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

2015 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
Mr. LU Hong Te
Mr. TUNG Chin Chuan

Audit Committee

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

Nomination Committee

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

Remuneration Committee

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

Chief Financial Officer

Ms. HU Szu Jung, Carol

Company Secretary

Ms. CHAN Yin Fung

Auditor

Deloitte Touche Tohmatsu
Level 35 One Pacific Place
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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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Stock Code
469

Chairman's Statement

Dear Shareholders,

Since the mid of this year, in view of various signals such as stable economic data and the continuous improvement in market sentiment in the United States, the temporary relief from the concern of Grexit, the credit and asset inflation problems in emerging economies left by quantitative easing policies under the financial crisis, which takes a long period of time to recover, and the continuous slow pace of mainland China's economic growth, we anticipate that the global economic growth in 2015 would be stable.

For manufacturing industry, the year of 2015 should be a phase of "industry transformation driven by science and technology". Be it the industry 4.0 endeavored by Germany, CPS initiated by the United States through Internet-integrated intelligence or "Made in China 2025" driven by mainland China, it is obvious that every country in the world is considering to apply the technological innovation to build a digital and smart manufacturing industry, and to add Internet applications (such as smart home, smart factories) to the current manufacturing basis. Besides, industrial robots are marching their way into the workshops; manufacturing industry with high added value is transforming (such as advancing from offer of products to offer of products with solutions and services) and accelerates the weeding out and replacement process. The manufacturing industry thus is entering into a bi-polar mode in which the giants are benefited from the advantages of economy of scale while the small ones need to transform into a professionalized mode and those in between are declining.

Passive component manufacturing is an industry characterized by high production volume and low unit price, and most of the products are applied in the 3C sector. In the future, the multiple-tasking requirements benefited from end-product will have more complicating functions; the demand for passive component will keep growing and other application markets such as cars, high-level smart household electronic appliances, smart meter, safety control system and industrial control will firmly support the demands and output value of key electronic parts. Given the susceptibility of end-product markets, including 3C, to the fluctuations of economic cycle, passive component manufacturers even target at the non-3C application industries and take an active role in developing the low volume high-priced niche markets, including cars, 4G LTE base stations, LED street lamps, industrial equipment and renewable energy resources equipment, in order to avoid the operational risks arising from business fluctuations. As a comparison, nontraditional 3C applications belong to the niche market, which is characterized by high gross profit and stable unit price. Passive component suppliers begin operating in these sectors and adjust their product portfolio in order to boost their gross profits. The future of passive components is expected to continue to feature high capacity, high voltage, high frequency, high resistance to heat, miniaturization and so on. Meanwhile, due to the localization of industrial supply chains in China, the relevant local brands are benefiting from the continual expansion of the end-user market. With the advantage of geographical proximity, those local brands strengthen the local manufacturing chain, enhance their supply chain competitiveness in electronic parts and components, and pose threat to Taiwan's industry of electronic parts and components. In this connection, gross profit and price wars will still be the general trend in market share competition for the passive component market.

The industry chain of passive components is challenged by the lack of the exclusive source of supply of raw materials and limited to the fact that the materials are at the hand of Japanese companies so that the gross profit cannot be improved effectively; meanwhile, as Japan accounts for up to more than 60% of market share in passive component manufacturing, Taiwanese companies do not have bargaining power when pricing. In order to reverse our relative disadvantages in market share and price competition, we have no choice but to continue to persistently invest in research and development ("R&D") and equipment so as to meet customers' specific specification requests and to enhance the supply stability of various series of capacitors. As for the aluminum foil business, Capxon International Electronic Company Limited (the "Company") and its subsidiaries (the "Group") will join hands with capacitor manufacturers in the product development process and assist them in the joint development of materials to meet specific material requests; thereby ushering development opportunities in future market demand.

In response to the ever-changing market demands, the Group will, on one hand, proactively cater to the product demand of existing clients and capitalize on the advantages brought by vertical integration of upstream and downstream production chain to offer better services. On the other hand, we will actively solicit new clients, enhance its R&D capacity for product functionality improvements and lower its production costs in order to better satisfy customers' needs, thereby maximizing returns to shareholders.

In 2015, the strategic operation of the Group's two major products is as follows:

1. Operations in the Aluminum Foil Market

The capacity expansion of formed foils in recent years has led to excessive capacity which was yet to be matched with sufficient sales orders. In 2015, the overall recovery was slow. The limited demand in the market of mainland China resulted in a substantial drop in the sales volume of our medium-high voltage formed foils. As the production value of the aluminum foils was low while the per unit cost stayed high, and the selling prices of the products remained low, gross profit was affected by the higher cost but lower selling price. Notwithstanding the gloomy environment of the industry, the good quality of the Group's aluminum foil products enabled the Company to achieve tight cost control and mitigate the impact of low gross profit by leveraging on the existing technological advantage to implement the strategy of joint development of new products with our customers in response to changes in market, whilst suppliers were generally disturbed by insufficient operation rates amidst the downturn of the aluminum foil market.

