CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED
凱普松國際電子有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 469)

website: www.capxongroup.com

ANNOUNCEMENT

AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2019	**2018**	**Change**
Revenue (RMB'000)	1,367,861	1,202,327	+13.77%
Profit for the year attributable to owners of the Company (RMB'000)	92,731	64,761	+43.19%
Basic earnings per share attributable to owners of the Company (RMB cents)	10.98	7.67	+43.16%
Dividends (HK cents per share)			
- Final	--	--	--
- Interim	--	--	--

Reference is made to the announcement of Capxon International Electronic Company Limited (the "Company") dated 31 March 2020 in which the Company announced, among others, the unaudited annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019. Further to the completion of the auditing process by the Company's auditor, the board of directors of the Company (the "Board") is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019 together with the comparative figures for the corresponding period as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
Revenue	3	1,367,861	1,202,327
Cost of sales		(986,075)	(861,459)
Gross profit		381,786	340,868
Other income		19,704	14,968
Other expenses		(47,971)	(38,233)
Other gains and losses		(2,272)	(1,203)
Impairment losses under expected credit loss model, net of reversal		(12,304)	(4,802)
Distribution and selling costs		(78,740)	(80,486)
Administrative expenses		(120,507)	(102,551)
Interest on provision for damages		(9,224)	(8,756)
Finance costs		(9,220)	(7,205)
Profit before tax		121,252	112,600
Income tax expense	4	(28,705)	(48,955)
Profit for the year	5	92,547	63,645
Other comprehensive expense			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising from translation of foreign operations		(9,123)	(16,538)
Total comprehensive income for the year		83,424	47,107
Profit (loss) for the year attributable to:			
Owners of the Company		92,731	64,761
Non-controlling interests		(184)	(1,116)
		92,547	63,645
Total comprehensive income (expense) for the year attributable to:			
Owners of the Company		83,631	47,953
Non-controlling interests		(207)	(846)
		83,424	47,107
Earnings per share (RMB cents)			
- Basic	7	10.98	7.67

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	NOTES	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		519,674	491,426
Right-of-use assets		29,138	-
Land use rights		-	21,667
Intangible assets		4	8
Pledged deposit in a financial institution		2,090	2,064
Deposits paid for acquisition of property, plant and equipment		33,269	25,842
Deferred tax asset		2,190	-
		586,365	541,007
CURRENT ASSETS			
Inventories		215,489	204,188
Land use rights		-	681
Trade and other receivables	8	599,711	435,047
Tax recoverable		183	795
Pledged bank deposits		2,190	2,818
Fixed bank deposits		45,000	28,221
Bank balances and cash		177,445	248,918
		1,040,018	920,668
CURRENT LIABILITIES			
Trade and other payables	9	388,602	289,459
Lease liabilities		4,398	-
Provision for damages		232,159	218,725
Contract liabilities		2,393	6,906
Amounts due to related parties		3,979	3,654
Tax liabilities		30,464	37,747
Bank and other borrowings		189,517	240,383
		851,512	796,874
NET CURRENT ASSETS		188,506	123,794
TOTAL ASSETS LESS CURRENT LIABILITIES		774,871	664,801
NON-CURRENT LIABILITIES			
Lease liabilities		3,242	-
Deferred income		-	750
Deferred tax liabilities		25,135	6,987
Bank and other borrowings		16,120	10,114
		44,497	17,851
NET ASSETS		730,374	646,950
CAPITAL AND RESERVES			
Share capital		82,244	82,244
Share premium and reserves		647,547	563,916
Equity attributable to owners of the Company		729,791	646,160
Non-controlling interests		583	790
TOTAL EQUITY		730,374	646,950

NOTES

1. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance (Cap. 622).

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

2. APPLICATION OF NEW AND AMENDMENTS TO IFRSs

New and amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to IFRSs issued by the IASB for the first time in the current year:

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

3. REVENUE AND SEGMENT INFORMATION

(i) Disaggregation of revenue from contracts with customers recognised at a point in time by geographical markets and product types

	For the year ended 31 December 2019		
	Capacitors	Aluminum foils	Total
	RMB'000	RMB'000	RMB'00
The People's Republic of China ("PRC")	1,107,913	77,889	1,185,802
Taiwan	11,520	-	11,520
Other Asian countries (Note)	130,798	1,575	132,373
Europe (Note)	36,552	-	36,552
America and Africa	1,614	-	1,614
	1,288,397	79,464	1,367,861

	For the year ended 31 December 2018		
	Capacitors	Aluminum foils	Total
	RMB'000	RMB'000	RMB'000
The PRC	991,652	26,439	1,018,091
Taiwan	17,771	-	17,771
Other Asian countries (Note)	122,218	3,282	125,500
Europe (Note)	39,239	-	39,239
America and Africa	1,726	-	1,726
	1,172,606	29,721	1,202,327

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.

