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 2019

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2019	**2018**	**Changes**
Revenue (RMB'000)	596,951	566,755	+5.33%
Profit for the period attributable to owners of the Company (RMB'000)	32,615	19,111	+70.66%
Basic profit per share attributable to owners of the Company (RMB cents)	3.86	2.26	+70.80%
Interim dividends (HK cents per share)	--	--	--

The board of directors (the "Board") of Capxon International Electronic Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019 (the "Period") together with the comparative figures for the corresponding period of last year as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2019

	NOTES	Six months ended 30 June 2019 RMB'000 (unaudited)	2018 RMB'000 (unaudited)
Revenue	3A	596,951	566,755
Cost of sales		(431,257)	(414,976)
Gross profit		165,694	151,779
Other income		9,402	3,300
Other expenses		(28,347)	(23,179)
Other gains and losses		(5,175)	(4,114)
Impairment losses under expected credit loss model, net of reversal		(3,470)	761
Distribution and selling costs		(34,680)	(39,850)
Administrative expenses		(49,007)	(45,378)
Interest on provision for damages		(4,477)	(4,199)
Finance costs		(4,888)	(2,702)
Profit before tax		45,052	36,418
Income tax expense	4	(12,489)	(18,060)
Profit for the period	5	32,563	18,358
Other comprehensive expense:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		(4,719)	(608)
Total comprehensive income for the period		27,844	17,750
Profit (loss) for the period attributable to:			
Owners of the Company		32,615	19,111
Non-controlling interests		(52)	(753)
		32,563	18,358
Total comprehensive income (expense) attributable to:			
Owners of the Company		27,896	18,322
Non-controlling interests		(52)	(572)
		27,844	17,750
Earnings per share (RMB cents)			
Basic	7	3.86	2.26

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019

	NOTES	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		491,336	491,426
Right-of-use assets		29,095	-
Land use rights		-	21,667
Intangible assets		6	8
Pledged deposit in a financial institution		2,062	2,064
Deposits paid for acquisition of property, plant and equipment		44,863	25,842
		567,362	541,007
CURRENT ASSETS			
Inventories		166,884	204,188
Land use rights		-	681
Trade and other receivables	8	477,623	435,047
Tax recoverable		795	795
Pledged bank deposits		1,806	2,818
Fixed bank deposits		27,779	28,221
Bank balances and cash		261,493	248,918
		936,380	920,668
CURRENT LIABILITIES			
Trade and other payables	9	255,940	289,459
Lease liabilities		3,896	-
Provision for damages		226,043	218,725
Contract liabilities		2,296	6,906
Bank and other borrowings		271,013	240,383
Amount due to a related party		3,660	3,654
Tax liabilities		29,954	37,747
		792,802	796,874
NET CURRENT ASSETS		143,578	123,794
TOTAL ASSETS LESS CURRENT LIABILITIES		710,940	664,801
NON-CURRENT LIABILITIES			
Bank and other borrowings		19,788	10,114
Lease liabilities		3,136	-
Deferred income		750	750
Deferred tax liabilities		12,472	6,987
		36,146	17,851
NET ASSETS		674,794	646,950
CAPITAL AND RESERVES			
Share capital		82,244	82,244
Share premium and reserves		591,812	563,916
Equity attributable to owners of the Company		674,056	646,160
Non-controlling interests		738	790
TOTAL EQUITY		674,794	646,950

NOTES

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards ("IFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

IFRS 16	Leases
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRSs	Annual Improvements to IFRSs 2015 - 2017 Cycle

3A. REVENUE

Disaggregation of revenue

Geographical markets and product type information

	Six months ended 30 June 2019		
	Capacitors	Aluminium foils	Total
	RMB'000	RMB'000	RMB'000
Geographical markets			
The PRC	464,663	40,756	505,419
Taiwan	6,486	-	6,486
Other Asian countries (Note)	63,262	1,548	64,810
Europe (Note)	19,237	-	19,237
America and Africa	999	-	999
Revenue from contracts with customers	554,647	42,304	596,951

	Six months ended 30 June 2018		
	Capacitors	Aluminium foils	Total
	RMB'000	RMB'000	RMB'000
Geographical markets			
The PRC	481,795	5,968	487,763
Taiwan	8,711	-	8,711
Other Asian countries (Note)	51,934	1,108	53,042
Europe (Note)	16,593	-	16,593
America and Africa	646	-	646
Revenue from contracts with customers	559,679	7,076	566,755

Note: The countries of the external customers included in these categories comprise Korea, Japan, Vietnam, Singapore, Germany and others. No further analysis by countries of these categories is presented because the revenue from each individual country is insignificant to the total revenue.

