

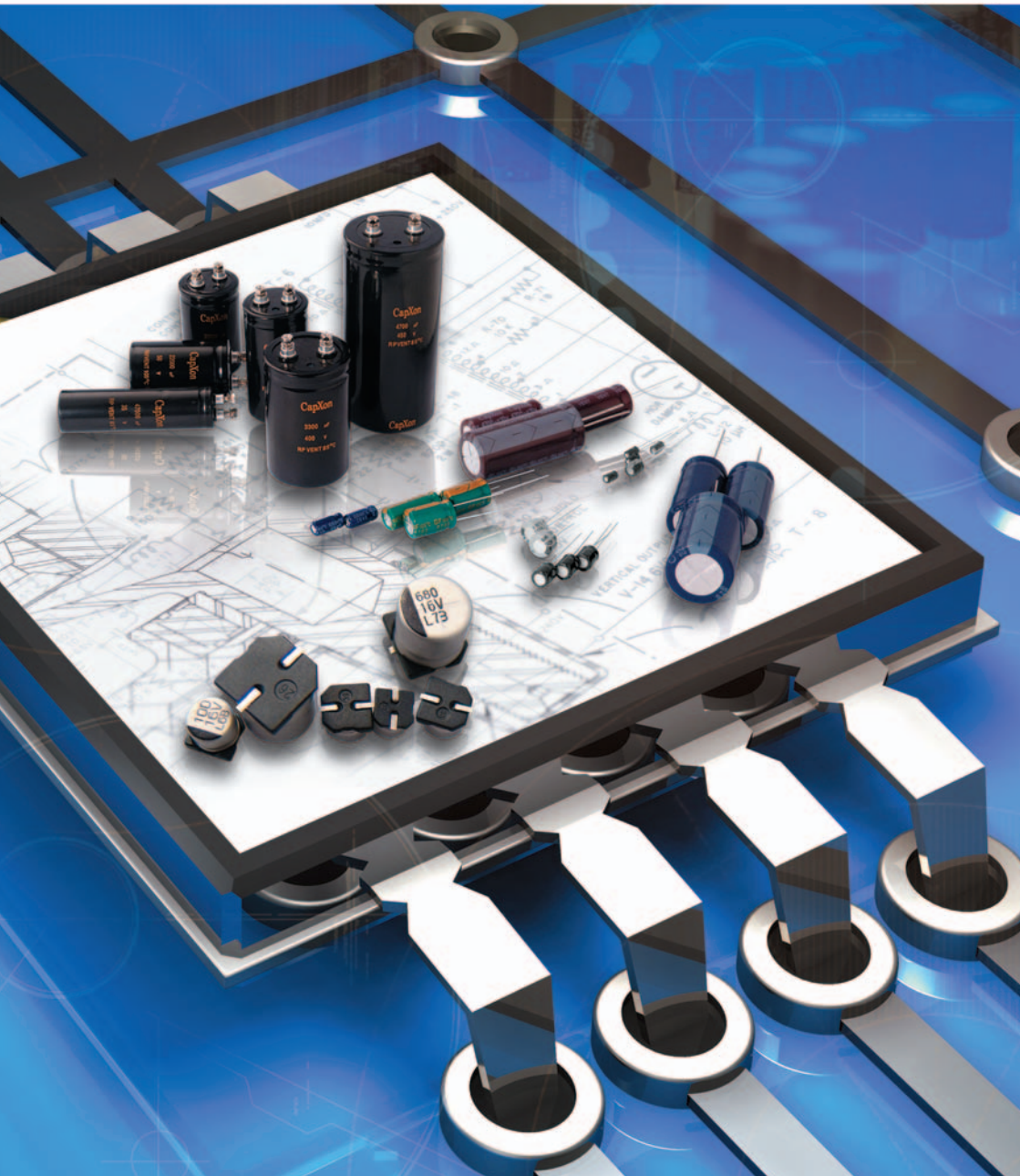
CapXon

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

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 469

INTERIM REPORT 2007





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CORPORATE INFORMATION

Board of Directors

Executive Directors

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

Ms. Chou Chiu Yueh (*Vice President*)

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

Non-executive Directors

Ms. Lin I Chu

Ms. Liu Fang Chun

Independent non-executive Directors

Mr. Lai Chung Ching

Mr. Lu Hong Te

Mr. Tung Chin Chuan

Audit Committee

Mr. Lai Chung Ching (*Chairman*)

Mr. Lu Hong Te

Mr. Tung Chin Chuan

Remuneration Committee

Mr. Lin Chin Tsun (*Chairman*)

Ms. Chou Chiu Yueh

Mr. Lai Chung Ching

Mr. Lu Hong Te

Mr. Tung Chin Chuan

Chief Financial Officer

Ms. Hu Szu Jung, Carol

Qualified Accountant and Company Secretary

Ms. Chan Yin Fung

Auditors

Ernst & Young, CPA

18th Floor

Two International Finance Centre

8 Finance Street

Central

Hong Kong

Hong Kong Legal Advisers

Jones Day

29th Floor

Edinburgh Tower

The Landmark

15 Queen's Road Central

Hong Kong

Principal Bankers

Hua Nan Bank

Mega International Commercial Bank

Bank of Communications

China Merchants Bank Co., Ltd.

China Construction Bank Corporation Co., Ltd.

Shenzhen Commercial Bank

Agricultural Bank of China

Nanyang Commercial Bank

Registered Office

Scotia Centre

4th Floor

P. O. Box 2804

George Town

Grand Cayman

Cayman Islands



Head Office in Taiwan

5th Floor
165 Ta Tung Road, Section 2
Shi-Chih City
Taipei Hsien
Taiwan
ROC

Head Office and Principal Place of Business in Hong Kong

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

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
George Town
Grand Cayman
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Investor Relations

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Website

www.capxongroup.com

Stock Code

469



CHAIRMAN'S STATEMENT


Dear Shareholders,

The diverse application and development of information products has been driving the continuous growth of the electronic component market. Meanwhile, growth of the emerging market gave a boost to the demand for mobile phones and consumer electronic products in 2006, and also triggered the growth of passive component market.

Given the trend of slimming profits, the electronics industry has shifted its focus from the low volume, high diversity and high margin professional markets to the high volume, low margin consumer markets. Meanwhile, the continuous inflation in global raw material prices has led to a product cost reassessment by the electronics industry. Some manufacturers have relocated their operations away from home to provide on-site supply to their downstream allies or in search of a lower cost workforce and land resources. For sure, relocating production to Mainland China has become an inevitable trend.

For Taiwanese manufacturers, Mainland China is a strategic location with a production cost advantage and a consumer market with immense growth potential; Hong Kong is a platform to tap into international investment markets and to utilise the capital raised with a high degree of liberty. In consideration of these various factors, the Company has formulated its three-pronged strategy of conducting research and development in Taiwan, production in Mainland China and fund raising in Hong Kong.

Capxon International Electronic Company Limited (the "Company") was established in December 2005, and successfully listed on the Main Board of the Stock Exchange of Hong Kong Limited on 7 May 2007 after a reorganisation of our subsidiaries. Since the listing, the Company and its subsidiaries (collectively the "Group") has been making aggressive efforts in the research and development of production technologies and expansion of its production lines in Mainland China.



