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)
website: www.capxongroup.com

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2017	**2016**	**Changes**
Revenue (RMB'000)	459,359	435,042	+5.59%
Loss for the period attributable to owners of the Company (RMB'000)	(14,711)	(13,327)	+10.38%
Basic loss per share attributable to owners of the Company (RMB cents)	(1.74)	(1.58)	+10.13%
Interim dividends (HK cents per share)	--	--	--

The board of directors (the "Board") of Capxon International Electronic Company Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2017 (the "Period") together with the comparative figures for the corresponding period of last year as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	Six months ended 30 June 2017 RMB'000 (unaudited)	Six months ended 30 June 2016 RMB'000 (unaudited)
Revenue	3	459,359	435,042
Cost of sales		(352,432)	(331,020)
Gross profit		106,927	104,022
Other income		7,319	5,472
Other gains and losses		(24,900)	(23,397)
Distribution and selling costs		(33,111)	(26,895)
Administrative expenses		(37,239)	(38,537)
Other expenses		(22,068)	(18,221)
Provision for damages		(4,418)	(4,252)
Finance costs		(748)	(1,395)
Loss before tax		(8,238)	(3,203)
Income tax expense	4	(6,444)	(11,250)
Loss for the period	5	(14,682)	(14,453)
Other comprehensive income (expense) (net of tax):			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		6,314	(10,571)
Total comprehensive expense for the period		(8,368)	(25,024)
(Loss) profit for the period attributable to:			
Owners of the Company		(14,711)	(13,327)
Non-controlling interests		29	(1,126)
		(14,682)	(14,453)
Total comprehensive expense attributable to:			
Owners of the Company		(7,823)	(23,781)
Non-controlling interests		(545)	(1,243)
		(8,368)	(25,024)
Loss per share (RMB cents)	7		
Basic		(1.74)	(1.58)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2017

	NOTES	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		439,507	443,879
Land use rights		37,902	38,419
Intangible assets		45	153
Deposits paid for acquisition of property, plant and equipment		29,582	34,903
		507,036	517,354
CURRENT ASSETS			
Inventories		161,100	154,529
Land use rights		1,031	1,031
Trade and other receivables	8	416,230	383,336
Tax recoverable		2,056	2,056
Pledged bank deposits		2,137	2,424
Bank balances and cash		99,104	123,362
		681,658	666,738
CURRENT LIABILITIES			
Trade and other payables	9	443,727	416,327
Bank borrowings		81,032	87,210
Amounts due to related parties		3,613	4,334
Tax liabilities		12,406	20,119
		540,778	527,990
NET CURRENT ASSETS		140,880	138,748
TOTAL ASSETS LESS CURRENT LIABILITIES		647,916	656,102
NON-CURRENT LIABILITIES			
Deferred income		22,542	22,698
Deferred tax liabilities		4,102	3,764
		26,644	26,462
		621,272	629,640
CAPITAL AND RESERVES			
Share capital		82,244	82,244
Share premium and reserves		537,332	545,155
Equity attributable to owners of the Company		619,576	627,399
Non-controlling interests		1,696	2,241
		621,272	629,640

NOTES

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are relevant for the preparation of the Group's condensed consolidated financial statements:

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

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

Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to IAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

3. REVENUE AND SEGMENTAL INFORMATION

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

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

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

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

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

For the six months ended 30 June 2017

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
External sales	450,326	9,033	459,359	-	459,359
Inter-segment sales	-	45,194	45,194	(45,194)	-
Segment revenue	450,326	54,227	504,553	(45,194)	459,359
Segment profit (loss)	25,955	(28,588)	(2,633)	351	(2,282)
Interest income					348
Unallocated corporate expenses					(4,478)
Finance costs					(748)
Provision for damages					(4,418)
Foreign exchange gain arising from retranslation of provision for damages					3,340
Loss before tax					(8,238)

For the six months ended 30 June 2016

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
External sales	425,527	9,515	435,042	-	435,042
Inter-segment sales	-	39,154	39,154	(39,154)	-
Segment revenue	425,527	48,669	474,196	(39,154)	435,042
Segment profit (loss)	54,046	(26,359)	27,687	3,586	31,273
Interest income					363
Unallocated corporate expenses					(4,364)
Finance costs					(1,395)
Provision for damages					(4,252)
Foreign exchange loss arising from retranslation of provision for damages					(24,828)
Loss before tax					(3,203)

Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of central administration costs, interest income, corporate expenses, finance costs, provision for damages and foreign exchange gain (loss) arising from retranslation of provision for damages. This is the measure reported to the Group's chief decision makers for the purposes of resource allocation and assessment segment performance.

