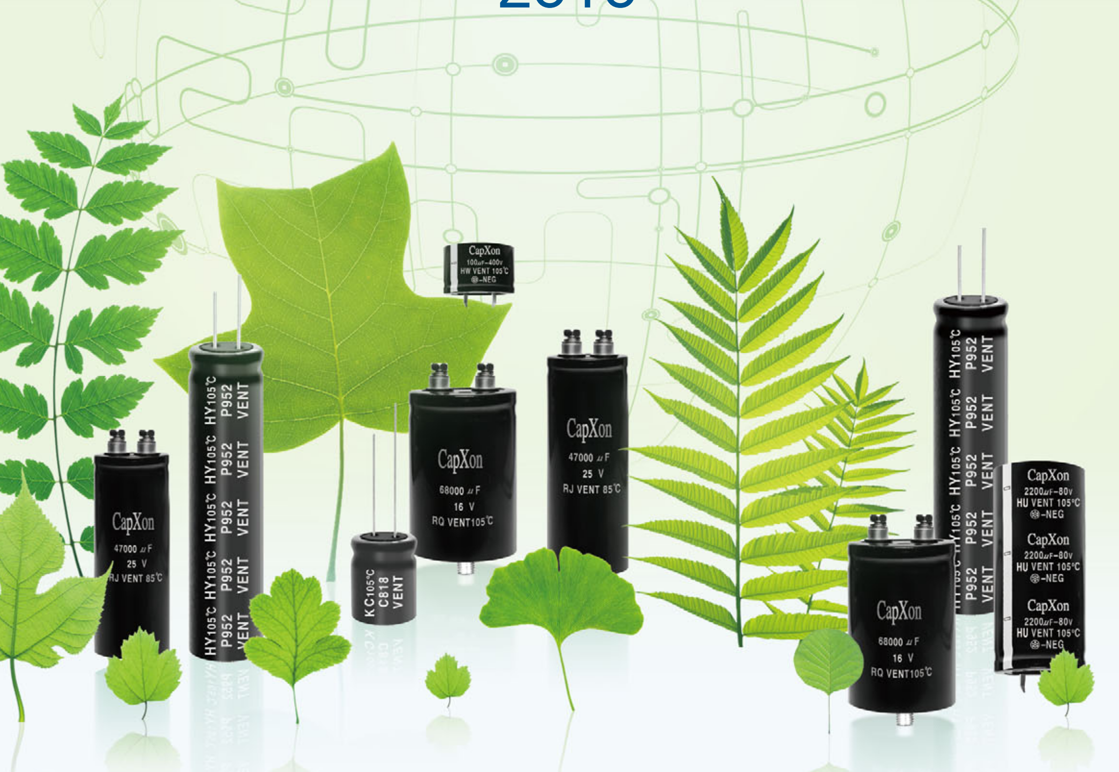
CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED

凱普松國際電子有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 469

INTERIM REPORT 2016



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Corporate Information

Board of Directors

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

Non-Executive Director
Ms. LIU Fang Chun

Independent Non-Executive Directors
Mr. LAI Chung Ching
Mr. LU Hong Te
Mr. TUNG Chin Chuan

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

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

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

Chief Financial Officer
Ms. HU Szu Jung, Carol

Company Secretary
Ms. CHAN Yin Fung

Auditor
Deloitte Touche Tohmatsu
Level 35 One Pacific Place
88 Queensway
Hong Kong

Legal Adviser
Minter Ellison
Level 25 One Pacific Place
88 Queensway
Hong Kong

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

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Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company
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Grand Cayman KY1-1110
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Stock Code

469

Chairman's Statement

Dear Shareholders,

The first half of 2016 has come and gone. During that time, Britain's resolution to exit the European Union caused the plunging of the exchange rate of the British Pound and the drastic fluctuation of exchange rates of international currencies, which added uncertainties to the recovery of the global economy. Notwithstanding the slow recovery of the global economy powered by the continuously moderate expansion in major economies such as the U.S., the pace of growth of emerging markets fell short of reaching stabilization targets, and even retreated drastically in the headwinds of lowering global commodity prices, U.S.'s monetary austerity measures and economic reform policies. As a result, the global economy has entered a slow era featuring low interest rates, low inflation, and slow growth. International forecast institutions anticipated that the global economy in 2016 will remain in the new mediocre, that is, the growth trend would be fragile, and although the general outlook would not be optimistic, there would still be some improvement as compared to the low growth base period in 2015. In the short term, it is difficult to remove the uncertainties haunting the global economy, which are: 1) the pains and hardships experienced by emerging markets and developing countries during the course of transformation and economic reform, and the stern challenges in economic development; 2) softening consumption due to the looming deflation worldwide, as a result of the strength of the U.S. dollar and dwindling commodity prices; 3) turbulence of global financial systems sparked off by the abnormal flow of hot money, owing to the manipulation of exchange rate policies beyond normal practices derived from the currency policies of major central banks; and 4) the threat of terrorist attacks around the world which may lead to regional acts of vengeance and violent retaliation which in turn affects the normal operations of the global economy. A range of unknown variables heralds economic downside risks ahead, and challenges the path of economic recovery.