In respect of production research and development, the Group has been following its operating strategies: vertical integration of its anode foils and electrolytic capacitors. Capxon Electronic Technology (Yichang Sanxia) Co. Ltd., a subsidiary of the Company in Hubei, is engaged in the production and sale of etched foils and formed foils with 28 and 26 production lines respectively at present. Capxon Electronic Technology (Baotou) Co. Ltd. in Baotou of Inner Mongolia completed the installation of 30 production lines by July 2007 to focus on the production and sale of anode formed foils. The production volume of anode foils is more than sufficient to satisfy in-house demand. At the same time, the Group has made gradual inroads by extending its sales channels in the massive market of Mainland China. Sales by this segment accounted for 13.77% of the Group's total sales in the first half of 2007. In respect of the research and development on the enhancement of electrolytic capacitors, the Group has turned to V-chips and solid-state polymers as the upgrade benchmark in support of its further development in the aluminum electrolytic capacitor market.

Looking forward, the Group's business objective is to become the leading high quality anode foils manufacturer and supplier, while enhancing its position in both the domestic and overseas aluminum electrolytic capacitor markets. The Group will effectively capitalise on the collective wisdom of its management team to keep on doing what it is good at and expand into new horizons in order to consolidate its business foundation and competitive edge. Meanwhile, it will also try its best to push ahead to become an international market supplier by combining the competitive edges of Mainland China, Hong Kong and Taiwan so as to create maximum returns for its shareholders as a whole.

LIN Chin Tsun

Chairman

Hong Kong, 11 September 2007

MANAGEMENT DISCUSSION AND ANALYSIS

Results Highlights

During the six months ended 30 June 2007 (the "Period"):

- Revenue rose 27.05% to RMB480,103,000.
- Profit attributable to equity holders of the parent jumped 25.30% to RMB32,903,000.
- Basic and diluted earnings per share were RMB4.72 cents and RMB4.71 cents respectively.

Financial Results

Based on the review of the Group's financial results for the Period, the Group's revenue for the period was RMB480,103,000, representing an increase of approximately 27.05% over the same period last year. The increase in revenue was mainly contributed by the boost in sales from aluminum electrolytic capacitors and anode foils, the two major products of the Group, which grew by 18.07% and 142.77% respectively from the same period last year.

The Group's gross profit margin rose from 21.19% for the same period last year to 24.95% for the Period. In view of the abundant supply of aluminum foils, adjustment was made to the product mix by increasing the shipment of large size aluminum electrolytic capacitors with higher consumption of aluminum foils. As a result, the gross profit improved as compared with last year thereby raising the Group's gross profit margin for the Period.

Business Review

Market trend analysis

According to the market analysis and forecast research paper on aluminum electrolytic capacitors and aluminum anode foils of Paumanok Publications, Inc. (a US-based research house), global consumption of aluminum electrolytic capacitors will increase from 96.3 billion units in 2005 to approximately 125.4 billion units in 2010. In terms of product types, radial type capacitors account for more than half of the configuration, followed by V-chip type capacitors etc. In terms of finished products, growth is expected to concentrate in consumer electronics, industrial electronics, telecommunications, computers and automobiles. In particular, demand from the automobile industry offers a high margin for component suppliers. On the other hand, rising demand for aluminum electrolytic capacitors will help drive the sustained growth of the market of aluminum anode foils (a major raw material for aluminum electrolytic capacitors), which is projected to expand from approximately 66 million lbs in 2005 to 84 million lbs in 2010.

- *Manufacture and sale of aluminum foils*

During the Period, external sales of aluminum foils after satisfying in-house consumption amounted to RMB66,088,000, representing 13.77% of the Group's total external sales. Compared with the amount of external sales of aluminum foils of RMB27,223,000 for the same period last year, the segment sales rose 142.77%, while the segment's external sales as a percentage of the Group's total external sales rose 91.25% over 7.20% for the same period last year.


Manufacture and sale of high quality anode foils is one of the major businesses of the Group. Apart from the production of middle- to high-voltage anode foils with high capacitance, the Group has successfully increased the capacitance from $1.70\mu\text{F}/\text{cm}^2$ to $2\mu\text{F}/\text{cm}^2$ for standard middle-voltage (260V) anode foils and $0.60\mu\text{F}/\text{cm}^2$ to $0.75\mu\text{F}/\text{cm}^2$ for standard high-voltage (520V) anode foils.

- *Manufacture and sale of aluminum electrolytic capacitors*

External sales of aluminum electrolytic capacitors reached RMB414,015,000, representing approximately 86.23% of the Group's total external sales during the Period and an increase of 18.07% over RMB350,657,000 for the same period last year.

The Group's research and development teams in Taiwan and Shenzhen made further success in reducing the size, raising operating temperature (up to 125°C), increasing capacitance (up to $470,000\mu\text{F}$) and extending the load life (up to 10,000 hours) of its aluminum electrolytic capacitor products. In relation to the development of V-chip type aluminum electrolytic capacitors, there were new additions of sales of EV, JV, MV and TV series during the Period, with 13 production lines in operation. Moreover, the research and development teams have made substantial progress in the development of solid state polymer aluminum electrolytic capacitors (a new type of capacitor made from solid state electrolyte with longer useful life and more reliable performance and is widely used in notebook computers). During the Period, three series of solid state polymer aluminum electrolytic capacitors, namely PL, PS and PU, were launched. Currently, there are 5 production lines for the manufacturing of these products.

Given the huge growth potential of the demand for aluminum electrolytic capacitors in the automobile-related product industry, in order to enter the automobile electronics market and become a related component supplier, the Group is making active moves in applying for the ISO/TS16949 Quality System Certification and has been developing aluminum electrolytic capacitor products for use in automobile electronic control panels.



Well aware of the above market trends, the Group has been actively engaged in the research and development of a vertically integrated production mode in support of the manufacture and sale of aluminum electrolytic capacitors and their major raw materials, anode foils. It is expected that with the continuous solid self-sufficient supply of anode foils, the production cost of the Group's aluminum electrolytic capacitors will further decline, thereby resulting in a higher profit margin.

- *Green production system*

Restriction of Hazardous Substances Directive 2002/95/EC ("RoHS") is an environmental protection directive enacted by the European Union in February 2003 and has come into force with effect from 1 July 2006. It mainly regulates the standards for raw materials and production techniques for electronic products. The Group requires its entire production process to be in strict compliance with the RoHS directive to share the responsibility for environmental protection and embrace new opportunities in a green environment.

Liquidity and Financial Resources

The Group's cash flow needs mainly arise from the acquisition of property, plant and equipment, the cost and expenses related to operating activities and the repayment of bank borrowings. During the Period, the Group obtained its cash resources from short- and long-term borrowings, operating activities and the proceeds from the initial public offer.

During the Period, the Group had net cash of RMB130,370,000 from financing, investing and operating activities, the details of which are set out below:

Cash inflows from financing activities were RMB173,032,000, which mainly comprised additions of RMB485,788,000 in bank finance, repayment of RMB454,204,000 for bank loans, payment of RMB17,806,000 for loan interest and receipt of HK\$196,000,000 gross proceeds from the initial public offer.

Cash outflows from investing activities were RMB74,548,000, which mainly comprised the payment of RMB72,420,000 in the acquisition of fixed assets, such as machinery and equipment, for the new production plants or expansion of existing production capacity in Shenzhen, Yichang and Baotou.

Cash inflows of RMB31,886,000 from operating activities mainly comprised the profit before tax of RMB42,429,000 for the Period and the changes in cash position as a result of adjustments of finance costs, depreciation, movements in inventories, accounts receivable and accounts payable etc.

As at 30 June 2007, the Group had cash and cash equivalents of RMB225,155,000 (30 June 2006: RMB97,494,000), which were mainly denominated in Renminbi and the US dollars. The increase in cash and cash equivalents during the Period was mainly contributed by the proceeds from the initial public offer.

