CapXon

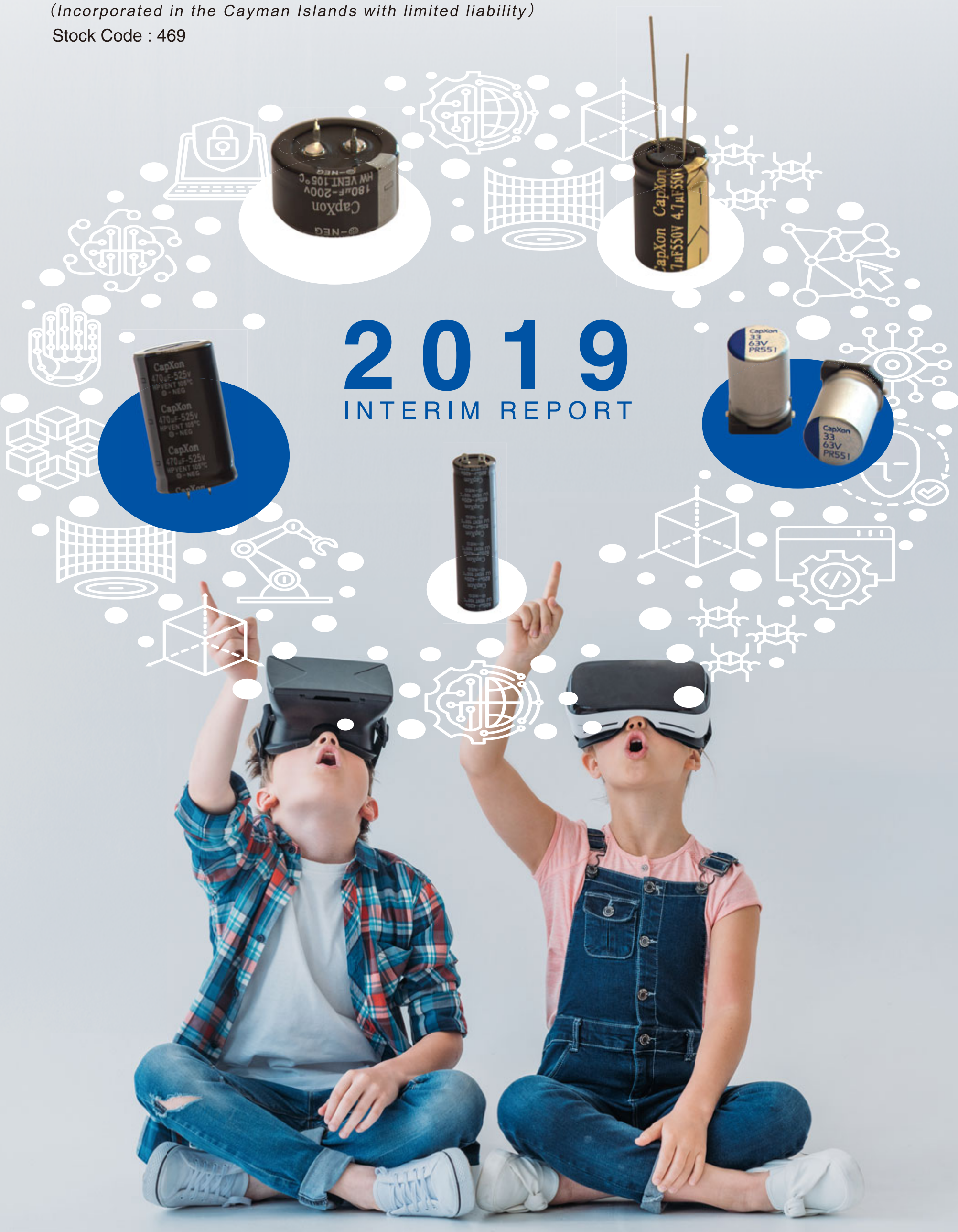
CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED

凱普松國際電子有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 469

2019
INTERIM REPORT



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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. HSIEH King-Hu, Miles
Mr. LU Hong Te
Mr. TUNG Chin Chuan

