CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED

凱普松國際電子有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 469

Interim Report 2014

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
88 Queensway
Hong Kong

Legal Adviser

Minter Ellison
Level 25 One Pacific Place
88 Queensway
Hong Kong

Principal Bankers

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

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Branch Share Registrar and Transfer Office

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Stock Code

469

Chairman's Statement

Dear Shareholders,

Stepping into 2014, most of the major international forecast organizations are optimistic towards the global economic conditions. The economic recovery of the United States ("US") was immune from the severe winter at the beginning of the year, and the Eurozone also performed well in international trade. In contrast, the Asian market was relatively sluggish, with the first-quarter economic growth of China lower than the official expectation, slowdown in Japanese economic growth and weaker investment and consumption performance of Southeast Asia. The relatively weak general economic performance affected the prospects of the manufacturing industry. However, the steady rise in the economic statistics and continuous market improvement of Europe and the US offset the impact of the relatively weak Asian market. All in all, the global market was still quite positive at the beginning of the year.

Nevertheless, in July, the International Monetary Fund (IMF) marked down the global economic growth projection for 2014. The IMF not only downgraded the economic growth outlook of the US for the year, but also became less optimistic towards the prospects of several emerging markets. The global market was recovering continuously but the growth momentum was still weak. The downside risks of economic growth remained a concern. For example, geopolitical conflicts involving countries such as Russia and Ukraine and economic sanctions will definitely increase the economic risks that may lead to a substantial increase in oil prices and potential financial crises. The economic performance of Asia was relatively weak owing to the economic slowdown in China and Japan and weaker investment and consumption performance of Southeast Asia. All these factors will influence the situations in the international arena and thus affect the economic trends.

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. The increasing demand for smart handsets, such as smart phones and tablet computers, the growing popularity of wearable device products and the rapid growth of medium to low end smart handsets to cater to the needs of the emerging consumer markets have steadily supported the demand for and the production value of electronic parts and components. However, 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, non-traditional 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, China will certainly play an active part in the market share competition among Taiwan, Japan and Korea. Gross profit and price wars will still be the general trend in the passive component market.

The industry chain of passive components is challenged by two major issues, namely the lack of the exclusive source of supply of raw materials and the high production cost brought by the acquisition of machinery required for manufacturing high-end products. Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively the "Group") are one of the few market players who can leverage the supply advantage brought by the vertical integration of raw materials and passive component products. The Group will continue to persistently invest in research and development and equipment in order to meet customers' specific specification requests and to enhance the supply stability of various series of capacitors. As for the aluminum foil business, 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 the 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, the Group will actively solicit new clients, enhance its research and development capacity for product functionality improvements and lower its production costs in order to better satisfy customers' needs, thereby maximizing returns to shareholders.

During the first half of 2014, the strategic operation results of the Group's two major products are as follows:

1. Operations in the Aluminum Foil Market

During the first two quarters of 2014, the overall recovery was slow. Though the demand in the market of mainland China improved, 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 therefore affected by the higher cost but lower selling price. Notwithstanding the gloomy environment of the industry, because of the good quality of the Group's aluminum foil products, we maintained stable sales in our medium-high voltage formed foils and the supply met the needs of our major customers, thus allowing the Group to maintain a certain market share. Amidst the downturn of the aluminum foil market, suppliers were generally disturbed by insufficient operation rates. Capxon Electronic Technology (QingHai) Co., Ltd. ("Capxon Qinghai"), a wholly-owned subsidiary of the Company, was able to achieve proper cost control and mitigate the impact of low gross profit by taking advantage of the relatively low electricity tariff, supplemented by large-scale purchase of raw materials and price control through bulk purchase, and by leveraging on its improved production and processing technologies and quality control and inspection. Both of our production and sales volumes were stable during the period under review.

Currently, the production line of formed foils in Capxon Qinghai has been operating in full swing and maintaining steady mass production. Various key technical research and development 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 cell 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.

