations	<b>5,651</b>	4,367
Fair value of plan assets	<b>(636)</b>	(566)
	<b>5,015</b>	3,801
Net actuarial gains not recognised	<b>748</b>	1,625
Net liability arising from defined benefit obligation	<b>5,763</b>	5,426

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

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
At 1 January	<b>4,367</b>	6,579
Current service cost	<b>154</b>	219
Interest cost	<b>110</b>	182
Actuarial losses (gains)	<b>827</b>	(837)
Exchange difference	<b>193</b>	(500)
Benefits paid	<b>–</b>	(1,276)
At 31 December	<b>5,651</b>	4,367

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 27. RETIREMENT BENEFIT PLANS (continued)

### (i) Defined benefit obligations (continued)

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

	2009 RMB'000	2008 RMB'000
At 1 January	566	980
Expected return on plan assets	13	27
Exchange differences on a foreign plan	22	(75)
Contributions from the Group	35	910
Benefits paid	—	(1,276)
	<u>636</u>	<u>566</u>
At 31 December	636	566
Actual return on plan assets	<u>13</u>	<u>30</u>

The plan assets solely represent cash, the expected rate of return at the reporting period is 2.28% (2008: 2.5%).

The expected rate of return is the expected returns of the plan assets held. The directors' assessment of the expected returns is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

### (ii) Defined contribution plans

The employees of the Group's subsidiaries in the PRC are members of state-managed retirement pension schemes operated by the local government. The Group is 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 costs charged to consolidated statement of comprehensive incomes during the year were RMB4,771,000 (2008: RMB4,969,000). All the contributions had been paid over to the scheme as at the end of the reporting period.

## 28. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised:		
At 1 January 2008, 31 December 2008 and 2009	<u>1,500,000,000</u>	<u>150,000</u>
Issued and fully paid:		
At 1 January 2008, 31 December 2008 and 2009	<u>844,559,841</u>	<u>84,456</u>
Shown in the financial statements as (RMB'000)		<u>82,244</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 29. SHARE-BASED PAYMENT TRANSACTIONS

On 3 April 2007, the Company approved and adopted a share option scheme entitling the board of directors to grant share options at its discretion to any executive, director and/or employee of the Group who is in full time employment of the Group at the time when an option is granted before the listing of the Company's shares (the "Pre-IPO Share Option Scheme"). The maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme shall not exceed 15,500,000 shares. 14,900,000 options were granted to certain executives, employees and directors of the Group on 17 April 2007 (the "Date of Grant") with 600,000 options and 900,000 options forfeited during the year ended 31 December 2007 and 31 December 2009 respectively. The Pre-IPO Share Option Scheme was closed at the close of business on 4 May 2007 and no further options may be granted thereafter.

Under the Pre-IPO Share Option Scheme, the options granted shall vest to the relevant grantees in tranches, namely 20% of the option shall vest on the first anniversary of the Date of Grant at an exercise price of HK\$0.465 per share (the "First Tranche"); 20% of the option shall vest on the second anniversary of the Date of Grant at an exercise price of HK\$0.465 per share (the "Second Tranche"); and 60% of the option shall vest on the third anniversary of the Date of Grant at an exercise price of HK\$0.465 per share. The board of directors may at its absolute discretion adjust the percentage of the option to be vested in the First Tranche and Second Tranche either upwards or downwards based on the performance of the relevant grantees in the year immediately preceding the vesting of the option in the relevant tranches as determined by the directors of the Company.

Pursuant to the terms of the Pre-IPO Share Option Scheme, the options may be exercised, in whole or in part, at any time during the option period from 17 April 2007 to 16 April 2012 except that no options may be exercised until the expiry of 12 months after the respective dates of vesting. At the annual general meeting of the Company held on 5 June 2008, an ordinary resolution was passed by the shareholders of the Company approving the outstanding options granted under the Pre-IPO Share Option Scheme may be exercised by the holders at any time during the period commencing from 17 April 2007 and expiring on 16 April 2012 after the respective dates of vesting.

The fair value of the options granted at the Date of Grant was HK\$7,799,000, calculated using the Black-Scholes pricing model. The Group recognised a share option expense of RMB1,478,000 (2008: RMB2,366,000) during the year.

The following table discloses movements during the year of the Company's share options under the Pre-IPO Share Option Scheme:

Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1.1.2008 and 1.1.2009	Forfeited during the year	Outstanding at 31.12.2009
17 April 2007	0.465	18.04.2008 to 16.04.2012	2,860,000	(180,000)	2,680,000
	0.465	18.04.2009 to 16.04.2012	2,860,000	(180,000)	2,680,000
	0.465	18.04.2010 to 16.04.2012	8,580,000	(540,000)	8,040,000
			<u>14,300,000</u>	<u>(900,000)</u>	<u>13,400,000</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 30. OPERATING LEASES

### (i) The Group as lessor

Rental income earned during the year is RMB526,000 (2008: RMB553,000) less of outgoings of RMB263,000 (2008: RMB123,000).