All revenue generated by the Group is recognised at a point in time.

3B. SEGMENTAL INFORMATION

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

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

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

Capacitors - Manufacture and sale of capacitors
Aluminium foils - Manufacture and sale of aluminum foils

Segment revenue and results

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

For the six months ended 30 June 2019

	Capacitors RMB'000	Aluminium foils RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
External sales	554,647	42,304	596,951	-	596,951
Inter-segment sales	-	99,244	99,244	(99,244)	-
Segment revenue	554,647	141,548	696,195	(99,244)	596,951
Segment profit	42,118	23,611	65,729	(3,998)	61,731
Interest income					880
Unallocated corporate expenses					(5,839)
Finance costs					(4,888)
Interest on provision for damages					(4,477)
Foreign exchange loss arising from retranslation of provision for damages					(2,355)
Profit before tax					45,052

For the six months ended 30 June 2018

	Capacitors RMB'000	Aluminium foils RMB'000	Segment total RMB'000	Eliminations RMB'000	Total RMB'000
External sales	559,679	7,076	566,755	-	566,755
Inter-segment sales	-	98,633	98,633	(98,633)	-
Segment revenue	559,679	105,709	665,388	(98,633)	566,755
Segment profit	45,080	16,010	61,090	(3,678)	57,412
Interest income					496
Unallocated corporate expenses					(5,698)
Finance costs					(2,702)
Interest on provision for damages					(4,199)
Foreign exchange loss arising from retranslation of provision for damages					(8,891)
Profit before tax					36,418

Segment profit represents the profit from each segment without allocation of central administration costs, interest income, finance costs, interest on provision for damages and foreign exchange loss arising from retranslation of provision for damages. This is the measure reported to the Group's chief operating 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 form the amounts disclosed in the consolidated financial statements for the year ended 31 December 2018 for performance assessment and resource allocation purposes, the Group has not included total assets and total liabilities information as part of segmental information.

4. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Current tax		
- PRC Enterprise Income Tax	19,888	5,273
- Taiwan Corporate Income Tax	2,233	1,284
PRC dividend withholding tax	-	7,426
	22,121	13,983
Overprovision in prior year	(14,579)	-
Deferred tax	4,947	4,077
	12,489	18,060

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Depreciation of property, plant and equipment		
- capitalised in inventories	21,188	18,213
- recognised in administrative expenses	493	772
- recognised in other expenses (note a)	341	1,671
Depreciation of right-of-use assets	2,742	-
Amortisation of land use rights	-	343
Amortisation of intangible assets	2	1
Total depreciation and amortisation	24,766	21,000
Loss on disposal/written-off of property, plant and equipment	1,376	1,069
Net foreign exchange losses	3,799	3,045
Other gains and losses	5,175	4,114
Cost of inventories recognised as an expense (including provision for write-down of inventories of RMB4,798,000 (six months ended 30 June 2018: reversal of RMB7,168,000) (note b))	431,257	414,976
Research and development costs (included in other expenses)	20,413	18,887
Interest income	(880)	(496)

Notes:

(a) The amount represents the depreciation expenses of property, plant and equipment of a subsidiary of the Company which has ceased operation during the six months ended 30 June 2018. The relevant equipment have been relocated to other production plants of the Group during the current interim period.

(b) During the six months ended 30 June 2018, certain aged inventories relating to the cessation of operation by a subsidiary of the Company, Capxon Electronic Technology (Qinghai) Co., Ltd. (凱普松電子科技(青海)有限公司) were sold at above net realisable values. As a result, a reversal of write-down of inventories of RMB7,168,000 has been recognised and included in the cost of sales in the period.

6. DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 June 2019 and 2018. The board of directors of the Company has determined that no dividend will be paid in respect of the interim period.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company for the six months ended 30 June 2019 is based on the profit for the period attributable to owners of the Company of RMB32,615,000 (six months ended 30 June 2018: RMB19,111,000) and on 844,559,841 ordinary shares in issue.

There were no potential ordinary shares outstanding during the six months ended 30 June 2019 and 2018.

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 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 2019 RMB'000	31 December 2018 RMB'000
0 - 60 days	415,683	279,751
61 - 90 days	7,497	45,895
91 - 180 days	2,368	54,349
181 - 270 days	1,492	3,900
Over 360 days	385	-
	427,425	383,895

As at 30 June 2019, total bills received amounting to RMB23,587,000 (31 December 2018: RMB6,205,000) were held by the Group for settlement of trade receivables. The Group continues to recognise their full carrying amounts at the end of the reporting period. All bills received by the Group are with a maturity period of less than one year.

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 2019 RMB'000	31 December 2018 RMB'000
0 - 60 days	116,538	104,838
61- 90 days	18,367	42,283
91 - 180 days	21,214	42,672
181 - 270 days	4,096	4,127
271 - 360 days	1,077	1,444
Over 360 days	15,562	15,863
	176,854	211,227

The Group's other payables include other borrowing from a supplier of RMB9,000,000 (31 December 2018: RMB9,000,000) which carries interest of 9.6% (31 December 2018: 9.6%) per annum and is repayable within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

A summary of the financial results of the Group for the Period is set out below:

- Revenue increased by approximately 5.33 % to approximately RMB596,951,000.
- Gross profit increased by approximately 9.17 % to approximately RMB165,694,000.
- Profit for the Period attributable to owners of the Company amounted to approximately RMB32,615,000 (for the six months ended 30 June 2018: RMB19,111,000).

During the Period under review, the Group's revenue was approximately RMB596,951,000, representing an increase of approximately 5.33% over the corresponding period of last year. Sales of capacitors for the Period amounted to approximately RMB554,647,000, representing a slight decrease of approximately 0.90% as compared to RMB559,679,000 in the corresponding period of last year. Sales of aluminum foils for the Period amounted to RMB42,304,000, representing an increase of approximately 497.85% as compared to RMB7,076,000 in the corresponding period of last year. Such increase was mainly attributable to the increase in customers' demand amid the slow recovery of economic climate. During the Period, the Group strengthened the cost control measurement, and therefore its gross profit margin increased from approximately 26.78% for the corresponding period of last year to approximately 27.75% for the Period.

BUSINESS REVIEW

All the analysts' reports for 2019 have casted concerns over the China-US trade issue, Brexit and the possible interest rate cut in the US. According to the analysis of the brokers, China would retaliate once the trade war intensifies, which might lead to a decline of 1% in the US' GDP and 2% to 3% in the China's GDP, which is detrimental to both parties. However, at the same time there are articles suggesting that the impact of the China-US trade war on China's GDP would be about 1%. Nevertheless, once the trade war begins, the impact on countries or regions with strong affiliation to global supply chains such as Taiwan, Singapore, Malaysia and South Korea will be more intense and precautions should be taken. Now that the biggest black swan in 2019 is ready to run for re-election, it is important to respond to this change with practicable and long-term strategies such as transferring production lines, focusing on industries with domestic demand, or developing brands and channels to produce high value-added products to avoid huge transfer cost.

Clouded by numerous uncertainties, from the perspective of the electronic industry, our life has been slowly filled up with the increasingly prevalence of the artificial intelligence ("AI"), digital ecosystems, DIY biohackers, transparent immersive experience and the ubiquitous infrastructure. The continuous advancement of technologies, particularly wearable devices and unmanned vehicles, will keep transforming human life and competition intensively and thereby driving the need for technical upgrade and the demand for electronic parts and components. Moreover, some of the suppliers have begun to stock up due to their concerns over the impact of the China-US trade disputes, leading to an increase in the demand for electronic components during the first half of 2019 , resulting in higher sales over the corresponding period of last year.