Since there is no material change on the assets and liabilities of the Group's reportable segments for performance assessment and resource allocation purposes, the Group has not included total assets and total liabilities information as part of segmental information.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax		
- The People's Republic of China (the "PRC") Enterprise Income Tax	4,663	9,472
- Taiwan Corporate Income Tax	1,317	1,505
	5,980	10,977
Overprovision in prior years		
- Taiwan Corporate Income Tax	-	(190)
Deferred tax - current period	464	463
	6,444	11,250

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

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

In March 2017, Capxon Shenzhen was approved for 1 year as an enterprise that satisfied the conditions as a high technology development enterprise and was subject to a preferential tax rate of 15% in 2016. The directors of the Company consider that Capxon Shenzhen is able to renew the high technology development enterprise certificate for the preferential tax rate of 15% for the year 2017.

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

5. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Depreciation of property, plant and equipment (including RMB18,858,000 (six months ended 30 June 2016: RMB30,126,000) capitalised in inventories and recognised in cost of sales and RMB5,254,000* (six months ended 30 June 2016: nil) recognised in other expenses)	25,485	31,151
Amortisation of land use rights	517	517
Amortisation of intangible assets	108	118
Total depreciation and amortisation	26,110	31,786

Loss on disposal/written-off of property, plant and equipment	1,125	1,083
Impairment loss (reversal of impairment loss) on trade receivables	1,588	(538)
Impairment loss on deposits paid for acquisition of property, plant and equipment#	7,762	-
Net foreign exchange losses	14,425	22,852
Other gains and losses	24,900	23,397
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB4,568,000 (six months ended 30 June 2016: RMB5,007,000))	352,432	331,020
Research and development costs (included in other expenses)	14,221	16,540
Interest income	(348)	(363)

* The amount represents the depreciation expenses of property, plant and equipment incurred by a subsidiary of the Company which has ceased operation during the current interim period. The relevant machinery and equipment will be relocated to other production plants of the Group in the future.

\# During the six months ended 30 June 2017, the board of directors of the Company reassessed the recoverability of the relevant deposits which aged over 1 year and considered that the recoverability is low after negotiation with the counterparty and considering the probability of settlement.

6. DIVIDENDS

No dividends were paid, declared or proposed during both periods. The board of directors of the Company has determined that no dividend will be paid in respect of the interim period.

7. LOSS PER SHARE

The calculation of the basic loss per share attributable to the owners of the Company for the six months ended 30 June 2017 is based on the loss for the period attributable to owners of the Company of approximately RMB14,711,000 (six months ended 30 June 2016: RMB13,327,000) and on 844,559,841 ordinary shares in issue.

Diluted loss per share is not presented for the six months ended 30 June 2017 and 2016 as there were no potential ordinary shares outstanding during the six months ended 30 June 2017 and 2016.

8. TRADE AND OTHER RECEIVABLES

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
0 - 60 days	174,309	187,826
61 - 90 days	74,266	58,871
91 - 180 days	99,713	85,464
181 - 270 days	6,372	3,915
Over 360 days	10	15
	354,670	336,091

9. TRADE AND OTHER PAYABLES

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
0 - 60 days	129,479	145,835
61- 90 days	32,694	7,638
91 - 180 days	13,398	9,439
181 - 270 days	13,936	375
271 - 360 days	224	113
Over 360 days	15,134	18,199
	204,865	181,599

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

A summary of the financial results of the Group for the Period is as follows:

- Revenue increased by approximately 5.59% to approximately RMB459,359,000.
- Gross profit increased by approximately 2.79% to approximately RMB106,927,000.
- Loss for the Period attributable to owners of the Company amounted to approximately RMB14,711,000 (for the six months ended 30 June 2016: RMB13,327,000).