(ii) Performance obligations from contracts with customers

The Group is principally engaged in manufacturing and sale of capacitors and aluminum foils under its own brand name. Revenue is recognised at a point in time, when control of the goods has transferred, being when the goods have been delivered to customer's designated location. The normal credit term is 30 to 180 days upon delivery. A contract liability is recognised when a deposit from a customer is received but revenue has not yet been recognised.

The contracts for sales of capacitors and aluminum foils are for periods of one year or less. As permitted under IFRS 15, the transaction prices allocated to these unsatisfied contracts are not disclosed.

(iii) Segment revenue and results

Information reported to the chief operating decision makers (i.e. the executive directors of the Company) for the purposes of resource 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

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

For the year ended 31 December 2019

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	1,288,397	79,464	1,367,861	-	1,367,861
Inter-segment sales	-	217,567	217,567	(217,567)	-
Segment revenue	1,288,397	297,031	1,585,428	(217,567)	1,367,861
Segment profit	134,818	25,362	160,180	(4,344)	155,836
Interest income					1,443
Unallocated corporate expenses					(16,332)
Finance costs					(9,220)
Interest on provision for damages					(9,224)
Exchange loss arising from retranslation of provision for damages					(1,251)
Profit before tax					121,252

For the year ended 31 December 2018

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	1,172,606	29,721	1,202,327	-	1,202,327
Inter-segment sales	-	202,425	202,425	(202,425)	-
Segment revenue	1,172,606	232,146	1,404,752	(202,425)	1,202,327
Segment profit	133,829	25,003	158,832	(5,143)	153,689
Interest income					1,402
Unallocated corporate expenses					(16,426)
Finance costs					(7,205)
Interest on provision for damages					(8,756)
Exchange loss arising from retranslation of provision for damages					(10,104)
Profit before tax					112,600

The accounting policies of the operating segments are the same as the Group's accounting policies. 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. However, the related bank balances and deposits and the bank and other borrowings of the reportable segments are reported to the Group's chief operating decision makers as part of segment assets and liabilities. In addition, tax expense is not allocated to segments while tax liabilities, deferred tax liabilities and tax recoverable are allocated as part of segment liabilities and segment assets respectively. This is the measure reported to the Group's chief operating decision makers for the purposes of resource allocation and assessment of segment performance.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

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

	2019 RMB'000	2018 RMB'000
Segment assets		
Capacitors	1,319,871	1,052,760
Aluminum foils	298,171	359,086
Total segment assets	1,618,042	1,411,846
Unallocated assets	8,341	49,829
Consolidated assets	1,626,383	1,461,675
Segment liabilities		
Capacitors	582,389	501,268
Aluminum foils	64,665	72,817
Total segment liabilities	647,054	574,085
Unallocated liabilities	248,955	240,640
Consolidated liabilities	896,009	814,725

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets, other than right-of-use assets, pledged deposit in a financial institution, other receivables and bank balances of the Company, are allocated to reportable segments; and

- all liabilities, other than other payables and accruals, lease liabilities, other borrowings of the Company and provision for damages of the Company's subsidiary, Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), are allocated to reportable segments.

Geographical information

The geographical information about the Group's non-current assets (excluding pledged deposit in a financial institution) by geographical location of the assets is as follows:

	2019 RMB'000	2018 RMB'000
The PRC	568,204	527,390
Taiwan	13,881	11,553
	582,085	538,943

Revenue from external customers by geographical location of customers is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from external customers:		
The PRC	1,185,802	1,018,091
Taiwan	11,520	17,771
Other Asian countries	132,373	125,500
Europe	36,552	39,239
America and Africa	1,614	1,726
	1,367,861	1,202,327

Information about major customers

During both years, none of the Group's individual customers contributed more than 10% of the Group's revenue.

4. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current tax:		
- PRC enterprise income tax ("EIT")	23,560	30,029
- Taiwan Corporate Income Tax	3,521	1,983
PRC dividend withholding tax	-	13,030
	27,081	45,042
(Over)underprovision in prior years		
- EIT	(14,579)	-
- Taiwan Corporate Income Tax	315	-
	(14,264)	-
Deferred tax	15,888	3,913
	28,705	48,955

5. PROFIT FOR THE YEAR

	2019 RMB'000	2018 RMB'000
Profit for the year has been arrived at after charging:		
Employee benefit expenses (including directors' emoluments):		
Wages, salaries and allowances	225,523	222,107
Retirement benefit scheme contributions	18,689	17,502
	244,212	239,609
Less: amount capitalised in inventories	(138,780)	(142,949)
	105,432	96,660

Amortisation of intangible assets (included in administrative expenses)	4	4
Amortisation of land use rights	-	685
Depreciation of property, plant and equipment		
- capitalised in inventories	39,123	37,160
- recognised in administrative expenses	5,054	3,132
- recognised in other expenses	-	1,671
Depreciation of right-of-use assets	5,631	-
Total depreciation and amortisation	49,812	42,652
Auditor's remuneration	1,682	1,131
Cost of inventories recognised as an expense (including net write-down of inventories of RMB17,478,000 (2018: net reversal of write-down of inventories of RMB150,000)#	986,075	861,459

During the year ended 31 December 2019, certain aged inventories are written-down to the net realisable values after considering the age and condition of the inventories. As a result, write-down of inventories of RMB17,478,000 (2018: a net reversal of write-down of inventories of RMB150,000) has been recognised and included in the cost of sales during the year ended 31 December 2019.

6. DIVIDEND

No final dividends were paid, declared or proposed during both years, nor has any dividend been proposed since the end of the reporting period.

7. EARNINGS PER SHARE

The calculation of the earnings per share attributable to owners of the Company is based on the following data:

	2019 RMB'000	2018 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share Profit for the year attributable to owners of the Company	92,731	64,761

	2019	2018
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	844,559,841	844,559,841

Diluted earnings per share are not presented for the years ended 31 December 2019 and 31 December 2018 as there were no potential ordinary shares outstanding during both years.

8. TRADE AND OTHER RECEIVABLES

The normal credit term is 30 to 180 days upon delivery. The following is an aged analysis of the trade receivables net of allowance for credit losses presented based on the invoice dates at the end of the reporting period.

	2019 RMB'000	2018 RMB'000
0 - 60 days	373,923	279,751
61 - 90 days	86,634	45,895
91 - 180 days	77,065	54,349
181 - 270 days	6,425	3,900
	544,047	383,895

9. TRADE AND OTHER PAYABLES

The credit period on purchases of goods is normally 30 to 60 days. The following is an aged analysis of trade and bills payables based on the invoice dates at the end of the reporting period:

	2019 RMB'000	2018 RMB'000
0 - 60 days	181,184	104,838
61- 90 days	28,849	42,283
91 - 180 days	57,945	42,672
181 - 270 days	536	4,127
271 - 360 days	523	1,444
Over 360 days	18,081	15,863
	287,118	211,227

10. EVENT AFTER REPORTING PERIOD

The outbreak of the 2019 Novel Coronavirus ("COVID-19") has spreaded across different countries in early 2020. The subsequent quarantine measures as well as the travel restrictions imposed by the governments of various countries have resulted in a negative impact on the operations of the Group since February 2020, as most of the Group's operations are located in the PRC and the major suppliers/customers of the Group are located in the PRC.

The Group has suspended its manufacturing activities since February 2020 due to mandatory government quarantine measures in an effort to contain the spread of the epidemic. The Group has resumed its manufacturing activities for its capacitors segment, which is located in Shenzhen of Guangdong province, and the operation of the production plant of the Group's aluminum foil business segment located in Baotou City of Inner Mongolia Autonomous Region since late February 2020 and has reached its normal capacity as of the date of this announcement.

The operation of another production plant of the Group's aluminum foil business segment located in Yichang of Hubei province ("Yichang Production Plant"), where lockdown measures and other travel restrictions had been imposed by the Chinese government, was suspended since the end of the Chinese New Year holiday in 2020. The operation of the Yichang Production Plant has not been resumed as of the date of this announcement.