➢ *Manufacture and sale of aluminum foils*

During the Period, after satisfying internal production demand, the Group's external sales of aluminum foils amounted to approximately RMB42,304,000, representing an increase of approximately 497.85% as compared to the external sales of aluminum foils of approximately RMB7,076,000 in the corresponding period of last year.

The increasingly stringent environmental regulations around the globe have restricted the production capacity of ordinary aluminum foils suppliers. Large-scale aluminum foils suppliers have however expanded their scope of production due to their ability to possess the necessary equipment and to comply with relevant regulations. As a result, material shortfall, which occurred in the previous year, is no longer an issue. That being said, once 5G takes off, there may still be a shortage of aluminum foils. In response to such industrial characteristics, the Group decided to expand its production capacity as planned after having assessed the market dynamics and considered the future market demand so as to ensure a stable supply of aluminum foils for its capacitor plants and meet the flexible demand of external market customers. Accordingly, in 2018, the Group built 20 new production lines for high-pressure formed foils, all of which have commenced production to secure the stable internal supply for the Group and meet the demand from external markets.

Aluminum foils are the major raw material of capacitors, and the Group has excellent production processing technologies for formed foils and a stable production capacity. Currently, it has completed various key research and development ("R&D") projects and quality control techniques. Besides, the Group remains active in exploring markets with high added value to prepare for future market changes. The Group will stay attentive to and cautiously respond to the future developments in the aluminum foils market.

Currently, the Group has completed the following key R&D projects and quality control techniques of aluminum foils:

➢ *Etched aluminum foils*

Through the adjustment to and improvement of the original ultra-high-voltage etching technique, formulation and materials, we have developed ultra-high-voltage etching foil products with higher capacity.

➢ *Formed foils*

To align with the construction of 5G base stations in the next few years, an independent R&D team was set up to focus on such stations. Currently, ultra-high-voltage formed aluminum foils used in aluminum electrolytic capacitors are under development. The oxidation film of such ultra-high-voltage formed aluminum foils is more stable than ordinary aluminum foil, with lower leakage current and stable capacity at high temperature, which is suitable for continuous long-time work under high temperature conditions.

New method, which is different from the traditional individual evaluation method, was developed to evaluate the performance of formed aluminum foils. The new method evaluates the performance of the formed aluminum foils by evaluating the adaptability of formed aluminum foils to the electrolyte under various conditions, thus the result is closer to the actual application environment, making it a more valuable reference in actual application.

During the Period, the Group has taken the following measures for environmental improvements in aluminum foils production:

- In January 2019, the transformation of foil-washing wastewater recycling project was completed and put into operation, helping to save 300 tons of water per day. It is used to replenish tap water for pure water production;

- The phosphorus-containing wastewater recycling system is currently being installed and is expected to save 300 tons of water per day after completion; and

- In response to environmental protection and in order to reduce production costs, the boric acid recycling has been put into trial-run phase in small quantity, and is expected to proceed to mid-course trial-run phase by the end of 2019.

➢ *Manufacture and sale of capacitors*

In respect of aluminum electrolytic capacitors, the Group recorded external sales of approximately RMB554,647,000 for the Period, which accounted for approximately 92.91% of the Group's total external sales, representing a decrease of approximately 5.84% from approximately 98.75% of the Group's total external sales for the corresponding period of last year.

While the passive component industry is about to enter its moderate growth stage in view of the growth in the global sales of smartphones, there is a considerable potential demand from other application markets or high-end application fields such as automobile, high-end smart home appliances, smart electricity meters, safety control systems and industrial control. As such, we are cautiously optimistic about the passive component industry for the years to come. Besides, in response to the application of the AI, edge computing and blockchain for medical and industrial purposes and the growing business opportunities in the application of internet, as well as the potential business opportunities of the wearable devices and unmanned vehicles, visionary technologies such as 5G, AI and visual machinery will bring the smart devices to a new era of diversity with various commodity service models evolving, and in order to cater to the tastes and requirements of consumers, the IT construction requirements of innovative service models are expected to expand to capture the software and hardware business opportunities in future businesses. In respect of the R&D for mass production of capacitors, the Group primarily worked on high-end products such as variable-frequency drives, servo drives, chargers for communication bases and communication terminal products and in-vehicle electronic applications during the Period, with great results already achieved in addressing relevant demand. In the future, the Group will commit more efforts to meet the requirements for special tailor-made products, including miniaturization, high capacity, high voltage, high frequency and high temperature. The Group will also take steps to develop custom-made products that cater to the front-end demand of the market and that can be applied across different sectors, promote market application of capacitors in various fields, renovate technologies and products ahead of the trend and expand the global market share of its capacitor products.

