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 2012

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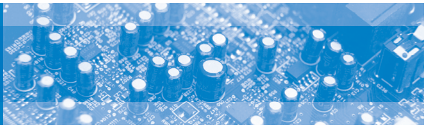

CORPORATE INFORMATION

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

(Established on 1 April 2012)

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
(Appointed to replace Mr. Lin Chin Tsun as Chairman from 1 April 2012)
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
35/F One Pacific Place
88 Queensway
Hong Kong

Legal Adviser

Minter Ellison
15/F Hutchison House
10 Harcourt Road
Central
Hong Kong

Principal Bankers

Agricultural Bank of China Limited
Bank of China Limited
Bank of Communications Co., Ltd.
China Construction Bank
China Merchants Bank Co., Ltd.
First Commercial Bank
Hua Nan Commercial Bank
Industrial and Commercial Bank of China
Mega International Commercial Bank Co., Ltd.
Nanyang Commercial Bank Ltd.
Ping An Bank Co., Ltd.
Postal Savings Bank of China
Taiwan Cooperative Bank

Registered Office

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

Head Office in Taiwan

5th Floor
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Xizhi District
New Taipei City
Taiwan

Head Office and Principal Place of Business in Hong Kong

Room 1702, 17th Floor
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No. 303 Hennessy Road
Wanchai
Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
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Grand Cayman KY1-1107
Cayman Islands

Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712-16, 17th Floor
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Wanchai
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Website

www.capxongroup.com

Stock Code

469

CHAIRMAN'S STATEMENT

Dear Shareholders,

Since the fourth quarter of 2011, as a result of the weak economic growth in developed countries as well as the European sovereign debt crisis, the global market economy has experienced a slow and stagnant recovery. Although the economy bottomed out in the first quarter of 2012, the slow recovery helped little. Owing to the current uncertainties looming over the economy, and the sovereign lingering debt crisis remained unsolved, various nations have revised their estimated growth of the gross domestic product downward. In the developed countries experiencing slow economic growth, coupled with the soaring unemployment rate, the decline in consumption, and the discouraging sales of electronic end-user application products, the advent of innovative products and the Olympic Games with limited economic stimulus have failed to drive significant demand growth for electronic components. It is expected that the growth of the overall capacitor market in 2012 will remain small and will be dependent on the upgrade and high precision of such application products as smart phones, tablet computers, LCD television sets, and LCD monitors, which also means that the trend for future market development of passive components will head towards miniaturization, high precision, durability, and high resistance to heat.

The industrial chain of passive components is challenged by two major issues, namely, the lack of the exclusive supply of raw materials and the higher cost arising from the acquisition of machinery required for the high-end products. The Company and its subsidiaries (collectively the "Group"), as one of the few market players enjoying the supply advantage of having vertical integration of raw materials and passive component products, has persistently invested in the research and development as well as the equipment costs to enhance the stable mass production and supply of solid-state capacitors. The development of aluminum foils sets a tone that the Group will assist capacitor manufacturers in the joint development of the required specific materials in the course of product development, ushering in the development opportunities in the future market demand.

Looking forward to the second half of 2012, the Group will proactively cater to the product demand from the existing clients and capitalize on the stronghold arising from the vertical integration of the upstream and downstream production chain in order to offer better services. On the other hand, the Group will vigorously solicit new clients, while enhancing its research and development capacity to upgrade product functions and lowering production costs to cater properly to the clients' requirements, with a view to maximize returns to the shareholders.

During the period, the strategic operating results of the Group's two major products are as follows:

1. Operation in respect of the aluminum foil market

Since the fourth quarter of 2011, as a result of the discouraging economic outlook for the entire industry, coupled with the stagnant demand in the European and American markets as well as the problems of the European sovereign debt crisis, the Group was only able to leverage the advance of production technologies and utilize the relatively low electricity costs in order to rein in production costs, while minimizing the loss in gross profits.

Currently, the ultra-high voltage formed foils have entered the stage of mass production, while the medium-high voltage etched foils achieved the research and development goal in terms of capacitance improvement. The production line of formed foils in Qinghai Xining Plant is expected to operate in full swing this year. The key technology research and development of high capacitance formed foils has also achieved the expected goal. It is expected that the production volume of formed foils will not merely suffice for the internal demand of the Group but also be capable of persistently catering to the demand of other capacitor manufacturers.

2. Operation in respect of the capacitor market

➢ The mass production of SMD capacitors in all sizes has been achieved, and the mass production of the series of large-size SMD capacitors has been fully automated;

➢ The Group has continued the development of the series of screw terminals capacitors for wind power, solar power and electric car industries in Europe and Mainland China;

➢ As a result of the market demand of solid-state capacitors driven by the expanding consumer market of LED television sets, tablet computers, and smart phones, the Group has continued the research and development as well as the mass production of the series of solid-state capacitors, with active marketing extended to the system and brand manufacturers, in order to increase the market share;

➢ During the period, the Group focused particularly on LED television sets, frequency converters, rail transport, and networking products, and proactively marketed high-voltage and slim type capacitors such as LY, KY, HY, FK, and FL series to Taiwan and Japan markets;

➢ With the demand for high-voltage small capacitors boosted by the market expansion of the small-chargers, the Group will enhance the productivity by expanding the mass production lines by means of fully automatic operation; and

➢ The Group has developed the capacitors for auto electronics and obtained ISO/TS 16949 certification for the auto electronics professional quality system to become a qualified supplier of relevant electronic components for the automotive industry.

As the future market generally calls for green operation, with energy-saving and carbon reduction on the trend, the governments of various nations have specified the development of energy industry as the key project, which has also driven all enterprises towards this trend. For this year, the Group will target at the development of capacitors for wind power, solar power and electric cars. The Group will further capitalize on the collective wisdom of its operation team more effectively to leverage its strengths while expanding into new horizons so as to consolidate its inherent foundation and competitive edge. Meanwhile, the Group will also make every endeavor to become an international market supplier by combining the operation stronghold in Mainland China, Hong Kong and Taiwan, with a view to create greater investment returns for all shareholders.