In addition, the operations of the Group's customers and suppliers are also located in the PRC and overseas. The outbreak of COVID-19 is expected to have negative effect to these counterparties in different aspects, which in turn, may affect the recoverability of Group's trade receivables and also the carrying amounts of the Group's inventories and property, plant and equipment.

Given the dynamic nature of these circumstances and unpredictability of future development, including government policies and measures in response to COVID-19, the management of the Group is still unable to estimate the potential financial impact to the Group and the actual effects, if any, will be reflected in the Group's consolidated financial statements for the year ending 31 December 2020.

11. RECONCILIATION OF AUDITED CONSOLIDATED PROFIT FOR THE YEAR FROM UNAUDITED CONSOLIDATED PROFIT FOR THE YEAR

	RMB'000
Unaudited consolidated profit for the year as announced on 31 March 2020	110,276
Add (Less):	
Adjustment of cost of sales	(16,000)
Release of deferred income	750
Additional impairment losses under expected credit loss model, net of reversal	(1,769)
Directors' bonuses for the year (which have to be calculated according to the audited consolidated profit for the year after non-controlling interests)	(4,200)
Adjustment of income tax expense	3,409
Others	81
Audited consolidated profit for the year	92,547

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

A summary of the audited financial results of the Group for the year ended 31 December 2019 (the "Year") is set out below:

- Revenue increased by approximately 13.77% to approximately RMB1,367,861,000 (for the year ended 31 December 2018: RMB1,202,327,000).
- Gross profit increased by approximately 16.70% to approximately RMB397,786,000 (for the year ended 31 December 2018: RMB340,868,000).
- Profit for the Year attributable to owners of the Company amounted to approximately RMB92,731,000 (for the year ended 31 December 2018: RMB64,761,000).

During the Year under review, the Group’s revenue was approximately RMB1,367,861,000, representing an increase of approximately 13.77% over the corresponding period of last year. Sales of capacitors for the Year amounted to approximately RMB1,288,397,000, representing an increase of approximately 9.87% as compared to RMB1,172,606,000 in the corresponding period of last year. Such increase was mainly due to the increase of sales to new customers. Sales of aluminum foils for the Year amounted to approximately RMB79,464,000, representing an increase of approximately 167.37% as compared to RMB29,721,000 in the corresponding period of last year. Such increase was mainly benefited from the implementation of the Group’s improvement of upgraded technologies concerning production line as well as the function and quality of products, which strengthened customers’ confidence in use and their trust towards the Group’s products, thus increasing the sales of aluminum foils. During the Year, the Group’s gross profit margin decreased to approximately 27.91% for the Year from approximately 28.35% for the corresponding period of last year.

BUSINESS REVIEW

In 2019, global economic and trade tensions created a climate of uncertainty with sliding economic growths worldwide. In a review of global economic trends and outlook, it is indicated by an economic analyst that despite a myriad of uncertainties in 2020, the preliminary trade agreement recently reached by China and the US had mitigated such tense situation, which was expected to ease the pressure on global economy in general and rescue economic performance from declines. Considering the factor of low base period in 2019, major international forecast institutions believe that 2020 will possibly produce better economic and trade growth across the globe than 2019. Looking back at the global economic development trends in 2019, the unrest caused by the China-US trade war, Brexit as well as other political and economic situations exerted a material impact on global economy and sentiment and left a massive shock to industries. Consequently, key economic investigation institutions worldwide have raised a pessimistic view on economic outlook. Overall, the global economy climate faces challenges that are both treacherous and hard to identify amid uncertain economic prospects, coupled with even more uncertainties from the current epidemic situation in Wuhan city, Hubei province, the PRC. Such a backdrop came in tandem with the favorable conditions brought by a low base period and the expected moderation in China-US trade situation, as well as the intelligent innovations driven by 5G, artificial intelligence ("AI"), Internet of Things ("IoT") and other new technologies, all of which have generated fresh opportunities for industries and the economy. Under the dynamic interaction of these two forces, it remains to be seen as to how the future economic climate will evolve. Nevertheless, the Group shall invariably break through the dilemma with technological innovation and regain economic momentum.

Given numerous uncertainties, for the electronics sector, people’s life has been slowly integrated with the popular AI, digital ecosystems, biohackers, transparent immersive experience and ubiquitous infrastructure. The continuous advancement of technologies, particularly wearable devices and unmanned carriers, will keep transforming human’s life and competition intensively and thereby boosting the demand for technically upgrading electronic parts and components and their quantity.

