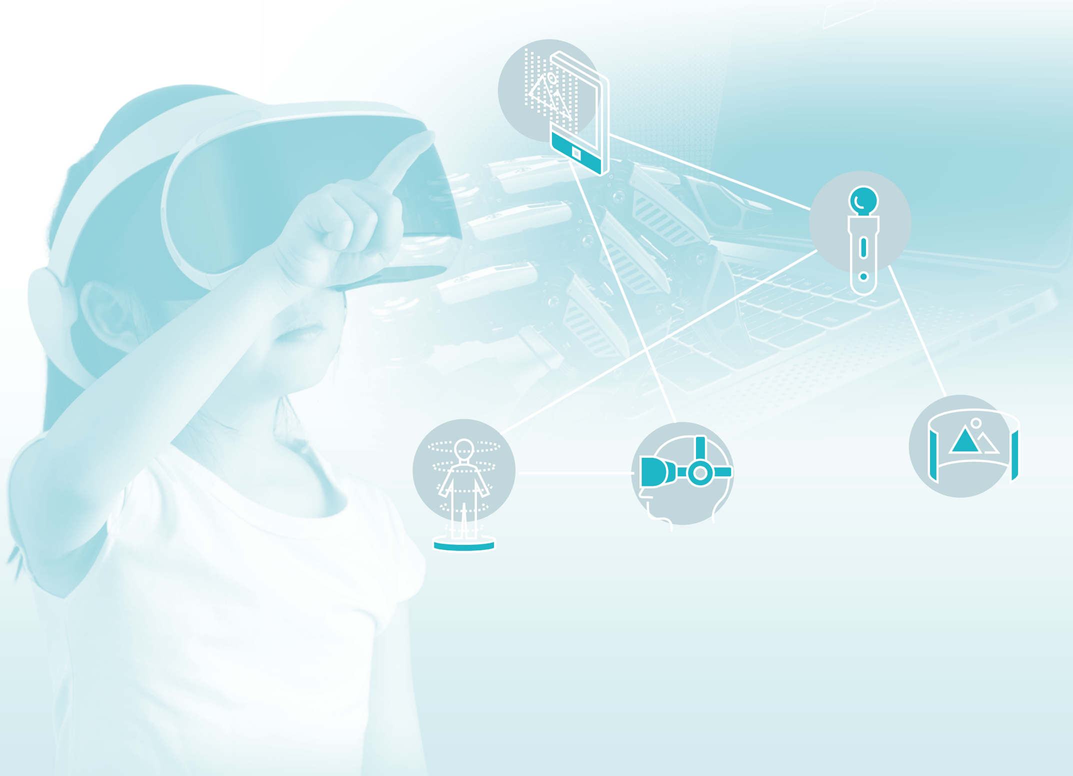
CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED
凱普松國際電子有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 469

2017 INTERIM REPORT

Contents



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
(Retired on 1 June 2017)
Mr. HSIEH King-Hu, Miles
(Appointed on 1 June 2017)
Mr. LU Hong Te
Mr. TUNG Chin Chuan

Audit Committee

Mr. LAI Chung Ching
(Ceased to act as Chairman upon retirement on 1 June 2017)
Mr. LU Hong Te
(Appointed as Chairman on 1 June 2017)
Mr. HSIEH King-Hu, Miles
(Appointed on 1 June 2017)
Mr. TUNG Chin Chuan

Nomination Committee

Mr. LIN Chin Tsun *(Chairman)*
Ms. CHOU Chiu Yueh
Mr. LAI Chung Ching
(Retired on 1 June 2017)
Mr. HSIEH King-Hu, Miles
(Appointed on 1 June 2017)
Mr. LU Hong Te
Mr. TUNG Chin Chuan

Remuneration Committee

Mr. LAI Chung Ching
(Ceased to act as Chairman upon retirement on 1 June 2017)
Mr. LU Hong Te
(Appointed as Chairman on 1 June 2017)
Mr. LIN Chin Tsun
Ms. CHOU Chiu Yueh
Mr. HSIEH King-Hu, Miles
(Appointed on 1 June 2017)
Mr. TUNG Chin Chuan