In 2016, the manufacturing industry has been driven by three trends, namely virtual reality ("VR"), the Internet of Things, and 5G. Embracing the movement of "industry transformation driven by science and technology", enterprises around the globe are using their best endeavors to develop Industry 4.0,, integrating virtual and real worlds, creating an ecosystem with greater flexibility, practicality and connectivity. This, in turn, is developing the manufacturing industry and discrete manufacturing industry to meet customers' expectations, quickly respond to market demand, and develop brand new business models. The Internet of Things has brought about five reforms: modes of production shifting from centralized and large-scale production to small and diversified production; market competitive edge shifting from lowering costs to providing value-added services such as information analysis and applications; industrial structure shifting from enclosed and vertical supply chains to ecosystems based on open platforms; value chains shifting from branding-oriented vertical divisions of labor to horizontal divisions of labor; and new generations of service application ecosystems incorporating multiple products and services. In addition, as 5G is over 1,000 times larger in system capacity than 4G, it is necessary to commit early efforts to establishing 5G technical standards and to make preparations for communications competition in the future.

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

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

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

1. Operations in the Aluminum Foil Market

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

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

- Etched Aluminum Foil: The installation of fast production lines for multiple-level etching and the trial production of high-CV etched aluminum foil.

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

2. Operations in the Electrolytic Capacitor Market

With the onset of the industrialized 4.0 era, the establishment of smart production equipment and management systems, and the use of software and hardware technologies such as cloud-computing and artificial intelligences have placed us on the way to smart manufacturing. Therefore, in the future, the R&D of the mass production of electrolytic capacitors will be primarily aimed at addressing the relevant demand for applications for high-ended products including variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and vehicle-mounted electronic devices. The

Group will be committed to addressing the requirements for specific tailor-made products, including miniaturization, high capacity, high voltage and high frequency, thereby gradually developing tailor-made products that are able to meet the front-end demand of the market and can be applied to different fields, such as servers, photovoltaic products, smart meters, rail transport, space industry, and automobile applications, etc.. This may in turn promote the application of electrolytic capacitors in various aspects in the market and expand the global market share of its electrolytic capacitor products.

- Proactively cooperating with leading enterprises that produce medical equipment in China so as to replace foreign brands gradually, and reducing production costs while ensuring quality. First entering into the fundamental medical examination equipment industry in China, followed by promoting auxiliary medical rehabilitation equipment, and portable health examination equipment.

- Emulating quick cell phone chargers for IPA and notebooks, and successfully developing elongated and small capacitors (KM series 22~27μF/400V, φ8*22~25mm) to meet the demand for those models as requested by customers in the future.

- Achieving success in trial production and trial mass production of Hybrid solid-state capacitors, which would provide favorable support for our business expansion and growth in the European markets, and at the same time developing the specifications of Hybrid capacitors of 50V~100V.

- Successfully developed and manufactured 8φ and 10φ with 15-22mm 16-35V solid-state products in order to meet market demand.

- Responding to the demand of EV end-users in minimizing charging time, the demand of high-speed DC charging piles will expand rapidly in the market. Our Group will expand our business cooperation with customers who produce charging pile modules, providing samples for customers according to their application of technical support and application selection.

- Investing in the R&D of chip-based aluminum laminate high-polymer capacitors.

- Satisfying the end market demand of miniaturized, high capacity, long service life, high frequency (of over 100KHz) and Low ESR.

- Expanding product development areas, further developing fundamental raw materials (electrolyte formula, and dispersing formula, for instance), and increasing our technical capability, such that the Company will become more competitive in the industry in the way that the ripple current life-span of our 450V 105℃ screw type products will break through 6,000 hours.

As observed in the development of end-product markets and the operating strategies of parts and components suppliers, the development trends of the global passive components industry in 2016 are focusing on: 1) the conformity with the specifications on miniaturization, high capacity, high voltage, high frequency; 2) improving the product distribution placement in emerging sectors such as non-3C application markets; 3) the systematic consolidation between passive components and heterogeneous products, resulting in the trend of cross-application modular-integration oriented development; and 4) strategic mergers of manufacturers with complementary technologies to bring about synergy of customers base and increase performance results in order to enhance competitiveness. Under the impact of the meteoric rise of the PRC's supply chains, Taiwanese enterprises are exposed to the risks of price competition and market seizure by its competitors. The key to Taiwanese enterprises upgrading themselves in order to fit in with an industry with high values and strong competitiveness, will be the ability to offer assistance in lowering the difficulty of customers' product designs, and at the same time provide parts and components products with high added values. In view of this, Taiwanese enterprises will attempt cross-platform product consolidation among heterogeneous product industries, and cooperate in carrying out modularized development or even consider strategic alliances or mergers. By coordinating with and complementing each other in the aspects of technologies and customer bases, the corresponding industries in which the Taiwanese enterprises operate will receive substantial benefits in terms of their future trends and sustainable development.

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

LIN Chin Tsun
Chairman

Hong Kong, 31 August 2016

Management Discussion and Analysis

Financial Review

A summary of the financial results of the Group for the six months ended 30 June 2016 (the "Period") is as follows:

- Revenue increased by approximately 4.64% to approximately RMB435,042,000.
- Gross profit increased by approximately 18.58% to approximately RMB104,022,000.
- Loss for the Period attributable to owners of the Company amounted to approximately RMB13,327,000 (for the six months ended 30 June 2015: profit of RMB1,921,000).

