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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 2014

**FINANCIAL HIGHLIGHTS**

| | **Six months ended 30 June** | | |
|---|---|---|---|
| | **2014** | **2013** | **Changes** |
| Revenue (RMB'000) | 477,428 | 478,171 | -0.16% |
| (Loss) profit for the period attributable to owners of the Company (RMB'000) | (167,583) | 11,845 | N/A |
| Basic (loss) earnings per share attributable to owners of the Company (RMB cents) | (19.84) | 1.40 | N/A |
| Interim dividends (HK cents per share) | -- | -- | -- |

The board of directors (the "Board") of Capxon International Electronic Company Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2014 (the "Period") together with the comparative figures for the corresponding period as follows:

**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 | | (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 |
| (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**
AS AT 30 JUNE 2014

| | NOTES | 30 June 2014 RMB'000 (unaudited) | 31 December 2013 RMB'000 (audited) |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 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 | 8 | 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 | 9 | 351,412 | 231,969 |
| Bank borrowings | | 383,540 | 372,987 |
| Amounts due to related parties | | 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 | | - | 204 |
| Defined benefit obligations | | 7,015 | 6,781 |
| Deferred income | | 22,048 | 22,204 |
| | | 29,063 | 29,189 |
| | | 606,225 | 783,473 |
| 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 |

**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”).

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 item 1 of the contingent liabilities under the section headed “Management Discussion and Analysis” in this announcement is 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 settle 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 |

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<br>RMB'000 | Aluminum foils<br>RMB'000 | Segment total<br>RMB'000 | Eliminations<br>RMB'000 | Total<br>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) |

For the six months ended 30 June 2013

| | Capacitors<br>RMB'000 | Aluminum foils<br>RMB'000 | Segment total<br>RMB'000 | Eliminations<br>RMB'000 | Total<br>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 | | |
| - The People's Republic of China (the "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 is 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 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. 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 under bank borrowings.

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 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 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

A summary of the financial results of the Group for 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 United States ("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 Electronic Technology (QingHai) Co., Ltd., a wholly-owned subsidiary of the Company, 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.

Ø *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℃ TZ series low impedance products with a life of up to 5,000 hours and 130℃ 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

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 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 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.

Ø *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 ground to defend. However, the ultimate outcome of the defence is unable to be assessed at this preliminary stage.

   Provision for damages of 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 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.

**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.

## OTHER INFORMATION

### 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 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 2014.

### 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 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 of the Company, 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.

### INTERIM REPORT

The 2014 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, 29 August 2014