LIN Chin Tsun
Chairman

Hong Kong, 29 August 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

A summary of the financial results of the Group for the six months ended 30 June 2012 (the "Period") is as follows:

- Revenue fell by approximately 26.61% to approximately RMB436,032,000.

- Gross profit decreased by approximately 36.19% to approximately RMB75,059,000.

- Loss for the Period attributable to owners of the Company amounted to approximately RMB13,580,000 (for the six months ended 30 June 2011: profit of RMB15,452,000).

During the Period under review, the Group's revenue was approximately RMB436,032,000, representing a decrease of approximately 26.61% over the same period last year. The decrease was mainly attributable to the overall shrinking revenue since the fourth quarter in 2011, which was affected by the overall industrial recession, sluggish demand from European and US markets and European debt crisis. The sales of aluminum electrolytic capacitors for the Period was approximately RMB326,836,000, representing a decrease of approximately 23.92% compared to RMB429,591,000 in the same period last year. The sales of aluminum foils for the Period was approximately RMB109,196,000, representing a decrease of approximately 33.63% compared to RMB164,518,000 in the same period last year. The Group's gross profit margin fell from approximately 19.80% for the corresponding period last year to approximately 17.21% for the Period. The decrease in the gross profit margin was mainly due to price reduction led by the Japanese capacitor factories, the quarter-to-quarter declining revenue of capacitors, and the upward adjustment of the labor cost and tariff in Mainland China.

Business Review

➢ *Manufacture and sale of aluminum foils*

During the Period, after satisfying internal production demand, external sales of aluminum foils amounted to approximately RMB109,196,000, representing a decrease of approximately 33.63% compared to RMB164,518,000 during the same period last year. Its share of the Group's total external sales decreased from approximately 27.69% for the same period last year to approximately 25.04% for the Period.

During the Period, the global structural recession, weak economic growth, sluggish demand from European and US markets and European debt crisis resulted in the weak consumption power and desire for consumption of the general public is low, leading to the stagnant market demand for end-products, which in turn caused a decrease in the market demand for upstream raw materials. The production and sale of formed foils were not satisfactory during the Period. The Group could only rely on the advancement in production process technologies and the relative low tariff to control production costs and decrease the loss in gross profits.

Aluminum foils are the major raw materials of capacitors, featuring demand for high quality. The Group has positioned the high quality formed foils as the major products in its sales strategy to provide adequate supply of quality raw materials for the Group's own production of capacitors, thereby lowering the production costs and enhancing quality control. Besides, the formed foils can be sold to domestic and overseas manufacturers of capacitors. In developing the aluminum foils to meet clients' needs, we can also understand the market demand and enhance our research and development capacity in the process of cooperation between both parties.

The Group has excellent production process technologies of formed foils and stable productivity. Currently, the ultra-high voltage formed foils are fully put into mass production. The middle and high-voltage etched foils have achieved the research and development goal in enhancing the capacitance characteristics. The planning for the production line of formed foils in Qinghai Xining Plant is expected to be completed this year while the key technology research and development of high capacitance formed foils has also reached the expected goal. It is estimated that the formed foils production will not only fully satisfy internal demand of the Group, but is also capable of continuously satisfying the demand of other capacitor manufacturers.

➢ *Manufacture and sale of capacitors*

External sales of aluminum electrolytic capacitors during the Period amounted to approximately RMB326,836,000, representing approximately 74.96% of the Group's total external sales, which is approximately 2.65% higher than that of the same period last year accounted for approximately 72.31% of the Group's total external sales.

At present, the Group possesses well-functioned technologies for the production of aluminum electrolytic capacitors. In light of the requirements for diversified applications of electronic products, the Group's aluminum electrolytic capacitors feature a comprehensive range of sizes and specifications, and are characterized by long life, high capacitance, low impedance, heat resistance, shock-proof, high ripple resistance, energy-saving, high temperature resistance and high voltage tolerance. The Group has a comprehensive series of products such as SMD electrolytic capacitors, conductive polymers, and related automobile capacitor series of products, as well as the high voltage slim type LY and KY series of capacitors which are applied to LED television sets and networking products.

During the Period, the products of large size SMD capacitors have been successfully launched, which are applicable to the control meter. Meanwhile, the screw terminal type series of long-lasting capacitors is under continuous research and development for power supply equipment.

➢ *Green production mechanism*

Restriction of Hazardous Substances Directive 2002/95/EC ("RoHS") is an environmental protection directive enacted by the European Union in 2003, which came into effect in July 2006. It principally specifies the standards of compliance for the raw materials and technologies of the production process for electronic products. In terms of the examination of the ingredients of the raw materials and the overall production process, the Group has installed related equipment and apparatuses in support of quality control so as to ensure the compliance with the requirements of the RoHS. In addition, with the SVHC (Substances of Very High Concern) and halogen-free regulations in full compliance with the standards, the Group has the joint responsibilities in environmental protection, thereby winning the trust of its clients and creating new opportunities for green business.

Liquidity and Financial Resources

➢ *Cash flow*

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

During the Period, the Group had the net cash inflow of approximately RMB56,715,000 from operating, investing and financing activities before adjustment of exchange rate, the details of which are set out below:

The net cash inflow from operating activities was approximately RMB903,000, mainly accounted for by the loss before tax of approximately RMB10,148,000 for the Period, plus the changes in the flow of funds due to the various adjustments for financing cost and depreciation, as well as movements in inventory, accounts receivable and accounts payable.

The net cash inflow from investing activities was approximately RMB17,853,000, mainly accounted for by payment of approximately RMB26,463,000 for the purchase of machineries and equipment, an increase of approximately RMB9,041,000 in land use rights, and the cash inflow of approximately RMB19,713,000 from disposal of plant and equipment and a portion of the Group's land located at Longtan Township in Taiwan as well as a decrease of approximately RMB25,710,000 in secured bank deposits.

The net cash inflow from financing activities was approximately RMB37,959,000, mainly accounted for by borrowing approximately RMB495,202,000 from the bank, repaying the bank borrowings of approximately RMB481,860,000, paying the interest of approximately RMB19,972,000 for the borrowings, and cash inflow of approximately RMB38,691,000 from advances withdrawn on bills receivable discounted with recourse.