Ø *Manufacture and sale of aluminum foils*

During the Year, after satisfying internal production demand, the Group’s external sales of aluminum foils amounted to approximately RMB79,464,000, representing an increase of approximately 167.37% as compared to approximately RMB29,721,000 in the corresponding period of last year.

The selling prices of aluminum foils in the market were stable in the first half of 2019, and decreased dramatically in the second half of the year mainly because the new production lines in the market were put into production successively, resulting in the oversupply in the aluminum foil market. To respond to such industrial characteristics and having assessed market dynamics and considered future market demand, the Group made specific adjustments such as technical upgrading of production lines, improvement of production techniques and faster research and development (“R&D”) on improving the performance of aluminum foils, so as to improve the industry competitiveness of aluminum foils suppliers and reduce the impact of the market. Such adjustments were effective, as manifested in overall output, production costs and product performance. At the same time, process control and details management were added in the production of aluminum foils, to ensure that the quality of each square of aluminum foil produced is consistent, thereby strengthening customers' confidence in consumption and trust in the product. After the implementation of the above measures, in addition to ensuring the stable source of aluminum foil materials for the capacitor plants of the Group and the flexible demand of customers in external markets, the Group managed to address its market dilemma in the second half of the year by successfully exploring overseas markets and introduced its products to the Japanese supply chain.

Aluminum foils are the major raw material of capacitors. The Group has excellent production processing technologies for formed foils and a stable production capacity. 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:

Ø Etched aluminum foils

- *A new generation of high-speed etching production lines*
  On the basis of existing high-speed etching production lines, the Group optimised production technology and equipment, conducted R&D to design a new generation of high-speed etching production lines, and completed equipment installation and commissioning. As a result, the Group's production efficiency doubled that of the existing high-speed production lines, with room for further improving the quality of etched aluminum foils.

- *Reducing the costs for etching*
  Through the adjustment and improvement of the etching process and formula, a cheaper etching production process was developed, which effectively reduced the production cost of etched aluminum foils.

Ø Formed foils

- The Group focused its R&D on the energy conservation technology for organic acid formation, to effectively improve production efficiency.
- On average, the Group's fast production lines for seven-segment formation were over 20% quicker than the original five-segment ones.
- The Group focused its R&D on capacity improvement technology of the organic acid formation process, lifting such capacity by more than 2.0% compared with the original formation technology.
- The Group developed a new approach to evaluate the performance of formed foils and formally put it into use in October 2019. The new method produced results closer to the actual environment where formed foils were applied in capacitors, making it a more valuable reference in actual application.
- In January 2019, the Group completed the transformation of the foil-washing sewage recycling project and put it into operation, saving approximately 300 tons of water per day and significantly reducing water costs and sewage discharge.
- The Group finished installing a phosphoric acid recovery and treatment system and started the recovery of phosphoric acid from all of the Group's production lines in October 2019. As such, the Group is able to recycle over 20 tons of phosphoric acid per month and thereby reduced the cost.

Ø *Manufacture and sale of capacitors*

In respect of capacitors, the Group recorded external sales of approximately RMB1,288,397,000 for the Year, which accounted for approximately 94.19% of the Group's total external sales and represented a decrease of approximately 3.34% from approximately 97.53% 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 demand for growth in 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. Hence, the Group is cautiously optimistic about the passive component industry for the years to come. Besides, in response to the application of 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 for wearable devices and unmanned carriers, visionary technologies such as 5G, AI and visual machinery will usher smart devices into a new era of diversity with various commodity service models evolving. Furthermore, to cater to the type and requirements of consumers, the information technology setup requirements of innovative service models are expected to emerge swiftly, to capture the software and hardware business opportunities in future businesses. In respect of the R&D and mass production of capacitors, the Group primarily worked on high-end products such as variable-frequency drives, servo drives, chargers for communications bases and communications terminal products and in-vehicle electronic applications during the Year, 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, innovate 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:

- An AP25V330μF(10*10.5) semisolid surface mount device aluminum electrolytic capacitor has been developed that can resist a high temperature of 150℃. Samples have passed the comparison test by the customer and against Japanese products. The new product's characteristic parameters are fully in line with the standards of Japanese products, making it possible to replace them.
- At present, verification is underway for a relatively cheaper domestic carbonised electrolytic paper to replace such electrolytic paper used in solid monomer/oxidant specifications that requires no cleaning or carbonization.
- The Group has established a professional team for the integrated R&D and manufacturing of fast-charging capacitance. The team is equipped with manufacturing technology and production-testing equipment for high-end, leading fast-charging capacitance.
- Domestic high-purity negative foils (WF30CP070-2VF WF20CP050-2VF) will replace the imported ones, with samples under verification.
- Sample verification is also underway for domestic electrolytic paper to replace its imported counterparts used for liquid capacitors.
- In response to unstable input from power grids for televisions, a spindly guide pin product has been developed that can resist high voltages, which has passed strict high-voltage verification by the customer.
- In terms of improving the processing capacity of solid capacitors, the newly developed pre-treatment liquid has no effect on the capacitance's capacity characteristics and can reduce electric leakage, increase the compatibility of monomer oxidants and electrolytic paper. The new product can be applied

to solid surface mount device products to reduce short circuit occurrence, address the problem of rising leakage current in reflow, improve the compatibility between post-treatment liquid and dispersion, and achieve higher product reliability and lower material costs.

LIQUIDITY AND FINANCIAL RESOURCES

Ø *Cash and cash equivalents*

As at 31 December 2019, the Group had cash and cash equivalents of approximately RMB177,445,000 (31 December 2018: RMB248,918,000), which were mainly held in Renminbi and US Dollars (31 December 2018: Renminbi and US Dollars).

Ø *Borrowings*

As at 31 December 2019, the Group had bank and other borrowings of approximately RMB205,637,000 (31 December 2018: RMB250,497,000), which were mainly denominated in Euro, US Dollars, New Taiwan Dollars and Japanese Yen (31 December 2018: US Dollars, New Taiwan Dollars, Japanese Yen, Euro and Renminbi). Among such bank borrowings, approximately RMB171,290,000 (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:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Within one year	189,517	240,383
More than one year but not exceeding two years	4,104	7,018
More than two years but not exceeding five years	2,903	3,096
More than five years	9,113	-
	205,637	250,497

PLEDGE OF ASSETS

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Property, plant and equipment	77,580	79,272
Pledged bank deposits	2,190	2,818
Pledged deposit in a financial institution	2,090	2,064
Right-of-use assets	10,805	-
Land use rights	-	11,159
	92,665	95,313

FINANCIAL RATIOS

As at 31 December 2019, the Group's gearing ratio (net debt divided by the sum of equity attributable to owners of the Company and net debt) was approximately 37.12%, representing an increase of approximately 5.30% as compared with 31.82% as at 31 December 2018. Such increase was mainly due to the increase of trade and bills payable of approximately RMB75,891,000 and the decrease of cash and cash equivalents of approximately RMB71,473,000.

Below sets forth the turnover days of the inventories, trade and bills receivable, and trade and bills payable of the Group during the Year:

	For the year ended 31December	
	2019	2018
Inventory turnover	78 days	77 days
Trade and bills receivable turnover	124 days	119 days
Trade and bills payable turnover	92 days	88 days

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

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had capital commitments contracted but not provided for in the consolidated financial statements amounting to approximately RMB98,180,000 (31 December 2018: RMB8,278,000).

MATERIAL PROCEEDINGS

During the year ended 31 December 2011, a customer (the "Claimant") filed an arbitration claim against Capxon Taiwan, with the Japan Commercial Arbitration Association (the “Arbitration Association”), claiming damages of approximately JPY1,412,106,000, equivalent to approximately RMB90,489,000 (2018: approximately JPY1,412,106,000, equivalent to approximately RMB87,959,000) allegedly suffered by the Claimant 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 Claimant damages, interest on deferred payment and arbitration related expenses ("Damages") and the details are set out below:

(i) damages of JPY2,427,186,647, equivalent to approximately RMB155,535,000 (2018: JPY2,427,186,647, equivalent to approximately RMB151,172,000);

(ii) interest on deferred payment calculated at 6% per annum on:

   (a) first claim of JPY1,311,973,002, equivalent to approximately RMB84,072,000 (2018: JPY1,311,973,002, equivalent to approximately RMB81,713,000) accrued from 1 January 2011 until payment in full;
   (b) second claim of JPY942,366,339, equivalent to approximately RMB60,387,000 (2018: JPY942,366,339, equivalent to approximately RMB58,693,000) accrued from 1 July 2012 until payment in full; and
   (c) third claim of JPY172,847,306, equivalent to approximately RMB11,076,000 (2018: JPY172,847,306, equivalent to approximately RMB10,766,000) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062, equivalent to approximately RMB1,513,000 (2018: JPY23,618,062, equivalent to approximately RMB1,471,000).