Given our target-achieving technical research and development, stable output and proper monitoring and control over the production process, it is expected that the Group's supply of formed foils will not merely satisfy its internal demand but also be sufficient to persistently meet the needs of other capacitor manufacturers. In future, in light of the economic structure reform and localization of industrial supply chain in mainland China, the Group will play a more active role in developing the aluminum foil market in China by leveraging on the vertically integrated strengths of its two major products and on its capability of supplying locally. In the meantime, the Group will continually explore the overseas markets by increasing the sales visibility of its aluminum foils with a view to reducing its dependence on the mainland China market. As for production strategies, the Group has, on the one hand, entered into agreements with its main suppliers to control its material acquisition cost through bulk procurement and, on the other hand, implemented measures for production technique enhancements, energy-savings and consumption reductions etc. through technological innovation in order to reduce production costs.

2. Operations in the Electrolytic Capacitor Market

- In light of the costs and the increased application customization requirements of customers, we satisfied customers' demand for small-sized, high performance and specially tailored products to maintain our leadership in this sector through equipment enhancement, material research and development and capacitor design for our existing customers;

- In response to the market needs of LED lighting with different wattage, we increased the load life by 5,000H and the actual service life requirements to cater to the cost structures of different kinds of machinery so as to increase the Company's market share in this sector;

- The development, sale and application of capacitors for use in automobiles has been included in our development plan for 2014 with a focus on the automobile electronics, braking system and power supply of rail transport, through which we plan to enter into the high-end product market;

- For adapters and network products, due to limited design space, we switched to use conductive polymers based on the requirements of customers' products on liquid capacitors and further reduced the size of the conductive polymers;

- For power-supply high-wattage conductive polymers used on servers, 16V-25V was adopted to meet the design requirements of customers, thus leading to a significant increase in demand;

- For voltage-inversion products, large capacitor products were promoted with a focus on the Snap-in and Screw models. On top of gradually enhancing the utilization rate of large capacitors by targeting at the consumer product sectors, such as washing machines, air-conditioners and microwave ovens, we also promoted the use of large industrial capacitors in UPS, EPS and rail transport in the hope of progressively increasing the production value of large capacitors;

- Learning from the actual sales experience of Samsung Electronics, the 7.5V conductive polymers used on quick cell phone chargers can be extensively promoted in the market of mainland China.

Looking forward, as the future market generally calls for a greener business environment, energy-conservation and carbon reduction will inevitably be the trend. Governments of various countries will make energy development their key project which will then drive the relevant enterprises towards this direction. In future, the Group will continue to focus on the development of electrolytic capacitors for energy-related, energy saving lighting products and electric cars in its research and development, production and marketing efforts. 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, 29 August 2014

Management Discussion and Analysis

Financial Review

A summary of the financial results of the Group for the six months ended 30 June 2014 (the "Period") is as follows:

- Revenue decreased by approximately 0.16% to approximately RMB477,428,000.
- Gross profit decreased by approximately 9.04% to approximately RMB94,163,000.
- Loss for the Period attributable to owners of the Company amounted to approximately RMB167,583,000 (for the six months ended 30 June 2013: profit of RMB11,845,000).

Reviewing the financial results of the Period, the Group's revenue was approximately RMB477,428,000, representing a slight decrease of approximately 0.16% over the same period last year. The sales of aluminum electrolytic capacitors for the Period were approximately RMB425,040,000, representing an increase of approximately 6.98% as compared to that of RMB397,321,000 in the same period last year. The increase was mainly attributable to the gradual growth of supply of the electronic parts and components driven by the market demand for the smart handsets devices, as well as the Group's ability to carry out research and development of new products on a timely basis and in line with the demands of the existing customers on the application of those products, which strengthens the Group's relationship with customers. The sales of aluminum foils for the Period were approximately RMB52,388,000, representing a decrease of approximately 35.20% as compared to that of RMB80,850,000 in the same period last year. The decrease was mainly due to the failure in significant expansion of the demand for end-products and upstream raw materials as a result of the persistent weak recovery of the overall economy. The Group's gross profit margin decreased from approximately 21.65% for the corresponding period last year to approximately 19.72% for the Period. The decrease in the gross profit margin was mainly due to the rise in production costs as a result of the escalating labour costs in mainland China and the increase in write-down of inventories.

Loss for the Period attributable to owners of the Company amounted to approximately RMB167,583,000, which was mainly due to the receipt of an arbitral award by Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), a non-wholly owned subsidiary of the Company, on 9 August 2014 in respect of an arbitration claim filed by a Japanese customer in 2011 for the losses incurred from certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, requiring Capxon Taiwan to compensate the customer for the damages caused. Therefore, Capxon Taiwan had to provide for such damages in the amount of approximately RMB170,862,000.