Borrowings

As at 30 June 2007, the Group had interest-bearing bank borrowings of RMB625,227,000 (31 December 2006: RMB596,922,000), which were mainly denominated in Renminbi and the US dollars. Such borrowings were mainly subject to a floating interest rate. Set out below is an analysis of the repayment profile of the interest-bearing bank borrowings:

| | 30 June 2007 RMB'000 | 31 December 2006 RMB'000 |
|--|-------------------------------------|--------------------------------|
| Within one year or on demand | 416,453 | 357,717 |
| In the second year | 92,987 | 62,982 |
| In the third to fifth years, inclusive | 112,512 | 171,909 |
| Beyond five years | 3,275 | 4,314 |
| | 625,227 | 596,922 |

Charges on Assets

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

| | 30 June 2007 RMB'000 | 31 December 2006 RMB'000 |
|-------------------------------|-------------------------------------|--------------------------------|
| Deposits | 58,512 | 58,864 |
| Bills receivable | 5,175 | 4,382 |
| Investment properties | 11,893 | 12,340 |
| Property, plant and equipment | 330,924 | 214,111 |
| | 406,504 | 289,697 |

Financial Ratios

The Group's gearing ratio (total interest-bearing bank borrowings divided by total assets) decreased from 43.28% as of 31 December 2006 to 38.46% as of 30 June 2007. The decrease was mainly due to the increase in assets such as bank deposits (mainly proceeds from the issue of new shares in connection with the initial public offer), acquisition of machinery and equipment and accounts receivable.

Set out below is the turnover (days) of the inventories, bills and accounts payable, and bills and accounts receivable during the Period:

| | Six months ended 30 June | |
|--|---------------------------------|----------|
| | 2007 | 2006 |
| Inventory turnover | 94 days | 100 days |
| Bills and accounts payable turnover | 71 days | 76 days |
| Bills and accounts receivable turnover | 117 days | 122 days |

Compared with the same period last year, the Group's inventories and bills and accounts receivable turnovers were 6 days and 5 days shorter respectively. The Group will continue to improve the management of its inventories, accounts payable and accounts receivable in order to achieve better utilisation of available funds.

Capital Commitments

As at 30 June 2007, the Group had capital commitments contracted but not provided for amounted to RMB17,695,000 (31 December 2006: RMB19,650,000).

Contingent Liabilities

As at 30 June 2007, the Group did not have any material contingent liabilities (31 December 2006: nil).

Foreign Exchange Fluctuations

The Group earns revenue principally in US dollars and New Taiwan dollars. Its expenses are mainly denominated in Japanese Yen, Renminbi, US dollars and New Taiwan dollars. As the revenue and expenses are denominated in different currencies, exposure to exchange risks was managed mostly with natural hedges. In the event that the value of Renminbi appreciates, the Group would be indirectly affected.

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

Employment and Remuneration Policy

As at 30 June 2007, the Group had 3,561 employees and its staff costs including Directors' remuneration for the Period were approximately RMB38,790,000. Salary, bonus and other benefits are determined based on market terms and individual performance, qualification and experience.

Future Plans and Prospects

The Group is striving to become the leading high quality anode foil manufacturer in the world, while boosting its profile as a supplier to the aluminum electrolytic capacitor market by way of building up the scale of its vertically integrated production capacity. In line with the above, the Group's operating strategies will focus on the implementation of the following plans:

1. Expansion of production capacity

1. In view of the increasing demand for high quality anode foils in the PRC and its high profitability in general, it is the intention of the Group to increase the sales of its anode foils to up to 35% of its total external sales in or before 2008 through further expansion of its anode foil production capacity and sales channels. To cater for such expansion, the Group intends to invest a total of approximately HK\$70 million by the addition of about 20 anode etched foil production lines to its Yichang manufacturing facilities in 2007 and 2008 respectively. The Group is also in the process of constructing a new production plant in Baotou, the Inner Mongolia Autonomous Region, where 40 anode formed foil production lines will be installed. The estimated total investment cost for the construction of such production plant is approximately HK\$174.8 million. By July 2007, 30 production lines have commenced production one after another.
2. To achieve further economies of scale and to maintain its market position, while taking into account the increasing demand for newer types of capacitors (including V-chip type and solid-state polymer type capacitors), the Group intends to continue to expand its aluminum electrolytic capacitor total production (especially for snap-in, V-chip type and solid-state polymer type capacitors) in Shenzhen by approximately 20% annually, as well as replacing old or out-dated machines.

II. Research and development of cost saving measures, new products and markets

The Group's research and development department is committed to pursuing innovation and technology development. It will continue to improve product quality and lower the overall production cost so as to maintain the competitiveness of the Group.

1. With the aim of gaining a substantial market share of the high quality anode foil market, the Group will concentrate on raising the capacitance of its anode foil products. The Group's research and development projects will focus on increasing the capacitance of its middle-voltage and high-voltage anode foils from $2.0\mu\text{F}/\text{cm}^2$ to $2.2\mu\text{F}/\text{cm}^2$ and from $0.75\mu\text{F}/\text{cm}^2$ to $0.8\mu\text{F}/\text{cm}^2$ respectively. In addition, the Group is developing the low-voltage anode foil products to meet the market standard for $85\mu\text{F}/\text{cm}^2$.
2. As for aluminum electrolytic capacitors, the Group will continue to develop new products with smaller size, higher operating temperature, higher capacitance and longer life span. It will also shift its focus to the development of solid-state polymer aluminum capacitor products with new specifications. It is anticipated that the Group will also develop products for use in automobile electronic control panels in 2008 upon obtaining the ISO/TS-16949 certification.

INDEPENDENT REVIEW REPORT



18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

To the Board of Directors

Capxon International Electronic Company Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 15 to 36 which comprises the condensed consolidated balance sheet of Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively as the "Group") as at 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and 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 are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made 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 interim financial information consists of making inquiries, 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 interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants

Hong Kong

11 September 2007

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2007 RMB'000 (Unaudited) | 2006 RMB'000 (Unaudited) |
| REVENUE | 5 | 480,103 | 377,880 |
| Cost of sales | | (360,313) | (297,793) |
| Gross profit | | 119,790 | 80,087 |
| Other income and gains | 5 | 1,615 | 1,153 |
| Selling and distribution costs | | (17,736) | (14,511) |
| Administrative expenses | | (38,336) | (19,332) |
| Other expenses | | (3,899) | (5,327) |
| Finance revenue | | 2,884 | 961 |
| Finance costs | | (17,806) | (12,636) |
| Exchange (loss)/gain, net | | (4,083) | 938 |
| PROFIT BEFORE TAX | 6 | 42,429 | 31,333 |
| Income tax expense | 7 | (7,222) | (3,204) |
| PROFIT FOR THE PERIOD | | 35,207 | 28,129 |
| Attributable to: | | | |
| Equity holders of the parent | | 32,903 | 26,260 |
| Minority interests | | 2,304 | 1,869 |
| | | 35,207 | 28,129 |
| DIVIDENDS | | | |
| Proposed interim dividend | 8 | 24,748 | – |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT | 9 | | |
| – Basic (RMB cents) | | 4.72 | 4.15 |
| – Diluted (RMB cents) | | 4.71 | N/A |