During the Period under review, the Group's revenue was approximately RMB459,359,000, representing an increase of approximately 5.59% over the corresponding period last year. Sales of aluminum electrolytic capacitors for the Period were approximately RMB450,326,000, representing an increase of approximately 5.83% as compared to that of RMB425,527,000 in the corresponding period last year; such increase in sales was due to an increase of demand for electronic products as a result of slow recovery of economy. Sales of aluminum foils for the Period were approximately RMB9,033,000, representing a decrease of approximately 5.07% as compared to that of RMB 9,515,000 in the corresponding period last year. Such decrease was mainly due to continuing excessive supply in the aluminum foils market, and the relatively competitive selling prices of aluminum foils produced by Japanese manufacturers due to changes in the exchange rate of the Japanese Yen. As a result, sales of aluminum foils of the Group were affected. During the Period, the gross profit margin of the Group was approximately 23.28%, representing a slight decline of approximately 0.63% as compared to 23.91% of the corresponding period of last year.

BUSINESS REVIEW

Having gotten through a prolonged sluggish economic growth in the past few years, the cloud industry experienced a flourishing development trend worldwide with the mushrooming of different kinds of innovative application services driven by mobile devices and the Internet of Things in the first half of 2017. As a result, many financial experts are generally of the view that global economic conditions will improve in 2017. However, industry players should be cautious about the potentially high risks in the future due to the continued appearance of black swan events.

➢ *Manufacture and sale of aluminum foils*

During the Period, after satisfying internal production demand, the Group's external sales of aluminum foils amounted to approximately RMB9,033,000, representing a decrease of approximately 5.07% as compared to that of RMB9,515,000 in the corresponding period last year. The sales of our aluminum foils decreased from approximately 2.19% of our Group’s total external sales in the corresponding period last year, to approximately 1.97% of our Group’s total external sales for the Period.

Given the stagnant recovery of the general economy, although trading prospects in general tended to be conservative due to a number of factors, the circumstances of excessive production capacity and insufficient sales orders of formed foils have improved. While the majority of production capacity was dominated by large-scaled manufacturer of capacitors, small and medium sized manufacturer of capacitors faced the challenge of shortage of aluminum foils supply. In light of such current industry characteristics, after assessing the market situation and considering future potential factors, in addition to continuing its effective energy conservation and reducing consumption practices, the Group also shifted its previous conservative approach of reducing production capacity, and added new production lines to alleviate the market demand of small and medium sized customers. Aluminum foils are the major raw materials of capacitors. The Group has excellent production processing technologies for formed foils and a stable production capacity. Currently, various key technical research and development (“R&D”) projects and quality control techniques have been completed. Besides, the Group is also actively exploring markets with high added value to facilitate timely responses towards future market changes. The Group will continue to pay close attention to and handle the future developments of the aluminum foils markets with care.

Currently, the Group has completed various key technical R&D projects and quality control techniques of aluminum foils as follows:

- ➢ Etched Aluminum Foil:① The trial run of fast production lines enhanced capacities and lowered the dispersion difference; and② the test of new materials of negative electrodes reduced maintenance costs.

- ➢ Formed foil:① The restructuring of ultra-high voltage production lines; and ②automatic cleaning and crystallization system for production lines facilitated reduction in water consumption.

➢ *Manufacture and sale of capacitors*

The Group recorded external sales of aluminum electrolytic capacitors of approximately RMB450,326,000 during the Period, representing approximately 98.03% of the Group’s total external sales, and a slight increase of approximately 0.22% from approximately 97.81% of the Group’s total external sales for the same period last year.

As the global sales of smart phones entered into a mild growth period, while other application markets, such as high-end application fields of automobiles, high-ended smart household electronic appliances, smart electronic watches, safety control system and industrial control have a great growth potential, we are cautiously optimistic about the passive components industry in the coming years. With the development of artificial intelligence and commercial application opportunities of VR, AR and MR, the R&D and production capacity of electrolytic capacitors of the Group primarily focused on addressing high-end products in 2017, including variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and vehicle-mounted electronic applications, and the demand of relevant products have achieved relatively satisfying results. In the future, the Group will endeavor to meet the requirements for specific customized products, including miniaturization, high capacity, high voltage, high frequency, and high temperature, so as to gradually develop the front-end demand in the market and customized products across various areas, promote the application of electrolytic capacitors in various sectors in the market, and expand the global market share of its electrolytic capacitor products.