Audit Committee

Mr. LU Hong Te *(Chairman)*
Mr. HSIEH King-Hu, Miles
Mr. TUNG Chin Chuan

Nomination Committee

Mr. LIN Chin Tsun *(Chairman)*
Ms. CHOU Chiu Yueh
Mr. HSIEH King-Hu, Miles
Mr. LU Hong Te
Mr. TUNG Chin Chuan

Remuneration Committee

Mr. LU Hong Te *(Chairman)*
Mr. LIN Chin Tsun
Ms. CHOU Chiu Yueh
Mr. HSIEH King-Hu, Miles
Mr. TUNG Chin Chuan

Chief Financial Officer

Ms. HU Szu Jung, Carol

Company Secretary

Ms. CHAN Yin Fung

Auditor

Deloitte Touche Tohmatsu
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Legal Adviser

MinterEllison LLP
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Hong Kong

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First Commercial Bank
Hua Nan Commercial Bank
Mega International Commercial Bank
Co., Ltd.
Ping An Bank Co., Ltd.

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Stock Code

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Chairman's Statement

Dear Shareholders,

Year 2019 has gone half-way, and it appears that the current trade war between the United States and China could not be settled in a seamless manner by both parties in a short term. Moreover, even if the trade war is resolved, the tech war is yet to deal with. In particular, the competition in advanced technologies such as artificial intelligence ("AI"), 5G and internet of things ("IoT"), is inevitable, including challenges brought to the mintage of the United States from the rise of Chinese economy, as well as the contest over the domination of global economy. Therefore, under this context, participants in every industry shall be attentive to facing the configuration of global supply chain and diversification of risk of production line. What will global economy in 2019 look like? Let us see how the following aspects will develop:

1. whether there is any internal pressure which will cause China being trapped in the trade war

2. whether growth deceleration in the United States will create pressure on Trump's succession

3. Eurozone will become more irrational after Brexit

The tech war which was triggered to constrain Huawei, will inevitably affect the development of ongoing global technologies, and may slow down the pace of technological innovation, resulting in intensifying the financial panic in capital market, unusual fluctuations in the stock market and an outflow of funds from Hong Kong. Therefore, it is advisable for an enterprise not to carry out too much financial manipulation, but to retain its core competitiveness.

The global economic outlook in 2019 will encounter three major changes:

1. economic deceleration in developed countries versus the resurgence of emerging markets

2. higher inflation in developed countries versus lower inflation in the developing countries

3. possible interest rate reduction by the United States

The economy may decline gradually from its peak as the trade war between the United States and China intensifies. The gap to be covered by what type of industry and in what way in the future depending on whether the China-US trade war can be mitigated. The supply chain relationship among regions or countries under globalization is particularly significant for electronics industry. At present, it appears that both parties are adopting an on-and-off dragging tactic for the trade war. Future changes in the economic conditions of these two largest economies, the ongoing deterioration of the economic performance of the United States and the increase in the reformation in China, may have an impact upon the continuity and scale of the trade war.

From an industrial perspective, passive components will continue to grow at a moderate pace in the coming years, which is mainly attributable to:

1. the trend of AI popularization

2. digital ecosystem

3. transparent and immersive experience

4. ubiquitous fundamental structure

As most passive components are in a relatively mature stage of their product lifetime, there is a relatively high correlation between industry fluctuation and general economic cycle. Besides, passive component manufacturing is an industry characterized by high production volume and low unit price, and most of the products are applied within the 3C sector. In the future, the industry will benefit from other emerging application markets such as automotive electronics, high-end smart home appliances, smart meters, 4G LTE base stations, LED street lamps, safety control systems, industrial control and renewable energy equipment, and therefore serve as a stable anchor for the supply and production values of key electronic parts and components. In comparison, non-3C applications belong to the niche market, which is characterized by low production volume and high unit price, and the supply and demand of such end products are less susceptible to fluctuations of economic cycles. By entering into these sectors, developing miniaturized and modularized products and adjusting their product portfolios, passive component suppliers can not only boost their gross profits, but also avoid the operational risks arising from fluctuations of economic cycles. As for future market trends, passive components are expected to develop such features as high capacity, high voltage, high frequency, high resistance to heat, and miniaturization. Increasing demand for end consumer products has led to the growing demand for mobile phones, personal computers and niche products such as those for industrial and automotive purposes as well as the IoT. Nonetheless, under the circumstance that there may be a shift in the status of Mainland China as the global manufacturing hub, we shall consider how to shift our production lines, and at the same time maintain suppliers' support with the same quality. On the occasion of the China-US trade war, it is imperative to monitor global market changes on a cautious note.