Currently, the Group has completed the following key R&D projects and quality control techniques on capacitors:

- Semi-solid shock-proof seat plate has been developed and validated by 30G, it mainly includes high-pressure products such as vehicle-mounted products and slender models.

- Development of Slender Conductive Polymer Hybrid Aluminum Electrolytic Capacitor AD50V220μF (10*16.5) for 48V Light Hybrid Power System of Vehicle Market has passed the test of customers and will replace the Japanese products.

- Capacitors have made breakthrough in the field of high and ultra-high voltage fast charging, and the capacitance conforms to lightning stroke test, drop test and over-voltage test. At the same time, the quality of products in the special workshop for fast charging is stable.

- In high-pressure product market applications, products of ultra-low temperature -55℃ are applied to products in special industries and for old zone outdoor environment.

- Development and production verification of 125-degree foil capacitor HH series with high temperature resistance and promotion of its application in 5G base stations.

LIQUIDITY AND FINANCIAL RESOURCES

➢ *Cash flows*

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

During the Period, the Group had a total net cash inflow of approximately RMB12,559,000 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 RMB20,961,000, which was mainly due to the profit before tax for the Period of approximately RMB45,052,000 together with the changes in the flow of funds as a result of the adjustments for finance costs, depreciation, etc. as well as the movements in inventories, receivables, payables, etc.

Net cash outflow from investing activities was approximately RMB39,764,000, which was mainly due to the payment of approximately RMB42,890,000 for the purchase of machinery and equipment.

Net cash inflow from financing activities was approximately RMB31,362,000, which was mainly due to borrowings of approximately RMB191,034,000 from banks, repayment of bank borrowings of approximately RMB152,420,000, payment of lease liability of approximately RMB2,596,000 and payment of interest of approximately RMB4,656,000.

As at 30 June 2019, the Group had cash and cash equivalents of approximately RMB261,493,000 (31 December 2018: RMB248,918,000), which were mainly held in Renminbi, Euro and U.S. Dollars (31 December 2018: Renminbi and U.S. Dollars).

➢ *Borrowings*

As at 30 June 2019, the Group had bank and other borrowings of approximately RMB290,801,000 (31 December 2018: RMB250,497,000), which were mainly denominated in U.S. Dollars, New Taiwan Dollars, Japanese Yen, Euro and Renminbi (31 December 2018: U.S. Dollars, New Taiwan Dollars, Japanese Yen Euro and Renminbi). Among such bank borrowings, approximately RMB257,682,000 (31 December 2018: RMB200,266,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of bank and other borrowings:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Within one year	271,013	240,383
More than one year but not exceeding two years	7,546	7,018
More than two years but not exceeding five years	2,843	3,096
More than five years	9,399	-
	290,801	250,497

PLEDGE OF ASSETS

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

	30 June 2019 RMB'000	31 December 2018 RMB'000
Pledged bank deposits	1,806	2,818
Pledged deposit in a financial institution	2,062	2,064
Right-of-use assets	10,982	-
Land use rights	-	11,159
Property, plant and equipment	78,321	79,272
	93,171	95,313

FINANCIAL RATIOS

As at 30 June 2019, the Group's gearing ratio (net debt divided by the sum of equity attributable to owners of the Company and net debt) amounted to approximately 30.67%, representing a decrease of approximately 1.15% as compared with 31.82% as at 31 December 2018.

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	
	2019	2018
Inventory turnover	78 days	73 days
Trade and bills receivable turnover	123 days	129 days
Trade and bills payable turnover	81 days	93 days

The Group will continue to improve the management of its inventories, trade receivables and trade payables in order to achieve even more efficient use of its funds.

CAPITAL COMMITMENTS

As at 30 June 2019, the Group had capital commitments contracted but not provided for in the consolidated financial statements amounting to approximately RMB8,294,000 (31 December 2018: RMB8,278,000).