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007

| | | 30 June 2007 | 31 December 2006 |
|---|--------------|-------------------------|---------------------|
| | <i>Notes</i> | RMB'000 | <i>RMB'000</i> |
| | | (Unaudited) | (Audited) |
| ASSETS | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 10 | 694,095 | 648,632 |
| Prepaid land lease payments | 10 | 29,249 | 23,511 |
| Intangible assets | | 13,418 | 14,201 |
| Investments properties | | 11,893 | 12,340 |
| Pledged deposits | | 7,794 | 7,450 |
| | | 756,449 | 706,134 |
| CURRENT ASSETS | | | |
| Inventories | | 198,821 | 174,882 |
| Trade receivables | 11 | 326,478 | 269,370 |
| Bills receivable | 12 | 11,897 | 10,686 |
| Prepayments, deposits and other receivables | | 58,198 | 54,260 |
| Due from related parties | 17 | 9,727 | 34,927 |
| Deferred tax assets | | 784 | 481 |
| Pledged deposits | 13 | 50,718 | 51,414 |
| Cash and bank balances | 13 | 212,753 | 77,105 |
| | | 869,376 | 673,125 |
| TOTAL ASSETS | | 1,625,825 | 1,379,259 |

| | | 30 June 2007 | 31 December 2006 |
|---|--------------|-------------------------|---------------------|
| | <i>Notes</i> | RMB'000 | RMB'000 |
| | | (Unaudited) | (Audited) |
| EQUITY AND LIABILITIES | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | 14 | 82,244 | 250,748 |
| Reserves | | 644,374 | 218,492 |
| Proposed interim dividend | 8 | 24,748 | – |
| | | 751,366 | 469,240 |
| Minority interests | | 8,744 | 73,648 |
| Total equity | | 760,110 | 542,888 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank loans | | 208,774 | 239,205 |
| Pension liability | | 6,556 | 6,499 |
| | | 215,330 | 245,704 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 15 | 151,183 | 132,161 |
| Other payables and accruals | | 49,504 | 37,466 |
| Interest-bearing bank loans | | 416,453 | 357,717 |
| Due to related parties | 17 | 27,147 | 57,503 |
| Income tax payable | | 6,098 | 5,820 |
| | | 650,385 | 590,667 |
| | | 865,715 | 836,371 |
| TOTAL EQUITY AND LIABILITIES | | 1,625,825 | 1,379,259 |
| NET CURRENT ASSETS | | 218,991 | 82,458 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 975,440 | 788,592 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

| | Attributable to equity holders of the parent | | | | | | | | | |
|---|--|-----------------|----------------------|-------------------------|------------------------------|------------------|---------------------------|-------------|--------------------|--------------|
| | Issued capital | Capital reserve | Share option reserve | Statutory reserves fund | Exchange translation reserve | Retained profits | Proposed interim dividend | Total | Minority interests | Total Equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| As at 1 January 2006 | 208,375 | 1,960 | - | 38,772 | 15,372 | 125,385 | - | 389,864 | 71,141 | 461,005 |
| Profit for the period | - | - | - | - | - | 26,260 | - | 26,260 | 1,869 | 28,129 |
| Issue of shares | 9,870 | - | - | - | - | - | - | 9,870 | - | 9,870 |
| Dividends declared | - | - | - | - | - | (9,052) | - | (9,052) | (4,071) | (13,123) |
| Transferred from retained profits | - | - | - | 2,570 | - | (2,570) | - | - | - | - |
| Capital reserve | - | (210) | - | - | - | - | - | (210) | - | (210) |
| Foreign currency translation difference | (609) | - | - | 51 | 1,454 | - | - | 896 | - | 896 |
| Increase in equity interest in a subsidiary | 771 | - | - | - | 327 | - | - | 1,098 | (1,098) | - |
| As at 30 June 2006 | 218,407 | 1,750 | - | 41,393 | 17,153 | 140,023 | - | 418,726 | 67,841 | 486,567 |

| | Attributable to equity holders of the parent | | | | | | | | | |
|---|--|-----------------|----------------------|-------------------------|------------------------------|------------------|---------------------------|-------------|--------------------|--------------|
| | Issued capital | Capital reserve | Share option reserve | Statutory reserves fund | Exchange translation reserve | Retained profits | Proposed interim dividend | Total | Minority interests | Total Equity |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| As at 1 January 2007 | 250,748 | 1,665 | - | 49,666 | 17,717 | 149,444 | - | 469,240 | 73,648 | 542,888 |
| Profit for the period | - | - | - | - | - | 32,903 | - | 32,903 | 2,304 | 35,207 |
| Acquisition of minority interests | - | - | - | - | - | - | - | - | (66,909) | (66,909) |
| Dividends paid to minority shareholders | - | - | - | - | - | - | - | - | (299) | (299) |
| Issue of shares | 82,244 | 447,776 | - | - | - | - | - | 530,020 | - | 530,020 |
| Share issue expenses | - | (11,150) | - | - | - | - | - | (11,150) | - | (11,150) |
| Equity-settled share option arrangements | - | - | 783 | - | - | - | - | 783 | - | 783 |
| Reversal of paid-up capital of the subsidiaries upon completion of share exchange | (250,748) | (31,954) | - | - | - | - | - | (282,702) | - | (282,702) |
| Proposed interim dividend | - | - | - | - | - | (24,748) | 24,748 | - | - | - |
| Transfer from retained profits | - | - | - | 3,167 | - | (3,167) | - | - | - | - |
| Foreign currency translation difference | - | - | - | - | 12,272 | - | - | 12,272 | - | 12,272 |
| As at 30 June 2007 | 82,244 | 406,337 | 783 | 52,833 | 29,989 | 154,432 | 24,748 | 751,366 | 8,744 | 760,110 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 31,886 | 18,243 |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | (74,548) | (59,479) |
| NET CASH INFLOW FROM FINANCING ACTIVITIES | 173,032 | 31,956 |
| NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | 130,370 | (9,280) |
| Exchange realignment | 5,846 | 1,657 |
| Cash and cash equivalents at beginning of period | 88,939 | 105,117 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 225,155 | 97,494 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 212,753 | 97,006 |
| Pledged deposits with original maturity of less than three months when acquired | 12,402 | 488 |
| Cash and cash equivalents at end of period | 225,155 | 97,494 |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The registered office of the Company is located at Scotia Centre, 4th Floor, P.O.Box 2804, George Town, Grand Cayman, Cayman Islands.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the production of aluminum electrolytic capacitors and aluminum foils, the major raw materials for the manufacturing of electrolytic capacitors.

2. REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 14 December 2005. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 7 May 2007 (the "Listing Date").

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange, the Company became the holding company of the subsidiaries now comprising the Group. The Reorganisation principally involved the acquisition of companies directly or indirectly owned by members of the Lin family who are Directors of the Company, namely Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh, Mr. Lin Yuan Yu, Ms. Liu Fang Chun and Ms. Lin I Chu. Details of the Reorganisation are set out in the prospectus dated 24 April 2007 issued by the Company (the "Prospectus").

The Group is regarded as a continuing group resulting from the reorganisation of entities under common control. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the condensed consolidated financial statements have been prepared as if the Company had been the holding company of companies comprising the Group throughout the six months ended 30 June 2007, rather than from the date on which the Reorganisation was completed. The comparative figures as at 31 December 2006 and for the six months ended 30 June 2006 have been prepared on the same basis.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated financial statements for the six months ended 30 June 2007 have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The condensed consolidated financial statements do not include all the information and disclosures required for annual financial statements, and should be read in conjunction with the Prospectus.

Significant accounting policies

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated financial statements are the same as those used in the Prospectus, except for the adoption of new standards and interpretations noted below. Adoption of these standards and interpretations did not have any material effect on the financial position or performance of the Group.