Currently, the production line of formed foils in Capxon Electronic Technology (Qinghai) Co., Ltd. (凱普松電子科技(青海)有限公司), a wholly-owned subsidiary of the Company, has been maintaining steady mass production. Various key technical R&D projects have also achieved the expected goals:

- A segmented intelligent tension control system was installed on the production line to maintain the tension balance between each segment of the production line in order to guarantee the steady operation of aluminum foil production and ensure consistency in the quality of aluminum foils;

- A technical parameter monitoring early warning platform was established on the production line. Through online supervision of each technical parameter throughout the aluminum foil production process, the dynamic information about each technical parameter of the production line is identified and recorded in a timely manner. In case of any abnormal data deviation, instant early warning and timely management can be conducted to prevent aggravation of the production line techniques. The establishment of such platform can effectively reduce the product defect rate by facilitating control of the production techniques and monitoring of the production process;

- The fluid supply system on the production line was transformed from supplying both water and fluid to fluid supply only. The change of fluid supply method helps maintain the stability of the thickness of the electrolytic tank solution on the production line, thereby enhancing the standardization of product quality;

- The introduction of imported raw materials with stable quality this year has significantly improved the production of aluminum foils with high specific volume and high flexibility and reversed the situation of relying partially on imported aluminum foils with high specific volume and high flexibility; and

- Plastic plates were used to cover the graphite plates in electrolytic tanks at different angles and different shapes, to improve the even distribution of electric current in electrolytic tanks within the etching production lines, and in turn the even distribution in electric current on the surface of aluminum foils, so as to maintain the consistent quality of aluminum foils.

Given our target-achieving technical R&D, stable output and proper monitoring and control over the production process, it is expected that the Group's supply of formed foils will satisfy its internal demand.

2. Operations in the Electrolytic Capacitor Market

With the start of the industrialized 4.0 era, the promotion of 4G network, and emergence of EV (electric vehicles) and its auxiliary electricity charging equipment, R&D of the mass production of electrolytic capacitors will aim at addressing the demand for applications in variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and vehicle-carried electronic devices in the future. The Group will be committed to addressing the requirements for compact size, high performance, and tailor-made products, promoting the application of electrolytic capacitors in various aspects in the European market, and expanding the global market share of its electrolytic capacitor products.

- In response to rising labor costs, we developed AI (Auto insertion) automatized plug-ins and automatized SMD surface mount technology and applied them to the high-end power supply of SMD 35V~100V capacitor, a fast growing series;

- The development, sale and application for use in high-voltage SMD capacitors have been included in our development plan. In response to demand for high-temperature reflow process from clients, 35V~100V capacitors, which were specifically applicable for high-end power supplies, were designed and developed;

- To meet the Korean customers' sample requirements (450V~500V) of quick cell phone chargers, we successfully developed ultra-thin high voltage capacitors; and successfully delivered samples and entered mass production stage. They will be introduced to China market in the future;

- We kept abreast the trend of all-solid-state power supply and developed AC/DC inputs with solid-state high-voltage 205V capacitors, researched and developed high pressure conducting polymers in order to cater the product needs of high-voltage capacitors;

- We upgraded our Snap-in products performance in response to the demand for the construction of electricity supply for 4G communication bases, so as to expand the market share in medium and large-sized capacitors in the area of communication applications; and

- We developed Radial and Snap-in products of 500V or above, to go in line with the geographical difference in the sale of customers' products and their applications; and promoted the market demand for 500V capacitors.

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

LIN Chin Tsun
Chairman

Hong Kong, 28 August 2015

Management Discussion and Analysis

Financial Review

A summary of the financial results of the Group for the six months ended 30 June 2015 (the "Period") is as follows:

- Revenue decreased by approximately 12.92% to approximately RMB415,732,000.
- Gross profit decreased by approximately 6.84% to approximately RMB87,725,000.
- Profit for the Period attributable to owners of the Company amounted to approximately RMB1,921,000 (for the six months ended 30 June 2014: loss of RMB167,583,000).

Reviewing the financial results of the Period, the Group's revenue was approximately RMB415,732,000, representing a decrease of approximately 12.92% over the same period last year. The sales of aluminum electrolytic capacitors for the Period were approximately RMB385,918,000, representing a decrease of approximately 9.20% as compared to that of RMB425,040,000 in the same period last year. Despite the moderate market performance with an estimated general economic growth of approximately 2.8% in 2015, the sales performance of the Group's electrolytic capacitors deteriorated due to the weak market demand for electronic parts and components under the continued sluggish sentiment in Asian regions, whilst our operations primarily related to the manufacturers in mainland China and other Asian customers. The sales of aluminum foils for the Period were approximately RMB29,814,000, representing a decrease of approximately 43.09% as compared to that of RMB52,388,000 in the same period last year. The decrease was mainly due to the excessive supply in the aluminum market as a result of the persistent weak recovery of the overall economy, and the relatively more competitive selling prices of aluminum foils produced by Japanese manufacturers due to the depreciation of Japanese Yen. As a result, the sales of aluminum foils was not up to our expectation. Whilst the Group's revenue did not increase in 2015, the overall cost control enabled the Group to have an improved gross profit margin of approximately 21.10% for the Period, which increased from 19.72% in the same period last year.

The loss attributable to owners of the Company of approximately RMB167,583,000 for the same period last year improved to a profit for the Period of RMB1,921,000. The turnaround was mainly due to the receipt of an arbitral award for the case in which a Japanese customer filed an arbitration claim against Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), a non-wholly owned subsidiary of the Company, in 2011 for the losses incurred from certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, in the same period last year. Under the award, Capxon Taiwan had been required to compensate the customer for the damages caused, and provided for the compensation for such damages in the amount of approximately RMB174,531,000 in the consolidated statement of profit or loss for the same period of last year; whereas during the Period, save for the interest related to deferred payment of the damages in the amount of RMB3,680,000, the Group did not make any provision for compensation for material litigation during the Period.