Chief Financial Officer

Ms. HU Szu Jung, Carol

Company Secretary

Ms. CHAN Yin Fung

Auditor

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

Legal Adviser

Minter Ellison
Level 25 One Pacific Place
88 Queensway
Hong Kong

Principal Bankers

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

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Principal Share Registrar and Transfer Office

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Branch Share Registrar and Transfer Office

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Stock Code

469

Chairman's Statement

Dear Shareholders,

Having experienced the political turmoil and economic uncertainties in the year 2016, financial experts generally believed that global economic conditions would improve in 2017, which would be reflected in a stable upward trend stimulated by, among other things, the expansion policies adopted by Donald Trump, the new president of the United States, and that most emerging market countries would be able to look forward to having better performances in terms of economic growth with the stabilization of international raw materials prices. However, the year 2017 has been full of uncertainties with a number of black swan events affecting global economic development, including the development trends of the economic policies formulated by Donald Trump's administration, the direction of the currency policies of the Federal Reserve Bank, the trends of international energy prices, the development of growing international opposition against free trade activity, and the turbulent international capital and foreign exchange market. Under such circumstances, there has been insufficient transparency in the momentum of economic growth, and the economic momentum of the global economic structure is to be driven by large developed countries as a whole. Therefore, potential risks should not be neglected.

Broadly speaking, the global economy has not improved as expected in the 10 years since the global financial crisis in 2008. Constant black swan events have created an M-shaped recovery in the economy. The rises and falls have turned the economy from "New Normal" to "New Mediocre". Although the situation has improved slightly, it is still not optimistic. We must continue to pursue innovation and transformation in order to maintain our competitive advantages in the weakened environment and explore new business opportunities.

Passive component manufacturing is an industry characterized by high production volume and low unit prices, and products are mainly applied within the 3C sector. In the future, the industry will benefit from other emerging application markets such as automotive electronics, high-end smart home appliances, smart meters, 4G LTE base stations, LED street lamps, safety control systems, industrial control and renewable energy resources equipment and other such sectors, and therefore stabilize and support the supply and production values of key electronic parts and components. In comparison, non-3C applications of passive components belong to the niche market, which is characterized by low production volume and high unit prices, and the demand and supply of such end products are relatively less susceptible to fluctuations of the economic cycle. Passive component suppliers who are entering these sectors are developing miniaturized and modularized products and are adjusting their product portfolio in order to not only boost their gross profits, but also to avoid the operational risks arising from fluctuations of the economic cycles. It is expected that the future of passive components will continue to look towards developing features such as high capacity, high voltage, high frequency, high resistance to heat, and miniaturization. Benefitting from the growth in the demand of consumer-end products, demand for products, regardless of whether they are mobile phones, personal computers ("PC(s)") or niche market products for industrial use, the Internet of Things ("IOT") and automobiles has been increasingly apparent. Moreover, the supply end has become more conservative in its approach towards factory expansion in recent years, and supplies may become tight if additional application demands are to be taken into account. In order to deal with the competition in terms of market share and price, local brands will have to continue investing in research and development ("R&D") and equipment costs, and maintain stable production levels of various series of capacitors so as to meet market demand, while at the same time, satisfying customers' requests or particular specifications on developing new products and assisting them through joint development, thereby ushering in development opportunities and future market demand for end products.

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

In the first half of 2017, the strategies for the Group's two major products were as follows:

1. Operations in the Aluminum Foil Market

The overall economy recovered in 2017, with passive components being in the mature phase of its life cycle. The rise and fall of the industry is strongly linked to the overall economic cycle, and aluminum foil, as the upstream raw material for capacitors, followed the same trend. Despite the slow recovery of demand, some of the small and medium sized manufacturers of capacitors found it difficult to acquire sufficient quantities of aluminum foils, as large-scale manufacturers of capacitors took up all the supplies from major manufacturers of aluminum foils. As such, against the backdrop of additional demand of capacitors and improved circumstances, in response to such industrial features and current market conditions, the Group has, after assessing the market situation and considering future potential supplies, stabilized existing customers' demand in the market through effective energy conservation and consumption reduction while establishing additional production lines. Aluminum foils are the major raw materials of capacitors, and the Group has excellent production processing technologies for formed foils and a stable production capacity. In addition, the Group is also actively exploring the development potential of markets with high added value to prepare for future market changes. The Group will continue to pay close attention to and deal with the future changes in the aluminum foils market with care.