As at 30 June 2012, the Group had the cash and cash equivalents of approximately RMB176,758,000 (31 December 2011: RMB121,066,000), which were mainly denominated in Renminbi and US dollars.

➢ *Borrowings*

As at 30 June 2012, the Group had bank borrowings of approximately RMB644,831,000 (31 December 2011: RMB655,308,000), which were mainly denominated in Renminbi and US dollars. Such borrowings were mainly subject to floating interest rates. Set out below is an analysis of the repayment schedule of the bank borrowings:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Within one year or on demand	**643,355**	616,207
Within the second year	**843**	38,045
From the third to the fifth year (both years inclusive)	**633**	1,056
	644,831	655,308

Included in the above, the carrying amount of the bank borrowings due within one year or on demand is nil (31 December 2011: RMB60,000,000), which is not repayable within one year from the end of the reporting period but with a clause of repayment on demand for the bank loan.

In addition to the abovementioned bank borrowings, the Group had advances drawn on bills receivable discounted with recourse due within one year of approximately RMB25,457,000 (31 December 2011: nil) as at 30 June 2012.

Pledge of Assets

The following assets have been pledged as security for a portion of the Group's bank borrowings and bills payable:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Bank deposits	**74,495**	100,205
Bills receivable	**7,921**	2,364
Bills receivable discounted with recourse	**25,457**	–
Freehold land in Taiwan held for sale	**37,498**	–
Land use rights	**26,844**	27,180
Property, plant and equipment	**307,088**	391,828
	479,303	521,577

Financial Ratios

As at 30 June 2012, the Group's gearing ratio (net debts divided by equity attributable to owners of the Company plus net debts) amounted to approximately 48.94%, which rose slightly by approximately 0.24% as compared to 48.70% as at 31 December 2011.

Set out below is the turnover in days of the Group's inventory, trade accounts and bills receivable, as well as trade accounts and bills payable during the Period:

	For the six months ended 30 June	
	2012	2011
Inventory turnover	**118 days**	97 days
Trade accounts and bills receivable turnover	**144 days**	109 days
Trade accounts and bills payable turnover	**72 days**	67 days

Compared with the same period last year, the Group's turnover in days for inventory, trade accounts and bills receivable, as well as trade accounts and bills payable increased respectively by approximately 21 days, 35 days, and 5 days longer. The Group will continue to endeavor to improve the management of its inventory, accounts receivable and accounts payable in order to make more effective use of funds.

Capital Commitments

As at 30 June 2012, the Group had the capital commitments contracted but not provided for amounting to approximately RMB12,231,000 (31 December 2011: RMB49,156,000).

Contingent Liabilities

1. During the year ended 31 December 2011, a customer filed a request for arbitration enclosing a statement of claim against a subsidiary of the Company, Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), to The Japan Commercial Arbitration Association in Japan, claiming JPY1,412,106,000 (approximately RMB116,117,000) suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan. The case has been pending third hearing on The Japan Commercial Arbitration Association as at the date of this report. The directors of the Company, having sought legal advice, considered that the possibility of the outflow in settlement is not probable as there were no serious product defects for the electrolytic capacitors supplied by Capxon Taiwan and accordingly, no provision for any potential liability has been made in the condensed consolidated financial statements.

2. 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) Company Limited ("Capxon Shenzhen"), claiming product defect compensation of RMB12,877,000. The case has been pending second hearing on the court. The directors of the Company, having sought legal advice, considered that the possibility of the outflow in settlement is not probable as the customer does not have a valid claim against Capxon Shenzhen and accordingly, no provision for any potential liability has been made in the condensed consolidated financial statements.

Foreign Exchange Fluctuation

The Group derives its revenue principally in US dollars and New Taiwan dollars, whilst the expenses are mainly denominated in Japanese Yen, Renminbi, US dollars and New Taiwan dollars. As the revenue and expenses are denominated in various currencies, the exposure to exchange risks has mostly been managed through natural hedges. However, in the event of having more significant Renminbi appreciation, the Group will still be affected indirectly.

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

Discloseable Transaction

On 30 April 2012, Capxon Taiwan (as the seller) entered into the sale and purchase contract for the disposal of various parcels of land located at Jiuzuliao, Longtan Township, Taoyuan County, Taiwan at a consideration of NTD91,189,000 (equivalent to approximately RMB19,231,760). The disposal constituted a discloseable transaction pursuant to Rule 14.06(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Major Transaction

On 10 August 2012, Capxon Taiwan (as the vendor) entered into two sale and purchase deeds for the disposal of various parcels of land located at Jiuzuliao, Longtan Township, Taoyuan County, Taiwan at a total consideration of NTD225,046,000 (equivalent to approximately RMB47,462,000), which constituted a major transaction of the Company pursuant to Chapter 14 of the Listing Rules.

Employment and Remuneration Policy

As at 30 June 2012, the Group had approximately 3,194 employees. Salary, bonus and fringe benefits are determined with reference to the prevailing market terms and individual performance, qualification and experience.

Future Strategy and Planning

Since the fourth quarter of 2011, the stagnant market demand in Europe and US as well as the European debt crisis, have slowed down and even obstructed the economic recovery, which in turn has hampered the confidence in consumption and investment appetite of the general public. In 2012, despite the uncertainties in the global economy, according to the estimation made by the Electronic Components Industry Yearbook from Industry & Technology Intelligence Service of Ministry of Economic Affairs in Taiwan, the market of passive components, particularly the electrolytic capacitors, will grow slightly by 1.7%. The Group will adhere to its inherent operating strategy in face of the unclear external economic landscape and the potential development of the industrial market:

1. *Research and development in the advancement of production process technologies, with endeavor to lower costs*

   The Group's research and development department will continue its research and development in fully-automated production process to reduce costs; develop core technologies and upgraded production process equipment to achieve fully-automated production. At the same time, the Group will strategically plan its production arrangement of aluminum foils and electrolytic capacitors to reduce production costs. The advantages of fully-automated production process are as follows:

   ➢ Reduce wastage of materials with the implementation of the systematic production management;

   ➢ Optimize manpower: Operators and technicians are allocated according to the output; and

   ➢ Reduce defective rate: Self-examination function of equipment is optimized.