Impact of new and revised International Financial Reporting Standards ("IFRSs")

The following new and revised IFRSs affect the Group and are adopted for the first time for the current period's condensed consolidated financial statements.

| | |
|-----------------|--|
| IAS 1 Amendment | Capital Disclosures |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRIC 8 | Scope of IFRS 2 |
| IFRIC 9 | Reassessment of Embedded Derivatives |
| IFRIC 10 | Interim Financial Reporting and Impairment |

IAS 1 Amendment relates to the disclosures of qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporate many of the disclosure requirements of IAS 32.

IFRIC 8 states that IFRS 2 applies to particular transactions in which goods or services are received and requires that an entity shall measure the unidentifiable goods or services received as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received) at the grant date.

3. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(continued)*

Impact of new and revised International Financial Reporting Standards ("IFRSs") *(continued)*

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC 10 requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

Impact of issued but not yet effective International Financial Reporting Standards ("IFRSs")

The International Accounting Standards Board has issued a number of new and revised IFRSs that are not mandatory for these financial statements. The Group has not early applied these IFRSs in these financial statements:

| | |
|------------------|--|
| IFRS 8 | Operating Segments |
| IFRIC 11 | Group and Treasury Share Transactions |
| IFRIC 12 | Service Concession Arrangements |
| IFRIC 13 | Customer Loyalty Programmes |
| IFRIC 14 | IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction |
| IAS 23 Amendment | Borrowing Costs |

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires disclosure of information about the Group's operating segments to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. It requires identification of operating segments on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance.

IAS 23 Amendment shall be applied for annual periods beginning on or after 1 January 2009. The standard requires accounting for borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset to form part of the cost of that asset, while other borrowing costs are recognised as an expense. It also removes the requirement to disclose the accounting policy adopted for borrowing costs.

IFRIC 11, IFRIC 12, IFRIC 13 and IFRIC 14 shall be applied for annual periods beginning on or after 1 March 2007, 1 January 2008, 1 July 2008 and 1 January 2008 respectively. The Group is in the process of making an assessment of the impact of these new IFRSs upon their initial application. So far, it has concluded that while the adoption of the IFRS 8 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products they provide. Each of the Group's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segments.

Summary details of the business segments are as follows:

- (i) the capacitors segment engages in the manufacture and sale of capacitors; and
- (ii) the aluminum foils segment engages in the manufacture and sale of aluminum foils.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. SEGMENT INFORMATION (continued)

Business segments

The following tables present revenue and profit for the Group's business segments for the six months ended 30 June 2007 and 2006.

| | Capacitors <i>RMB'000</i> (Unaudited) | Aluminum foils <i>RMB'000</i> (Unaudited) | Eliminations <i>RMB'000</i> (Unaudited) | Total <i>RMB'000</i> (Unaudited) |
|--|--|--|--|---|
| For the six months ended 30 June 2007 | | | | |
| Segment revenue: | | | | |
| Sales to external customers | 414,015 | 66,088 | – | 480,103 |
| Intersegment sales | – | 212,694 | (212,694) | – |
| Other income | 431 | 315 | – | 746 |
| Total | 414,446 | 279,097 | (212,694) | 480,849 |
| Segment results | 53,172 | 24,686 | (661) | 77,197 |
| Interest income and unallocated gains | | | | 3,753 |
| Corporate and other unallocated expenses | | | | (16,632) |
| Finance costs | | | | (17,806) |
| Exchange loss, net | | | | (4,083) |
| Profit before tax | | | | 42,429 |
| Income tax expense | | | | (7,222) |
| Profit for the period | | | | 35,207 |
| For the six months ended 30 June 2006 | | | | |
| Segment revenue: | | | | |
| Sales to external customers | 350,657 | 27,223 | – | 377,880 |
| Intersegment sales | – | 176,239 | (176,239) | – |
| Other income | 319 | – | – | 319 |
| Total | 350,976 | 203,462 | (176,239) | 378,199 |
| Segment results | 23,787 | 25,716 | (2,940) | 46,563 |
| Interest income and unallocated gains | | | | 1,795 |
| Corporate and other unallocated expenses | | | | (5,327) |
| Finance costs | | | | (12,636) |
| Exchange gain, net | | | | 938 |
| Profit before tax | | | | 31,333 |
| Income tax expense | | | | (3,204) |
| Profit for the period | | | | 28,129 |

4. SEGMENT INFORMATION (continued)

Geographical segments

The following table presents revenue information for the Group's geographical segments for the six months ended 30 June 2007 and 2006:

| | Six months ended 30 June | |
|------------------------------|--------------------------|----------------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Sales to external customers: | | |
| Mainland China | 343,789 | 301,106 |
| Taiwan | 61,454 | 18,444 |
| Other Asian countries | 53,498 | 44,495 |
| Europe | 17,578 | 11,143 |
| United States of America | 3,784 | 2,692 |
| | 480,103 | 377,880 |

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced values of goods sold, net of value added tax ("VAT"), after allowances for returns and discounts; and the value of services rendered, net of business taxes and surcharges.

An analysis of revenue, other income and gains is as follows:

| | Six months ended 30 June | |
|-------------------------------|--------------------------|--------------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Revenue | | |
| Sale of goods | 480,103 | 377,880 |
| Other income and gains | | |
| Income from sale of materials | 746 | 319 |
| Gross rental income | 320 | 592 |
| Others | 549 | 242 |
| | 1,615 | 1,153 |

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/ (crediting):

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Cost of sales | 360,313 | 297,793 |
| Depreciation | 26,419 | 20,867 |
| Amortisation of prepaid land lease payments | 272 | 221 |
| Amortisation of intangible assets | 783 | 431 |
| Depreciation of investment properties | 53 | 57 |
| Write-down of inventories to net realisable value | – | 508 |
| Auditors' remuneration | 999 | 108 |
| Employee benefits expense (including directors' remuneration) | 38,790 | 31,273 |
| Foreign exchange differences, net | 4,083 | (938) |
| Provision for bad and doubtful receivables | 1,609 | 1,007 |
| Loss on disposal of items of property, plant and equipment | 284 | 2,375 |

7. INCOME TAX EXPENSE

Major components of income tax expense for the six-month periods ended 30 June 2007 and 2006 are as follows:

| | Six months ended 30 June | |
|---------------------------------|--------------------------|-------------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Current – Taiwan | 3,946 | 859 |
| Current – Mainland China | 3,579 | 2,400 |
| Deferred | (303) | (55) |
| Total tax charge for the period | 7,222 | 3,204 |

PRC enterprise income tax has been calculated on the estimated assessable profit for the period at the tax rates applicable to the respective subsidiaries. Certain subsidiaries of the Company operating in the PRC are eligible for certain tax holiday and concession, including tax holiday and concession normally in the form of two years tax exemption starting from the first profitable year, followed by a 50% reduction of the applicable tax rate in the following three years.

Hong Kong profits tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the period. No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit chargeable to Hong Kong profits tax during the periods.

Income tax in Taiwan is charged at 25% (2006: 25%).

8. DIVIDENDS

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Proposed interim – HK 3 cents per share | 24,748 | – |

The amount of proposed interim dividend is calculated based on the Company's shares in issue as at 30 June 2007 (i.e. 844,559,841 shares).

9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share for the six months ended 30 June 2007 is based on the profit for the period attributable to equity holders of the Company of approximately RMB32,903,000, and the weighted average number of shares in issue during the period of 696,369,786 shares of HK\$0.1 each, as adjusted to reflect the shares issued pursuant to the share offering.