Reviewing the financial results of the Period, the Group's revenue was approximately RMB435,042,000, representing an increase of approximately 4.64% over the corresponding period last year. Sales of aluminum electrolytic capacitors for the Period were approximately RMB425,527,000, representing an increase of approximately 10.26% as compared to that of RMB385,918,000 in the corresponding period last year; such increase was due to the better performance as a result of the successive shipments of newly developed solid-state capacitors, high-voltage capacitors and charging pile products. Sales of aluminum foils for the Period were approximately RMB9,515,000, representing a decrease of approximately 68.09% as compared to that of RMB29,814,000 in the corresponding period last year. Such decrease was mainly due to excessive supply in the aluminum market as a result of the persistently weak recovery of the overall economy, 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 increased from approximately 21.10% in the corresponding period of last year to approximately 23.91% this Period due to the effective control of general costs and depreciation of the Renminbi.

The profit attributable to owners of the Company of approximately RMB1,921,000 for the six months ended 30 June 2015 became an attributable loss for the Period of approximately RMB13,327,000. The reversal was mainly due to the appreciation of the Japanese Yen compared to that of the corresponding period last year, leading to an exchange loss of approximately RMB24,828,000 arising from re-translating the provision for damages of Japanese Yen 3,147,135,336 (31 December 2015: Japanese Yen 3,074,519,231) included in other payables at the exchange rate prevailing at 30 June 2016.

Business Review

International forecast institutions anticipated that the global economy in 2016 would remain in the new mediocre, that is, the growth trend would be fragile, and although the general outlook would not be optimistic, there would still be some improvement as compared to the low growth base period in 2015. In the short run, it is no easy task to remove the uncertainties haunting the global economy, which are: 1) the pains and hardship that emerging markets and developing countries have to go through during the course of transformation and economic reform as well as the stern challenges ahead for economic development; 2) softening consumption due to the looming deflation around the world as a result of the U.S. dollar strength and dwindling commodity prices; 3) turbulence of global financial systems sparked off by the abnormal fluidity of hot money resulting from manipulation of exchange rate policies beyond normal practices derived from the currency policies of major central banks; and 4) the threat of terrorist attacks around the world which may lead to regional acts of vengeance and war, which in turn affects normal operation of the global economy. A range of unknown variables heralds the economic downside risks in the future, and challenges the path of economic recovery.

Manufacture and sale of aluminum foils

During the Period, after satisfying the internal production demand, the external sales of aluminum foils amounted to approximately RMB9,515,000, representing a decrease of approximately 68.09% as compared to that of RMB29,814,000 in the corresponding period last year. The share of aluminum foils in the Group's total external sales decreased from approximately 7.17% in the corresponding period last year to approximately 2.19% for the Period.

General economic recovery momentum remained weak, leading to a failure of significant expansion in market demand for end-products. The weak demand resulted in insufficient sales orders under excessive production capacity for formed foils, which caused higher unit cost of production of aluminum foils, and in turn such high costs coupled with low selling prices suppressed gross profit. Faced with such industrial features and the market conditions of excessive supply over demand, the Group has, after assessing the market situations and considering future potential supplies, prudently reduced its production capacity temporarily, effectively saving energy and reducing consumption in order to mitigate against the impact of low gross profit. Aluminum foils are the major raw materials of capacitors. The Group has excellent production processing technologies for formed foils and stable production capacity. Currently, various key technical research and development ("R&D") projects and quality control techniques have been completed. On the other hand, 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, various key technical R&D projects and quality control techniques of aluminum foils have been completed as follows:

- Etched Aluminum Foil: The installation of fast production lines for multiple-level etching and the trial production of high-CV etched aluminum foil.

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

Manufacture and sale of capacitors

The Group recorded external sales of aluminum electrolytic capacitors of approximately RMB425,527,000 during the Period, representing approximately 97.81% of the Group's total external sales, and an increase of approximately 4.98% from approximately 92.83% of the Group's total external sales for the same period last year.

The growth momentum of passive components has been derived from non-3C applications, such as automobile electronics, netcom equipment, LED lightings, and application of automatic industrial production equipment. To accommodate the changes in end-application fields, the Group continues to advance the R&D and manufacturing technologies of its capacitors, offering a range of aluminum electrolytic capacitor products in different sizes and specifications with features such as long life, high capacitance, low impedance, energy-saving, high temperature resistance and high voltage tolerance.

- A "venture chain + industrial chain" cooperation module was created with key advanced and new technology enterprises in the PRC.

- To cater for the demand for the miniaturization of computer adapters, the R&D of the compact size of 5000H capacitor products, enhancing capacitance while reducing size from 35μF/400V φ8*40mm to 39μF/400V φ7.5*40mm.

- The R&D of solid-state capacitors for power supply of high-end servers.

- Along with the growth of power supply of high-end servers, breaking through the standard height of original solid-state capacitor of 12.5mm at present (subject to the limitation of poor impregnation ratio) and successfully developed PL 2700uF/16V 10*22L and PF 2200uF/16V 10*20L, to be applied to power supply of high-end servers.

- The development of samples of semi-solid-state 25~35V, small size and 105 degree (DIP/SMD) with long life.

- Significant reduction of current leakage of solid-state capacitor products through optimization of the process and techniques of solid-state capacitors to fulfill the customized needs of clients. For example, reducing current leakage of 330/12v 5*9 from 300uA to less than 100uA.

- The special dispersion liquid for solid-state capacitors process 16V~35V: 16V compact and quick charging source with high capacitance and TV power supply.