Business Review

Manufacture and sale of aluminum foils

During the Period, after satisfying internal production demand, external sales of aluminum foils amounted to approximately RMB52,388,000, representing a decrease of approximately 35.20% as compared to that of RMB80,850,000 in the same period last year. The share of aluminum foils in the Group's total external sales decreased from approximately 16.91% in the same period last year to approximately 10.97% for the Period.

Under the lead of the US, the global market maintained a slow recovery during the Period, with improvements shown in the international trade of the Eurozone. However, the economic performance of Asia was relatively weak, as manifested by the economic slowdown in China and Japan and weaker investment and consumption performance of Southeast Asia. The general economic growth was picking up but the recovery momentum was still weak. The market demand for end-products and upstream raw materials failed to expand significantly. The unit cost of production of aluminum foils was high, while the product price was facing keen competition. Hence, gross profit was affected by the high cost yet low selling price. The Group lowered the main production cost by taking advantage of the relatively low electricity tariff, and mitigated the impact of low gross profit, stabilized production capacity and increased production value, on the one hand, by lowering its material acquisition cost through bulk procurement and, on the other hand, by enhancing production techniques through technological reform, energy-savings and consumption reductions.

Aluminum foils are the major raw materials of capacitors, thus a high quality of which is required. The Group has positioned the high quality formed foils as a major product in its sales strategy to, firstly, provide adequate high quality raw materials for the Group's own production of capacitors so as to lower the production costs and control product quality; and secondly, sell to both domestic and overseas manufacturers of capacitors. Not only can the Group develop customized aluminum foils in accordance with customers' requests, it also understands the market demand and is able to enhance its own research and development capacity through mutual cooperation with the customers.

The Group has excellent production processing technologies for formed foils and stable production capacity. Currently, the production line of formed foils in Capxon Qinghai has been operating in full swing and undergoing steady mass production. Various key technical research and development projects and quality control techniques have also achieved the expected goals.

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 supplying both water and fluid to fluid supply only. The change of fluid supply method has enhanced the stability of the thickness of the electrolytic cell solution on the production line and is beneficial to the consistency of product quality.

4. The introduction of imported raw materials with stable quality this year has improved the production and quality of aluminum foils with high specific volume and high flexibility and offered a solution to the partial reliance on imported aluminum foils with high specific volume and high flexibility.

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 not merely satisfy its internal demand but also be sufficient to meet the needs of other capacitor manufacturers. In future, in light of the economic structure reform and localization of industrial supply chain in mainland China, the Group will play a more active role in developing the market in China by leveraging on the vertically integrated strengths of its two major products and on its capability of supplying locally. In the meantime, the Group will also continually explore the overseas markets by increasing the sales visibility of its aluminum foils with a view to reducing its dependence on the China market.

Manufacture and sale of capacitors

External sales of aluminum electrolytic capacitors during the Period were approximately RMB425,040,000, representing approximately 89.03% of the Group's total external sales and an increase of approximately 5.94% from the same period last year. The external sales of aluminum electrolytic capacitors for the same period last year accounted for approximately 83.09% of the Group's total external sales.

In light of the multi-tasking requirements for electronic products, the Group strives to advance its capacitor production technology. The Group's aluminum electrolytic capacitors offer a comprehensive range of size and specifications, and are characterized by features such as long life, high capacitance, low impedance, energy-saving, high temperature resistance and high voltage tolerance. For example:

- We expanded the mass production of the 35V SMD series high voltage conductive polymers

- The advanced miniaturized versions of 560uF6.3V and 270uF16V, which are exclusively for display cards, were completely put into mass production

- In respect of the application of conductive polymers on motherboards, long-life products with a life of up to 10,000 hours were successfully introduced to the low inductance series

- We further refined the production process of conductive polymers. The capacitance induced rate of the PX series for use by adapters was increased by 10%, with a corresponding reduction of material usage

- We satisfied customers' needs and increased the production capacity of the production line simply by enhancing the ripple-current resistance of the UB, UC, UD, UJ, UK and UL series capacitors, which are exclusively for inverter air-conditioners, by 30%

- To meet the requirements of tailored small chargers, we successfully developed an ultra-thin high-voltage capacitor with lightning surge resistance

- The 125°C TZ series low impedance products with a life of up to 5,000 hours and 130°C LH series long-life products with a life of up to 3,000 hours exclusively for LED

- We finished developing a 5-6.3mm miniaturized product with a life of up to 10,000 hours for the GT series

- For the AEC-Q200 capacitors exclusively for automobiles, a laboratory has been built and the whole series of products has passed all the testing requirements

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 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 net cash inflow of approximately RMB32,136,000 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 RMB12,910,000, which was mainly due to the loss before tax for the Period of approximately RMB174,605,000 together with the changes in the flow of funds as a result of the adjustments for finance costs and depreciation etc., movements in inventories, accounts receivable and accounts payable etc.