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit for the period attributable to equity holders of the parent of approximately RMB26,260,000 on the assumption that 633,359,841 shares of HK\$0.1 each in issue as a result of the Reorganisation had been in issue throughout the period.

The calculation of diluted earnings per share for the six months ended 30 June 2007 is based on the profit for the period attributable to equity holders of the parent of approximately RMB32,903,000. The weighted average number of shares used in the calculation is the number of shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2007 | 2006 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Profit attributable to equity holders of the parent for use in the basic and diluted earnings per share calculation | 32,903 | 26,260 |

9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

(continued)

| | Number of shares | |
|---|--------------------|--------------|
| | 30 June 2007 | 30 June 2006 |
| Weighted average number of shares in issue during the period used in the basic earnings per share calculation | 696,369,786 | 633,359,841 |
| Effect of dilutive potential shares: | | |
| Share options | 2,715,087 | – |
| | 699,084,873 | 633,359,841 |

No diluted earnings per share for the six months ended 30 June 2006 was presented as there were no dilutive potential shares in existence during that period.

10. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

As at 30 June 2007, certain of the Group's bank loans were secured by certain of the Group's property, plant and equipment which had an aggregate carrying amount of RMB330,924,000 (31 December 2006: RMB214,111,000)

During the six months ended 30 June 2007, the Group acquired property, plant and equipment including construction in progress with an aggregate cost amounting to approximately RMB72,420,000 (30 June 2006: RMB47,306,000). The Group also made prepaid land lease payments of approximately RMB6,010,000 for the six months ended 30 June 2007 (30 June 2006: RMB3,935,000). Property, plant and equipment amounting to RMB363,000 was disposed of for the six months ended 30 June 2007 (30 June 2006: RMB15,828,000).

As at 30 June 2007, the Group had not obtained building ownership certificates for buildings located in Shenzhen and Baotou with net carrying amounts of approximately RMB86,910,000 (31 December 2006: RMB85,294,000) and RMB33,626,000 (31 December 2006: RMB33,249,000) respectively. The Directors expect the building ownership certificates for the buildings to be obtained by the end of year 2007.

11. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 30 to 180 days. Each customer has a maximum credit limit.

An aged analysis of the trade receivables, based on invoice date and net of provision for bad and doubtful debts, of the Group as at the balance sheet date, is as follows:

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|-----------------------------------|---|---|
| Within 60 days | 170,312 | 125,624 |
| Over 60 days but within 90 days | 64,065 | 55,159 |
| Over 90 days but within 180 days | 77,647 | 80,515 |
| Over 180 days but within 270 days | 11,189 | 6,765 |
| Over 270 days but within 360 days | 2,253 | 1,217 |
| Over 360 days | 1,012 | 90 |
| | 326,478 | 269,370 |

12. BILLS RECEIVABLE

As at 30 June 2007, the Group's bills receivable of RMB5,175,000 (31 December 2006: RMB4,382,000) was pledged to secure the Group's bank borrowings.

The bills receivable of the Group are all mature within three months.

13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

As at 30 June 2007, the Group's pledged time deposits of RMB10,865,000 and RMB47,647,000 were deposited to banks for issuing bills payable and bank borrowings respectively (31 December 2006: RMB 15,262,000 and RMB43,602,000).

Cash and bank balances and pledged deposits of RMB188,443,000 and RMB109,143,000 were denominated in RMB as at 30 June 2007 and 31 December 2006, respectively. The RMB is not freely convertible into other currencies, however, under the Sale and Payment of Foreign Exchange Regulations promulgated by Foreign Exchange Control Regulations and Administration of Settlement in Mainland China, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

14. ISSUED CAPITAL

| | Number of shares | Nominal value RMB'000 |
|--|------------------|--------------------------|
| <i>Authorised:</i> | | |
| Ordinary shares of HK\$0.1 each | | |
| Balance at 1 January 2007 and 30 June 2007 | 1,500,000,000 | 146,071 |
| <i>Issued and fully paid:</i> | | |
| Ordinary shares of HK\$0.1 each | | |
| Balance at 1 January 2007 | 156 | – |
| Issued on 4 April 2007 | 486,326,189 | 47,359 |
| Issued on 9 April 2007 | 42,449,502 | 4,134 |
| Issued on 13 April 2007 | 104,583,994 | 10,184 |
| Issued on 7 May 2007 | 211,200,000 | 20,567 |
| Balance at 30 June 2007 | 844,559,841 | 82,244 |

486,326,189, 42,449,502 and 104,583,994 shares with a nominal value of HK\$0.1 each were issued by the Company to the members of the Lin family, companies held directly or indirectly by the Lin Family and minority shareholders on 4 April 2007, 9 April 2007 and 13 April 2007 respectively at an aggregate subscription price of USD44,513,753.84.

Pursuant to the Company's share offering, the Company issued 211,200,000 shares of HK\$0.1 each at a consideration of HK\$0.93 per share on the Listing Date.

15. TRADE AND BILLS PAYABLES

The trade payables are non-interest-bearing and are normally settled within 30 to 60 days.

An aged analysis of trade and bills payables, based on invoice dates, of the Group as at the balance sheet date, is as follows:

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|-----------------------------------|---|---|
| Within 60 days | 65,648 | 62,772 |
| Over 60 days but within 90 days | 36,739 | 14,588 |
| Over 90 days but within 180 days | 24,078 | 43,015 |
| Over 180 days but within 270 days | 12,328 | 4,405 |
| Over 270 days but within 360 days | 5,540 | 1,479 |
| Over 360 days but within 450 days | 3,066 | 2,633 |
| Over 450 days | 3,784 | 3,269 |
| | 151,183 | 132,161 |

16. SHARE-BASED PAYMENT

On 3 April 2007, the Company approved and adopted the Pre-IPO Share Option Scheme entitling the Board of Directors to grant share options at its discretion to any executive, director and/or employee of the Group who is in full time employment of the Group at the time when an option is granted before the listing of the Company's shares. 14,900,000 options were granted to certain executives, employees and directors of the Group on 17 April 2007 (the "Date of Grant").

Under the Pre-IPO Share Option Scheme, the options granted shall vest in the relevant grantees in tranches, namely 20% of the option shall vest on the first anniversary of the Date of Grant at an exercise price of HK\$0.465 per share; 20% of the option shall vest on the second anniversary of the Date of Grant (the "Second Tranche") at an exercise price of HK\$0.465 per share; and 60% of the option shall vest on the third anniversary of the Date of Grant (the "Third Tranche") at an exercise price of HK\$0.465 per share. The Board may at its absolute discretion adjust the percentage of the option to be vested in the Second Tranche and Third Tranche either upwards or downwards based on the performance of the relevant grantees in the year immediately preceding the vesting of the option in the relevant tranches as determined by the Directors. The options may be exercised, in whole or in part, at any time during the option period from 17 April 2007 to 16 April 2012 except that no options may be exercised until the expiry of 12 months after the date of vesting.

16. SHARE-BASED PAYMENT *(continued)*

The fair value of the options at the Date of Grant is estimated using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The fair value of options granted under the Pre-IPO Share Option Scheme at the Date of Grant was estimated using the following assumptions:

| | |
|----------------------------|-------|
| Dividend yield (%) | 3.4 |
| Volatility (%) | 50.86 |
| Interest rate (%) | 4.103 |
| Maturity (years) | 4.948 |
| Strike price (HK\$) | 0.465 |
| Suboptimal exercise factor | 3 |

On 3 April 2007, the Company also approved and adopted a share option scheme entitling the Board of Directors 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.