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

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

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

2. Operations in the Electrolytic Capacitor Market

Applications for smart phones, IOT driven by communication modules and even smart automobiles are becoming increasingly mature. Although there has yet to be a "killer application" that demonstrates explosive growth, demand for applications at every level can still be expected. Therefore, the R&D for mass production of electrolytic capacitors in 2017 was primarily aimed at addressing high-end products, including variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and vehicle-mounted electronic applications, with demand for relevant products achieving better results. In the future, the Group will be committed towards meeting the requirements for specific tailor-made products for its customers, including miniaturization, high capacity, high voltage and high frequency, gradually developing custom-made products that are able to meet the front-end demand of the market and that can be applied across different sectors, promoting the application of electrolytic capacitors in various fields, and expanding the global market share of its electrolytic capacitor products.

The Group has recently completed the development of various key technical R&D projects in relation to electrolytic capacitors as follows:

- To fulfil the needs of the fast charging market, 18-22UF 400-450V 115℃–125℃ ultra small size Φ8–10 series liquid-state capacitors were developed;

- The development of QC USB2.0/3.0 for smartphone fast charging has led to a new type of interface in the market, which will likely replace the traditional USB 2.0/3.0 transfer protocol as the prevalent model in the market. Currently, the Group has developed numerous series of solid-state capacitors of standard voltage and of smaller sizes in order to fulfil the need of the fast charging market;

- Upon extensive market expansion for LED lighting products, the new series has been promoted successfully and is now in production with approval and orders from prominent LED corporations, such as Osram and GE;

- To fulfill the needs of customers in relation to high-end models, the SMD 350–450WV high voltage products are under mass production;

- To cater for the market demand of vehicle-mounted chargers, foil-type products have been developed;

- To meet the market demands of flash(es), flash capacitors have been developed with successful market expansion in Europe;

- Reflow soldered radial products of typical aluminium cases without base plates have been developed to further satisfy the demand of customers for production automation in the future and to reduce material costs (without the need for base plate and electroplating of aluminium);

- Foil-type products with girdling have been developed with enhanced vibration resistance of up to 30g, thereby fulfilling the demand for vibration resistant applications in automotive electronics; and

- PH 35V solid-state products have been applied to the input of DC/DC vehicle-mounted chargers.

The technology industry will focus on the following in 2017:

1. Applications for cognitive businesses and IOT within the artificial intelligence ("AI") industry, which would include automatic analysis production lines, automatic experience learning, and cognitive and automatic analysis to facilitate inter-production lines support.

2. Unmanned driving and connecting vehicles and households through the Internet of vehicles.

3. Launching AI robots within the service sector, which would give the most appropriate responses in banks and department stores through the cognitive services of the robots.

4. Efficiency enhancement, especially through cognitive computing technology and streamlined workflow etc.

AI is already beginning to be integrated into people's daily lives, and we expect this to continue at an even faster pace in the future, demonstrating the ever-intensifying nature of technological reform. The development of AI will be instrumental in leading IOT in a new direction, as the vast demand demands required of AI computing data and communications will help drive the swift formation edge computing network structure. In addition, we expect to see the integration of AI with virtual reality ("VR") and augmented reality ("AR"), focusing on content and application, to form a "virtual economy" ecosystem. Accordingly, we are witnessing the convergence of AI with other technologies such as IOT and VR that is paving the way for a new era of intelligent technology.

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

LIN Chin Tsun
Chairman

Hong Kong, 31 August 2017

Management Discussion and Analysis

Financial Review

A summary of the financial results of the Group for the six months ended 30 June 2017 (the "Period") is as follows:

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

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

Business Review

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

Manufacture and sale of aluminum foils

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

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

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

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

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

Manufacture and sale of capacitors

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

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

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

- Reduced the cost of semi-solid-state aluminum electrolytic capacitors; developed the processing and manufacturing method of 16V–35V chemical synthesis of semi-solid-state aluminum electrolytic capacitors;

- Commenced mass production of needle-type and foil-type products for liquid-state and capacitors with high voltage of 520WV–600WV;

- Developed new stitching and winding methods to improve the element structure for the small-sized production of the Model 600 stitching and winding (below φ6.3), which prevents structural change for small-sized SMD products (cleaning in boiling water) and DIP products (carbonization) to ensure low ESR;