Net cash inflow from investing activities was approximately RMB3,839,000, which was mainly due to the payment of approximately RMB13,623,000 for the purchase of machinery and equipment and a net decrease of approximately RMB16,681,000 in secured bank deposits.

Net cash inflow from financing activities was approximately RMB15,387,000, which was mainly due to borrowings of approximately RMB418,452,000 from the bank, repayment of the bank borrowings of approximately RMB394,738,000 and interest payment of approximately RMB8,352,000 for the borrowings.

As at 30 June 2014, the Group had cash and cash equivalents of approximately RMB120,129,000 (31 December 2013: RMB87,867,000), which were mainly denominated in Renminbi and US dollars.

Borrowings

As at 30 June 2014, the Group had bank borrowings of approximately RMB383,540,000 (31 December 2013: RMB354,956,000), which were mainly denominated in Renminbi and US dollars. Such borrowings were mainly subject to floating (31 December 2013: fixed) interest rates. In addition to the abovementioned bank borrowings, the Group had advances drawn on bills receivable discounted with recourse due within one year of approximately RMB18,235,000 as at 31 December 2013 (30 June 2014: nil). Below is an analysis of the repayment profile of the bank borrowings:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Within one year or on demand	**383,540**	372,987
In the second year	**–**	204
	383,540	373,191

Pledge of Assets

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Bank deposits	**24,707**	41,264
Bills receivable	**–**	2,136
Land use rights	**22,079**	25,787
Property, plant and equipment	**155,985**	184,067
	202,771	253,254

In addition, there were bills receivable discounted with recourse of RMB18,235,000 as at 31 December 2013 (30 June 2014: nil).

Financial Ratios

As at 30 June 2014, the Group's gearing ratio (net debts divided by equity attributable to owners of the Company plus net debts) amounted to approximately 43.04%, representing an increase of approximately 2.34% as compared to 40.70% as at 31 December 2013. The increase was mainly due to the loss attributable to owners of the Company for the Period of approximately RMB167,583,000 and an increase in bank borrowings of approximately RMB10,349,000.

Below is 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	
	2014	2013
Inventory turnover	**78 days**	96 days
Trade and bills receivable turnover	**149 days**	136 days
Trade and bills payable turnover	**77 days**	79 days

The Group's turnover days of inventories and trade and bills payable were about 18 days and 2 days, respectively, shorter than those for the corresponding period last year, while the turnover days of trade and bills receivable were about 13 days longer than those for the corresponding 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 2014, the Group had capital commitments contracted but not provided for amounting to approximately RMB32,130,000 (31 December 2013: RMB37,499,000).

Contingent Liabilities

1. 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 (approximately RMB84,642,000) 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 (approximately RMB3,596,000) from the customer for the damages caused, plus interest 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 RMB145,486,000);

   (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 RMB78,640,000) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB56,486,000) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB10,360,000) accrued from 1 December 2012 until payment in full; and

   (iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,416,000).

Capxon Taiwan is now seeking legal advice from its legal advisers in respect of the arbitral award to defend its position. The directors of the Company believe the Group has sufficient grounds to defend. However, the ultimate outcome of the defence is unable to be assessed at this preliminary stage.

Provision for damages of approximately RMB170,862,000 was recognised in the condensed consolidated financial statements for the six months ended 30 June 2014.

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

Foreign Exchange Fluctuations

The Group derives its revenue principally in US dollars and Renminbi, whilst the expenses are mainly denominated in Japanese Yen, Renminbi, US 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 2014, the Group had approximately 2,923 employees in total. Salary, bonus and fringe benefits were determined with reference to the prevailing market terms and individual employee's performance, qualification and experience. Employees' cost (including directors' emoluments) amounted to approximately RMB103,590,000 for the six months ended 30 June 2014 (for the six months ended 30 June 2013: RMB90,189,000).