In response to the ever-changing market demands, Capxon International Electronic Company Limited (the "Company") and its subsidiaries (collectively, the "Group") will, on one hand, proactively cater to the product demands of existing customers and offer better services, and on the other hand, actively solicit new customers, enhance its product functions and added value through its research & development ("R&D") capability, and control costs to increase gross profit, in order to adequately satisfy customers' demands, and to reward shareholders with returns.

In the first half of 2019, the strategies for the Group's two major products were as follows:

1. Operations in the Aluminum Foil Market

The market in the first half of 2019 remains growing at a moderate pace. Increasingly strict environmental regulations caused a continuous shortfall and higher production cost of aluminum foil, the major raw material of passive components. Meanwhile, the majority of production capacity was still dominated by large-scale capacitor manufacturers. In particular, materials of ultra-high voltage series used in the photovoltaic industry were sought after by the manufacturers owing to a surge in demand and untimely delivery due to a high threshold of technology and process. In response to such industrial characteristics and current market conditions, the Group assessed the market dynamics and considered future potential supply, which led to its addition of new production lines and high-speed production line to provide a stable supply for the current market demand among customers, and the Group also adopted the policy of dispersing customers to promote the corporate sales elasticity and reduce the risk. Aluminum foils are the major raw materials of capacitors and the Group has excellent production processing technologies and a stable production capacity for formed foils. In addition, the Group is also actively exploring the development potential of markets with high added value to prepare for future market changes. The Group will remain attentive to and address the future changes in the aluminum foils market with care.

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

- **Etched Aluminum Foils**
  On the basis of existing high-speed production line, we further optimized the production technology and equipment to conduct the R&D and design a new generation of high-speed production line, with double production efficiency than the existing one and further improved quality of etched aluminum foils.

- **Formed Foils**

  In respect of the R&D of energy-saving technology of organic acid formation and technology, the laboratory phase has been completed, which is expected to save more than 20% of electricity and trial manufacturing of samples will be conducted in the production line. It is expected that the massive production will be achieved by the end of 2019; and

  Speeding up the reformation of two production lines for seven-segment formation has been put into production in March 2019. From the current statistics, after reformation, the production line for seven-segment formation speeds up by over 30% than the original five-segment formation, which can reduce the production cost.

2. Operations in the Electrolytic Capacitor Market

5G network has appeared in certain areas, while the arrival of the IoT is the "Next Big Event". AIoT, developed by focusing on IoT and AI in the future, will also speed up the rising of new economy and new industry. Therefore, in the first half of 2019, the R&D for mass production of electrolytic capacitors primarily aims at high-end products, including variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and in-vehicle electronic applications, with great results already achieved in addressing relevant demand. In the future, the Group will put more effort to meet the requirements for special tailor-made products, including miniaturization, high capacity, high and ultra-high voltage, high frequency and temperature. The Group will also take steps to develop custom-made products that cater to the front-end demand of the market and can be applied across different sectors, promote market application of electrolytic capacitors in various fields, and expand the global market share of its electrolytic capacitor products.

Currently, the Group has completed the following key R&D projects of electrolytic capacitors:

- Cooperating with high-end customer customization research and development in the fast charging market;
- UHV of 550WV 600WV and other power supply products in the Indian market;
- Developing high temperature, high voltage, high safety explosion-proof patented products;
- Developing ultra-high temperature of 135 degrees, 150 degrees chip capacitor, which can be used in communications, vehicle and medical products;
- Horn-shaped and bolt products are widely used in power-grade and drilling industry;

- 125-degree ultra-high temperature horn-shaped products, in order to meet massive use of 5G communication;

- Developing 135-degree, high-voltage, long-lifespan of 10,000H, vibration resistance, car capacitor products with the requirement of AEC-Q200;

- For the high-end capacitor of non-general consumer goods, we have developed the production process of conjoined machine and imported SPC, its test data system automatically uploads and completes online control;