- The special dispersion liquid for solid-state capacitors 250V~400V: jointly developed with clients and applied to input terminal, 0.47uF/400V 5*8 or 5*9, 4.7uF/400V 10*12.5.

- High-voltage oxidizer for liquid-state capacitors 25V~35V: applied to SMD high-temperature resistance reflow process, DIP low leakage current and high-speed resistance AI plug-in application.

- Development of snap-in products for liquid-state voltage capacitors with a voltage specification of 600~650V 2000H/85℃, samples of which have been delivered for clients' testing.

- Enhancement of the capability of high-voltage SMD process. To cater to clients' requirements for SMD with high voltage and long life, the 400V~450V units, which have been especially designed for the capacitance high-reliability, long life, high-end TV input terminals, were successfully developed and put into mass production.

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 inflow of approximately RMB11,478,000 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 RMB95,510,000, which was mainly due to the loss before tax for the Period of approximately RMB3,203,000 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 RMB12,985,000, which was mainly due to the payment of approximately RMB14,218,000 for the purchase of machinery and equipment.

Net cash outflow from financing activities was approximately RMB71,047,000, which was mainly due to borrowings of approximately RMB105,453,000 from the banks, repayment of bank borrowings of approximately RMB174,505,000, payment of interest from borrowings of approximately RMB1,395,000 and repayment of amount due to a related party of approximately RMB600,000.

As at 30 June 2016, the Group had cash and cash equivalents of approximately RMB105,629,000 (31 December 2015: RMB93,782,000), which were mainly held in Renminbi and U.S. dollars.

Borrowings

As at 30 June 2016, the Group had bank borrowings of approximately RMB92,291,000 (31 December 2015: RMB158,052,000), which were mainly denominated in U.S. dollars, New Taiwan Dollars and Japanese Yen (31 December 2015: Renminbi, U.S. dollars and New Taiwan Dollars). Among such bank borrowings, approximately RMB46,459,000 (31 December 2015: RMB80,061,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of the bank borrowings:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Within one year or on demand	**92,291**	158,052

Pledge of Assets

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Bank deposits	**6,608**	6,730
Land use rights	**14,029**	14,239
Property, plant and equipment	**98,854**	99,048
	119,491	120,017

Financial Ratios

As at 30 June 2016, the Group's gearing ratio (net debt divided by equity attributable to owners of the Company plus net debt) amounted to approximately 23.63%, representing a decrease of approximately 2.24% as compared to 25.87% as at 31 December 2015. The decrease was mainly due to a reduction in bank borrowings of approximately RMB65,761,000.

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	
	2016	2015
Inventory turnover	**77 days**	92 days
Trade and bills receivable turnover	**120 days**	134 days
Trade and bills payable turnover	**73 days**	73 days

The Group's turnover days of inventories and turnover days of trade and bills receivable decreased by about 15 days and 14 days respectively, and the turnover days of trade and bills payable remained the same, 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 2016, the Group had capital commitments contracted but not provided for amounting to approximately RMB23,977,000 (31 December 2015: RMB35,975,000).

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 RMB91,219,000 (31 December 2015: RMB76,113,000)) allegedly suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (equivalent to approximately RMB3,876,000 (31 December 2015: RMB3,234,000)) for damages caused, plus interest from 17 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

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

    (i) damages of JPY2,427,186,647 (equivalent to approximately RMB156,791,000 (31 December 2015: RMB130,927,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB84,751,000 (31 December 2015: RMB70,770,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB60,875,000 (31 December 2015: RMB50,833,000)) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB11,166,000 (31 December 2015: RMB9,324,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,526,000 (31 December 2015: RMB1,274,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. The final decision of the appeal has not been reached by the Tokyo High Court up to the date of this report. The directors of the Company believe that the Group has sufficient grounds to the appeal. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage. Therefore, an aggregate amount of JPY3,147,135,336 (31 December 2015: JPY3,074,519,231), equivalent to approximately RMB203,300,000 (31 December 2015: RMB165,845,000), was included in trade and other payables as at 30 June 2016 as a result of the initial arbitral award.

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

Foreign Exchange Fluctuations

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

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

Employment and Remuneration Policy

As at 30 June 2016, the Group had approximately 2,471 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 RMB91,589,000 (for the six months ended 30 June 2015: RMB90,102,000).

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 regulates 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 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.

Future Strategies and Planning

From 2016 onwards, the growth momentum of the overall capacitor market has turned towards relying upon the low volume high-priced niche markets for non-3C application industries, such as automobile electronics, high-ended smart household electronic appliances, safety control system, industrial equipment, renewable energy resources equipment, network products and LED lightings. Looking forward, the market trend for passive components will continue in the development of a niche market primarily oriented towards custom-made and modularized products with features such as miniaturization, high frequency, high capacity, high voltage, durability and high resistance to heat. It is expected that the output value of global passive components will continue to see positive growth in 2016. In view of the uncertain and ever-changing external economic circumstances and the potential development of the industrial market, the Group will adhere to its inherent operating strategies of researching and developing advanced and sophisticated production processes, strictly managing quality control, implementing source management and endeavoring to reduce costs, as well as effectively ensuring profitability with economies of scale and make efforts to adopt a cross-industry integration supply model to enhance its competitive edge in the market.

- *Human resources:* Streamlining labour requirements by controlling overtime man-hours with operational targets and minimizing labour costs by managing the number of hours in accordance with the actual operation rate. Automatic corner processing equipment has been introduced under the snap-in production line plan to save manpower and enhance efficiency.