Future Strategy and Planning

In 2014, 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, 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 endeavouring 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.

- *Production equipment:* The automatic forming line for conductive polymers has shortened the time required for the production process by combining the upstream and downstream procedures to enhance production yield rate. An automatic integrated sealing, assembly and sleeving machine has been introduced for snap-in products.

- *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.

- *Product innovation:* Vehicle driving controller, charging power supply for electric vehicles, charging equipment and devices, conductive polymers exclusively for servers, and products related to intelligent home appliances.

- *Technical reform:*

    - Impregnation process: Precisely control the impregnation volume of each element by using the impregnation equipment to obtain the effective content of monomers without causing excessive evaporation and wastage, and achieve consistent thickness of monomers by setting the temperature and humidity to specific levels, in order to maximize the capacitance of each unit area of aluminum foils.

- Aged equipment: Given the large amount of bubbles arising during the charging of high-voltage products, we have improved the charging power supply to 12-stage charging so as to reduce the internal pressure of capacitors during charging and increase the effectiveness of electrolyte solvent, thereby enhancing the ripple-current resistance and lengthening the life of the capacitors.

- Reforming process: Enhance the characteristics of forming solvent and the thickness of electrolyte ions so that the slit and stitched sections of aluminum foils can be charged properly and the oxide films can be restored.

- High-voltage conductive polymers: Coupling with the development of dispersion liquid, high-molecular polymers, such as PEG, are added to the existing oxidizer of monomers to enhance the voltage resistance and capacitance of capacitors.

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 on the manufacturing and marketing of aluminum foil and capacitor products. We focus on innovative research and development 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 2013.

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 22 to 42, which comprise the condensed consolidated statement of financial position as of 30 June 2014 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 notes 1 and 15(a) to the condensed consolidated financial statements which explain that the Group recognised an expense of approximately RMB170,862,000, 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, in the condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2014. As further stated in note 15(a) to the condensed consolidated financial statements, the Group is in the process of seeking legal advice to defend against the arbitral award. The eventual success or otherwise of the defence may have a material effect on the final amount to be recognised. However, the ultimate outcome of the defence cannot be determined at this preliminary stage.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 August 2014

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2014

	Notes	**Six months ended 30 June** **2014** **RMB'000** **(unaudited)**	2013 RMB'000 (unaudited)
Revenue	*3*	**477,428**	478,171
Cost of sales		**(383,265)**	(374,645)
Gross profit		**94,163**	103,526
Other income		**2,599**	3,691
Other gains and losses		**(10,494)**	(2,387)
Distribution and selling costs		**(29,941)**	(29,237)
Administrative expenses		**(39,508)**	(39,989)
Other expenses		**(12,210)**	(9,042)
Provision for damages	*15(a)*	**(170,862)**	–
Finance costs		**(8,352)**	(11,759)
(Loss) profit before tax		**(174,605)**	14,803
Income tax credit (expense)	*4*	**1,061**	(2,391)
(Loss) profit for the period	*5*	**(173,544)**	12,412
Other comprehensive expense			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		**–**	54
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of financial statements of foreign operations		**(3,704)**	(559)
Other comprehensive expense for the period		**(3,704)**	(505)
Total comprehensive (expense) income for the period		**(177,248)**	11,907

	Notes	Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
		(unaudited)	(unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(167,583)**	11,845
Non-controlling interests		**(5,961)**	567
		(173,544)	12,412
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(171,203)**	11,309
Non-controlling interests		**(6,045)**	598
		(177,248)	11,907
(Loss) earnings per share *(RMB cents)*	*7*		
Basic		**(19.84)**	1.40