- In the field of beauty and medical treatment, we have developed foil-shaped SF series resistant to high charge and discharge flow, which can meet the demand of instant large current discharge of medical and beauty instrument, with its more than 400,000 times swiftly charges and discharges;

- High-voltage solid-state PH250V8.2μF (10*12.5) sample, power supply of customer's application module, DC Link capacitor before PFC circuit, replacement of high voltage tantalum capacitor;

- With the warming of the photovoltaic market, the scale production of photovoltaic inverters with long-lifespan, high stability and high cost-effective will be accelerated;

- Pre-treatment solution of solid-state capacitor resistant to surge voltage has been gradually placed into production, which aims at mobile 3C products, meeting customer needs and providing products with high reliability and resistance to surge voltage; and

- Co-developing sectional high-proportion capacitance and high level meander foils materials with manufacturers of aluminum foils, replacing imported foils to reduce material cost of charger specification.

The strategic technology trend as defined by Gartner, an international research and consultancy firm, has the characteristic of rapid growth and high variability, and ability to reach the tipping point within the next five years. Therefore, science and technology industry in 2019 will focus on the following:

1. The intellectualization of equipment and production, and the construction of intelligent manufacturing.

2. The intellectualization of management to become an enterprise driven by data.

3. The intellectualization of service and the completion of digital transformation.

With the increasing popularity and maturity of new generation information communication technologies such as AI, IoT and 5G, manufacturing industry started its competition in the platform-based industrial ecology. Manufacturers must work on the digital transformation in order to thrive in the era of digital economy as traditional manufacturing mode being replaced by new intelligent manufacturing mode step by step. Meanwhile, industrial alliance would be a material strategic direction in the process of digital transformation, because only through alliance can manufacturers cooperate with each other in various aspects, such as technology standard, R&D, industrial chain and market, so as to realize the integration and innovation of industry on a crossover and interdisciplinary basis, and build their competitive advantages in the digital economy era.

Furthermore, greater driving force can be generated through the collaboration of edge computing, AI and IoT. At the same time, technologies that can create immersive experience, such as virtual reality, will continue to reshape people's perception of the digital world. Blockchain offers solutions to operational performance, enable interaction and connection in smart spaces, or help establish safety nets to prevent network attacks amidst privacy and security concerns in an increasingly open system. Therefore, in the future, an enterprise must become a trustworthy supplier in all aspects such as safety, reliability and privacy and morality of information, keep advancing with these forward-looking technologies, and bring unlimited possibilities for the evolution of the world. As part of the electronic industry market, the Group should certainly maintain its competitiveness and master the latest technology to accelerate the development of new technologies, products and solutions so as to become a key player in the competitive market.

The Group will capitalize on the collective wisdom of its management team more effectively, build on current achievements and innovations, and consolidate its business foundation and competitive edge. Meanwhile, the Group will also endeavor to become an international market supplier by combining the competitive edge of its operations in China, Hong Kong and Taiwan with a view to maximizing investment returns for the shareholders of the Company as a whole.

LIN Chin Tsun
Chairman

Hong Kong, 28 August 2019

Financial Review

A summary of the financial results of the Group for the six months ended 30 June 2019 (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 approximately 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 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 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 cold 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 liabilities of approximately RMB2,364,000 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 RMB240,554,000 (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 report.

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 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 for this auction amounting 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, other creditors, and corresponding expenses and taxes incurred. Part of the Auction Consideration, amounting to NTD6,990,000 (equivalent to RMB1,533,000), was transferred to the Customer for settlement of the Arbitral Award. Besides, under the instruction issued by the Taiwan Shilin District Court, additional payment amounting to NTD2,560,000 (equivalent to RMB632,000) was made to the Customer during the Period for settlement of the Arbitral Award. In aggregate, interest on deferred payment amounting to JPY10,375,149 (equivalent to RMB661,000) and arbitration related expenses amounting to JPY23,618,062 (equivalent to RMB1,504,000) were settled to the Customer. As at the date of this report, 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 (i) 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 People's Republic of China ("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 RMB111,017,000 (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 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 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 completed.

- 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.