Business Review

In the first half of 2015, the economic performance of Asia was relatively weak, and mainland China's economy continued to grow slowly. The economic performance of emerging countries was under the shadow of inhibited capital flows and increased borrowing costs as a result of the expected rise in interest rates by the U.S. Federal Reserve Board, which impaired the outlook of economic growth. Low oil price, the fall in sizeable export commodity prices and geopolitical conflicts in the Middle East countries have impacted the global economy. Although the general economic development was steadily picking up due to the steady recovery of European countries, the United States, and Japan, the recovery momentum was still weak as a whole. The consumption market demand for end-products and the market demand of upstream raw materials failed to expand significantly.

Manufacture and sale of aluminum foils

During the Period, after satisfying internal production demand, the external sales of aluminum foils amounted to approximately RMB29,814,000, representing a decrease of approximately 43.09% as compared to that of RMB52,388,000 in the same period last year. The share of aluminum foils in the Group's total external sales decreased from approximately 10.97% in the same period last year to approximately 7.17% for the Period.

The general economic recovery momentum remained weak, making the market demand for end-products fail to expand significantly. The weak demand resulted in insufficient sales orders under excessive production capacity for formed foils which caused higher unit cost of production of aluminum foils, and in turn suppressed gross profit under such high cost yet low selling price. Facing with such industrial features and the market conditions of excessive demand, the Group has prudently reduced the production capacity for a short time after assessing the market situations and the future potential supplies. Meanwhile, the Group also mitigated the impact of low gross profit by enhancing production techniques through technological reform, effective energy-savings and reduced consumption. On the other hand, the Group also actively explored the markets with high added values, developed customized products for timely response when the market reverses in the future. For the future changes in the aluminum foils markets, the Group will continue to pay close attention and deal with them cautiously.

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 R&D projects and quality control techniques have been finished.

- A segmented intelligent tension control system was installed on the production line to maintain the tension balance between each segment of the production line through computer coordinated control in order to guarantee the steady operation of aluminum foil production and ensure consistency in the quality of aluminum foils.

- A technical parameter (electric current, voltage, temperature and thickness) monitoring early warning platform was established on the production line. Through online supervision of each technical parameter throughout the aluminum foil production process, the dynamic information about each technical parameter of the production line can be identified and recorded in a timely manner. In case of any deviation in the technical parameters, instant warnings will be issued to remind the technical staff to handle the problem in a timely manner in order to prevent further aggravation of the production line techniques. The establishment of such platform can effectively reduce the product defect rate by facilitating stable control of the production techniques and monitoring of the production process.

- The fluid supply system on the production line was transformed from originally supplying both water and fluid to fluid supply only. The change of fluid supply has enhanced the stability of the thickness of the electrolytic tank solution on the production line and is beneficial to the consistency of product quality.

- Technological renovations effectively improved the distribution of electric current in electrolytic tanks within the etching production lines. Plastic plates were used to cover the graphite plates in electrolytic tanks at different angles and different shapes, to improve the distribution of electric current in electrolytic tanks, and in turn the even distribution in electric current on the surface of aluminum foils, so as to maintain the consistent quality of aluminum foils.

Given our target-achieving technical R&D, stable output, and proper quality tracking and control, it is expected that the Group's supply of formed foils will satisfy its internal demand.

Manufacture and sale of capacitors

External sales of aluminum electrolytic capacitors during the Period were approximately RMB385,918,000, representing approximately 92.83% of the Group's total external sales, and an increase of approximately 3.80% from the approximately 89.03% of the Group's total external sales for the same period last year.

In light of the diversified and evolving demands from end-application fields, the Group continues to advance the R&D, and the manufacturing technology of its capacitor, offering a series of aluminum electrolytic capacitors with the features of long life, high capacitance, low impedance, energy-saving, high temperature resistance and high voltage tolerance. For example:

- We continue to expand the application fields of capacitors for variable-frequency drives, from inverter air-conditioners, UPS commercial field gradually extend to special fields, such as industrial refining, solar photovoltaic, wind power generation, and military and industrial special power sources.

- We have increased products with 500V and a life of 10,000 hours for LED lightings.

- The shipment for advanced miniaturized versions of 560uF6.3V and 270uF16V, which are exclusively for display cards, has started.

- We have developed the industrial-grade capacitors of 550V and increased the capacitors for variable-frequency drives of 500V.

- We have further satisfied the quick cell phone chargers market and dedicated to the research and manufacture of miniaturized capacitors. For example, the size of 470/16V has been reduced from the original φ8*11.5mm to the current φ6.3*12mm. They have been put into mass production and strong promotions have been performed.

- High voltage conductive polymers, 250V solid state products have been developed successfully.

- We expanded the production volume of the 35~100V SMD products of high voltage conductive polymers.

- Quick cell phone chargers PX 330uF/16V, 6.3*9L, PX 470uF/16V, 6.3*12L have been developed and put into mass production in order to meet the growth pace in 2015.

- Targetting on the selection and design of materials, we have optimized the screw capacitors such as RS, RG, RP, RJ, RX, RY, RM. We also introduced laser spin riveting machine to increase the overall life of screw capacitors and reduce the reverting impedance.

- We further optimized the selection and design of the materials for variable-frequency capacitors to increase the products' ripple resistant ability by 30% and extend their life, and at the same time to increase the production capacity to cope with the increased production lines.

- Due to the development of inverter air-conditioners, we have developed special miniaturized capacitors of 450V with a diameter of 30mm, and enhanced the products of ripple-assistance and high compressive strength.