The Group has recently completed the following production steps and the development of various key technical R&D projects as follows:

- Reduced the cost of semi-solid-state aluminum electrolytic capacitors; developed the processing and manufacturing method of 16V～35V chemical synthesis of semi-solid-state aluminum electrolytic capacitors;
- Commenced mass production of needle-type and foil-type products for liquid-state and capacitors with high voltage of 520WV~600WV;
- Reduced the cost of semi-solid-state aluminum electrolytic capacitors; developed the work process and manufacturing method of 16V～35V chemical synthesis of semi-solid-state aluminum electrolytic capacitors;
- Developed new stitching and winding methods to improve the element structure for the small-sized production of the Model 600 stitching and winding (below φ6.3), which prevents structural change for small-sized SMD products (cleaning in boiling water) and DIP products (carbonization) to ensure low ESR;
- Optimized the overall manufacturing production project and established CNAS laboratory to accelerate the penetration of automobile electronics and charging station industry;
- Applied high capacity cathode foils and the V-CHIP was further downsized to meet equivalent standard of the Japanese series;
- Applied high capacity anode foils of 115um and 30UM-thick titanium foils to further reduce the size of the V-CHIP in order to meet market demand;
- Developed the new SV series to further improve the work process of stitching and winding by lowering impedance and lengthening coil with smaller size. Downsized SMD products satisfied the demand for SMD from robots; and
- Developed and commenced mass production of the -40℃ low temperature compatible products with high voltage of 450V~500V to cater for a wide range of low temperature application, boosting global sales.

LIQUIDITY AND FINANCIAL RESOURCES

- *Cash flows*

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

During the Period, the Group had a total net cash outflow of approximately RMB24,757,000 from operating, investing, and financing activities before foreign exchange adjustment, the details of which are set out below:

Net cash inflow from operating activities was approximately RMB8,182,000, which was mainly due to the loss before tax for the Period of approximately RMB8,238,000 together with the changes in the flow of funds as a result of the adjustments for finance costs and depreciation, etc., and the movements in inventories, accounts receivable, and accounts payable, etc.

Net cash outflow from investing activities was approximately RMB24,364,000, which was mainly due to the payment of approximately RMB25,280,000 for the purchase of machinery and equipment.

Net cash outflow from financing activities was approximately RMB8,575,000, which was mainly due to borrowings of approximately RMB101,489,000 from the banks, repayment of bank borrowings of approximately RMB108,707,000, payment of interest from borrowings of approximately RMB748,000 and repayment of amount due to a related party of approximately RMB609,000.

As at 30 June 2017, the Group had cash and cash equivalents of approximately RMB99,104,000 (31 December 2016: RMB 123,362,000), which were mainly held in Renminbi and U.S. dollars.

- *Borrowings*

As at 30 June 2017, the Group had bank borrowings of approximately RMB81,032,000 (31 December 2016: RMB 87,210,000), which were mainly denominated in U.S. dollars, New Taiwan Dollars and Japanese Yen (31 December 2016: U.S. dollars, New Taiwan Dollars and Japanese Yen). Among such bank borrowings, approximately RMB40,122,000 (31 December 2016: RMB 44,150,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of the bank borrowings:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within one year or on demand	81,032	87,210

PLEDGE OF ASSETS

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Bank deposits	2,137	2,424
Land use rights	-	13,818
Property, plant and equipment	11,156	97,614
	13,293	113,856

The pledged land use rights and certain pledged property, plant and equipment as at 31 December 2016 were released during the six months ended 30 June 2017 due to the expiry of relevant bank facilities.

FINANCIAL RATIOS

As at 30 June 2017, the Group's gearing ratio (net debt divided by equity attributable to owners of the Company plus net debt) amounted to approximately 27.16%, representing a increase of approximately 3.57%

as compared to 23.59% as at 31 December 2016. The decrease was mainly due to an increase in trade payables of approximately RMB23,266,000 and a decrease in cash and cash equivalents of approximately RMB24,258,000.

