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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)

website: www.capxongroup.com

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2015**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Changes
	2015	2014	
Revenue (RMB'000)	415,732	477,428	-12.92%
Profit (loss) for the period attributable to owners of the Company (RMB'000)	1,921	(167,583)	N/A
Basic earnings (loss) per share attributable to owners of the Company (RMB cents)	0.23	(19.84)	N/A
Interim dividends (HK cents per share)	--	--	--

The board of directors (the "Board") of Capxon International Electronic Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2015 (the "Period") together with the comparative figures for the corresponding period of last year as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2015

		Six months ended 30 June	
		<u>2015</u>	<u>2014</u>
	<u>NOTES</u>	RMB'000	RMB'000
		(unaudited)	(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)
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

	<u>NOTES</u>	30 June <u>2015</u> RMB'000 (unaudited)	31 December <u>2014</u> RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		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
		<u>602,870</u>	<u>622,576</u>
CURRENT ASSETS			
Inventories		168,019	164,660
Land use rights		1,031	1,031
Trade and other receivables	8	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
		<u>645,808</u>	<u>665,761</u>
CURRENT LIABILITIES			
Trade and other payables	9	325,530	311,773
Bank borrowings		233,275	278,056
Amounts due to related parties		10,223	13,341
Tax liabilities		3,895	7,921
		<u>572,923</u>	<u>611,091</u>
NET CURRENT ASSETS		<u>72,885</u>	<u>54,670</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>675,755</u>	<u>677,246</u>
NON-CURRENT LIABILITIES			
Defined benefit obligations		3,391	4,779
Deferred income		24,456	24,612
Deferred tax liabilities		3,453	3,472
		<u>31,300</u>	<u>32,863</u>
		<u>644,455</u>	<u>644,383</u>
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
		<u>644,455</u>	<u>644,383</u>

NOTES

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 ("Listing Rules").

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 consolidated 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

	<u>Capacitors</u> RMB'000	<u>Aluminum foils</u> RMB'000	<u>Segment total</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Total</u> RMB'000
External sales	385,918	29,814	415,732	-	415,732
Inter-segment sales	-	54,788	54,788	(54,788)	-
Segment revenue	<u>385,918</u>	<u>84,602</u>	<u>470,520</u>	<u>(54,788)</u>	<u>415,732</u>
Segment profit (loss)	<u>22,705</u>	<u>(14,066)</u>	<u>8,639</u>	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					<u>7,390</u>
Profit before tax					<u>5,251</u>

For the six months ended 30 June 2014

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

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	
	<u>2015</u>	<u>2014</u>
	RMB'000	RMB'000
Current tax		
- The People's Republic of China (the "PRC")		
Enterprise Income Tax	3,426	3,323
- Taiwan Corporate Income Tax	993	456
	<u>4,419</u>	<u>3,779</u>
Overprovision in prior years		
- PRC Enterprise Income Tax	(832)	(4,771)
- Taiwan Corporate Income Tax	(594)	(257)
	<u>(1,426)</u>	<u>(5,028)</u>
Deferred tax - current period	310	188
	<u>3,303</u>	<u>(1,061)</u>

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. ("Capxon Shenzhen") and Capxon Electronic Technology (Qinghai) Co., Ltd. ("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	
	<u>2015</u>	<u>2014</u>
	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	<u>35,220</u>	<u>39,679</u>

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
	<u>(2,035)</u>	<u>10,494</u>
Other gains and losses		
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	<u>(473)</u>	<u>(276)</u>

6. DIVIDENDS

No dividends were paid, declared or proposed during both periods. The Board 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. 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 <u>2015</u> RMB'000	31 December <u>2014</u> 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
	<u>293,570</u>	<u>323,120</u>

9. 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 <u>2015</u> RMB'000	31 December <u>2014</u> 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	<u>16,892</u>	<u>15,496</u>
	<u>137,648</u>	<u>125,629</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

- I Revenue decreased by approximately 12.92% to approximately RMB415,732,000.
- I Gross profit decreased by approximately 6.84% to approximately RMB87,725,000.
- I 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, 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.

Ø *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 research and development projects and quality control techniques have been finished.

1. 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.
2. 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.

3. 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.
4. 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 research and development, stable output, and proper quality tracking and control, it is expected that the Group's supply of formed foils will satisfy its internal demand.

Ø *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 research and development, 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:

- I 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.
- I We have increased products with 500V and a life of 10,000 hours for LED lightings.
- I The shipment for advanced miniaturized versions of 560uF6.3V and 270uF16V, which are exclusively for display cards, has started.
- I We have developed the industrial-grade capacitors of 550V and increased the capacitors for variable-frequency drives of 500V.
- I 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 $\phi 8 \times 11.5\text{mm}$ to the current $\phi 6.3 \times 12\text{mm}$. They have been put into mass production and strong promotions have been performed.
- I High voltage conductive polymers, 250V solid state products have been developed successfully.
- I We expanded the production volume of the 35~100V SMD products of high voltage conductive polymers.
- I 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 the first half of 2015.
- I 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.

- I 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.
- I 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.

Ø *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

Ø *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.

Ø *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	<u>233,275</u>	<u>278,056</u>

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	<u>100,203</u>	<u>153,064</u>
	<u>122,907</u>	<u>192,917</u>

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: RMB 72,300,000)) 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: RMB 3,072,000)) 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 announcement. 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 announcement. 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. 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 appreciation 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.

- Ø *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;
- Ø *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;
- Ø *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;
- Ø *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;
- Ø *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.

Ø Technical reform:

- I **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.
- I **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.
- I **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.
- I **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.

OTHER INFORMATION

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 FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors’ securities transactions. Upon specific enquiry by the Company, all directors of the Company 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 the 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 of the Company, 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.

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.

The Company’s external auditor has included the Emphasis of Matter paragraph in the report on review of the condensed consolidated financial statements of the Group for the six months ended 30 June 2015 as set out below:

“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.”

For details of note 15(a) to the condensed consolidated financial statements, please refer to item (a) of “Material Proceedings” set out under the section headed “Management Discussion and Analysis” of this announcement.

INTERIM REPORT

The 2015 interim report containing all the information required by the Listing Rules will be published on The Stock Exchange of Hong Kong Limited's website www.hkex.com.hk and the Company's website www.capxongroup.com.

DIRECTORS

As at the date of this announcement, the Board is composed of four executive directors, namely Mr. Lin Chin Tsun (Chairman and President), Ms. Chou Chiu Yueh (Vice President), Mr. Lin Yuan Yu (Chief Executive Officer) and Ms. Lin I Chu, one non-executive director, namely Ms. Liu Fang Chun and three independent non-executive directors, namely Mr. Lai Chung Ching, Mr. Lu Hong Te and Mr. Tung Chin Chuan.

By order of the Board
Capxon International Electronic Company Limited
LIN Chin Tsun
Chairman

Hong Kong, 28 August 2015