2. *Stringent quality control*

With the advancement of production process technologies, the aluminum foils and lead wires manufactured by the Group can effectively enhance cost control, reduce the defective wastage and save raw materials so as to maintain the Group's competitiveness. The Group will also actively meet its clients' needs. The research and development department and sales department will conduct the development, design and confirm the specifications of aluminum electrolytic capacitors simultaneously before the launch of new products so that the Group can obtain the supply qualification in advance and expand the source of orders. The specific measures are as follows:

- ➢ Implement the management at the source, monitor and control the defective rate of incoming materials;
- ➢ Reduce costs and improve the leakage current of lead wires and the precision of the production process;
- ➢ Use of automated production equipment to reduce human negligence;
- ➢ Integrate the process to conduct continuous production and reduce the loss of changing production lines; and
- ➢ Improve workshop environment and control the environmental variables of the production process by means of the clean room with proper temperature and humidity.

3. *Planning for the steady development of mass production of conductive polymers*

The Group has 30 years of extensive experience in the business of aluminum liquid electrolytic capacitors and has built up a large clientele in the electronics industry. With the diversified application of electronics technologies, the application level of traditional aluminum liquid electrolytic capacitors cannot be upgraded due to the problems of liquid electrolyte with ionic conductivity such as high impedance of high frequency, and poor temperature characteristics. On the contrary, conductive polymers make use of the solid-state electrolyte with electronic conductivity which effectively overcomes the above-mentioned shortcomings and satisfy the requirements of high-end electronic products such as long life, low impedance, high ripple current and high temperature resistance. Taking into account the production process as well as human factors, the Group plans to gradually set up a production line for conductive polymers and steadily develop the mass production of conductive polymers according to the demand from its major clients and in line with the market trends of high-end electronic products.

Prospects

➢ In respect of the operation of electrolytic capacitors, mass production of SMD electrolytic capacitors in all sizes has been achieved and fully-automated mass production of large-size SMD capacitors has been realized;

➢ The Group has actively promoted the high voltage slim type capacitors such as LY, KY, HY, FK and FL series to Taiwan and Japan markets, targeting at the LED television sets, frequency converters, rail transport and networking products during the Period;

➢ The Group conducts persistent research and development of its screw terminal type series of electrolytic capacitors for wind power, solar power and electric car industry and expects to expand the markets of relevant application products in Europe and Mainland China;

➢ The rapid expansion of the small-size charger market boosts the demand for high voltage small-size electrolytic capacitors. The Group will improve its production capacity by expanding the production lines for mass production with fully-automated operation;

➢ Following the increasing market demand for smart phones, LED television sets and tablet computers, the Group conducts persistent research and development and mass production of conductive polymers and expects to market such product series to system manufacturers and brand manufacturers in the future so as to increase its market share. The Group possesses the following strengths in terms of conductive polymers:

(i) Cost reduction: As the Group has the supply advantage from the vertical integration of upstream raw materials for aluminum electrolytic capacitors, the major materials are provided within the Group, which makes it possible to control the quality of raw materials and effectively control costs as well;

(ii) Simplified production process: The new production process features the fully-automated production flow. As it is equipped with all the machinery and equipment required for batch production, therefore less manpower is required;

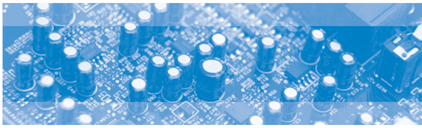
(iii) Exclusive production line: The machines are highly utilized;

(iv) Enhanced properties: The conductive polymers feature high temperature resistant, long life, low impedance and high ripple current;

(v) Optimal clientele: The Group has built up an extensive and stable clientele in the segment of traditional capacitors. The products are applied to power supply products, computer motherboards and peripherals such as networking products, LED television sets and monitors. In the future, the Group will seek to gain access to the massive clientele in the market of conductive polymers so as to increase its market share.

In light of the economic recession in 2012, apart from endeavoring to reduce costs, reinforce equipment and provide training for employees, the Group will increase the research and development expenses for conductive polymers with the hope to seize the opportunities in time to maximize benefits for shareholders once the market has recovered.

Save as set out above, the information discussed and analyzed by the management of the Company does not differ materially from that disclosed in the latest published annual report of the Company for 2011.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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 21 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Main Board Listing 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"). 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 August 2012

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Notes	Six months ended 30 June **2012** *RMB'000* (unaudited)	2011 *RMB'000* (unaudited)
Revenue	3	**436,032**	594,109
Cost of sales		**(360,973)**	(476,489)
Gross profit		**75,059**	117,620
Other income		**4,367**	7,178
Other gains and losses		**5,878**	(9,169)
Distribution and selling costs		**(26,094)**	(28,335)
Administrative expenses		**(38,626)**	(37,612)
Other expenses		**(10,530)**	(8,240)
Finance costs		**(20,202)**	(17,952)
(Loss) profit before tax		**(10,148)**	23,490
Income tax expense	4	**(3,480)**	(7,764)
(Loss) profit for the period	5	**(13,628)**	15,726
Other comprehensive expense			
Exchange differences arising on translation		**(381)**	(481)
Total comprehensive (expense) income for the period		**(14,009)**	15,245
(Loss) profit for the period attributable to:			
Owners of the Company		**(13,580)**	15,452
Non-controlling interests		**(48)**	274
		(13,628)	15,726
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(13,949)**	14,976
Non-controlling interests		**(60)**	269
		(14,009)	15,245
(Loss) earnings per share			
– Basic and diluted *(RMB cents)*	7	**(1.61)**	1.83