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 regulates the standards of the raw materials and production process used in electronic products. As far as the examination of the composition of raw materials and the overall production process are concerned, the Group has installed the relevant equipment and apparatuses to support quality control management; during the Period the Group also introduced IPC-OES spectrometer to conduct material testing so as to ensure compliance with the requirements of the RoHS. In addition, in full compliance with the SVHC (Substances of Very High Concern) and halogen-free regulations, the Group has shouldered environmental protection responsibilities, thereby winning the trustworthiness of its clients and creating new opportunities for green business.

Liquidity and Financial Resources

Cash flows

The Group's cash demand was primarily derived from the acquisition of property, plants and equipment, costs and expenses related to operating activities, and payment of bank loan interest and borrowings. During the Period, the Group obtained its cash resources from operating activities.

During the Period, the Group had a total net cash inflow of approximately RMB3,829,000 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 RMB61,495,000, which was mainly due to the profit before tax for the Period of approximately RMB5,251,000 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 RMB6,903,000, which was mainly due to the payment of approximately RMB18,000,000 for the purchase of machinery and equipment, and a net decrease of approximately RMB9,845,000 in secured bank deposits.

Net cash outflow from financing activities was approximately RMB50,763,000, which was mainly due to borrowings of approximately RMB276,790,000 from the banks, repayment of the bank borrowings of approximately RMB322,011,000, and interest payment of approximately RMB5,523,000 for the borrowings.

As at 30 June 2015, the Group had cash and cash equivalents of approximately RMB112,224,000 (31 December 2014: RMB108,163,000), which were mainly denominated in Renminbi and US dollars.

Borrowings

As at 30 June 2015, the Group had bank borrowings of approximately RMB233,275,000 (31 December 2014: RMB278,056,000), which were mainly denominated in Renminbi and US dollars. Such borrowings were mainly subject to fixed (31 December 2014: fixed) interest rates. Below is an analysis of the repayment profile of the bank borrowings:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Within one year or on demand	**233,275**	278,056

Pledge of Assets

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
Bank deposits	**8,261**	18,106
Land use rights	**14,443**	21,747
Property, plant and equipment	**100,203**	153,064
	122,907	192,917

Financial Ratios

As at 30 June 2015, the Group's gearing ratio (net debts divided by equity attributable to owners of the Company plus net debts) amounted to approximately 32.39%, representing a decrease of approximately 2.58% as compared to 34.97% as at 31 December 2014. The decrease was mainly due to a decrease in bank borrowings of approximately RMB44,781,000.

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	
	2015	2014
Inventory turnover	**92 days**	78 days
Trade and bills receivable turnover	**134 days**	136 days
Trade and bills payable turnover	**73 days**	75 days

The Group's turnover days of inventories increased by about 14 days, and both turnover days of trade and bills receivable and turnover days of trade and bills payable decreased by about 2 days, as compared to those for the same period last year. The Group will continue to improve on the management of its inventories, trade receivable and trade payable in order to better utilize the available funds.

Capital Commitments

As at 30 June 2015, the Group had capital commitments contracted but not provided for amounting to approximately RMB20,953,000 (31 December 2014: RMB28,921,000).

Material Proceedings

(a) During the year ended 31 December 2011, a customer filed a request for arbitration enclosing a statement of claim against Capxon Taiwan to The Japan Commercial Arbitration Association (the "Arbitration Association") in Japan, claiming JPY1,412,106,000 (equivalent to approximately RMB70,323,000 (31 December 2014: RMB72,300,000)) 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 charged by the customer and filed a request for arbitration to counterclaim JPY60,000,000 (equivalent to approximately RMB2,988,000 (31 December 2014: RMB3,072,000)) from the customer for the 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 RMB120,874,000) (31 December 2014: RMB124,272,000));

(ii) interest on deferred payment of (i) above and such interest is calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB65,336,000 (31 December 2014: RMB67,173,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB46,930,000 (31 December 2014: RMB48,249,000)) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB8,608,000 (31 December 2014: RMB8,850,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,176,000 (31 December 2014: RMB1,209,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. Decision has not been reached in the hearing in the Tokyo District Court up to the date of this report. The directors of the Company believe that the Group has sufficient grounds to the petition. However, the ultimate outcome of the petition cannot be assessed at this preliminary stage and there has been no further update as at the date of this report. Therefore, an aggregate amount of JPY3,001,105,147 (31 December 2014: JPY2,928,888,032), equivalent to approximately RMB149,408,000 (31 December 2014: RMB150,169,000), was included in trade and other payables as at 30 June 2015 as a provision as a result of the initial arbitral award.

(b) During the year ended 31 December 2011, a customer filed a civil complaint to the People's Court of Shenzhen in the People's Republic of China (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"), claiming a product defect compensation of RMB12,877,000. The first hearing was completed on the court in December 2014 which concluded that insufficient evidence had been provided by the customer and therefore Capxon Shenzhen is not liable for any compensation to the customer. The customer then filed an appeal against the court's decision and the case has been pending the second hearing results on the court. The directors of the Company believe that it is not probable for the decision of the court to be overturned, and thus no provision for any potential liability has been made in the consolidated financial statements.

Foreign Exchange Fluctuations

The Group derives its revenue from operations principally in US dollars and Renminbi, whilst the 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 Renminbi, 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 2015, the Group had approximately 2,550 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' cost (including directors' emoluments) amounted to approximately RMB90,102,000 for the six months ended 30 June 2015 (for the six months ended 30 June 2014: RMB103,590,000).