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 set out on pages 25 to 53, which comprise the condensed consolidated statement of financial position as of 30 June 2019 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 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") issued by the International Accounting Standards Board. 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 August 2019

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	10	**(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)	7		
Basic		**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	8	**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	9	**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	11	**255,940**	289,459
Leases liabilities		**3,896**	–
Provision for damages	17	**226,043**	218,725
Contract liabilities		**2,296**	6,906
Bank and other borrowings	12	**271,013**	240,383
Amount due to a related party	15	**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

	NOTES	30 June 2019 RMB'000 (unaudited)	31 December 2018 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Bank and other borrowings	*12*	**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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the Company									
	Share capital RMB'000	**Share premium RMB'000**	**Capital reserve RMB'000** *(note i)*	**Statutory reserves RMB'000** *(note ii)*	**Translation reserve RMB'000**	**Other reserve RMB'000** *(note iii)*	**(Accumulated losses) retained profits RMB'000**	**Sub-total RMB'000**	**Non-controlling interests RMB'000**	**Total RMB'000**
At 1 January 2018 (audited)	82,244	436,626	(30,753)	114,766	7,678	3,650	(16,004)	598,207	1,636	599,843
Profit (loss) for the period	-	-	-	-	-	-	19,111	19,111	(753)	18,358
Other comprehensive (expense) income for the period	-	-	-	-	(789)	-	-	(789)	181	(608)
Total comprehensive (expense) income	-	-	-	-	(789)	-	19,111	18,322	(572)	17,750
Appropriation	-	-	-	5,960	-	-	(5,960)	-	-	-
At 30 June 2018 (unaudited)	82,244	436,626	(30,753)	120,726	6,889	3,650	(2,853)	619,529	1,064	617,593
At 1 January 2019 (audited)	**82,244**	**436,626**	**(30,753)**	**120,726**	**(9,130)**	**3,650**	**42,797**	**646,160**	**790**	**646,950**
Profit (loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**32,615**	**32,615**	**(52)**	**32,563**
Other comprehensive expense for the period	**-**	**-**	**-**	**-**	**(4,719)**	**-**	**-**	**(4,719)**	**-**	**(4,719)**
Total comprehensive (expense) income	**-**	**-**	**-**	**-**	**(4,719)**	**-**	**32,615**	**27,896**	**(52)**	**27,844**
Appropriation	**-**	**-**	**-**	**9,462**	**-**	**-**	**(9,462)**	**-**	**-**	**-**
At 30 June 2019 (unaudited)	**82,244**	**436,626**	**(30,753)**	**130,188**	**(13,849)**	**3,650**	**65,950**	**674,056**	**738**	**674,794**

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 are 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 years ended 31 December 2013 and 2014, the Group accounted for the acquisition of additional interests in subsidiaries as equity transaction and the difference between the carrying amount of non-controlling interests and the fair value of the consideration paid, amounting to RMB3,650,000, was recognised in other reserve.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	**20,961**	49,811
Net cash used in investing activities		
Purchase of property, plant and equipment	**(12,592)**	(37,670)
Deposits paid for acquisition of property, plant and equipment	**(30,298)**	(11,559)
Placement of pledged deposits in a financial institution	**–**	(1,986)
Placement of pledged bank deposits	**(211)**	(1,196)
Proceeds from disposal of property, plant and equipment	**792**	5,500
Release of pledged bank deposits	**1,223**	1,205
Release of fixed bank deposit	**442**	–
Other investing cash flows	**880**	496
	(39,764)	(45,210)
Net cash from financing activities		
New bank and other borrowings raised	**191,034**	270,015
Repayment of bank and other borrowings	**(152,420)**	(131,159)
Payment of lease liabilities	**(2,364)**	–
Interest paid	**(4,888)**	(2,702)
Repayment to a related party	**–**	(1)
	31,362	136,153
Net increase in cash and cash equivalents	**12,559**	140,754
Cash and cash equivalents at 1 January	**248,918**	108,446
Effect of foreign exchange rate changes	**16**	367
Cash and cash equivalents at 30 June, represented by bank balances and cash	**261,493**	249,567

1. Basis of Preparation

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

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of Capxon International Electronic Company Limited (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 consolidated financial statements of the Company and its subsidiaries (together, the "Group") 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

2. Principal Accounting Policies *(continued)*

Application of new and amendments to IFRSs *(continued)*

Except as described below, the application of the new and amendments to IFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impacts and changes in accounting policies of application on IFRS 16 Leases

The Group has applied IFRS 16 for the first time in the current interim period. IFRS 16 superseded IAS 17 *Leases* ("IAS 17"), and the related interpretations.