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	Notes	**30 June 2012** ***RMB'000*** **(unaudited)**	31 December 2011 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**645,217**	713,004
Land use rights		**43,306**	26,511
Intangible assets		**8,567**	10,174
Deferred tax assets		**1,219**	1,237
Deposits paid for acquisition of property, plant and equipment		**26,757**	26,807
Deposits paid for land use rights		**–**	8,440
		725,066	786,173
CURRENT ASSETS			
Inventories		**240,925**	229,213
Land use rights		**844**	669
Trade and other receivables	*9(i)*	**407,812**	417,058
Bills receivable discounted with recourse	*9(ii)*	**25,457**	–
Available-for-sale investments		**–**	7,000
Pledged bank deposits		**74,495**	100,205
Bank balances and cash		**176,758**	121,066
		926,291	875,211
Asset classified as held for sale	*11*	**37,498**	–
		963,789	875,211
CURRENT LIABILITIES			
Trade and other payables	*10*	**188,823**	183,759
Bank and other borrowings	*12*	**668,812**	616,207
Amounts due to related parties	*14*	**17,742**	11,866
Tax liabilities		**5,111**	12,738
		880,488	824,570
Liability associated with asset classified as held for sale	*11*	**23,199**	–
		903,687	824,570
NET CURRENT ASSETS		**60,102**	50,641
TOTAL ASSETS LESS CURRENT LIABILITIES		**785,168**	836,814

	Notes	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Bank and other borrowings	12	**1,476**	39,101
Defined benefit obligations		**6,184**	6,076
Deferred income		**11,880**	12,000
Deferred tax liabilities		**600**	600
		20,140	57,777
		765,028	779,037
CAPITAL AND RESERVES			
Share capital		**82,244**	82,244
Share premium and reserves		**672,506**	686,455
Equity attributable to owners of the Company		**754,750**	768,699
Non-controlling interests		**10,278**	10,338
		765,028	779,037

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	Attributable to owners of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000* *(note 1)*	Share option reserve *RMB'000*	Statutory reserve *RMB'000* *(note 2)*	Translation reserve *RMB'000*	Retained profits *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2011 (audited)	82,244	436,626	(30,753)	6,371	79,226	22,000	147,073	742,787	9,650	752,437
Profit for the period	–	–	–	–	–	–	15,452	15,452	274	15,726
Other comprehensive expenses for the period	–	–	–	–	–	(476)	–	(476)	(5)	(481)
Total comprehensive (expense) income	–	–	–	–	–	(476)	15,452	14,976	269	15,245
At 30 June 2011 (unaudited)	82,244	436,626	(30,753)	6,371	79,226	21,524	162,525	757,763	9,919	767,682
At 1 January 2012 (audited)	82,244	436,626	(30,753)	6,371	86,238	21,017	166,956	768,699	10,338	779,037
Loss for the period	–	–	–	–	–	–	(13,580)	(13,580)	(48)	(13,628)
Other comprehensive expenses for the period	–	–	–	–	–	(369)	–	(369)	(12)	(381)
Total comprehensive expense	–	–	–	–	–	(369)	(13,580)	(13,949)	(60)	(14,009)
Release on lapse of share options *(Note 15)*	–	–	–	(6,371)	–	–	6,371	–	–	–
At 30 June 2012 (unaudited)	82,244	436,626	(30,753)	–	86,238	20,648	159,747	754,750	10,278	765,028

Notes:

1. 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.

2. 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net cash from operating activities	**903**	72,085
Net cash from (used in) investing activities		
Purchase of property, plant and equipment	**(26,463)**	(43,467)
Deposit paid for acquisition of property, plant and equipment	**–**	(18,677)
Proceeds from disposal of available-for-sale investments	**7,003**	–
Proceeds from disposal of property, plant and equipment	**19,713**	664
Release of pledged bank deposits	**25,710**	12,028
Addition to land use rights	**(9,041)**	–
Other investing cash flows	**931**	5,879
	17,853	(43,573)
Net cash from financing activities		
Repayment of bank and other borrowings	**(481,860)**	(637,921)
Interest paid	**(19,972)**	(17,952)
New bank and other borrowings raised	**495,202**	664,850
Advances drawn down from bills receivable discounted with recourse	**38,691**	–
Other financing cash flows	**5,898**	9,120
	37,959	18,097
Net increase in cash and cash equivalents	**56,715**	46,609
Cash and cash equivalents at 1 January	**121,066**	133,546
Effect of foreign exchange rate changes	**(1,023)**	(1,602)
Cash and cash equivalents at 30 June, represented by bank balances and cash	**176,758**	178,553

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011. In addition, the Group adopted the following accounting policies in relation to non-current asset held for sale and financial instruments – derecognition during the current interim period:

Non-current asset held for sale

Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current asset classified as held for sale is measured at the lower of its previous carrying amount and fair value less costs to sell.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Financial instruments – derecognition

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

In the current interim period, the Group has applied, for the first time, certain amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board that are mandatorily effective for the current interim period.

Except as described below, the application of the above amendments to IFRSs in the current interim period has had no material effect on the amount reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transaction involving transfers of discounted bills with recourses in the consolidated financial statements of the Company for the year ending 31 December 2012. The application of amendments to IFRS 7 are intended to provide greater transparency around risk exposures when financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

3. REVENUE AND SEGMENT INFORMATION

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

The Group's operating and reportable segments, based on the 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 are as follows:

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

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

For the six months ended 30 June 2012

	Capacitors	Aluminum foils	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	326,836	109,196	436,032	–	436,032
Inter-segment sales	–	114,521	114,521	(114,521)	–
Segment revenue	326,836	223,717	550,553	(114,521)	436,032
Segment profit	7,528	3,558	11,086	2,329	13,415
Interest income					949
Unallocated corporate expenses					(4,310)
Finance costs					(20,202)
Loss before tax					(10,148)

3. REVENUE AND SEGMENT INFORMATION *(continued)*

For the six months ended 30 June 2011

	Capacitors	Aluminium foils	Segment total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
External sales	429,591	164,518	594,109	–	594,109
Inter-segment sales	–	165,223	165,223	(165,223)	–
Segment revenue	429,591	329,741	759,332	(165,223)	594,109
Segment profit	24,076	17,276	41,352	339	41,691
Interest income					3,539
Unallocated corporate expenses					(3,788)
Finance costs					(17,952)
Profit before tax					23,490

Segment profit represents the profit earned by each segment without allocation of central administration costs, interest income, corporate expenses and finance costs. This is the measure reported to the Group's chief decision makers for the purposes of resource allocation and performance assessment.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Current tax		
– PRC Enterprise Income Tax	**2,634**	8,439
– Taiwan Corporate Income Tax	**60**	–
	2,694	8,439
Under(over)provision in prior years		
– PRC Enterprise Income Tax	**170**	(967)
– Taiwan Corporate Income Tax	**601**	321
	771	(646)
Deferred tax – current period	**15**	(29)
	3,480	7,764

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

4. INCOME TAX EXPENSE *(continued)*

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

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries, Capxon Electronic Technology (Baotou) Co. Ltd ("Capxon Baotou"), is exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The first profit-making year of Capxon Baotou was 2007, and the concession expires after 2011.