MATERIAL PROCEEDINGS

During the year ended 31 December 2011, a customer ("Customer") filed an arbitration claim against a subsidiary of the Company, Capxon Electronic Industrial Company Limited (豐賓電子工業股份有限公司) ("Capxon Taiwan") with the Japan Commercial Arbitration Association (the "Arbitration Association") in Japan, claiming damages of JPY1,412,106,000 (approximately RMB89,908,000 (31 December 2018: RMB87,959,000)) allegedly suffered by the Customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

In August 2014, an arbitral award ("Arbitral Award") was made against Capxon Taiwan which was ordered to pay to the Customer damages in an aggregate sum of:

(i) damages of JPY2,427,186,647 (approximately RMB154,538,000 (31 December 2018: RMB151,172,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (approximately RMB83,533,000 (31 December 2018: RMB81,713,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (approximately RMB60,000,000 (31 December 2018: RMB58,693,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (approximately RMB11,005,000 (31 December 2018: RMB10,766,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (approximately RMB1,504,000 (31 December 2018: RMB1,471,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the Arbitral Award. In January 2016, the Tokyo District Court issued its decision in relation to the Arbitral Award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the Arbitral Award. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the Arbitral Award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan’s request for a permission to file an appeal. In May 2017, the Japan Supreme Court issued its decision, whereby it dismissed the extraordinary appeal of Capxon Taiwan and upheld the original decision of the Arbitration Association regarding the Arbitral Award.

In September 2017, the Customer filed an application to the High Court of the Hong Kong Special Administrative Region ("HK Court") to enforce the Arbitral Award in Hong Kong. An enforcement order was made in October 2017 and subsequently a charging order nisi was made in November 2017 by the HK Court. Capxon Taiwan applied to the HK Court to oppose against the charging order nisi in February 2018 and to set aside the enforcement order in March 2018. In May 2018, the HK Court dismissed Capxon Taiwan’s application to set aside the enforcement order and adjourned the charging order proceedings to November 2018 for Capxon Taiwan and the Customer to file further evidence.

In September 2018, the Customer applied to the HK Court for discovery of documents and disclosure of certain information of Capxon Taiwan and Lancom Limited, a subsidiary of Capxon Taiwan, by way of summons which is scheduled to be heard on 26 September 2019.

The final decision of the charging order hearing has not been reached by the HK Court as of the date of this announcement.

In November 2017, the Customer also filed an application to the Taiwan Shilin District Court for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan Shilin District Court issued a decision granting the recognition of the Arbitral Award. In April 2018, the shareholders of Capxon Taiwan passed a resolution to voluntarily wind up Capxon Taiwan and appointed liquidator pursuant to the Laws of Taiwan. As at 31 December 2018, certain property, plant and equipment in Taiwan, with carrying value of RMB10,995,000, were distrained by the Taiwan Shilin District Court for enforcing the Arbitral Award. During the current interim period, under the instruction issued by the Taiwan Shilin District Court, the relevant property, plant and equipment was in auction, and Capxon Technology Limited, a wholly-owned subsidiary of the Company, has purchased such auctioned property, plant and equipment. The consideration related to this auction amounted to NTD91,690,000 (approximately RMB20,106,000) ("Auction Consideration") was received and held by the Taiwan Shilin District Court to settle Capxon Taiwan's liabilities, which include secured bank borrowings, provision for damages and other creditors. Included in the Auction Consideration, interest on deferred payment amounted to JPY10,375,149 (equivalent to RMB661,000) and arbitration related expenses amounted to JPY23,618,062 (equivalent to RMB1,504,000) were settled to the Customer. As at the date of this announcement, the winding-up procedures of Capxon Taiwan are still in progress.