- Optimized the overall manufacturing production project and established CNAS laboratory to accelerate the penetration of automobile electronics and charging station industry;

- Applied high capacity cathode foils and the V-CHIP was further downsized to meet equivalent standard of the Japanese series;

- Applied high capacity anode foils of 115um and 30UM-thick titanium foils to further reduce the size of the V-CHIP in order to meet market demand;

- Developed the new SV series to further improve the work process of stitching and winding by lowering impedance and lengthening coil with smaller size. Downsized SMD products satisfied the demand for SMD from robots; and

- Developed and commenced mass production of the −40℃ low temperature compatible products with high voltage of 450V–500V to cater for a wide range of low temperature application, boosting global sales.

Liquidity and Financial Resources

Cash flows

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

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

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

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

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

As at 30 June 2017, the Group had cash and cash equivalents of approximately RMB99,104,000 (31 December 2016: RMB123,362,000), which were mainly held in Renminbi and U.S. dollars.

Borrowings

As at 30 June 2017, the Group had bank borrowings of approximately RMB81,032,000 (31 December 2016: RMB87,210,000), which were mainly denominated in U.S. dollars, New Taiwan Dollars and Japanese Yen (31 December 2016: U.S. dollars, New Taiwan Dollars and Japanese Yen). Among such bank borrowings, approximately RMB40,122,000 (31 December 2016: RMB44,150,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of the bank borrowings:

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

Pledge of Assets

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

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

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

Financial Ratios

As at 30 June 2017, the Group's gearing ratio (net debt divided by equity attributable to owners of the Company plus net debt) amounted to approximately 27.16%, representing an increase of approximately 3.57% as compared to 23.59% as at 31 December 2016. The increase was mainly due to an increase in trade payables of approximately RMB23,266,000 and a decrease in cash and cash equivalents of approximately RMB24,258,000.

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

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

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

Capital Commitments

As at 30 June 2017, the Group had capital commitments contracted but not provided in the consolidated financial statements amounting to approximately RMB22,153,000 (31 December 2016: RMB33,430,000).

Material Proceedings

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

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

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

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

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

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

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

Foreign Exchange Fluctuations

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

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

Employment and Remuneration Policy

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

Environmental Policies

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

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

Future Strategies and Planning

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

- *Human resources:* Streamlining labour requirements, and tackling the increased labour cost of production lines and improving labour efficiency by providing education and training, and increasing the number of automatic equipment.
- *Production equipment:* Increasing the number of automated equipment, which will be put to trial run.
- *Material costs:* Consolidating common materials to cut inventory backlog.
- *Material development:* Developing fundamental materials – coated high proportion capacitance foils and high pressure solid-state materials.
- *Verification and delivery:* Strengthening the application exchanges at the customer side to promptly understand the development dynamics of products, establishing a state-of-the-art electronic application laboratory to simulate product applications for end customers, pre-determining the potential failure of capacitor performance and the reasons thereof, in order to uplift the quality of capacitors for better customer satisfaction.
- *Technical reforms:*
  - Introducing external heating of phosphoric acid treatment tank to address the issue on appearance
  - Development of the "high level meander" technique. The experimental development phase is now completed
  - Revamp of the production line operation with reduced water and electricity consumption for cost cutting
  - Developing an energy recycle system for aged capacitors to reduce energy waste

- Commenced development work of a high temperature resistance (up to 150°) product that would meet the requirement on high temperature for vehicle-mounted capacitor
- Development of the Radial-type 250℃ reflow soldering product to meet customers' need for cost optimisation with manufacturing process
- Development of technical knowhow and production method for the quasi-solid-state aluminium electrolytic capacitor with working voltage of 160V–250V
- Successful mass production of the liquid-state 525–650V ultra-high voltage snap-in capacitor with in-development product specification
- Development of dispersing formula for solid-state and quasi-solid-state to reduce materials cost and boost our competitive strength
- With the advancement in technical knowhow on development, we commenced the development of an ultra-low temperature resistance (down to –60°C) product to meet the application-driven need worldwide
- Addressing the special needs in vibration and burst-proof of the vehicle-mounted power charger market, we have developed a triple-belt-binding and double-layer snap-in terminal type product

Future Prospects

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

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

Report on Review of Condensed Consolidated Financial Statements

Deloitte. 德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 20 to 36, which comprises the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