Taiwan Corporate Income Tax is charged at 17% on the assessable profits.

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	
	2012	2011
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment	**38,507**	35,064
Amortisation of land use rights	**511**	351
Amortisation of intangible assets	**1,675**	1,299
Total depreciation and amortisation	**40,693**	36,714
Reversal of impairment loss on other receivables	**(4,501)**	–
(Gain) loss on disposal of property, plant and equipment	**(1,440)**	691
Gain on disposal of land use rights	**–**	(316)
Gain on disposal of available-for-sale investments	**(3)**	–
Impairment loss on intangible assets	**–**	757
Impairment loss on trade receivables	**64**	1,797
Net foreign exchange losses	**2**	6,240
Other gains and losses	**(5,878)**	9,169
Cost of inventories recognised as an expense (including write-down inventories of RMB8,087,000 (six months ended 30 June 2011: RMB18,365,000))	**360,973**	476,489
Research and development costs (included in other expenses)	**7,566**	6,074
Interest income	**(949)**	(3,539)

6. DIVIDENDS

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

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company for the six months ended 30 June 2012 is based on the loss for the period attributable to owners of the Company of approximately RMB13,580,000 (six months ended 30 June 2011: profit for the period attributable to owners of the Company of RMB15,452,000) and on 844,559,841 ordinary shares in issue.

The computation of diluted (loss) earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the Company's average share price for the six months ended 30 June 2012 and 2011.

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 RMB1,837,000 (six months ended 30 June 2011: RMB1,355,000) for cash proceeds of RMB409,000 (six months ended 30 June 2011: RMB664,000).

On 30 April 2012, the Group disposed of the first parcel of vacant freehold land situated in Jiuzuliao, Longtan Township, Taoyuan County, Taiwan (the "Taiwan Jiuzuliao Land") included in property, plant and equipment with a carrying amount of RMB16,436,000 for cash proceed of RMB19,304,000.

During the current interim period, the Group acquired property, plant and equipment, including construction in progress, of approximately RMB26,463,000 (six months ended 30 June 2011: RMB43,467,000) for the purposes of expanding the Group's business.

As at 30 June 2012, the Group has not obtained building ownership certificates for buildings located in Baotou City, Inner Mongolia Autonomous Region, the PRC, with a carrying value of approximately RMB7,982,000 (31 December 2011: RMB8,204,000). The directors of the Company expect to obtain the building ownership certificates for these buildings in 2013.

9. TRADE AND OTHER RECEIVABLES AND BILLS RECEIVABLE DISCOUNTED WITH RECOURSE

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

(i) Trade and bills receivables

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
0 – 60 days	**166,438**	195,644
61 – 90 days	**66,127**	64,656
91 – 180 days	**79,312**	81,350
181 – 270 days	**8,187**	4,277
271 – 360 days	**510**	602
Over 360 days	**9**	84
	320,583	346,613

(ii) Bills receivable discounted with recourse

The amount represents bills receivable discounted to banks and a PRC financial corporation with recourse with a maturity period of less than 90 days. The Group recognises the respective liabilities as set out in note 12.

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 2012 *RMB'000*	31 December 2011 *RMB'000*
0 – 60 days	**71,756**	81,325
61 – 90 days	**20,359**	23,202
91 – 180 days	**19,614**	21,391
181 – 270 days	**7,274**	5,482
271 – 360 days	**4,033**	3,458
Over 360 days	**18,663**	11,692
	141,699	146,550

11. NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

During the current interim period, the management of the Company decided to dispose of various parcels of the Taiwan Jiuzuliao Land, which were initially acquired for the construction of a factory for the production of solid state capacitors in Taiwan. The management of the Company has changed their business plan to set up production lines for production of solid state capacitors in the Group's existing Shenzhen production plant in view of the rising construction and operating costs in Taiwan.

Since then, the Group has appointed a real estate agent to negotiate with interested parties. On 30 April 2012, the Group disposed of the first parcel of the Taiwan Jiuzuliao Land as disclosed in note 8. The carrying amount and the associated liability attributable to the remaining parcels of the Taiwan Jiuzuliao Land that are expected to be sold within twelve months have been classified as held for sale and are separately presented in the condensed consolidated statement of financial position.

Subsequent to the end of the reporting period, the Group entered into two agreements with third parties (the "Buyers") to dispose of the remaining parcels of the Taiwan Jiuzuliao Land *(see note 19)*, with a condition that the pledged bank borrowings of the Taiwan Jiuzuliao Land will be repaid from the consideration directly by the Buyers to the bank. As the sale proceeds are expected to exceed the net carrying amount of the relevant asset, no impairment loss has been recognised accordingly.

11. NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE *(continued)*

Classes of asset and liability associated with the remaining parcels of the Taiwan Jiuzuliao Land as at the end of the current interim period are as follows:

	30 June 2012
	RMB'000
Asset classified as held for sale	
Property, plant and equipment – freehold land in Taiwan	**37,498**
Liability associated with asset classified as held for sale	
Bank borrowings	**23,199**

12. BANK AND OTHER BORROWINGS

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Bank borrowings	**644,831**	655,308
Advances drawn on bills receivable discounted with recourse *(Note)*	**25,457**	–
	670,288	655,308
Less: Amounts due within one year shown under current liabilities	**(668,812)**	(616,207)
Amount shown under non-current liabilities	**1,476**	39,101

Note: The amount represents the Group's borrowings secured by the bills receivable discounted to banks and a PRC financial corporation with recourse *(see note 9(ii))*.