2.1 Key changes in accounting policies resulting from application of IFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of IFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under IFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

Short-term leases

The Group applies the short-term lease recognition exemption to leases of land and buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

2.1 Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee *(continued)*

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under IFRS 9 *Financial Instruments* and initially measured at fair value and subsequently at amortised cost. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

2.1 Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee *(continued)*

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

2.1 Key changes in accounting policies resulting from application of IFRS 16 *(continued)*

As a lessee *(continued)*

Lease liabilities *(continued)*

- the lease payments change due to changes in market rental rates, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies IAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

2.2 Transition and summary of effects arising from initial application of IFRS 16

Definition of a lease

The Group has elected the practical expedient to apply IFRS 16 to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in IFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied IFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under IFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under IAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and

iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with termination options.

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

2.2 Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

As a lessee *(continued)*

On transition, the Group has made the following adjustments upon application of IFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying IFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 5.00% to 5.66% per annum.

	At 1 January 2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	10,893
Lease liabilities discounted at relevant incremental borrowing rates	9,441
Less: Recognition exemption – short-term leases	(45)
Lease liabilities as at 1 January 2019	9,396
Analysed as:	
Current	4,793
Non-current	4,603
	9,396

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

2.2 Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

As a lessee *(continued)*

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Notes	**Right-of-use assets RMB'000**
Right-of-use assets relating to operating leases recognised upon application of IFRS 16		9,396
Reclassified from land use rights	*(a)*	22,348
Adjustments on rental deposits at 1 January 2019	*(b)*	95
		31,839
By class:		
Leasehold lands		22,348
Land and buildings		9,491
		31,839

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

2.2 Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

As a lessee *(continued)*

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	**Carrying amounts previously reported at 31 December 2018 RMB'000**	**Adjustments RMB'000**	**Carrying amounts under IFRS 16 at 1 January 2019 RMB'000**
NON-CURRENT ASSETS				
Land use rights	*(a)*	21,667	(21,667)	–
Right-of-use assets	*(a)-(c)*	–	31,839	31,839
CURRENT ASSETS				
Land use rights	*(a)*	681	(681)	–
Trade and other receivables	*(b)*	435,047	(95)	434,952
CURRENT LIABILITIES				
Lease liabilities	*(c)*	–	4,793	4,793
NON-CURRENT LIABILITIES				
Lease liabilities	*(c)*	–	4,603	4,603

2. Principal Accounting Policies *(continued)*

Impacts and changes in accounting policies of application on IFRS 16 Leases *(continued)*

2.2 Transition and summary of effects arising from initial application of IFRS 16 *(continued)*

As a lessee *(continued)*

Notes:

(a) Upfront payments for leasehold lands in the PRC were classified as land use rights as at 31 December 2018. Upon application of IFRS 16, the land use rights amounting to RMB22,348,000 were reclassified to right-of-use assets.

(b) Before the application of IFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which IAS 17 applied. Based on the definition of lease payments under IFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, RMB95,000 was adjusted to refundable rental deposits paid and right-of-use assets.

(c) Upon application of IFRS 16, the Group recognised lease liabilities amounting to RMB9,396,000.

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position as at 1 January 2019 as disclosed above.

3A. Revenue

Disaggregation of revenue

Geographical markets and product type information

	Six months ended 30 June 2019		
	Capacitors RMB'000	**Aluminum foils RMB'000**	**Total 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 RMB'000	Aluminum foils RMB'000	Total 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 comprised 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
Aluminum 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	Aluminum 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

3B. Segmental Information *(continued)*

Segment revenue and results *(continued)*

For the six months ended 30 June 2018

	Capacitors RMB'000	Aluminum 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 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 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 ("EIT")	**19,888**	5,273
– Taiwan Corporate Income Tax	**2,233**	1,284
PRC dividend withholding tax *(Note)*	**–**	7,426
	22,121	13,983
Overprovision in prior year	**(14,579)**	–
Deferred tax *(Note)*	**4,947**	4,077
	12,489	18,060

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits 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, the tax rate of the Group's subsidiaries established in the PRC is 25%, except as stated below.