Condensed Consolidated Statement of Financial Position

At 30 June 2014

	Notes	**30 June 2014 RMB'000 (unaudited)**	31 December 2013 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*8*	**583,110**	589,956
Land use rights		**41,020**	41,537
Intangible assets		**3,019**	4,388
Deferred tax assets		**833**	1,010
Deposits paid for acquisition of property, plant and equipment		**32,358**	57,622
		660,340	694,513
CURRENT ASSETS			
Inventories		**167,168**	163,822
Land use rights		**1,031**	1,031
Trade and other receivables	*9*	**415,205**	457,272
Tax recoverable		**199**	183
Pledged bank deposits		**24,707**	41,264
Bank balances and cash		**120,129**	87,867
		728,439	751,439
CURRENT LIABILITIES			
Trade and other payables	*10*	**351,412**	231,969
Bank borrowings	*11*	**383,540**	372,987
Amounts due to related parties	*13*	**13,918**	13,893
Tax liabilities		**4,621**	14,441
		753,491	633,290
NET CURRENT (LIABILITIES) ASSETS		**(25,052)**	118,149
TOTAL ASSETS LESS CURRENT LIABILITIES		**635,288**	812,662
NON-CURRENT LIABILITIES			
Bank borrowings	*11*	**–**	204
Defined benefit obligations		**7,015**	6,781
Deferred income		**22,048**	22,204
		29,063	29,189
		606,225	783,473

	30 June 2014 RMB'000 (unaudited)	31 December 2013 RMB'000 (audited)
CAPITAL AND RESERVES		
Share capital	**82,244**	82,244
Share premium and reserves	**520,388**	691,591
Equity attributable to owners of the Company	**602,632**	773,835
Non-controlling interests	**3,593**	9,638
	606,225	783,473

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

	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 2013 (audited)	82,244	436,626	(30,753)	92,623	20,649	–	163,065	764,454	11,017	775,471
Profit for the period	–	–	–	–	–	–	11,845	11,845	567	12,412
Other comprehensive income (expense) for the period	–	–	–	–	(588)	–	52	(536)	31	(505)
Total comprehensive income (expense)	–	–	–	–	(588)	–	11,897	11,309	598	11,907
Appropriation	–	–	–	286	–	–	(286)	–	–	–
At 30 June 2013 (unaudited)	82,244	436,626	(30,753)	92,909	20,061	–	174,676	775,763	11,615	787,378
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

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) During the year ended 31 December 2013, the Group accounted for the deemed acquisition on additional interest of a subsidiary without losing control as equity transaction and the difference between the carrying amount of non-controlling interests and the fair value of the consideration paid, amounting to RMB1,971,000, was recognised in other reserve.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	**12,910**	65,701
Net cash from (used in) investing activities		
Placement of pledged bank deposits	**(14,337)**	–
Purchase of property, plant and equipment	**(9,324)**	(13,341)
Deposits paid for acquisition of property, plant and equipment	**(4,299)**	(16,300)
Release of pledged bank deposits	**31,018**	26,156
Proceeds from disposal of property, plant and equipment	**551**	348
Other investing cash flows	**230**	1,063
	3,839	(2,074)
Net cash from (used in) financing activities		
New bank borrowings raised	**418,452**	455,909
Repayment of bank borrowings	**(394,738)**	(468,048)
Interest paid	**(8,352)**	(11,759)
Advances drawn down from bills receivable discounted with recourse	**–**	23,591
Other financing cash flows	**25**	(9,041)
	15,387	(9,348)
Net increase in cash and cash equivalents	**32,136**	54,279
Cash and cash equivalents at 1 January	**87,867**	124,373
Effect of foreign exchange rate changes	**126**	(3,045)
Cash and cash equivalents at 30 June, represented by bank balances and cash	**120,129**	175,607

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2014

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.

In preparing the condensed consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that the Group incurred a loss of RMB173,544,000 for the six months ended 30 June 2014 and the Group's current liabilities exceeded its current assets by RMB25,052,000 as at 30 June 2014.

In the opinion of the directors of the Company, the Group will be able to continue as a going concern in the coming year taking into consideration the factors which include, but are not limited to the following:

(a) The current available banking facilities of the Group will be renewed upon expiry; and

(b) The arbitration award as described in note 15(a) was decided in Japan, due to the involvement of different jurisdictions, the case is required to be further processed in Taiwan and the Group will defend its position. Therefore, in the opinion of the directors of the Company, the damages will not be required to be settled within twelve months from the end of the reporting period.