12. BANK AND OTHER BORROWINGS *(continued)*

During the current interim period, the Group obtained new borrowings in the amount of approximately RMB495,202,000 (six months ended 30 June 2011: RMB664,850,000). The new borrowings consist of variable-rate borrowings with effective interest rates ranging from 1.41% to 7.54% per annum, fixed-rate borrowings with effective interest rates ranging from 4.46% to 7.87% and are repayable within one year.

During the current interim period, the Group obtained advances drawn on bills receivable discounted with recourse amounting to approximately RMB38,691,000 (six months ended 30 June 2011: Nil). The effective interest rates for the outstanding advances range from 5.30% to 9.15% per annum.

13. CAPITAL COMMITMENTS

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

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**12,231**	49,156

14. 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 2012**	2011
		RMB'000	*RMB'000*
Lin I Chu *(Note)*	Interest expense	**210**	13

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.

14. RELATED PARTY DISCLOSURES *(continued)*

(b) Related party balances

Name of related parties	Relationship	30 June 2012 *RMB'000*	31 December 2011 *RMB'000*
Amounts due to related parties			
Chou Chiu Yueh	Director	**5**	5
Lin I Chu	Director	**14,350**	7,285
Liu Yuan Yu	Director	**–**	1
Fung Yue Technology Limited ("Fung Yue")	*Note (i), (ii)*	**3,387**	3,409
Hill Source Electron (Shenzhen) Co., Ltd. ("Hill Source")	*Note (iii)*	**–**	1,166
		17,742	11,866

Except for an unsecured amount due to Ms. Lin I Chu of approximately RMB14,350,000 (31 December 2011: RMB7,285,000) bearing variable interest at benchmark interest rate of loans determined by Bank of China Limited, minus a fixed margin (31 December 2011: fixed interest rate of 4.044% per annum) and repayable within one year, the remaining balances due to related parties at 30 June 2012 and 31 December 2011 were interest-free, unsecured and repayable on demand.

Notes:

(i) Fung Yue is wholly owned and controlled by Mr. Lin Chin Tsun.

(ii) The balances for both periods were trade nature and repayable on demand. The balance due to Fung Yue aged over 360 days based on the invoice date as at the end of both reporting periods.

(iii) Mr. Lin Chin Tsun can exercise significant influence over Hill Source.

14. 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 2012	31 December 2011
	RMB'000	*RMB'000*
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**206,770**	200,000
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**85,596**	98,734
Lin Chin Tsun, Chou Chiu Yueh, Lin Yuan Yu, Liu Fang Chun and Lin I Chu *(Note)*	**20,000**	50,500
Lin Chin Tsun and Lin Yuan Yu *(Note)*	**95,724**	101,163
	408,090	450,397

Note: Mr. Lin Yuan Yu, Ms. Liu Fang Chun and Ms. Lin I Chu are close family members 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 September 2012 to March 2015 (31 December 2011: January 2012 to March 2015).

Mr. Lin Yuan Yu, has pledged a property to a bank to secure banking facilities of USD1,300,000 (31 December 2011: USD1,300,000) granted to the Group. As at 30 June 2012, the Group utilised the facility of RMB7,927,000 (31 December 2011: RMB5,177,000).

In addition, as at 31 December 2011, Ms. Lin I Chu, pledged a property to a bank to secure banking facilities of RMB30,000,000 granted to the Group. The Group utilised the facility of RMB15,000,000 as at 31 December 2011.

14. RELATED PARTY DISCLOSURES *(continued)*

(d) Compensation of key management personnel

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
Short term benefits	**4,779**	4,735
Post-employment benefits	**128**	119
	4,907	4,854

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

(e) Provision of loan facility from the Company's director

On 30 June 2011, Mr. Lin Chin Tsun and the Group entered into an agreement where Mr. Lin Chin Tsun agreed to provide to the Group a loan facility amounting to NTD160,000,000 (equivalent to approximately RMB33,744,000) for the period from 1 January 2012 to 31 December 2016. The loan is unsecured and carries interest at 2% per annum which is subject to re-negotiation if the market interest rate changes by 1%. The Group did not utilise the facility up to the date of this report. In the opinion of the directors, the fair value of the loan commitments to provide a loan at a below-market interest rate is insignificant. The Group is in the process of cancelling such agreement with Mr. Lin Chin Tsun before 31 December 2012.

15. SHARE-BASED PAYMENT TRANSACTIONS

On 3 April 2007, the Company approved and adopted a share option scheme entitling the board of directors to grant share options at its discretion to any executive, director and/or employee of the Group who is in full time employment of the Group at the time when an option is granted before the listing of the Company's shares (the "Pre-IPO Share Option Scheme").

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

The Group did not recognise any share option expense during both periods. The share option was fully vested during the year ended 31 December 2010.

During the current interim period, all options granted to executive, director and/or employee of the Group under the Pre-IPO Share Option Scheme were lapsed upon the end of the exercisable period. Accordingly, there was no outstanding options as at 30 June 2012.

16. PLEDGE OF ASSETS

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

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
Property, plant and equipment	**307,088**	391,828
Land use rights	**26,844**	27,180
Bank deposits	**74,495**	100,205
Asset classified as held for sale	**37,498**	–
Bills receivable	**7,921**	2,364
Bills receivable discounted with recourse	**25,457**	–
	479,303	521,577

17. CONTINGENT LIABILITIES

1. During the year ended 31 December 2011, a customer filed a request for arbitration enclosing a statement of claim against a subsidiary of the Company, Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), to The Japan Commercial Arbitration Association in Japan, claiming JPY1,412,106,000 (approximately RMB116,117,000) suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan. The case has been pending third hearing on The Japan Commercial Arbitration Association as at the reporting date. The directors of the Company, having sought legal advice, considered that the possibility of the outflow in settlement is not probable as there were no serious product defects for the electrolytic capacitors supplied by Capxon Taiwan and accordingly, no provision for any potential liability has been made in the condensed consolidated financial statements.