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

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
31 August 2017

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2017

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

		Six months ended 30 June	
		2017	2016
	Note	**RMB'000**	RMB'000
		(unaudited)	(unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(14,711)**	(13,327)
Non-controlling interests		**29**	(1,126)
		(14,682)	(14,453)
Total comprehensive expense attributable to:			
Owners of the Company		**(7,823)**	(23,781)
Non-controlling interests		**(545)**	(1,243)
		(8,368)	(25,024)
Loss per share (RMB cents)	*7*		
Basic		**(1.74)**	(1.58)

Condensed Consolidated Statement of Financial Position

At 30 June 2017

	Notes	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**439,507**	443,879
Land use rights		**37,902**	38,419
Intangible assets		**45**	153
Deposits paid for acquisition of property, plant and equipment		**29,582**	34,903
		507,036	517,354
CURRENT ASSETS			
Inventories		**161,100**	154,529
Land use rights		**1,031**	1,031
Trade and other receivables	9	**416,230**	383,336
Tax recoverable		**2,056**	2,056
Pledged bank deposits		**2,137**	2,424
Bank balances and cash		**99,104**	123,362
		681,658	666,738
CURRENT LIABILITIES			
Trade and other payables	10 & 15(a)	**443,727**	416,327
Bank borrowings	11	**81,032**	87,210
Amounts due to related parties	13	**3,613**	4,334
Tax liabilities		**12,406**	20,119
		540,778	527,990
NET CURRENT ASSETS		**140,880**	138,748
TOTAL ASSETS LESS CURRENT LIABILITIES		**647,916**	656,102

	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
NON-CURRENT LIABILITIES		
Deferred income	**22,542**	22,698
Deferred tax liabilities	**4,102**	3,764
	26,644	26,462
	621,272	629,640
CAPITAL AND RESERVES		
Share capital	**82,244**	82,244
Share premium and reserves	**537,332**	545,155
Equity attributable to owners of the Company	**619,576**	627,399
Non-controlling interests	**1,696**	2,241
	621,272	629,640

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000 *(note i)*	Statutory reserve RMB'000 *(note ii)*	Translation reserve RMB'000	Other reserve RMB'000 *(note iii)*	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2016 (audited)	82,244	436,626	(30,753)	102,273	16,433	3,650	25,611	636,084	2,832	638,916
Loss for the period	–	–	–	–	–	–	(13,327)	(13,327)	(1,126)	(14,453)
Other comprehensive expense for the period	–	–	–	–	(10,454)	–	–	(10,454)	(117)	(10,571)
Total comprehensive expense	–	–	–	–	(10,454)	–	(13,327)	(23,781)	(1,243)	(25,024)
Appropriation	–	–	–	4,251	–	–	(4,251)	–	–	–
At 30 June 2016 (unaudited)	82,244	436,626	(30,753)	106,524	5,979	3,650	8,033	612,303	1,589	613,892
At 1 January 2017 (audited)	**82,244**	**436,626**	**(30,753)**	**106,523**	**(6,591)**	**3,650**	**35,700**	**627,399**	**2,241**	**629,640**
(Loss) profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(14,711)**	**(14,711)**	**29**	**(14,682)**
Other comprehensive income (expense) for the period	**-**	**-**	**-**	**-**	**6,888**	**-**	**-**	**6,888**	**(574)**	**6,314**
Total comprehensive income (expense)	**-**	**-**	**-**	**-**	**6,888**	**-**	**(14,711)**	**(7,823)**	**(545)**	**(8,368)**
Appropriation	**-**	**-**	**-**	**8,243**	**-**	**-**	**(8,243)**	**-**	**-**	**-**
At 30 June 2017 (unaudited)	**82,244**	**436,626**	**(30,753)**	**114,766**	**297**	**3,650**	**12,746**	**619,576**	**1,696**	**621,272**

Notes:

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

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

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

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	**8,182**	95,510
Net cash used in investing activities		
Purchase of property, plant and equipment	**(19,636)**	(4,499)
Deposits paid for acquisition of property, plant and equipment	**(5,644)**	(9,719)
Placement of pledged bank deposits	**(2,137)**	(6,608)
Proceeds from disposal of property, plant and equipment	**281**	748
Release of pledged bank deposits	**2,424**	6,730
Other investing cash flows	**348**	363
	(24,364)	(12,985)
Net cash used in financing activities		
Repayment of bank borrowings	**(108,707)**	(174,505)
Interest paid	**(748)**	(1,395)
Repayment to related parties	**(609)**	(600)
New bank borrowings raised	**101,489**	105,453
	(8,575)	(71,047)
Net (decrease) increase in cash and cash equivalents	**(24,757)**	11,478
Cash and cash equivalents at 1 January	**123,362**	93,782
Effect of foreign exchange rate changes	**499**	369
Cash and cash equivalents at 30 June, represented by bank balances and cash	**99,104**	105,629

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2017

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 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

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

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

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

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

3. Revenue and Segmental Information

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

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

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

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

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

For the six months ended 30 June 2017

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

3. Revenue and Segmental Information *(continued)*

For the six months ended 30 June 2016

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

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

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

4. Income Tax Expense

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Current tax		
– The PRC Enterprise Income Tax	**4,663**	9,472
– Taiwan Corporate Income Tax	**1,317**	1,505
	5,980	10,977
Over provision in prior years		
– Taiwan Corporate Income Tax	**–**	(190)
Deferred tax – current period	**464**	463
	6,444	11,250

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

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

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

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

5. Loss for the Period

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Depreciation of property, plant and equipment (including RMB18,858,000 (six months ended 30 June 2016: RMB30,126,000) capitalised in inventories and recognised in cost of sales and RMB5,254,000* (six months ended 30 June 2016: nil) recognised in other expenses)	**25,485**	31,151
Amortisation of land use rights	**517**	517
Amortisation of intangible assets	**108**	118
Total depreciation and amortisation	**26,110**	31,786
Loss on disposal/written-off of property, plant and equipment	**1,125**	1,083
Impairment loss (reversal of impairment loss) on trade receivables	**1,588**	(538)
Impairment loss on deposits paid for acquisition of property, plant and equipment#	**7,762**	–
Net foreign exchange losses	**14,425**	22,852
Other gains and losses	**24,900**	23,397
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB4,568,000 (six months ended 30 June 2016: RMB5,007,000))	**352,432**	331,020
Research and development costs (included in other expenses)	**14,221**	16,540
Interest income	**(348)**	(363)

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

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

6. Dividends

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

7. Loss Per Share

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

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

8. Movements in Property, Plant and Equipment

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately RMB1,406,000 (six months ended 30 June 2016: RMB1,831,000) for cash proceeds of approximately RMB281,000 (six months ended 30 June 2016: RMB748,000).

During the current interim period, the Group acquired property, plant and equipment, including construction in progress, of approximately RMB22,839,000 (six months ended 30 June 2016: RMB13,335,000) for the purposes of expanding the Group's business.

Included in property, plant and equipment are buildings in Baotou City, Inner Mongolia Autonomous Region, the PRC, with a carrying value of approximately RMB5,764,000 (31 December 2016: RMB5,986,000) for which the Group is in the process of obtaining the building ownership certificates.

9. Trade and Other Receivables

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

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

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

11. Bank Borrowings

	30 June 2017 RMB'000	31 December 2016 RMB'000
Bank borrowings		
– Secured	**40,910**	87,210
– Unsecured	**40,122**	–
	81,032	87,210
Carrying amount repayable:*		
Within one year and shown under current liabilities	**81,032**	87,210

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

During the current interim period, the Group obtained new borrowings in the amount of approximately RMB101,489,000 (six months ended 30 June 2016: RMB105,453,000). The new borrowings consist of fixed-rate borrowings with effective interest rates ranging from 2.09% to 2.26% per annum and variable-rate borrowings with effective interest rates ranging from 1.05% to 2.40% per annum.

12. Capital Commitments

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**22,153**	33,430

13. Related Party Disclosures

(a) Related party balances

Name of related parties	**Relationship**	**30 June 2017 RMB'000**	31 December 2016 RMB'000
Amounts due to related parties			
Lin Chin Tsun	Director	**3,613**	3,725
Lin I Chu	Director	**–**	609
		3,613	4,334

As at 30 June 2017 and 31 December 2016, the amounts due to related parties were interest-free, unsecured and repayable on demand.