Based on the aforesaid factors, the directors of the Company are satisfied that the Group will have sufficient financial resources to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

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

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC 21	Levies

The application of the above new Interpretation and 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 Segment 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

3. Revenue and Segment Information *(continued)*

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

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)
Group's loss before tax					(174,605)

3. Revenue and Segment Information *(continued)*

For the six months ended 30 June 2013

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
External sales	397,321	80,850	478,171	–	478,171
Inter-segment sales	–	121,473	121,473	(121,473)	–
Segment revenue	397,321	202,323	599,644	(121,473)	478,171
Segment profit	27,769	11,929	39,698	(9,628)	30,070
Interest income					1,091
Unallocated corporate expenses					(4,599)
Finance costs					(11,759)
Group's profit before tax					14,803

Segment profit represents the profit earned by each segment without allocation of central administration costs, interest income, corporate expenses finance costs and 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 segment information.

4. Income Tax (Credit) Expense

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current tax		
– PRC Enterprise Income Tax	**3,323**	7,239
– Taiwan Corporate Income Tax	**456**	305
	3,779	7,544
(Over)underprovision in prior years		
– PRC Enterprise Income Tax	**(4,771)**	(5,113)
– Taiwan Corporate Income Tax	**(257)**	79
	(5,028)	(5,034)
Deferred tax – current period	**188**	(119)
	(1,061)	2,391

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"), a subsidiary of the Company, the tax rate of the Group's subsidiaries 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.

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

5. (Loss) Profit for the Period

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

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Depreciation of property, plant and equipment	**37,746**	38,014
Amortisation of land use rights	**517**	517
Amortisation of intangible assets	**1,416**	1,692
Total depreciation and amortisation	**39,679**	40,223
Loss on disposal/written-off of property, plant and equipment	**7,584**	2,092
Impairment loss on trade receivables	**893**	115
Net foreign exchange losses	**2,017**	180
Other gains and losses	**10,494**	2,387
Cost of inventories recognised as an expense (including write-down of inventories of RMB11,194,000 (six months ended 30 June 2013: RMB869,000))	**383,265**	374,645
Research and development costs (included in other expenses)	**9,439**	6,585
Interest income	**(276)**	(1,091)

6. Dividends

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

7. (Loss) Earnings Per Share

The calculation of the basic (loss) earnings per share attributable to the owners of the Company for the six months ended 30 June 2014 is based on the loss for the period attributable to owners of the Company of approximately RMB167,583,000 (six months ended 30 June 2013: profit for the period attributable to owners of the Company of RMB11,845,000) and on 844,559,841 ordinary shares in issue.

Diluted (loss) earnings per share is not presented for the six months ended 30 June 2014 and 2013 as there were no potential ordinary shares outstanding during the six months ended 30 June 2014 and 2013.

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 RMB8,135,000 (six months ended 30 June 2013: RMB2,440,000) for cash proceeds of approximately RMB551,000 (six months ended 30 June 2013: RMB348,000).

During the current interim period, the Group acquired property, plant and equipment, including construction in progress, of approximately RMB38,887,000 (six months ended 30 June 2013: RMB19,438,000) 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 RMB7,095,000 (31 December 2013: RMB7,317,000) 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 2014 RMB'000	31 December 2013 RMB'000
0–60 days	**216,826**	265,614
61–90 days	**72,782**	71,129
91–180 days	**72,196**	76,034
181–270 days	**5,198**	2,620
271–360 days	**1,815**	–
Over 360 days	**515**	99
	369,332	415,496

As at 31 December 2013, included in trade and other receivables was bills receivable discounted to banks with full recourse with a maturity period of less than 120 days and a carrying value of approximately RMB18,235,000 (30 June 2014: nil). The Group recognised the respective liabilities as set out in note 11.

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 2014 RMB'000	31 December 2013 RMB'000
0–60 days	**82,889**	92,298
61–90 days	**17,398**	27,391
91–180 days	**18,578**	51,072
181–270 days	**1,957**	1,987
271–360 days	**1,039**	636
Over 360 days	**15,191**	17,271
	137,052	190,655

11. Bank Borrowings

	30 June 2014 RMB'000	31 December 2013 RMB'000
Bank borrowings	**383,540**	354,956
Advances drawn on bills receivable discounted with recourse *(Note)*	**–**	18,235
	383,540	373,191
Secured	**337,366**	318,654
Unsecured	**46,174**	54,537
	383,540	373,191
Carrying amount repayable:*		
Within one year	**383,540**	372,987
More than one year, but not exceeding two years	**–**	204
	383,540	373,191
Less: Amounts due within one year shown under current liabilities	**(383,540)**	(372,987)
Amounts shown under non-current liabilities	**–**	204

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

Note: The amount represented the Group's borrowings secured by the bills receivable discounted to banks with recourse (see note 9).