The outcome of the hearing from the HK Court cannot be determined at this stage and the winding-up procedures of Capxon Taiwan are still in progress. Therefore, an aggregate amount of JPY3,550,251,388 (31 December 2018: JPY3,511,811,817), equivalent to RMB226,043,000 (31 December 2018: RMB218,725,000), was provided as at 30 June 2019 in respect of:

(i) damages amounting to JPY2,427,186,647 (31 December 2018: JPY2,427,186,647), equivalent to RMB154,538,000 (31 December 2018: RMB151,172,000);

(ii) interest on deferred payment of the above amounting to JPY1,123,064,741 (31 December 2018: JPY1,061,007,108), equivalent to RMB71,505,000 (31 December 2018: RMB66,082,000); and

(iii) arbitration related expenses as a result of the Arbitral Award amounting to Nil (31 December 2018: JPY23,618,062, equivalent to RMB1,471,000).

FOREIGN EXCHANGE FLUCTUATIONS

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

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

EMPLOYMENT AND REMUNERATION POLICY

As at 30 June 2019, the Group had approximately 2,410 employees in total. Salary, bonus and fringe benefits are determined with reference to the prevailing market terms, and the individual employee's performance, qualification and experience. Employees are the backbone of an enterprise. The Group highly values loyal and diligent employees, and provides its employees with on-the-job education and training, travel as well as subsidies on transportation expenses for home visits. In addition, the Group adopts non-discriminatory hiring and employment practices, and strives to provide a safe and healthy working environment. During the Period, staff costs (including directors' emoluments) amounted to approximately RMB 111,017,000 (for the six months ended 30 June 2018: RMB116,026,000).

ENVIRONMENTAL POLICIES

The amendment of 2011/65/EU, (EU) 2015/863 announced by the European Commission on 4 June 2015 was the revised version of the 2011/65/EU (RoHS 2.0) directive (Directive on restricting the use of certain hazardous substances in electronic and electrical equipment), principally regulating the standards of raw materials used in and production processes of electronic and electrical products, so as to make them more conducive to human health and environmental protection.

As far as the examination of the composition of raw materials and the overall production processes are concerned, the Group has installed the corresponding equipment and apparatuses to support quality control management. The Group has also introduced the ICP-OES spectrometer to conduct material analysis and testing, so as to ensure compliance with the requirements of RoHS, SVHC (Substances of Very High Concern) and halogen-free regulations, thereby achieving a green production environment, shouldering environmental protection responsibilities, winning the trust of its customers and creating new opportunities for green businesses.

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

FUTURE STRATEGIES AND PLANNING

Development trends of the electronic parts and components industry for 2019 include:

1. Smart Future application technologies: With a focus on the solutions for the issues and problems that the future society may face, more sensory elements will be introduced to every aspect of life, thereby creating huge markets for science and technologies related to family, infancy, sports, sleep and beauty, etc.

2. Key parts and components of smart vehicles: The function of smart product is to integrate sensors, processors, memory, communication modules, transmission systems into products and industrial internet connections, so that products can have dynamic storage, sensing and communication capabilities, achieving product's traceability, identifiability, positioning and other characteristics. This is what is commonly known as the Internet of Things (IoT). By taking the opportunity of this paradigm shift, it allows enterprises to successfully upgrade the technologies and capabilities of their major parts and components products.

3. Human-machine interaction/new sensory technologies: Immersive vision technologies will take another step forward, and trends in multi-sensory fusion of wearable devices will also be more specific. In respect of the development of flexible display and flexible sensor, the application of border-free flexible display technology and Flexible Sensing Device is flourishing, which is expected to accelerate the development of more advanced flexible electronic process technology in the next stage.

4. High-speed transmission technologies: The structure and intensive development of 5G infrastructure, in particular, the commercialisation of 5G, will bring about a large number of 4K/8K or above super high-quality image or VR content, Smart City and other mobile technology applications. In order to fully meet the super-large bandwidth requirements brought by 5G, the business opportunities for the rear-mounted optical fiber network area network switch devices will also rise.

With the advent of cloud computing and its various related technologies and widespread application, an infrastructure computing environment has taken shape that remains perpetually connected, easy to access and impose no restrictions. Undoubtedly, 5G is the most eye-catching infrastructure technology, building end-to-end industry chains and commercial targets. Apparently, with the fast-changing technologies and the acceleration of development, human life is about to enter an era featuring ubiquitous smart applications. Accordingly, industries need to catch up in order to face such technological transformations.