Future Strategy and Planning

In 2015, the overall capacitor market is expected to enjoy continuous growth because of the upgrade and sophistication of application products, such as smart handsets, network products and wearable devices, and the low-volume high-priced niche markets for non-3C application industries, such as automobile electronics, high level household electronic appliances, safety control system, industrial equipment and renewable energy resources equipment. This also means that the future of passive components will continue to feature miniaturization, high frequency, high capacity, high voltage, durability and high resistance to heat. In view of the uncertain and ever-changing external economic circumstances and the potential development of the industrial market, the Group will adhere to its inherent operating strategy of researching and developing advanced and sophisticated production process and strictly managing quality control, implementing source management and endeavoring to reduce costs, as well as effectively utilizing the supply advantage brought by vertical integration with economies of scale.

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

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

- *Material costs:* Consolidate various types of materials, reduce part numbers and specification, and cut inventory backlog, procurement costs and slow-moving materials. As for conductive polymers, the induced rate has been raised while the voltage forming ratio has been lowered, with an effective reduction of material usage.

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

- *Verification:* Strengthen communications regarding applications at customer end and promptly understand the development dynamics of products. Establish state-of-the-art electronic application laboratory to simulate production applications at end users, judge the potential failure of capacitor performance and the reasons thereof well in advance, in order to uplift the quality of capacitors for better customer satisfaction.

- *Technical reform:*

  - Oriented by application-led development: Leveraging upon our advantages in the R&D of application technology, our Company aimed to develop, using in-house capability, packages similar to end customers for testing and verifying the actual environment for applications (e.g. high-speed charging and discharging packages, variable-frequency wave electric current sources, etc.), to swiftly grasp the actual requirements for capacitors, which is an active approach to guiding customers in their choices for suitable capacitors rather than the original passive approach in which customers choose their own capacitors. This strategy has been used in various application areas including industrial frequency variations, frequency variations in air-conditioners and washing machines, electricity sources at stations, photovoltaic energy sources, automobile electronics, and has been successful to a certain extent.

  - Project development and promotion: In 2015, we have primarily launched two projects: 1. Variable-frequency capacitors, varying from basic raw materials (e.g. aluminum foil craftsmanship, electrolyte formula, etc.) to specialty formulations and specialty series (e.g. UJ/UB/UC/UD/UK/UL, etc.), to make use of our ability in the R&D of applications and development of capacitor series, and to uplift our position in the market supply of variable-frequency capacitor applications. 2. Automobile electronics: In 2014, we made progress in the applications and market supply of automobile electronics in mainland China. In 2015, we have established dedicated workshops for automobile electronics to be operated by dedicated staff members who are responsible for technology, quality assurance and R&D, so that our vehicle-mounted electronics and electrolytic capacitors can become better and more sophisticated, our R&D of applications in relevant areas have become stronger, and the overall quality of our capacitor products has become more stable by means of technological upgrade.

- Breakthrough in the development of basic materials: 1. The uplift in the high-ratio capacitors for formed foils, so as to consolidate our leading position in our capacity production technology by means of material R&D. 2. Development of highly reliable specialty capacitors and electrolytes: self-enhancement of the development of GBL electrolytes for promoting the development of research of vehicle-mounted electronic applications. The development and application of variable-frequency capacitors and electrolytes can ensure that variable-frequency capacitors can stand at the frontier of industrial development.

- Super capacitor: The Group strategically plans for the technological support from researches conducted by colleges and introduce the development and production of farad capacitors, in order to address the needs for high-speed charging given the long stand-by time required by modern-day mobile electronic devices.

Future Prospects

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 persistently focus on the existing industry and maintain vertical integration. We focus on innovative R&D and strive for excellence. Leveraging on our edges of vertical integration, we will effectively control costs and enhance manufacturing efficiency, in order to maintain our competitiveness in the industry. With technological advancement and product innovation, we will serve and maintain a stable relationship with existing customers. The Group will proactively explore new markets and meet mass production planning, and develop towards the target of economies of scale.

The Group will adhere to its mission of sustainable operations, enhance the efficiency of industry vertical integration, overcome the challenges of economies of scale as well as stabilize the value and revenue from the industry, in order to reward the Company's shareholders for their support with profits.

Save as set out above, the information contained in this Management Discussion and Analysis of the Company does not differ materially from those disclosed in the latest published annual report of the Company for 2014.

Report on Review of Condensed Consolidated Financial Statements

Deloitte.
德勤

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

Introduction

We have reviewed the condensed consolidated financial statements of Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 41, which comprise the condensed consolidated statement of financial position as of 30 June 2015 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 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.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to note 15(a) to the condensed consolidated financial statements which explains that included in trade and other payables as at 30 June 2015, an aggregate amount of approximately RMB149,408,000 was provided in respect of damages, interest and arbitration related expenses as a result of an arbitral award against the Group's subsidiary in Taiwan received in August 2014. As further stated in note 15(a) to the condensed consolidated financial statements, the Group has filed a petition to the Tokyo District Court for the annulment of the arbitral award. Decision has not been reached in the hearing in the Tokyo District Court up to the date of this report. The eventual success or otherwise of the petition may have a material effect on the final amount to be recognised. However, the ultimate outcome of the petition cannot be assessed at this preliminary stage.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 August 2015