- *Production equipment:* Increasing production lines for conductive polymers to expand production capacity, and setting up automated equipment for semi-conductive polymers which will be put to trial run.

- *Material costs:* Consolidating various types of materials, reducing part numbers and specifications, and cutting inventory backlog, procurement costs and slow-moving materials. As for the solid-state capacitors, the induced rate has been raised while the voltage forming ratio has been lowered, with an effective reduction of material usage.

- *Material development:* Developing the SMD production line by using titanium foils as the cathode foil to maximize capacitance and satisfy customized requirements of miniaturized and high-proportion capacitance.

- *Verification and delivery:* Strengthening communications regarding applications at the customer end and promptly understanding the development dynamics of products. Establishing state-of-the-art electronic application laboratory to simulate product applications for end customers, foresee the potential failure of capacitor performance and the reasons thereof, in order to uplift the quality of capacitors for better customer satisfaction.

- *Technical reforms:*

  - Development of new generation high-efficiency smart power system with long life-span and electrolytic capacitors: (1) Developing long life-span electrolytic capacitors: Conducting R&D of the new and long life-span aluminum electrolytic capacitors through the use of key and new materials and new technologies in electrolytic capacitors to enhance the overall life-span and reliability of the power system. (2) Changing the market structure: realizing import substitution and enhancing the autonomy level of core power components: further changing the competition in the industry which favors foreign brands, effectively promoting quicker rate of capturing larger domestic market share of Chinese-manufactured high-efficiency smart power system products, speeding up the realization of import brand substitution, and safeguarding the security of information. (3) Demonstrating the meaning of drive: Producing high-efficiency smart power systems and the construction of digitalized plants.

  - Development of charging pile capacitors: aluminum electrolytic capacitors are the core components of charging piles, which act as the filters and direct current supporters in the charging pile power system of aluminum electrolytic capacitors.

- Enhancing R&D of analog materials: The Xining formed foil plant is the first dust-free workshop ever constructed in this industry in the PRC. It further enhances the quality of formed foils, ensures the advancement of forming equipment and technologies. The Yichang plant is currently building a quick corrosion production line. This newly developed technology of corrosion is not only efficient, but also greatly increases the efficiency of high corrosive foils.

- Establishment of a research institute by the Group: Constructing a research institute in accordance with international standards, to further consolidate the Group's leading position in China in the areas of charger capacitors, LED capacitors, inverter capacitors, and solid-state capacitors, as well as implementing the cooperative model of "Innovation chain + Industry chain" ("創新鏈+產業鏈") at the same time.

Future Prospects

The pursuit of 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, innovation and R&D, strive for excellence, as well as effectively control costs and enhance manufacturing efficiency, in order to maintain its competitiveness in the industry. With technological advancement and product innovation, the Group will serve and maintain a stable relationship with its existing customers. The Group will seek a production and sales model of cross-industry integration, proactively explore new markets to meet mass production planning, overcome the challenges from economies of scale, 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.

Report on
Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED
凱普松國際電子有限公司
(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 40, which comprise the condensed consolidated statement of financial position as of 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to note 15(a) to the condensed consolidated financial statements which explains that included in trade and other payables as at 30 June 2016, an aggregate amount of approximately RMB203,300,000 (31 December 2015: RMB165,845,000) was provided, in respect of damages, interest, arbitration and appeal related expenses as a result of an arbitral award against the Company's subsidiary in Taiwan received in August 2014. As further stated in note 15(a) to the condensed consolidated financial statements, the Group filed a petition to the Tokyo District Court for the annulment of the arbitral award in October 2014. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of the Group and upheld the original decision regarding the arbitral award. In February 2016, the Group filed an appeal to the Tokyo High Court for the annulment of the arbitral award. The final decision of the appeal has not been reached by the Tokyo High Court up to the date of this report. The eventual success or otherwise of the appeal may have a material effect on the provision amount already included in trade and other payables as at 30 June 2016. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 August 2016

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Revenue	3	**435,042**	415,732
Cost of sales		**(331,020)**	(328,007)
Gross profit		**104,022**	87,725
Other income		**5,472**	1,338
Other gains and losses	5	**(23,397)**	2,035
Distribution and selling costs		**(26,895)**	(27,466)
Administrative expenses		**(38,537)**	(37,092)
Other expenses		**(18,221)**	(12,086)
Provision for damages		**(4,252)**	(3,680)
Finance costs		**(1,395)**	(5,523)
(Loss) profit before tax		**(3,203)**	5,251
Income tax expense	4	**(11,250)**	(3,303)
(Loss) profit for the period	5	**(14,453)**	1,948
Other comprehensive expense (net of tax):			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation		**(10,571)**	(1,876)
Total comprehensive (expense) income for the period		**(25,024)**	72

		Six months ended 30 June	
		2016	2015
	Notes	**RMB'000**	RMB'000
		(unaudited)	(unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(13,327)**	1,921
Non-controlling interests		**(1,126)**	27
		(14,453)	1,948
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(23,781)**	216
Non-controlling interests		**(1,243)**	(144)
		(25,024)	72
(Loss) earnings per share *(RMB cents)*	7		
Basic		**(1.58)**	0.23