During the year ended 31 December 2018, Capxon Electronic (Shenzhen) Co., Ltd. (豐賓電子(深圳)有限公司) ("Capxon Shenzhen"), a subsidiary of the Company, was uncertain whether it satisfied the requirements of high technology development enterprise and Capxon Shenzhen applied the tax rate of 25% in calculating the EIT. During the six months ended 30 June 2019, upon the completion of PRC tax audit and the finalisation of the EIT for the year ended 31 December 2018 of Capxon Shenzhen with the tax bureau, Capxon Shenzhen satisfied the requirements of high technology development enterprise which was subject to the preferential tax rate of 15% for the year ended 31 December 2018. Accordingly, overprovision for EIT amounting to RMB14,579,000 has been recognised.

Under the Income Tax Law in Taiwan, the corporate income tax rate of the Group's subsidiaries in Taiwan is 20%.

Note: During the six months ended 30 June 2018, Capxon Shenzhen distributed a dividend to its immediate holding companies and, accordingly, PRC dividend withholding tax amounting to RMB7,426,000 was recognised. The directors of the Company consider that Capxon Shenzhen will continue to distribute dividend in the foreseeable future and, accordingly, deferred tax charge on the undistributable profits of Capxon Shenzhen of RMB4,947,000 (six months ended 30 June 2018: RMB4,403,000) has been recognised.

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 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 six months ended 30 June 2018 and current interim period.

(b) During the six months ended 30 June 2018, certain aged inventories were sold at above net realisable values. As a result, reversal of write-down of inventories of RMB7,168,000 was recognised and included in the cost of sales in the period.

6. Dividend

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

7. Earnings 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. 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 RMB2,168,000 (six months ended 30 June 2018: RMB6,569,000) for cash proceeds of RMB792,000 (six months ended 30 June 2018: RMB5,500,000).

During the current interim period, the Group had additions of property, plant and equipment, including construction in progress, of RMB23,869,000 (six months ended 30 June 2018: RMB48,537,000) 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 RMB4,876,000 (31 December 2018: RMB5,098,000) 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 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 receivables amounting to RMB23,587,000 (31 December 2018: RMB6,205,000) were held by the Group for settlement of trade receivables. The Group recognised their full carrying amounts at the end of the reporting period. All bills receivables of the Group are with a maturity period of less than one year.

10. Impairment Assessment on Financial Assets and Other Items Subject to Expected Credit Loss Model

	Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Impairment losses recognised (reversed) in respect of		
Trade receivables (Note)	**3,470**	(1,039)
Other receivables	**–**	278
	3,470	(761)

Note: The basis of determining the inputs and assumptions and the estimation techniques 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.

11. 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.

12. Bank and Other Borrowings

	30 June 2019 RMB'000	31 December 2018 RMB'000
Bank borrowings	**260,065**	191,415
Other borrowings	**30,736**	59,082
	290,801	250,497
Secured	**91,703**	104,795
Unsecured	**199,098**	145,702
	290,801	250,497
The carrying amounts of borrowings are repayable:		
Within one year	**271,013**	240,383
More than one year but not more than two years	**7,546**	7,018
More than two years but not more than five years	**2,843**	3,096
More than five years	**9,399**	–
	290,801	250,497
Less: Amounts due within one year shown under current liabilities	**(271,013)**	(240,383)
Amounts shown under non-current liabilities	**19,788**	10,114

During the current interim period, the Group obtained new bank and other borrowings of RMB191,034,000 (six months ended 30 June 2018: RMB270,015,000). The new bank and other borrowings consist of fixed-rate borrowings with effective interest rates ranging from 1.00% to 3.74% per annum and variable-rate borrowings with effective interest rates ranging from 1.28% to 6.60% per annum.

13. Capital Commitments

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

	30 June 2019 RMB'000	31 December 2018 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**8,294**	8,278

14. Fair Value Measurements of Financial Instruments

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

15. Related Party Disclosures

(a) Related party balance

Name of related party	**Relationship**	**30 June 2019 RMB'000**	31 December 2018 RMB'000
Amount due to a related party			
Lin Chin Tsun	Director	**3,660**	3,654

The amount is interest-free, unsecured and repayable on demand.