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2015

	Notes	Six months ended 30 June 2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Revenue	3	**415,732**	477,428
Cost of sales		**(328,007)**	(383,265)
Gross profit		**87,725**	94,163
Other income		**1,338**	2,599
Other gains and losses	5	**2,035**	(10,494)
Distribution and selling costs		**(27,466)**	(29,941)
Administrative expenses		**(37,092)**	(39,508)
Other expenses		**(12,086)**	(12,210)
Provision for damages		**(3,680)**	(170,862)
Finance costs		**(5,523)**	(8,352)
Profit (loss) before tax		**5,251**	(174,605)
Income tax (expense) credit	4	**(3,303)**	1,061
Profit (loss) for the period	5	**1,948**	(173,544)
Other comprehensive expense:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation		**(1,876)**	(3,704)
Total comprehensive income (expense) for the period		**72**	(177,248)

	Notes	Six months ended 30 June 2015 RMB'000 (unaudited)	2014 RMB'000 (unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		**1,921**	(167,583)
Non-controlling interests		**27**	(5,961)
		1,948	(173,544)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**216**	(171,203)
Non-controlling interests		**(144)**	(6,045)
		72	(177,248)
Earnings (loss) per share *(RMB cents)*	*7*		
Basic		**0.23**	(19.84)

Condensed Consolidated Statement of Financial Position

At 30 June 2015

	Notes	**30 June 2015 RMB'000 (unaudited)**	31 December 2014 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**525,530**	549,649
Land use rights		**39,985**	40,503
Intangible assets		**1,212**	2,074
Deferred tax assets		**433**	730
Deposits paid for acquisition of property, plant and equipment		**35,710**	29,620
		602,870	622,576
CURRENT ASSETS			
Inventories		**168,019**	164,660
Land use rights		**1,031**	1,031
Trade and other receivables	*9*	**354,585**	372,725
Tax recoverable		**1,688**	1,076
Pledged bank deposits		**8,261**	18,106
Bank balances and cash		**112,224**	108,163
		645,808	665,761
CURRENT LIABILITIES			
Trade and other payables	*10 & 15 (a)*	**325,530**	311,773
Bank borrowings	*11*	**233,275**	278,056
Amounts due to related parties	*13*	**10,223**	13,341
Tax liabilities		**3,895**	7,921
		572,923	611,091
NET CURRENT ASSETS		**72,885**	54,670
TOTAL ASSETS LESS CURRENT LIABILITIES		**675,755**	677,246
NON-CURRENT LIABILITIES			
Defined benefit obligations		**3,391**	4,779
Deferred income		**24,456**	24,612
Deferred tax liabilities		**3,453**	3,472
		31,300	32,863
		644,455	644,383

	30 June 2015 RMB'000 (unaudited)	31 December 2014 RMB'000 (audited)
CAPITAL AND RESERVES		
Share capital	**82,244**	82,244
Share premium and reserves	**559,230**	559,014
Equity attributable to owners of the Company	**641,474**	641,258
Non-controlling interests	**2,981**	3,125
	644,455	644,383

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2015

	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 (accumulated losses) RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2014 (audited)	82,244	436,626	(30,753)	96,674	22,091	1,971	164,982	773,835	9,638	783,473
Loss for the period	–	–	–	–	–	–	(167,583)	(167,583)	(5,961)	(173,544)
Other comprehensive expense for the period	–	–	–	–	(3,620)	–	–	(3,620)	(84)	(3,704)
Total comprehensive expense	–	–	–	–	(3,620)	–	(167,583)	(171,203)	(6,045)	(177,248)
Appropriation	–	–	–	1,972	–	–	(1,972)	–	–	–
At 30 June 2014 (unaudited)	82,244	436,626	(30,753)	98,646	18,471	1,971	(4,573)	602,632	3,593	606,225
At 1 January 2015 (audited)	**82,244**	**436,626**	**(30,753)**	**101,801**	**27,006**	**3,650**	**20,684**	**641,258**	**3,125**	**644,383**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**1,921**	**1,921**	**27**	**1,948**
Other comprehensive expense for the period	**-**	**-**	**-**	**-**	**(1,705)**	**-**	**-**	**(1,705)**	**(171)**	**(1,876)**
Total comprehensive income (expense)	**-**	**-**	**-**	**-**	**(1,705)**	**-**	**1,921**	**216**	**(144)**	**72**
Appropriation	**-**	**-**	**-**	**472**	**-**	**-**	**(472)**	**-**	**-**	**-**
At 30 June 2015 (unaudited)	**82,244**	**436,626**	**(30,753)**	**102,273**	**25,301**	**3,650**	**22,133**	**641,474**	**2,981**	**644,455**

Notes:

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

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

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

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2015

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	**61,495**	12,910
Net cash (used in) from investing activities		
Purchase of property, plant and equipment	**(10,034)**	(9,324)
Placement of pledged bank deposits	**(8,261)**	(14,337)
Deposits paid for acquisition of property, plant and equipment	**(7,967)**	(4,299)
Release of pledged bank deposits	**18,106**	31,018
Proceeds from disposal of property, plant and equipment	**780**	551
Other investing cash flows	**473**	230
	(6,903)	3,839
Net cash (used in) from financing activities		
Repayment of bank borrowings	**(322,011)**	(394,738)
Interest paid	**(5,523)**	(8,352)
New bank borrowings raised	**276,790**	418,452
Other financing cash flows	**(19)**	25
	(50,763)	15,387
Net increase in cash and cash equivalents	**3,829**	32,136
Cash and cash equivalents at 1 January	**108,163**	87,867
Effect of foreign exchange rate changes	**232**	126
Cash and cash equivalents at 30 June, represented by bank balances and cash	**112,224**	120,129

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2015

1. Basis of Preparation

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

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

2. Principal Accounting Policies

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

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

Amendments to IAS 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 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.