Condensed Consolidated Statement of Financial Position

At 30 June 2016

	Notes	30 June 2016 RMB'000 (unaudited)	31 December 2015 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**480,414**	499,603
Land use rights		**38,936**	39,453
Intangible assets		**264**	382
Deposits paid for acquisition of property, plant and equipment		**37,447**	36,564
		557,061	576,002
CURRENT ASSETS			
Inventories		**137,946**	142,069
Land use rights		**1,031**	1,031
Trade and other receivables	9	**342,036**	335,737
Tax recoverable		**2,069**	2,107
Pledged bank deposits		**6,608**	6,730
Bank balances and cash		**105,629**	93,782
		595,319	581,456
CURRENT LIABILITIES			
Trade and other payables	10 & 15(a)	**401,653**	318,580
Bank borrowings	11	**92,291**	158,052
Amounts due to related parties	13	**4,463**	4,984
Tax liabilities		**13,408**	10,120
		511,815	491,736
NET CURRENT ASSETS		**83,504**	89,720
TOTAL ASSETS LESS CURRENT LIABILITIES		**640,565**	665,722
NON-CURRENT LIABILITIES			
Deferred income		**22,854**	23,010
Deferred tax liabilities		**3,819**	3,796
		26,673	26,806
		613,892	638,916

	Notes	**30 June 2016 RMB'000 (unaudited)**	31 December 2015 RMB'000 (audited)
CAPITAL AND RESERVES			
Share capital		**82,244**	82,244
Share premium and reserves		**530,059**	553,840
Equity attributable to owners of the Company		**612,303**	636,084
Non-controlling interests		**1,589**	2,832
		613,892	638,916

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company									
	Share Capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 (note i)	Statutory reserve RMB'000 (note ii)	Translation reserve RMB'000	Other reserve RMB'000 (note iii)	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2015 (audited)	82,244	436,626	(30,753)	101,801	27,006	3,650	20,684	641,258	3,125	644,383
Profit for the period	-	-	-	-	-	-	1,921	1,921	27	1,948
Other comprehensive expense for the period	-	-	-	-	(1,705)	-	-	(1,705)	(171)	(1,876)
Total comprehensive income (expense)	-	-	-	-	(1,705)	-	1,921	216	(144)	72
Appropriation	-	-	-	472	-	-	(472)	-	-	-
At 30 June 2015 (unaudited)	82,244	436,626	(30,753)	102,273	25,301	3,650	22,133	641,474	2,981	644,455
At 1 January 2016 (audited)	**82,244**	**436,626**	**(30,753)**	**102,273**	**16,433**	**3,650**	**25,611**	**636,084**	**2,832**	**638,916**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(13,327)**	**(13,327)**	**(1,126)**	**(14,453)**
Other comprehensive expense for the period	**-**	**-**	**-**	**-**	**(10,454)**	**-**	**-**	**(10,454)**	**(117)**	**(10,571)**
Total comprehensive expense	**-**	**-**	**-**	**-**	**(10,454)**	**-**	**(13,327)**	**(23,781)**	**(1,243)**	**(25,024)**
Appropriation	**-**	**-**	**-**	**4,251**	**-**	**-**	**(4,251)**	**-**	**-**	**-**
At 30 June 2016 (unaudited)	**82,244**	**436,626**	**(30,753)**	**106,524**	**5,979**	**3,650**	**8,033**	**612,303**	**1,589**	**613,892**

Notes:

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

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

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

(iii) Other reserve represents the difference between the carrying amount of non-controlling interests and the fair value of the consideration paid on the acquisition or deemed acquisition of additional interests of subsidiaries which accounted for as equity transaction.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	**95,510**	61,495
Net cash used in investing activities		
Deposits paid for acquisition of property, plant and equipment	**(9,719)**	(7,967)
Placement of pledged bank deposits	**(6,608)**	(8,261)
Purchase of property, plant and equipment	**(4,499)**	(10,034)
Release of pledged bank deposits	**6,730**	18,106
Proceeds from disposal of property, plant and equipment	**748**	780
Other investing cash flows	**363**	473
	(12,985)	(6,903)
Net cash used in financing activities		
Repayment of bank borrowings	**(174,505)**	(322,011)
Interest paid	**(1,395)**	(5,523)
Repayment to related parties	**(600)**	(19)
New bank borrowings raised	**105,453**	276,790
	(71,047)	(50,763)
Net increase in cash and cash equivalents	**11,478**	3,829
Cash and cash equivalents at 1 January	**93,782**	108,163
Effect of foreign exchange rate changes	**369**	232
Cash and cash equivalents at 30 June, represented by bank balances and cash	**105,629**	112,224

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016

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.

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2015.

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 IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012-2014 Cycle
Amendments to IAS 27	Equity Method in Separate Financial Statements

2. Principal Accounting Policies *(continued)*

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.

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 aluminium 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 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)
Exchange difference arising from provision for damages					(24,828)
Loss before tax					(3,203)

3. Revenue and Segmental Information *(continued)*

For the six months ended 30 June 2015

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
External sales	385,918	29,814	415,732	–	415,732
Inter-segment sales	–	54,788	54,788	(54,788)	–
Segment revenue	385,918	84,602	470,520	(54,788)	415,732
Segment profit (loss)	22,705	(14,066)	8,639	2,059	10,698
Interest income					473
Unallocated corporate expenses					(4,107)
Finance costs					(5,523)
Provision for damages					(3,680)
Exchange difference arising from provision for damages					7,390
Profit before tax					5,251

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 exchange difference arising from 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	
	2016	2015
	RMB'000	RMB'000
Current tax		
– PRC Enterprise Income Tax	**9,472**	3,426
– Taiwan Corporate Income Tax	**1,505**	993
	10,977	4,419
Overprovision in prior years		
– PRC Enterprise Income Tax	**–**	(832)
– Taiwan Corporate Income Tax	**(190)**	(594)
	(190)	(1,426)
Deferred tax – current period	**463**	310
	11,250	3,303

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. (豐賓電子(深圳)有限公司) ("Capxon Shenzhen") and Capxon Electronic Technology (Qinghai) Co., Ltd. (凱普松電子科技(青海)有限公司) ("Capxon Qinghai"), subsidiaries of the Company, the tax rate of the subsidiaries established in the PRC is 25%.