Below are the turnover days of the inventories, trade and bills receivable, and trade and bills payable of the Group during the Period:

	For the six months ended 30 June	
	2017	2016
Inventory turnover	81days	77days
Trade and bills receivable turnover	136days	120days
Trade and bills payable turnover	99days	73days

The Group's turnover days of inventories, trade and bills receivable and trade and bills payable increased by about 4 days, 16 days and 26 days, respectively, as compared to those for the same period last year. The Group will continue to improve on the management of its inventories, trade receivables and trade payables in order to achieve even more efficient use of its funds.

CAPITAL COMMITMENTS

As at 30 June 2017, the Group had capital commitments contracted but not provided in the consolidated financial statements amounting to approximately RMB22,153,000 (31 December 2016: RMB 33,430,000).

MATERIAL PROCEEDINGS

(a) During the year ended 31 December 2011, a customer filed an arbitration claim against a subsidiary of the Company, Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), with The Japan Commercial Arbitration Association (the "Arbitration Association") in Japan, claiming damages of JPY1,412,106,000 (equivalent to approximately RMB85,372,000 (31 December 2016: RMB83,664,000)) allegedly suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (equivalent to approximately RMB3,627,000 (31 December 2016: RMB3,555,000)) for damages caused, plus interest accrued from 17 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

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

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB148,498,000 (31 December 2016: RMB143,806,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB80,268,000 (31 December 2016: RMB77,732,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB57,655,000 (31 December 2016: RMB55,833,000)) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB10,575,000 (31 December 2016: RMB10,241,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,445,000 (31 December 2016: RMB1,399,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed an extraordinary appeal with the Japan Supreme Court and a request for a permission to file an appeal with the Tokyo High Court. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. In May 2017, the Japan Supreme Court issued its decision, whereby it dismissed the extraordinary appeal of Capxon Taiwan and upheld the original decision of the Arbitration Association regarding the arbitral award. The damages claimed by the customer, 6% interest per annum on deferred payment of the damages claimed and the arbitration related expenses with an aggregate amount of JPY3,292,766,535 (31 December 2016: JPY3,220,549,420), equivalent to approximately RMB199,072,000 (31 December 2016: RMB190,864,000), was accrued and included in the Group's trade and other payables as at 30 June 2017 as a result of the arbitral award.

(b) During the year ended 31 December 2011, a customer filed a civil complaint to the People's Court of Shenzhen in the PRC against Capxon Shenzhen, alleging product defects and claiming a sum of RMB12,877,000 in damages. In December 2014, the court ruled that the complainant had failed to provide sufficient evidence and accordingly the court ruled in favour of Capxon Shenzhen. The customer subsequently filed an appeal against the court's decision. In May 2017, the Higher People's Court of Guangdong Province issued the final judgement, whereby it rejected the appeal of the customer and upheld the original decision. Capxon Shenzhen will therefore not be liable to any claims or damages.

FOREIGN EXCHANGE FLUCTUATIONS

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

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

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2017, the Group had 2,515 employees in total. Salary, bonus and fringe benefits were determined with reference to the prevailing market terms, and the individual employee's performance, qualification and experience. Employees are the backbone of an enterprise. The Group highly values loyal and diligent employees, and provides its employees with on-the-job education and training as well as subsidies on travel, and transportation expenses for home visits. In addition, the Group adopts non-discriminatory hiring and employment practices, and strives to provide a safe and healthy working environment. During the Period, staff costs (including directors' emoluments) amounted to approximately RMB98,865,000 (for the six months ended 30 June 2016: RMB91,589,000).

ENVIRONMENTAL POLICIES

The Restriction of Hazardous Substances Directive 2002/95/EC ("RoHS") is an environmental protection directive passed by the European Union in 2003, which came into effect in July 2006, principally regulating the standards of raw materials and production processes used in electronic products. As far as the examination of the composition of raw materials and the overall production processes are concerned, the Group has installed the corresponding equipment and apparatuses to support quality control management. The Group has also introduced the ICP-OES spectrometer to conduct material analysis and testing, so as to ensure compliance with the requirements of the RoHS, SVHC (Substances of Very High Concern) and halogen-free regulations, thereby achieving a green production environment, shouldering environmental protection responsibilities, winning the trustworthiness of its clients and creating new opportunities for green businesses.

In addition, the Group utilises resources and reduces wastes in an effective way by adopting measures for recycling, using eco-friendly stationery and energy-saving policies.