17. CONTINGENT LIABILITIES *(continued)*

2. During the year ended 31 December 2011, a customer filed a civil complaint to the People's Court of Shenzhen in the People's Republic of China ("PRC") against a subsidiary of the Company, Capxon Electronic (Shenzhen) Company Limited ("Capxon Shenzhen"), claiming product defect compensation of RMB12,877,000. The case has been pending second hearing on the court. The directors of the Company, having sought legal advice, considered that the possibility of the outflow in settlement is not probable as the customer does not have a valid claim against Capxon Shenzhen and accordingly, no provision for any potential liability has been made in the condensed consolidated financial statements.

18. NON-CASH TRANSACTION

During the current interim period, bills receivable discounted with recourse of RMB13,877,000 (six months ended 30 June 2011: Nil) was set off with advances drawn on bills receivable discounted with recourse.

19. EVENTS AFTER THE END OF REPORTING PERIOD

Subsequent to the end of the reporting period, the Group entered into two sale and purchase agreements with the Buyers to dispose of the remaining parcels of the Taiwan Jiuzuliao Land at a total consideration of NTD225,046,000 (equivalent to approximately RMB47,462,000). As stated in the agreements, the pledged bank borrowings of the Taiwan Jiuzuliao Land have to be repaid in full amount from the consideration directly by the Buyers to the bank before settling the remaining balance to the Group. The disposal is expected to be completed in late September 2012 with an expected gain on disposal of approximately RMB9,000,000. Details of the disposal are set out in the Company's announcement dated 10 August 2012.

OTHER INFORMATION

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

As at 30 June 2012, 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 (a) and approximate percentage of shareholding (b) [(1)]	
		(a)	(b)
Mr. LIN Chin Tsun	Beneficial owner	101,657,378	66.90
	Interest of controlled corporation	395,360,783[(2)]	
	Interest of spouse	67,955,786	
Ms. CHOU Chiu Yueh	Beneficial owner	67,955,786	66.90
	Interest of controlled corporation	395,360,783[(2)]	
	Interest of spouse	101,657,378	
Mr. LIN Yuan Yu	Beneficial owner	13,161,622	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	45.47
	Interest of controlled corporation	374,585,006[(3)]	

Name of Director/ chief executive	Capacity and nature of interests	Number of issued shares held (a) and approximate percentage of shareholding (b) [(1)]	
		(a)	**(b)**
Ms. LIU Fang Chun	Beneficial owner	6,928,993	46.73
	Interest of spouse	387,746,628	
Mr. TUNG Chin Chuan	Beneficial owner	3,386,000	0.40
Ms. HU Szu Jung, Carol	Beneficial owner	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 2012.

(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 2012, 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 2012, 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 2012.*

Save as disclosed above, the Directors are not aware of any other persons who, as at 30 June 2012, 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 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 (the "Board") 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. The Pre-IPO Share Option Scheme has expired at the close of business on 4 May 2007 and no further options may be granted thereunder.

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

Under the Pre-IPO Share Option Scheme, the options granted shall vest in the relevant grantees in tranches, namely 20% of the options shall vest on the first anniversary of the date of grant at an exercise price of HK$0.465 per share (the "First Tranche"); 20% of the options shall vest on the second anniversary of the date of grant at an exercise price of HK$0.465 per share (the "Second Tranche"); and 60% of the options shall vest on the third anniversary of the date of grant at an exercise price of HK$0.465 per share. The Board may at its absolute discretion adjust the percentage of the options to be vested in the First Tranche and the Second Tranche either upwards or downwards based on the performance of the relevant grantees in the year immediately preceding the vesting of the options in the relevant tranches as determined by the Board. The options may be exercised, in whole or in part, at any time during the option period from 17 April 2007 to 16 April 2012 except that no options may be exercised until the expiry of 12 months after the respective dates of vesting. At the annual general meeting of the Company held on 5 June 2008, the shareholders of the Company approved an amendment to the terms of the outstanding options granted under the Pre-IPO Share Option Scheme such that the holders may exercise such options at any time during the period commencing from 17 April 2007 and expiring on 16 April 2012 after the respective dates of vesting. Details of the share options granted under the Pre-IPO Share Option Scheme as at 30 June 2012 are as follows:

Name of Director/ chief executive	Date of grant	Exercise price per share	Number of options outstanding as at 1 January 2012	Number of options lapsed during the period	Number of options outstanding as at 30 June 2012
Mr. LIN Chin Tsun	17 April 2007	HK$0.465	3,200,000	(3,200,000)	–
Ms. CHOU Chiu Yueh	17 April 2007	HK$0.465	2,300,000	(2,300,000)	–
Mr. LIN Yuan Yu	17 April 2007	HK$0.465	1,900,000	(1,900,000)	–
Ms. LIN I Chu	17 April 2007	HK$0.465	900,000	(900,000)	–
Ms. LIU Fang Chun	17 April 2007	HK$0.465	900,000	(900,000)	–
Ms. HU Szu Jung, Carol	17 April 2007	HK$0.465	900,000	(900,000)	–
Other employees	17 April 2007	HK$0.465	3,300,000	(3,300,000)	–
			13,400,000	**(13,400,000)**	**–**

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 not to declare any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: 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 2012.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code ("CG Code") during the period from 1 April 2012 to 30 June 2012 contained in Appendix 14 of the Listing Rules, save as disclosed below:

(i) Code provision A.6.7 of the CG Code stipulates that independent non-executive directors should also attend general meetings. Mr. Lai Chung Ching, an independent non-executive Director was unable to attend the annual general meeting of the Company held on 31 May 2012 due to his personal reason.

(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 also involves in handling financial reporting matters of the Group, it will simplify the reporting process if she reports to the chief financial officer who will report to the board chairman on the Group's financial affairs and corporate governance.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

REVIEW BY AUDIT COMMITTEE

The Company's audit committee is composed of all the three independent non-executive Directors. The audit committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2012 (including the accounting principles and practices), internal controls and financial reporting matters with the management of the Company.

On behalf of the Board
LIN Chin Tsun
Chairman

Hong Kong, 29 August 2012