3. Revenue and Segmental Information

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

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

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

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

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

For the six months ended 30 June 2015

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

3. Revenue and Segmental Information *(continued)*

For the six months ended 30 June 2014

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
External sales	425,040	52,388	477,428	–	477,428
Inter-segment sales	–	126,494	126,494	(126,494)	–
Segment revenue	425,040	178,882	603,922	(126,494)	477,428
Segment profit	4,650	3,187	7,837	492	8,329
Interest income					276
Unallocated corporate expenses					(3,996)
Finance costs					(8,352)
Provision for damages					(170,862)
Loss before tax					(174,605)

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

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

4. Income Tax Expense (Credit)

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Current tax		
– PRC Enterprise Income Tax	**3,426**	3,323
– Taiwan Corporate Income Tax	**993**	456
	4,419	3,779
Overprovision in prior years		
– PRC Enterprise Income Tax	**(832)**	(4,771)
– Taiwan Corporate Income Tax	**(594)**	(257)
	(1,426)	(5,028)
Deferred tax – current period	**310**	188
	3,303	(1,061)

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, except for Capxon Electronic (Shenzhen) Co., Ltd. (豐賓電子(深圳)有限公司) ("Capxon Shenzhen") and Capxon Electronic Technology (Qinghai) Co., Ltd. (凱普松電子科技(青海)有限公司) ("Capxon Qinghai"), subsidiaries of the Company, the tax rate of the subsidiaries established in the PRC is 25%.

In February 2014, Capxon Shenzhen was approved for 3 years as enterprise that satisfied the condition as high technology development enterprise and is subject to a preferential tax rate of 15% in 2013, 2014 and 2015.

In March 2014, Capxon Qinghai was approved for 2 years as enterprise that satisfied the conditions that the enterprise principally engages in state-encouraged industries as defined under the New Western Catalogue for the Western Region Development and is subject to a preferential tax rate of 15% in 2013 and 2014. The tax rate of Capxon Qinghai for the six months ended 30 June 2015 is 25%.

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

5. Profit (Loss) for the Period

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**33,840**	37,746
Amortisation of land use rights	**517**	517
Amortisation of intangible assets	**863**	1,416
Total depreciation and amortisation	**35,220**	39,679
Loss on disposal/written-off of property, plant and equipment	**1,625**	7,584
Impairment loss on trade receivables	**1,813**	893
Net foreign exchange (gains) losses	**(5,473)**	2,017
Other gains and losses	**(2,035)**	10,494
Cost of inventories recognised as an expense (including write-down of inventories of RMB2,742,000 (six months ended 30 June 2014: RMB11,194,000))	**328,007**	383,265
Research and development costs (included in other expenses)	**10,029**	9,439
Interest income	**(473)**	(276)

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. Earnings (Loss) Per Share

The calculation of the basic earnings per share attributable to the owners of the Company for the six months ended 30 June 2015 is based on the profit for the period attributable to owners of the Company of approximately RMB1,921,000 (six months ended 30 June 2014: loss for the period attributable to owners of the Company of RMB167,583,000) and on 844,559,841 ordinary shares in issue.

Diluted earnings (loss) per share is not presented for the six months ended 30 June 2015 and 2014 as there were no potential ordinary shares outstanding during the six months ended 30 June 2015 and 2014.

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 RMB2,405,000 (six months ended 30 June 2014: RMB8,135,000) for cash proceeds of approximately RMB780,000 (six months ended 30 June 2014: RMB551,000).

During the current interim period, the Group acquired property, plant and equipment, including construction in progress, of approximately RMB11,911,000 (six months ended 30 June 2014: RMB38,887,000) for the purposes of expanding the Group's business.

Included in property, plant and equipment are buildings in Baotou City, Inner Mongolia Autonomous Region, the PRC, with a carrying value of approximately RMB6,652,000 (31 December 2014: RMB6,873,000) 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 2015 RMB'000	31 December 2014 RMB'000
0–60 days	**166,781**	184,952
61–90 days	**65,321**	63,302
91–180 days	**53,353**	73,576
181–270 days	**5,097**	1,115
271–360 days	**1,798**	88
Over 360 days	**1,220**	87
	293,570	323,120

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 2015 RMB'000	31 December 2014 RMB'000
0–60 days	**81,105**	62,157
61–90 days	**17,635**	17,814
91–180 days	**19,819**	28,090
181–270 days	**1,004**	1,468
271–360 days	**1,193**	604
Over 360 days	**16,892**	15,496
	137,648	125,629

11. Bank Borrowings

	30 June 2015 RMB'000	31 December 2014 RMB'000
Bank borrowings		
– Secured	**182,082**	231,961
– Unsecured	**51,193**	46,095
	233,275	278,056
Carrying amount repayable:*		
Within one year and shown under current liabilities	**233,275**	278,056

* *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 RMB276,790,000 (six months ended 30 June 2014: RMB418,452,000). The new borrowings consist of variable-rate borrowings with effective interest rates ranging from 1.45% to 6.90% per annum and fixed-rate borrowings with effective interest rates ranging from 1.41% to 5.90%.