(b) 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 2017 RMB'000	31 December 2016 RMB'000
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**40,122**	44,150
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**21,365**	27,513
Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu *(Note)*	**19,545**	15,547
	81,032	87,210

13. Related Party Disclosures *(continued)*

(b) Provision of guarantees and security by the Company's directors and shareholders *(continued)*

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

The expiry dates of the above guarantees fall within the period from July 2017 to July 2018 (31 December 2016: January 2017 to December 2017).

As at 30 June 2017, Mr. Lin Chin Tsun, Ms. Chou Chiu Yueh, Mr. Lin Yuan Yu and Ms. Liu I Chu pledged their properties to certain banks to secure banking facilities of NTD180,000,000 (approximately RMB40,128,000) (31 December 2016: NTD200,000,000 (approximately RMB42,980,000)) granted to the Group.

(c) Compensation of key management personnel

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

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Short term benefits	**4,794**	4,617
Post-employment benefits	**86**	74
	4,880	4,691

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

14. Pledge of Assets

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

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

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

15. Material Proceedings

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

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

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

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

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

15. Material Proceedings *(continued)*

(a) *(continued)*

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

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

Other Information

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

As at 30 June 2017, the interests or short positions of the Company's directors (the "Directors") and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ chief executive	Capacity and nature of interests	Number of issued shares held	Total interest (a) and approximate percentage of shareholding (b)[1] (a)	(b)
Mr. LIN Chin Tsun	Beneficial owner	101,657,378	564,973,947	66.90
	Interest of controlled corporations	395,360,783[2]		
	Interest of spouse	67,955,786		
Ms. CHOU Chiu Yueh	Beneficial owner	67,955,786	564,973,947	66.90
	Interest of controlled corporations	395,360,783[2]		
	Interest of spouse	101,657,378		
Mr. LIN Yuan Yu	Beneficial owner	13,161,622	394,675,621	46.73
	Interest of controlled corporation	374,585,006[3]		
	Interest of spouse	6,928,993		
Ms. LIN I Chu	Beneficial owner	9,429,777	384,014,783	45.47
	Interest of controlled corporation	374,585,006[3]		
Ms. LIU Fang Chun	Beneficial owner	6,928,993	394,675,621	46.73
	Interest of spouse	387,746,628		
Ms. HU Szu Jung, Carol	Beneficial owner	243,991	243,991	0.03

Notes:

(1) This percentage has been compiled based on the total number of issued shares (i.e. 844,559,841 shares) of the Company as at 30 June 2017.

(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 2017, 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 2017, according to the register of interests kept by the Company under section 336 of the SFO, the following entity had interests or short positions in the shares of the Company which fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity and nature of interests	Number of issued shares held directly	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 2017.*

Save as disclosed above, the Directors are not aware of any other persons who, as at 30 June 2017, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Information on Share Option Scheme

On 3 April 2007, the Company approved and adopted a share option scheme (the "Share Option Scheme") entitling the board of Directors (the "Board") to grant share options at its discretion to any executive, employee, director (including non-executive director and independent non-executive director), consultant, adviser and/or agent of the Company or any subsidiary at the time when an option is granted to such person. No options have been granted under the Share Option Scheme since its adoption. The Share Option Scheme expired at 5:00 p.m. on 31 March 2017.

Apart from the Share Option Scheme described above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and no Directors or chief executives or their respective spouses or children under 18 years of age had been granted any right to subscribe for equity or debt securities of the Company nor exercised any such right.

Dividends

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

Corporate Governance

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

(i) Code provision A.6.7 of the CG Code stipulates that independent non-executive directors should also attend general meetings. Mr. Lai Chung Ching, an independent non-executive Director, was unable to attend the annual general meeting of the Company held on 1 June 2017 due to 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 is also involved in handling the financial reporting matters of the Group, it simplifies the reporting process if she reports to the chief financial officer, who in turn reports to the board chairman on the Group's financial affairs and corporate governance.

Disclosure of information of directors

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

Based on the recommendation of the Company's remuneration committee, the Board approved the increase in annual remuneration of Mr. Lu Hong Te from HK$168,000 to HK$276,000 with effect from 1 June 2017.

Purchase, Sale or Redemption of the Company's Listed Securities

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

Review of Financial Statements

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

On behalf of the Board
LIN Chin Tsun
Chairman

Hong Kong, 31 August 2017