In February 2014, Capxon Shenzhen was approved for 3 years as enterprise that satisfied the condition as high technology development enterprise and was subject to a preferential tax rate of 15% in 2013, 2014 and 2015. Capxon Shenzhen is applying for the renewal of the high technology development enterprise certificate for another 3 years. The directors of the Company believe that Capxon Shenzhen should be able to renew the high technology development enterprise certificate and continue to be entitled to the preferential tax rate of 15% during the years from 2016 to 2018.

In March 2016, Capxon Qinghai was approved for 5 years as enterprise that satisfied the conditions that the enterprise principally engages in state-encouraged industries as defined under the New Western Catalogue for the Western Region Development and is subject to a preferential tax rate of 15% from 2015 to 2020.

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

5. (Loss) Profit for the Period

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**31,151**	33,840
Amortisation of land use rights	**517**	517
Amortisation of intangible assets	**118**	863
Total depreciation and amortisation	**31,786**	35,220
Loss on disposal/written-off of property, plant and equipment	**1,083**	1,625
(Reversal of) impairment of trade receivables	**(538)**	1,813
Net foreign exchange losses (gains)	**22,852**	(5,473)
Other gains and losses	**23,397**	(2,035)
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB5,007,000 (six months ended 30 June 2015: write-down of inventories of RMB2,742,000))	**331,020**	328,007
Research and development costs (included in other expenses)	**16,540**	10,029
Interest income	**(363)**	(473)

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) Earnings Per Share

The calculation of the basic loss per share attributable to the owners of the Company for the six months ended 30 June 2016 is based on the loss for the period attributable to owners of the Company of approximately RMB13,327,000 (six months ended 30 June 2015: profit for the period attributable to owners of the Company of RMB1,921,000) and on 844,559,841 ordinary shares in issue.

Diluted (loss) earnings per share is not presented for the six months ended 30 June 2016 and 2015 as there were no potential ordinary shares outstanding during the six months ended 30 June 2016 and 2015.

8. Movements in Property, Plant and Equipment

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately RMB1,831,000 (six months ended 30 June 2015: RMB2,405,000) for cash proceeds of approximately RMB748,000 (six months ended 30 June 2015: RMB780,000).

During the current interim period, the Group acquired property, plant and equipment, including construction in progress, of approximately RMB13,335,000 (six months ended 30 June 2015: RMB11,911,000) for the purposes of expanding the Group's business.

Included in property, plant and equipment are buildings in Baotou City, Inner Mongolia Autonomous Region, the PRC, with a carrying value of approximately RMB6,208,000 (31 December 2015: RMB6,430,000) for which the Group is in the process of obtaining the building ownership certificates.

9. 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 2016 RMB'000	31 December 2015 RMB'000
0–60 days	**145,985**	158,310
61–90 days	**59,581**	61,976
91–180 days	**81,544**	56,139
181–270 days	**5,171**	3,243
271–360 days	**–**	636
Over 360 days	**188**	227
	292,469	280,531

10. 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 2016 RMB'000	31 December 2015 RMB'000
0–60 days	**103,701**	78,679
61–90 days	**18,178**	8,366
91–180 days	**12,170**	6,513
181–270 days	**409**	2,426
271–360 days	**443**	1,318
Over 360 days	**18,500**	16,653
	153,401	113,955

11. Bank Borrowings

	30 June 2016 RMB'000	31 December 2015 RMB'000
Bank borrowings		
– Secured	**39,649**	104,530
– Unsecured	**52,642**	53,522
	92,291	158,052
Carrying amount repayable:*		
Within one year and shown under current liabilities	**92,291**	158,052

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

During the current interim period, the Group obtained new borrowings in the amount of approximately RMB105,453,000 (six months ended 30 June 2015: RMB276,790,000). The new borrowings consist of variable-rate borrowings with effective interest rates ranging from 1.20% to 6.44% per annum and fixed-rate borrowings with effective interest rates ranging from 1.50% to 5.90% per annum.

12. Capital Commitments

At the end of the reporting period, the Group had the following capital commitments:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**23,977**	35,975

13. Related Party Disclosures

(a) Related party transaction

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

Name of related party	Nature of transaction	Six months ended 30 June 2016 RMB'000	2015 RMB'000
Lin I Chu *(Note)*	Interest expense	**–**	206

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

(b) Related party balances

Name of related parties	Relationship	30 June 2016 RMB'000	31 December 2015 RMB'000
Amounts due to related parties			
Lin Chin Tsun	Director	**3,564**	3,485
Lin I Chu	Director	**899**	1,499
		4,463	4,984

As at 30 June 2016 and 31 December 2015, the amounts due to related parties were interest-free, unsecured and repayable on demand.