17. RELATED PARTY TRANSACTIONS

The Group had the following material transactions with related parties during the period:

(a) Recurring

| Name of company | Nature of transactions | Six months ended 30 June | |
|---|-------------------------------|--------------------------------|--------------------------------|
| | | 2007 RMB'000 (Unaudited) | 2006 RMB'000 (Unaudited) |
| Ele Con Co., Ltd. (i) | Purchase of raw materials (a) | 16,616 | 14,035 |
| Fung Yue Technology Limited (ii) | Sub-contracting fee (b) | 8,985 | 7,535 |
| Capxon Electronic Technology (Renhua) Co., Ltd. (iii) | Sub-contracting fee (b) | 6,751 | 6,962 |

17. RELATED PARTY TRANSACTIONS (continued)**(a) Recurring** (continued)

Notes:

- (i) A director of Ele Con Co., Ltd. is also a director of the Company.
- (ii) The two directors of Fung Yue Technology Limited ("Fung Yue Technology") are the directors of the Company.
- (iii) Capxon Electronic Technology (Renhua) Co., Ltd. is a wholly owned subsidiary of Fung Yue Technology.
- (a) In the opinion of the Directors, the purchase prices for the raw materials were mutually agreed between the Group and the related party under normal commercial terms.
- (b) The subcontracting fees charged by the related parties were based on mutually agreed terms.

(b) Non-recurring

| Name of company | Nature of transactions | Six months ended 30 June | |
|---|-------------------------------|--------------------------------|--------------------------------|
| | | 2007 RMB'000 (Unaudited) | 2006 RMB'000 (Unaudited) |
| Chinese Creator Limited (i) | Purchase of raw materials (b) | – | 2,639 |
| | Purchase return (b) | 2,635 | – |
| Asia Richly Limited (ii) | Sale of goods (c) | 8,201 | 59,375 |
| | Purchase of raw materials (a) | 6,788 | 43,290 |
| King Smarter Limited (iii) | Sale of goods (c) | – | 26,791 |
| | Purchase of raw materials (a) | – | 27,701 |
| Better Chance Limited (iii) | Purchase of raw materials (a) | – | 41,616 |
| | Sale of goods (c) | – | 37,725 |
| Hill Source Electron (Shenzhen) Co., Ltd. (iii) | Purchase of raw materials (d) | – | 28,776 |

17. RELATED PARTY TRANSACTIONS (continued)

(b) Non-recurring (continued)

Notes:

- (i) A shareholder of Chinese Creator Limited is a director of the Company.
- (ii) A shareholder of Asia Richly Limited ("Asia Richly") is also a director of the Company.
- (iii) In the opinion of the Directors, these companies are significantly influenced by Lin Chin Tsun.
 - (a) In the opinion of the Directors, the purchases of raw materials were made based on mutually agreed terms which approximated to the costs of raw materials plus a 3% to 5% mark-up.
 - (b) In the opinion of the Directors, the purchases of raw materials and goods were made based on mutually agreed terms.
 - (c) In the opinion of the Directors, the sales of goods to the related parties were mutually agreed between the parties under normal commercial terms.
 - (d) In the opinion of the Directors, the purchase of raw materials from the related party was at prices agreed between the Group and the related party under normal commercial terms.

(c) Guarantees provided by related parties of the Group

The Group's related parties and directors have provided guarantees, in connection with bank borrowings obtained by the Group, as follows:

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|--|---|---|
| Guarantees provided to the Group by: | | |
| Capxon Electronic Technology (Renhua) Co., Ltd., | | |
| Lin Chin Tsun | – | 20,000 |
| Lin Chin Tsun | 22,343 | 27,256 |
| Lin Chin Tsun, Chou Chiu Yueh | 23,353 | 85,093 |
| | 45,696 | 132,349 |

The expiry dates of the above guarantees provided by the Group's related parties and directors vary from May 2007 to August 2009.

17. RELATED PARTY TRANSACTIONS (continued)

(d) Balances due from/to related parties

| | Due from related parties | | Due to related parties | |
|--|---|---|---|---|
| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
| Shenzhen Capxon Electronic Co., Ltd. | - | 9,085 | 70 | - |
| King Smarter Limited | - | - | 31 | 3,327 |
| Asia Richly Limited | - | 25,842 | 5,669 | - |
| Better Chance Limited | - | - | 1,001 | 9,745 |
| Chou Chiu Yueh | - | - | 130 | 1,212 |
| Lin Yuan Yu | - | - | - | 1,387 |
| Fung Yue Technology | - | - | 8,851 | 10,687 |
| Chinese Creator Limited | 2,573 | - | - | 1,839 |
| Hill Source Electron (Shenzhen) Co., Ltd. | - | - | - | 11,680 |
| Capxon Electronic Technology (Renhua) Co., Ltd. | 2,517 | - | - | 2,303 |
| Ele Con Co., Ltd. | - | - | 11,395 | 13,135 |
| First Planner International Limited | 4,627 | - | - | 1,096 |
| Lin Chin Tsun | - | - | - | 1,092 |
| | 9,727 | 34,927 | 27,147 | 57,503 |

The balances due from and to the related parties at 30 June 2007 and 31 December 2006 were interest-free, unsecured and did not have fixed repayment terms.

(e) Compensation of key management personnel of the Group

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2007 RMB'000 (Unaudited) | 2006 RMB'000 (Unaudited) |
| Short term employee benefits | 3,562 | 2,026 |
| Post-employment benefits | 76 | 66 |
| Total compensation paid to key management personnel | 3,638 | 2,092 |

18. OPERATING LEASE ARRANGEMENTS

(a) As lessor

As at 30 June 2007 and 31 December 2006, the Group had no significant future minimum lease receivables under non-cancellable operating leases.

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|---|---|---|
| Within one year | 324 | 644 |
| In the second to fifth years, inclusive | – | 77 |
| | 324 | 721 |

(b) As lessee

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|---|---|---|
| Within one year | 591 | 467 |
| In the second to fifth years, inclusive | 156 | 293 |
| | 747 | 760 |

19. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed above, the Group had the following capital commitments as at the balance sheet date:

| | 30 June 2007 RMB'000 (Unaudited) | 31 December 2006 RMB'000 (Audited) |
|--------------------------------------|---|---|
| Contracted, but not provided for: | | |
| – Acquisition of land and buildings | 1,360 | 3,080 |
| – Acquisition of plant and machinery | 16,335 | 16,570 |
| | 17,695 | 19,650 |

20. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These reviewed condensed consolidated financial statements were approved and authorised for issue by the board of directors on 11 September 2007.