- *Human resources*: Streamlining labour demand, and tackling higher labour cost of production lines and improving labor efficiency through education, training and more automation equipment.
- *Production equipment*: Installing more automation equipment, with trial production to take place.
- *Material costs*: Consolidating common materials to reduce inventory backlog.
- *Material development*: Developing fundamental materials-coated high-proportion capacitance foils and high-voltage solid-state materials.
- *Verification and delivery*: Strengthening the application exchanges at the customer side to promptly understand the development dynamics of products, establishing state-of-the-art electronic application laboratories to simulate product application for end customers, and pre-determining the potential failure of capacitor performance and the reasons thereof, in order to uplift the quality of capacitors and meet the demand.
- *Technical reforms:*

  Currently, the Group expects to develop the following key technologies in relation to aluminum foils and electrolytic capacitors in 2019:

- *Aluminum foils*
  - Capacity ramp-up: Developing new formation additives to ramp up the capacity of newly developed aluminum foils.
  - Energy conservation: Adjusting operational procedures to optimize formation formulas and mitigate power consumption.
  - Conducting R&D on energy-saving technology for the production line of ultra-high-voltage (above 700V) formed foils.

- *Capacitors*
  - Completing the design of black aluminum cases printed with grey characters, which has gained the exclusive recognition by the customers of motherboards.
  - Heat-resistant element tapes, which will help reduce production costs after the reflow soldering resistance verification of SMD products completes.
  - During the immersion process of solid capacitors, dispersion has a lower penetration rate than monomer oxidizing agent as it has lower eccentric conductivity and larger particle size. However, by improving process control and immersion ways, the capacity of dispersion in a high frequency environment (100KHZ) can be enhanced, passing the tests of major customers.

FUTURE PROSPECTS

In 2019, so far as the technology sector is concerned, technologies like AI, 5G, High Performance Computing (HPC) and Experimental Technology will doubtlessly become the key issues that drive the application of future “smart” life, forming a trend that cannot be neglected by any market player. All such pioneering technologies will promote greater progress in areas ranging from self-driving vehicles, sports and health to smart home. While AI has generated unlimited possibilities for a “smart” life, edge computing mainly addresses issues such as the computing workload of cloud-based platforms for the upper level, the communication and transmission expenses for the middle level, and the real-time control for the lower level of the IoT. This equips the lower-level control equipment or the middle-level gateway with certain computing function, which in turn enables the IoT system to act more quickly at a lower cost for building and operation. Furthermore, the introduction of AI will empower peripheral equipment with computing function and learning capability so that the entire system can acquire real intelligence through constant trial and error. Undoubtedly, when technology turns the world upside down, industries and human resources are bound to embrace the advancement of this trend. The advent of AI also represents the necessity of transformation. The purpose of manufacturing digital transform is to move towards a new service-oriented business model, which is the only way for the manufacturing sector to progress to digital transformation. As the world in the future only has G2 instead of G20, when the world moves towards two systems, an enterprise needs to bring out its competitive edges and to come up with a new service model during this revolutionary time. As a member of the industry, the Group is seeking opportunities for transformation. At the same time, it remains attentive to the irrational factors of the market, the smooth correction of production-marketing-supply chains, the higher cost of U.S. Dollars, and the lowered momentum in international trade arose from China-US trade tensions as well as the possible future trend in view of the possible technology barriers.

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

OTHER INFORMATION

DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: 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 2019.

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 2019, save as disclosed below:

(i) Code provision F.1.3 of the CG Code stipulates that the company secretary should report to the board chairman and/or chief executive. The company secretary of the Company reported to the chief financial officer instead of the board chairman and/or the chief executive. As the company secretary is also involved in handling the financial reporting matters of the Group, it simplifies the reporting process if she reports to the chief financial officer, who in turn reports to the board chairman on matters concerning 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 2019.

REVIEW OF FINANCIAL STATEMENTS

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2019 have been reviewed by the audit committee and the external auditor of the Company.

INTERIM REPORT

The 2019 interim report containing all the information required by the Listing Rules will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and on the website of the Company (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. Hsieh King-Hu, Miles, Mr. Lu Hong Te and Mr. Tung Chin Chuan.

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

Hong Kong, 28 August 2019