At the end of the reporting period, the Group had contracted with tenants for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Within one year	<b>526</b>	582
In the second to fifth year inclusive	<b>44</b>	631
	<b>570</b>	1,213

The properties held have committed tenants for the next two years (2008: three years).

### (ii) The Group as lessee:

Minimum lease payments paid under operating leases during the year for rented premises is approximately RMB2,718,000 (2008: RMB1,381,000).

At the end of the reporting period, the Group had outstanding commitments payable under non-cancellable operating lease in respect of rented premises which fall due as follows:

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Within one year	<b>2,165</b>	1,224
In the second to fifth year inclusive	<b>5,291</b>	1,185
	<b>7,456</b>	2,409

Leases are negotiated and rental are fixed for a period from one to five years (2008: one to two years).

## 31. CAPITAL COMMITMENTS

	<b>2009</b> <i>RMB'000</i>	2008 <i>RMB'000</i>
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<b>14,465</b>	2,750

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 32. RELATED PARTY DISCLOSURES

### (i) Related party transactions

During the year, the Group entered into the following transactions with related parties:

Name of related parties	Nature of transactions	2009 RMB'000	2008 RMB'000
Ele Con	Purchase of raw materials	6,074	12,078
	Amount waived for purchase of raw materials	–	202
SZ Capxon	Purchase of goods	–	257
Capxon Renhua	Purchase of property, plant and equipment	–	8,448
Ms. Lin I Chu	Interest expense	<u>18</u>	<u>9</u>

### (ii) Provision of guarantees and security by the Company's directors

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

	2009 RMB'000	2008 RMB'000
Guarantees provided by:		
Lin Chin Tsun	136,000	39,643
Lin Chin Tsun, Chou Chiu Yueh	48,080	70,412
Lin Chin Tsun, Chou Chiu Yueh, Lin Yuan Yu, Liu Fang Chun, Lin I Chu	36,427	30,000
Lin Chin Tsun, Lin Yuan Yu	80,046	6,194
Lin Yuan Yu	–	41,557
	<u>300,553</u>	<u>187,806</u>

The expiry dates of the above guarantees fall within the period from March 2010 to March 2015 (2008: June 2009 to March 2015).

In addition, Mr. Lin Yuan Yu, has pledged a property to a bank in support of banking facilities of USD1,000,000 granted to the Group.

### (iii) Related party balances

Details of the Group's outstanding balances with related parties are set out in Note 23 to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

### (iv) Compensation of key management personnel

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

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Short-term benefits	9,700	9,212
Post-employment benefits	186	735
Share-based payments	1,266	2,064
	<u>11,152</u>	<u>12,011</u>

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

## 33. CONTINGENT LIABILITIES

During the year ended 31 December 2009, a customer filed a civil complaint in the People's Court of Baoan District in the PRC (the "Court") against a subsidiary of the Company, Capxon Electronic (Shenzhen) Co. Ltd. ("Capxon Shenzhen"), claiming product defect compensation of RMB29,144,000. Capxon Shenzhen placed a deposit of RMB7,000,000 to the Court in respect of such claim. The claim was rejected at first instance by the Court. In December 2009, the customer filed an appeal which is pending hearing. The directors of the Company, having sought legal advice, considered that the possibility of the outflow of resources relating to settlement is not probable, accordingly, no provision for any potential liability has been made 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:

	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Property, plant and equipment	361,869	325,247
Investment properties	9,863	9,591
Prepaid lease payments	26,144	–
Bank deposits	209,755	71,107
Bills receivables	1,573	–
	<u>609,204</u>	<u>405,945</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2009 <i>RMB'000</i>	2008 <i>RMB'000</i>
Total assets		<b>518,498</b>	550,307
Total liabilities		<b>(6,000)</b>	(28,466)
		<b>512,498</b>	521,841
<b>Capital and reserves</b>			
Share capital		<b>82,244</b>	82,244
Reserves	(i)	<b>430,254</b>	439,597
		<b>512,498</b>	521,841

Notes:

(i) Reserves

	Share premium <i>RMB'000</i>	Share option reserve <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Retained profits (Deficit) <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2008	436,626	2,525	826	7,947	447,924
Loss for the year	–	–	–	(5,280)	(5,280)
Exchange translation	–	–	(5,413)	–	(5,413)
Total comprehensive expenses	–	–	(5,413)	(5,280)	(10,693)
Recognition of equity-settled share-based payments	–	2,366	–	–	2,366
At 31 December 2008	436,626	4,891	(4,587)	2,667	439,597
Loss for the year	–	–	–	(10,949)	(10,949)
Exchange translation	–	–	128	–	128
Total comprehensive expenses	–	–	128	(10,949)	(10,821)
Sub-total	436,626	4,891	(4,459)	(8,282)	428,776
Recognition of equity-settled share-based payments	–	1,478	–	–	1,478
Release upon forfeiture of vested share options	–	(354)	–	354	–
At 31 December 2009	436,626	6,015	(4,459)	(7,928)	430,254

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

## 36. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2009 and 2008 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		
			2009 %	2008 %	2009 %	2008 %	
Capxon Electronic Technology (Baotou) Co. Ltd. (Note i)	The PRC	RMB100,000,000	-	-	100	100	Manufacture and sale of aluminium foil
Capxon Electronic Technology (Yichang Sanxin) Co. Ltd. (Note ii)	The PRC	US\$30,000,000	-	-	100	100	Manufacture and sale of aluminium foil
Capxon Shenzhen (Note ii)	The PRC	US\$39,150,000	12.77	12.77	84.81	84.81	Manufacture and sale of capacitors
Capxon Taiwan	Taiwan	NTD620,000,000	96.54	96.54	-	-	Sale of capacitors
Capxon Trading (Shenzhen) Co. Ltd. (Note ii)	The PRC	US\$700,000	-	-	96.54	96.54	Trading
Easy Chance Ltd.	Hong Kong	HK\$10,000	-	-	100	100	Trading and investment holding
Evercon Electronic (Shenzhen) Co. Ltd. (Note ii, iii)	The PRC	US\$1,000,000	-	-	100	-	Manufacture and sale of capacitors but not yet commenced business as at year end
Evercon Limited (Note iii)	Hong Kong	US\$1,000,000	100	-	-	-	Trading and investment holding
Gold Wish Ltd.	British Virgin Islands/ Taiwan	US\$30,000,000	100	100	-	-	Investment holding
Lancom Ltd.	Hong Kong	HK\$85,137,200	-	-	96.54	96.54	Trading and investment holding
Mega Tender Ltd.	Hong Kong	HK\$10,000	100	100	-	-	Trading
Multiple Investments Ltd.	British Virgin Islands/ Taiwan	US\$2,300,000	100	100	-	-	Investment holding
Waystech Trading Ltd.	British Virgin Islands/ Taiwan	US\$1,034,699	100	100	-	-	Investment holding
Yichang Fengshuo Equipment Co. Ltd. (Note ii)	The PRC	HK\$8,000,000	-	-	100	100	Manufacture and sale of equipment

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

Notes:

- (i) Being established in the PRC in the form of domestic enterprise.
- (ii) Being established in the PRC in the form of wholly foreign-owned enterprise.
- (iii) Being newly incorporated during the year of 2009.

## FINANCIAL SUMMARY

### RESULTS

	Year ended 31 December				
	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>
Revenue	<u>789,910</u>	<u>843,856</u>	<u>1,016,533</u>	<u>912,642</u>	<u>775,053</u>
Profit (loss) for the year	<u>85,360</u>	<u>83,576</u>	<u>67,570</u>	<u>(24,741)</u>	<u>(6,119)</u>

### ASSETS AND LIABILITIES

	As at 31 December				
	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>	2009 <i>RMB'000</i>
Total assets	1,184,483	1,379,259	1,672,681	1,392,774	<b>1,592,085</b>
Total liabilities	<u>(723,478)</u>	<u>(836,371)</u>	<u>(906,519)</u>	<u>(653,660)</u>	<u>(858,264)</u>
	<u>461,005</u>	<u>542,888</u>	<u>766,162</u>	<u>739,114</u>	<u>733,821</u>
Attributable to:					
Owners of the Company	389,864	469,240	756,935	730,324	<b>724,751</b>
Minority interests	<u>71,141</u>	<u>73,648</u>	<u>9,227</u>	<u>8,790</u>	<u>9,070</u>
	<u>461,005</u>	<u>542,888</u>	<u>766,162</u>	<u>739,114</u>	<u>733,821</u>

## PARTICULARS OF INVESTMENT PROPERTIES

Location	Type	Lease term
Unit on Level 5 No. 276, Sec. 1, Datong Road Sijhih City Taipei County Taiwan	Industrial office	Freehold
Unit on Level 5 No. 276-1, Sec. 1, Datong Road Sijhih City Taipei County Taiwan	Industrial office	Freehold
Carparking Space Nos. 41, 43, 44 and 49 on Underground Floor Level 1 No. 276, Sec. 1, Datong Road Sijhih City Taipei County Taiwan	Carpark	Freehold