13. Related Party Disclosures *(continued)*

(c) Provision of guarantees and security by the Company's directors and shareholders

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

	30 June 2016 RMB'000	31 December 2015 RMB'000
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**46,459**	79,502
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**34,037**	38,846
Lin Yuan Yu *(Note)*	**–**	26,000
Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu *(Note)*	**11,795**	13,704
	92,291	158,052

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

The expiry dates of the above guarantees fall within the period from July 2016 to January 2018 (31 December 2015: January 2016 to December 2016).

As at 30 June 2016, Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh and Mr. Lin Yuan Yu pledged a property to a bank to secure banking facilities of NTD150,000,000 (approximately RMB30,917,000) (31 December 2015: NTD165,000,000 (approximately RMB32,555,000)) granted to the Group.

13. Related Party Disclosures *(continued)*

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during both periods is as follows:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Short term benefits	**4,617**	4,610
Post-employment benefits	**74**	80
	4,691	4,690

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

14. Pledge of Assets

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

	30 June 2016	31 December 2015
	RMB'000	RMB'000
Property, plant and equipment	**98,854**	99,048
Land use rights	**14,029**	14,239
Bank deposits	**6,608**	6,730
	119,491	120,017

15. 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 RMB91,219,000 (31 December 2015: RMB76,113,000)) allegedly suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (equivalent to approximately RMB3,876,000 (31 December 2015: RMB3,234,000)) for damages caused, plus interest from 17 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

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

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB156,791,000 (31 December 2015: RMB130,927,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB84,751,000 (31 December 2015: RMB70,770,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB60,875,000 (31 December 2015: RMB50,833,000)) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB11,166,000 (31 December 2015: RMB9,324,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,526,000 (31 December 2015: RMB1,274,000)).

15. Material Proceedings *(continued)*

(a) *(continued)*

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. The final decision of the appeal has not been reached by the Tokyo High Court up to the date of this report. The directors of the Company believe that the Group has sufficient grounds to the appeal. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage. Therefore, an aggregate amount of JPY3,147,135,336 (31 December 2015: JPY3,074,519,231), equivalent to approximately RMB203,300,000 (31 December 2015: RMB165,845,000), was included in trade and other payables as at 30 June 2016 as a result of the initial arbitral award.

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

Other Information

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2016, the interests or short positions of the Company's directors (the "Directors") and chief executives 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 of Hong Kong Limited (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	Total interest (a) and approximate percentage of shareholding (b)[1]	
			(a)	(b)
Mr. LIN Chin Tsun	Beneficial owner	101,657,378	564,973,947	66.90
	Interest of controlled corporations	395,360,783[2]		
	Interest of spouse	67,955,786		
Ms. CHOU Chiu Yueh	Beneficial owner	67,955,786	564,973,947	66.90
	Interest of controlled corporations	395,360,783[2]		
	Interest of spouse	101,657,378		
Mr. LIN Yuan Yu	Beneficial owner	13,161,622	394,675,621	46.73
	Interest of controlled corporation	374,585,006[3]		
	Interest of spouse	6,928,993		
Ms. LIN I Chu	Beneficial owner	9,429,777	384,014,783	45.47
	Interest of controlled corporation	374,585,006[3]		
Ms. LIU Fang Chun	Beneficial owner	6,928,993	394,675,621	46.73
	Interest of spouse	387,746,628		
Ms. HU Szu Jung, Carol	Beneficial owner	243,991	243,991	0.03

Notes:

(1) This percentage has been compiled based on the total number of issued shares (i.e. 844,559,841 shares) of the Company as at 30 June 2016.

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

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

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

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executives of the Company and their associates had any personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

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 30 June 2016, according to the register of interests kept by the Company under section 336 of the SFO, the following entities had interests or short positions in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity and nature of interests	Number of issued shares held directly	Approximate percentage of shareholding*
VMHL	Beneficial owner	374,585,006	44.35

* *This percentage has been compiled based on the total number of issued shares (i.e. 844,559,841 shares) of the Company as at 30 June 2016.*

Save as disclosed above, the Directors are not aware of any other persons who, as at 30 June 2016, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Information on Share Option Scheme

On 3 April 2007, the Company approved and adopted a share option scheme (the "Share Option Scheme") entitling the board of Directors (the "Board") to grant share options at its discretion to any executive, employee, director (including non-executive director and independent non-executive director), consultant, adviser and/or agent of the Company or any subsidiary at the time when an option is granted to such person. No options have been granted under the Share Option Scheme since its adoption.

Apart from the Share Option Scheme described above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives 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.

Dividends

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as the code of conduct regarding Directors' securities transactions. Upon specific enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2016.

Corporate Governance

The Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2016, save as disclosed below:

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

(ii) Code provision F.1.3 of the CG Code stipulates that the company secretary should report to the board chairman and/or chief executive. The company secretary of the Company reported to the chief financial officer instead of the board chairman and/or the chief executive. As the company secretary is also involved in handling the financial reporting matters of the Group, it will simplify 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.

Disclosure of Information of Directors

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules, the change of information of the Director is as follows:

Mr. Tung Chin Chuan ceased to act as the supervisor of ACTi Corporation (建騰創達科技股份有限公司) since 11 August 2016.

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 2016.

Review of Financial Statements

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2016 have been reviewed by the audit committee and the external auditor of the Company.

On behalf of the Board
LIN Chin Tsun
Chairman

Hong Kong, 31 August 2016