15. Related Party Disclosures *(continued)*

(b) 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:

	30 June 2019 RMB'000	31 December 2018 RMB'000
Guarantees provided by:		
Lin Chin Tsun *(Note)*	**254,163**	175,448
Lin Yuan Yu *(Note)*	**14,217**	–
Lin Chin Tsun and Chou Chiu Yueh *(Note)*	**–**	20,326
Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu *(Note)*	**5,294**	12,773
	273,674	208,547

The expiry dates of the above guarantees fall within the period from January 2019 to May 2034 (31 December 2018: January 2019 to July 2021).

As at 31 December 2018, Ms. Chou Chiu Yueh and Ms. Lin I Chu*(Note)* pledged their property to a bank to secure banking facilities of NTD30,000,000 (equivalent to RMB6,758,000) granted to the Group. The bank borrowing was fully repaid and the banking facilities were then expired during the six months period ended 30 June 2019.

Note: Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh are ultimate controlling shareholders of the Company. Mr. Lin Yuan Yu 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.

15. Related Party Disclosures *(continued)*

(c) 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	
	2019	2018
	RMB'000	RMB'000
Short-term benefits	**4,931**	4,468
Post-employment benefits	**100**	82
	5,031	4,550

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.

16. 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 2019	31 December 2018
	RMB'000	RMB'000
Property, plant and equipment	**78,321**	79,272
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
	93,171	95,313

17. 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.

17. Material Proceedings *(continued)*

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 approval of these condensed consolidated financial statements.

17. Material Proceedings *(continued)*

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 for this auction amounting 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, other creditors, and corresponding expenses and taxes incurred. Part of the Auction Consideration, amounting to NTD6,990,000 (equivalent to RMB1,533,000), was transferred to the Customer for settlement of the Arbitral Award. Besides, under the instruction issued by the Taiwan Shilin District Court, additional payment amounting to NTD2,560,000 (equivalent to RMB632,000) was made to the Customer during the current interim period for settlement of the Arbitral Award. In aggregate, interest on deferred payment amounting to JPY10,375,149 (equivalent to RMB661,000) and arbitration related expenses amounting to JPY23,618,062 (equivalent to RMB1,504,000) were settled to the Customer. As at the date of approval of these condensed consolidated financial statements, 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 (i) 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).

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

As at 30 June 2019, the interests or short positions of the Company's directors (the "Directors") and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ chief executive	Capacity and nature of interests	Number of issued shares held	Total interest (a) and approximate percentage of shareholding (b)[1] (a)	(b)
Mr. LIN Chin Tsun	Beneficial owner	101,657,378	564,973,947	66.90
	Interest of controlled corporations	395,360,783[2]		
	Interest of spouse	67,955,786		
Ms. CHOU Chiu Yueh	Beneficial owner	67,955,786	564,973,947	66.90
	Interest of controlled corporations	395,360,783[2]		
	Interest of spouse	101,657,378		
Mr. LIN Yuan Yu	Beneficial owner	13,161,622	394,675,621	46.73
	Interest of controlled corporation	374,585,006[3]		
	Interest of spouse	6,928,993		
Ms. LIN I Chu	Beneficial owner	9,429,777	384,014,783	45.47
	Interest of controlled corporation	374,585,006[3]		
Ms. LIU Fang Chun	Beneficial owner	6,928,993	394,675,621	46.73
	Interest of spouse	387,746,628		
Ms. HU Szu Jung, Carol	Beneficial owner	243,991	243,991	0.03

Notes:

(1) This percentage has been compiled based on the total number of issued shares (i.e. 844,559,841 shares) of the Company as at 30 June 2019.

(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 2019, 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 2019, according to the register of interests kept by the Company under section 336 of the SFO, the following entity 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 2019.*

Save as disclosed above, the Directors are not aware of any other persons who, as at 30 June 2019, 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.

Arrangements to Acquire Shares And/Or Debentures

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 of Directors (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

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 2019.

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 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 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.

On behalf of the Board
LIN Chin Tsun
Chairman

Hong Kong, 28 August 2019