During the current interim period, the Group obtained new borrowings in the amount of approximately RMB418,452,000 (six months ended 30 June 2013: RMB455,909,000). The new borrowings consist of variable-rate borrowings with effective interest rates ranging from 1.5% to 8% per annum, fixed-rate borrowings with effective interest rates ranging from 3.73% and are repayable within one year.

12. Capital Commitments

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**32,130**	37,499

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 2014 RMB'000**	Six months ended 30 June 2013 RMB'000
Lin I Chu *(Note)*	Interest expense	**301**	768

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 2014 RMB'000**	31 December 2013 RMB'000
Amounts due to related parties			
Chou Chiu Yueh	Director	**5**	5
Lin Chin Tsun	Director	**3,305**	3,280
Lin I Chu	Director	**10,607**	10,607
Lin Yuan Yu	Director	**1**	1
		13,918	13,893

13. Related Party Disclosures *(continued)*

(b) Related party balances *(continued)*

Except for an unsecured amount due to Ms. Lin I Chu of approximately RMB10,607,000 (31 December 2013: RMB10,607,000) bearing 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 2014 and 31 December 2013 were 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 2014 RMB'000	31 December 2013 RMB'000
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**215,021**	149,160
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**72,692**	89,243
Lin Chin Tsun, Chou Chiu Yueh, Lin Yuan Yu, Liu Fang Chun and Lin I Chu *(Note)*	**37,877**	47,235
Lin Chin Tsun and Lin I Chu *(Note)*	**13,204**	8,688
	338,794	294,326

Note: Mr. Lin Yuan Yu, Ms. Liu Fang Chun and Ms. Lin I Chu are close family members of Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh. All of them are directors and shareholders of the Company.

The expiry dates of the above guarantees fall within the period from July 2014 to October 2015 (31 December 2013: January 2014 to March 2015).

As at 31 December 2013, Ms. Lin I Chu pledged a property to a bank to secure banking facilities of NTD65,000,000 (approximately RMB13,397,000) granted to the Group. The aforesaid security was released during the period.

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	
	2014	2013
	RMB'000	RMB'000
Short term benefits	**4,672**	4,713
Post-employment benefits	**128**	138
	4,800	4,851

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 2014	31 December 2013
	RMB'000	RMB'000
Property, plant and equipment	**155,985**	184,067
Land use rights	**22,079**	25,787
Bank deposits	**24,707**	41,264
Bills receivable	**–**	2,136
	202,771	253,254

In addition, there was bills receivable discounted with full recourse of RMB18,235,000 as at 31 December 2013 (30 June 2014: Nil).

15. Contingent Liabilities

(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 (approximately RMB84,642,000) 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 (approximately RMB3,596,000) from the customer for the damages caused, plus interest 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 RMB145,486,000);

(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 RMB78,640,000) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB56,486,000) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB10,360,000) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,416,000).

Capxon Taiwan is now seeking legal advice from its legal advisers in respect of the arbitration award to defend its position. The directors of the Company believe the Group has sufficient grounds to defend. However, the ultimate outcome of the defence is unable to be assessed at this preliminary stage.

Provision for damages of approximately RMB170,862,000 was recognised in the condensed consolidated financial statements for the six months ended 30 June 2014.

15. Contingent Liabilities *(continued)*

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

16. Non-Cash Transaction

During the current interim period, bills receivable discounted with recourse of RMB18,235,000 (six months ended 30 June 2013: RMB28,316,000) was set off with advances drawn on bills receivable discounted with recourse.

Other Information

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

As at 30 June 2014, 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		
Mr. TUNG Chin Chuan	Beneficial owner	3,386,000	3,386,000	0.40
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 2014.

(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 2014, 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 2014, 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 2014.*

Save as disclosed above, the Directors are not aware of any other persons who, as at 30 June 2014, 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 2014 (six months ended 30 June 2013: 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 2014.

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 2014, 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 2014 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 2014.

Review by Audit Committee

The Company's audit committee is composed of all the three independent non-executive Directors. The audit committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2014 (including the accounting principles and practices), internal controls and financial reporting matters with the management of the Company.

On behalf of the Board
LIN Chin Tsun
Chairman

Hong Kong, 29 August 2014