12. Capital Commitments

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**20,953**	28,921

13. Related Party Disclosures

(a) Related party transaction

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

Name of related party	**Nature of transaction**	**Six months ended 30 June**	
		2015 RMB'000	2014 RMB'000
Lin I Chu *(Note)*	Interest expense	**206**	301

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

(b) Related party balances

Name of related parties	**Relationship**	**30 June 2015 RMB'000**	31 December 2014 RMB'000
Amounts due to related parties			
Chou Chiu Yueh	Director	**4**	4
Lin Chin Tsun	Director	**3,279**	3,297
Lin I Chu	Director	**6,939**	10,039
Lin Yuan Yu	Director	**1**	1
		10,223	13,341

13. Related Party Disclosures *(continued)*

(b) Related party balances *(continued)*

Except for an unsecured amount due to Ms. Lin I Chu of approximately RMB5,900,000 (31 December 2014: RMB10,039,000) which bears a variable interest at benchmark interest rate of loans determined by Bank of China Limited minus a fixed margin and repayable within one year, the remaining balances due to related parties at 30 June 2015 and 31 December 2014 are interest-free, unsecured and repayable on demand.

(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 2015 RMB'000	31 December 2014 RMB'000
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**137,881**	157,794
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**59,394**	68,185
Lin Yuan Yu *(Note)*	**37,800**	50,000
	235,075	275,979

Note: Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh are ultimate controlling shareholders of the Company. Mr. Lin Yuan Yu is a close family member of the Company's ultimate controlling shareholders and he is a director and a shareholder of the Company.

The expiry dates of the above guarantees fall within the period from July 2015 to December 2015 (31 December 2014: January 2015 to December 2015).

As at 30 June 2015, Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh pledged a property to a bank to secure banking facilities of NTD165,000,000 (approximately RMB32,571,000) (31 December 2014: NTD165,000,000 (approximately RMB31,928,000)) granted to the Group.

13. Related Party Disclosures *(continued)*

(d) Compensation of key management personnel

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Short term benefits	**4,610**	4,672
Post-employment benefits	**80**	128
	4,690	4,800

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 2015 RMB'000	31 December 2014 RMB'000
Property, plant and equipment	**100,203**	153,064
Land use rights	**14,443**	21,747
Bank deposits	**8,261**	18,106
	122,907	192,917

15. Material Proceedings

(a) 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 (the "Arbitration Association") in Japan, claiming JPY1,412,106,000 (equivalent to approximately RMB70,323,000 (31 December 2014: RMB72,300,000)) 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 charged by the customer and filed a request for arbitration to counterclaim JPY60,000,000 (equivalent to approximately RMB2,988,000 (31 December 2014: RMB3,072,000)) from the customer for the 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 requires Capxon Taiwan to compensate the customer damages in an aggregate sum of:

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB120,874,000 (31 December 2014: RMB124,272,000));

(ii) interest on deferred payment of (i) above and such interest is calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB65,336,000 (31 December 2014: RMB67,173,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB46,930,000 (31 December 2014: RMB48,249,000)) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB8,608,000 (31 December 2014: RMB8,850,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,176,000 (31 December 2014: RMB1,209,000)).

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. Decision has not been reached in the hearing in the Tokyo District Court up to the date of this report. The directors of the Company believe that the Group has sufficient grounds to the petition. However, the ultimate outcome of the petition cannot be assessed at this preliminary stage and there has been no further update as at the date of this report. Therefore, an aggregate amount of JPY3,001,105,147 (31 December 2014: JPY2,928,888,032), equivalent to approximately RMB149,408,000 (31 December 2014: RMB150,169,000), was included in trade and other payables as at 30 June 2015 as a provision as a result of the initial arbitral award.

(b) During the year ended 31 December 2011, a customer filed a civil complaint to the People's Court of Shenzhen in the PRC against Capxon Shenzhen, claiming a product defect compensation of RMB12,877,000. The first hearing was completed on the court in December 2014 which concluded that insufficient evidence had been provided by the customer and therefore Capxon Shenzhen is not liable for any compensation to the customer. The customer then filed an appeal against the court's decision and the case has been pending the second hearing results on the court heard. The directors of the Company believe that it is not probable for the decision of the court to be overturned, and thus no provision for any potential liability has been made in the consolidated financial statements.

Other Information

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

As at 30 June 2015, 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 2015.

(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 2015, 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 2015, 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 2015.*

Save as disclosed above, the Directors are not aware of any other persons who, as at 30 June 2015, had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

Information on Share Option Scheme

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

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

Dividends

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: 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 2015.

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 2015, save as disclosed below:

(i) Code provision A.6.7 of the CG Code stipulates that independent non-executive directors should also attend general meetings. Mr. LU Hong Te, an independent non-executive Director, was unable to attend the annual general meeting of the Company held on 29 May 2015 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.

Disclosure of information of directors

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules, the changes of information of the Directors are as follows:

At a meeting held during the first half of 2015, the Board, as recommended by the remuneration committee of the Company, approved the increase of the annual remuneration of the independent non-executive Directors effective 1 June 2015 with details as set out below:

	From HK$ (per annum)	**Increase to** HK$ (per annum)
Mr. LAI Chung Ching	240,000	276,000
Mr. LU Hong Te	132,000	168,000
Mr. TUNG Chin Chuan	132,000	168,000

In addition, on 26 June 2015, Mr. LU Hong Te was appointed as an independent director of Uni-President Enterprises Corp. (1216) whose shares are listed on the Taiwan Stock Exchange.

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 2015.

Review of Financial Statements

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2015 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, 28 August 2015