FUTURE STRATEGIES AND PLANNING

The four industry-wide dominant development trends in 2017 are: (1) acceleration of the 5G wireless ecosystem formation; (2) advancement in the application of the Internet of Vehicles; (3) the imminent coming of mobile AI; and (4) the release of VR smart devices. Global technology industry will continue its cross-border transformation. The way in which we redefine our own values through change and reformation and how we turn the crisis around into opportunity will be the most important issue in 2017. We will also set the following objectives for our corporate transformation:

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

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

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

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

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

- *Technical reforms:*
    - Introducing external heating of phosphoric acid treatment tank to address the issue on appearance
    - Development of the “high level meander” technique. The experimental development phase is now completed.
    - Revamp of the production line operation with reduced water and electricity consumption for cost cutting
    - Developing an energy recycle system for aged capacitors to reduce energy waste
    - Commenced development work of a high temperature resistance (up to 150°) product that would meet the requirement on high temperature for vehicle-mounted capacitor
    - Development of the Radial-type 250°C reflow soldering product to meet customers’ need for cost optimisation with manufacturing process
    - Development of technical knowhow and production method for the quasi-solid-state aluminium electrolytic capacitor with working voltage of 160V～250V

- Successful mass production of the liquid-state 525-650V ultra-high voltage snap-in capacitor with in-development product specification
- Development of dispersing formula for solid-state and quasi-solid-state to reduce materials cost and boost our competitive strength
- With the advancement in technical knowhow on development, we commenced the development of an ultra-low temperature resistance (down to -60°C) product to meet the application-driven need worldwide
- Addressing the special needs in vibration and burst-proof of the vehicle-mounted power charger market, we have developed a triple-belt-binding and double-layer snap-in terminal type product

FUTURE PROSPECTS

In 2017, there is no question that the evolution of technology has been ushered into an era of comprehensive intelligence functions. Whether it is the unlimited possibilities in intelligence-inspired lifestyles brought about by artificial intelligence, or the wide ranging innovative applications of AR/VR in all sorts of industries and sectors, all point to the arrival of a comprehensive digital age. With the sector's ecosystem now more fully developed, contents of both software and hardware, the development of their diverse applications as well as the solid establishment of wireless transmission, all represent new business opportunities for the industry. The ability to develop innovative products and solutions in a competitive market will be determinant for charting our own path to success in the ever-evolving global technology industry.

Pursuing sustainable operations and sharing profit with shareholders of the Company have always been the goals of the Group. In the future, the Group will continue to focus on its existing industry, innovative R&D, and to strive for excellence, as well as effectively control costs and enhance manufacturing efficiency, in order to maintain its competitiveness in the industry. With our technological R&D and product innovation services, the Group will serve and maintain a stable relationship with its existing customers. The Group will put forth effort to develop an industry-integrated production and marketing model, proactively explore markets in Europe and America to meet mass production planning, as well as stabilize the value and revenue from the manufacturing industry, in order to reward the Company's shareholders for their support with profits.

OTHER INFORMATION

DIVIDENDS

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Upon specific enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2017.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code and the Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2017, save as disclosed below:

(i) Code provision A.6.7 of the CG Code stipulates that independent non-executive directors should also attend general meetings. Mr. Lai Chung Ching, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 1 June 2017 due to personal reasons.

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

REVIEW OF FINANCIAL STATEMENTS

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2017 have been reviewed by the audit committee and the external auditor of the Company.

INTERIM REPORT

The 2017 interim report containing all the information required by the Listing Rules will be published on The Stock Exchange of Hong Kong Limited's website www.hkex.com.hk and the Company's website www.capxongroup.com.

DIRECTORS

As at the date of this announcement, the Board is composed of four executive directors, namely Mr. Lin Chin Tsun (Chairman and President), Ms. Chou Chiu Yueh (Vice President), Mr. Lin Yuan Yu (Chief Executive Officer) and Ms. Lin I Chu, one non-executive director, namely Ms. Liu Fang Chun and three independent non-executive directors, namely Mr. Hsieh King-Hu, Miles, Mr. Lu Hong Te and Mr. Tung Chin Chuan.

By order of the Board
Capxon International Electronic Company Limited
LIN Chin Tsun
Chairman

Hong Kong, 31 August 2017