OTHER INFORMATION

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

As at 30 June 2007, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange 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 interest | Number of issued shares held (a) and approximate percentage of shares in issue (b) ⁽¹⁾ | | Interest in underlying shares | Total interest (a) and approximate percentage of shares in issue (b) ⁽¹⁾ | |
|--------------------------------------|---------------------------------------|--|-------|-------------------------------------|---|-------|
| | | (a) | (b) | | (a) | (b) |
| Mr. Lin Chin Tsun | Beneficial owner | 101,657,378 | 66.90 | 3,200,000 ⁽³⁾ | 570,473,947 | 67.55 |
| | Interest of controlled corporation | 395,360,783 ⁽²⁾ | | - | | |
| | Interest of spouse | 67,955,786 | | 2,300,000 ⁽³⁾ | | |
| Ms. Chou Chiu Yueh | Beneficial owner | 67,955,786 | 66.90 | 2,300,000 ⁽³⁾ | 570,473,947 | 67.55 |
| | Interest of controlled corporation | 395,360,783 ⁽²⁾ | | - | | |
| | Interest of spouse | 101,657,378 | | 3,200,000 ⁽³⁾ | | |
| Mr. Lin Yuan Yu | Beneficial owner | 13,161,622 | 2.38 | 1,900,000 ⁽³⁾ | 22,890,615 | 2.71 |
| | Interest of spouse | 6,928,993 | | 900,000 ⁽³⁾ | | |
| Ms. Lin I Chu | Beneficial owner | 9,429,777 | 1.12 | 900,000 ⁽³⁾ | 10,329,777 | 1.22 |
| Ms. Liu Fang Chun | Beneficial owner | 6,928,993 | 2.38 | 900,000 ⁽³⁾ | 22,890,615 | 2.71 |
| | Interest of spouse | 13,161,622 | | 1,900,000 ⁽³⁾ | | |

| Name of Director/ chief executive | Capacity and nature of interest | Number of issued shares held (a) and approximate percentage of shares in issue (b) ⁽¹⁾ | | Interest in underlying shares | Total interest (a) and approximate percentage of shares in issue (b) ⁽¹⁾ | |
|--------------------------------------|---------------------------------------|--|------|-------------------------------------|---|------|
| | | (a) | (b) | | (a) | (b) |
| Mr. Tung Chin Chuan | Beneficial owner | 126,000 | 0.01 | – | 126,000 | 0.01 |
| Ms. Hu Szu Jung, Carol | Beneficial owner | 243,991 | 0.03 | 900,000 ⁽³⁾ | 1,143,991 | 0.14 |

Notes:

- (1) This percentage has been compiled based on the total number of shares (i.e. 844,559,841 shares) of the Company in issue as at 30 June 2007.
- (2) Each of Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh is deemed to be interested in an aggregate of 395,360,783 shares which are held by Superior Skill International Limited, Union Glory Management Limited, Jet Link Group Limited and Hung Yu Investment Co., Ltd. Such corporations are controlled by Mr. Lin Chin Tsun and/or Ms. Chou Chiu Yueh.
- (3) These represent interests in underlying shares in respect of share options granted by the Company, the details of which are set out in the section titled "Information on Pre-IPO Share Option Scheme and Share Option Scheme".

Save as disclosed above, as at 30 June 2007, 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 2007, 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 shareholders | Capacity and nature of interest | Number of issued shares held | Approximate percentage of shares in issue⁽¹⁾ |
|---|--|-------------------------------------|--|
| Superior Skill International Limited | Beneficial owner | 296,495,623 | 35.11 |
| Jet Link Group Limited | Beneficial owner | 69,722,663 | 8.26 |
| Geng Yang Investment Limited ⁽²⁾ | Interest of controlled corporation | 69,722,663 | 8.26 |
| Ci Peng Investment Limited ⁽²⁾ | Interest of controlled corporation | 69,722,663 | 8.26 |

Notes:

- (1) This percentage has been compiled based on the total number of shares (i.e. 844,559,841 shares) of the Company in issue as at 30 June 2007.
- (2) Jet Link Group Limited is owned by Geng Yang Investment Limited and Ci Peng Investment Limited as to 60% and 40% respectively. Accordingly, each of Geng Yang Investment Limited and Ci Peng Investment Limited is deemed to be interested in 69,722,663 shares held by Jet Link Group Limited under the SFO.

Save as disclosed above, the Directors are not aware of any other persons who, as at 30 June 2007, had interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

INFORMATION ON PRE-IPO SHARE OPTION SCHEME AND SHARE OPTION SCHEME

On 3 April 2007, the Company approved and adopted the Pre-IPO Share Option Scheme (the "Pre-IPO Share Option Scheme") entitling the Board of Directors to grant share options at its discretion to any executive, director and/or employee of the Group who is in full time employment of the Group at the time when an option is granted before the listing of the Company's shares. The maximum number of shares in respect of which options may be granted under the Pre-IPO Share Option Scheme shall not exceed 15,500,000 shares.

On 3 April 2007, the Company also approved and adopted a share option scheme (the "Share Option Scheme") entitling the Board of Directors 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.

On 17 April 2007 (the "Date of Grant"), the Company granted a total of 14,900,000 options to Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh, Mr. Lin Yuan Yu, Ms. Lin I Chu, Ms. Liu Fang Chun, Ms. Hu Szu Jung, Carol and other employees of the Group to subscribe for shares under the Pre-IPO Share Option Scheme.

Under the Pre-IPO Share Option Scheme, the options granted shall vest in the relevant grantees in tranches, namely 20% of the option shall vest on the first anniversary of the Date of Grant at an exercise price of HK\$0.465 per share; 20% of the option shall vest on the second anniversary of the Date of Grant (the "Second Tranche") at an exercise price of HK\$0.465 per share; and 60% of the option shall vest on the third anniversary of the Date of Grant (the "Third Tranche") at an exercise price of HK\$0.465 per share. The Board may at its absolute discretion adjust the percentage of the option to be vested in the Second Tranche and Third Tranche either upwards or downwards based on the performance of the relevant grantees in the year immediately preceding the vesting of the option in the relevant tranches as determined by the Directors. The options may be exercised, in whole or in part, at any time during the option period from 17 April 2007 to 16 April 2012 except that no options may be exercised until the expiry of 12 months after the date of vesting. Details of the number of options granted to the Directors and chief executives under the Pre-IPO Share Option Scheme are as follows:

| Name of Director/ chief executive | Number of Share Options | | |
|--------------------------------------|------------------------------|--------------------------------|-----------------------|
| | Granted during the period | Exercised during the period | As at 30 June 2007 |
| Mr. Lin Chin Tsun | 3,200,000 | – | 3,200,000 |
| Ms. Chou Chiu Yueh | 2,300,000 | – | 2,300,000 |
| Mr. Lin Yuan Yu | 1,900,000 | – | 1,900,000 |
| Ms. Lin I Chu | 900,000 | – | 900,000 |
| Ms. Liu Fang Chun | 900,000 | – | 900,000 |
| Ms. Hu Szu Jung, Carol | 900,000 | – | 900,000 |
| Other employees | 4,800,000 | – | 4,800,000 |
| | 14,900,000 | – | 14,900,000 |

Note: The fair value of options granted, determined using the Binomial valuation model, is disclosed in Note 16 to the Interim Accounts.

Apart from the share option schemes 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 to declare an interim dividend of HK3 cents per share for the six months ended 30 June 2007, absorbing a total of HK\$25,336,795.23 (equivalent to approximately RMB24,748,000), payable on or about 8 October 2007 to shareholders whose names appear on the register of members of the Company at the close of business on 3 October 2007.

CLOSURE OF REGISTER OF MEMBER

The register of members will be closed from 28 September 2007 to 3 October 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 27 September 2007. Dividend warrants are expected to be dispatched on or about 8 October 2007.

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 since the Listing Date. Upon enquiry by the Company, all Directors have confirmed that they have complied with the required standards set out in the Model Code since the Listing Date to 30 June 2007.

CORPORATE GOVERNANCE

Since the Listing Date to 30 June 2007, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

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 since the Listing Date to 30 June 2007.

REVIEW BY AUDIT COMMITTEE

The Company's audit committee is composed of all the three independent non-executive Directors. The audit committee has reviewed with management and the Company's auditors, Ernst & Young, the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated accounts for the Period with the Directors.

On behalf of the Board of Directors

LIN Chin Tsun

Chairman

Hong Kong, 11 September 2007