In October 2014, Capxon Taiwan filed a petition to the Tokyo Chiho Saibansho ("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 Supreme Court of Japan situated in Tokyo, which is the highest court in Japan, 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 Claimant 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 Claimant 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. The HK Court has yet to hand down its decision after the summons was heard on 26 September 2019 as of the date of this announcement.

In November 2017, the Claimant also filed an application to the Taiwan Shilin District Court ("Taiwan Court") for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan 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 a liquidator pursuant to the Laws of Taiwan. In April 2018, under the instructions issued by the Taiwan Court, certain property, plant and equipment in Taiwan, with carrying value of approximately RMB10,995,000, were distrained by the Taiwan Court for enforcing the Arbitral Award. In February 2019, under the instructions issued by the Taiwan Court, the relevant property, plant and equipment were 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 approximately NTD91,690,000 (equivalent to approximately RMB20,106,000) was received and held by the Taiwan Court to settle Capxon Taiwan's liabilities, and the settlements are allocated as the order below:

(a) secured bank borrowings of approximately NTD80,953,000, equivalent to approximately RMB17,751,000;
(b) settlements of Damages to the Claimant of approximately NTD6,990,000, equivalent to approximately RMB1,533,000;
(c) other creditors of approximately NTD377,000, equivalent to approximately RMB83,000; and
(d) corresponding expenses and taxes arising from the auction of approximately NTD3,370,000, equivalent to approximately RMB739,000.

Besides, under the instructions issued by the Taiwan Court, additional payment amounting to approximately NTD2,932,000, equivalent to approximately RMB642,000, was made by Capxon Taiwan for settlement of the Damages to the Claimant of approximately NTD2,765,000, equivalent to RMB606,000 and the arbitration related expenses of approximately NTD167,000, equivalent to approximately RMB36,000.

As at the date of this announcement, the winding-up procedures of Capxon Taiwan are still in progress.

The outcome of the hearings from the HK Court cannot be determined at this stage and the winding-up procedures of Capxon Taiwan are still in progress. Subsequent to the settlement made during the year ended 31 December 2019 amounting to RMB2,139,000, an aggregate amount of JPY3,622,932,971, equivalent to approximately RMB232,159,000 (2018: JPY3,511,811,817, equivalent to approximately RMB218,725,000), was recognised as at 31 December 2019 in respect of the Damages.

FOREIGN EXCHANGE FLUCTUATIONS

The Group's revenue from operations is principally denominated in US Dollars and Renminbi, while its expenses are mainly denominated in Japanese Yen, Renminbi, US 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 PRC government 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 31 December 2019, the Group had approximately 2,348 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. During the Year, staff costs (including directors' emoluments) amounted to approximately RMB244,212,000 (for the year ended 31 December 2018: RMB239,609,000).

COMPLIANCE WITH LAWS AND REGULATIONS

As far as the Company is concerned, it complied with the relevant laws and regulations that have a significant impact on the business and operations of the Group in all material respects during the Year.

FUTURE STRATEGIES AND PLANNING

Below sets forth the three trends in the development of science and technology industries in 2020 leading a smart new era:

1. "People-oriented" smart technology: People-oriented smart space stands as one of the most important aspects in today's technology development. Future businesses must start from "people-oriented" and think about how technology will affect customers, employees, business partners, society or other important stakeholders. At the same time, the smart space based on the "people-oriented" concept represents that human beings can interact with technology systems in an increasingly open, interconnected, coordinated and intelligent ecosystem, and can integrate a host of elements such as individuals, processes, services and items in the physical space to create more real, highly interactive and highly automated experience.

2. Exponential growth of key technologies: In its outlook for the overall development of the high-tech industry in 2020, the Market Intelligence & Consulting Institute (MIC) of the Institute for Information Industry (III) pointed out the "exponential growth of key technologies". The key trend embodies IoT, AI, Big Data, blockchain, cloud, information security, edge computing and 5G. Their highly iterative development and mutual promotion will open up huge business opportunities for technological growth in 2020.

3. Separation of industrial chains will affect the global landscape of the technology industry: For industries, as trade conflicts keep emerging in countries around the world, the global industrial supply chain is accelerating its migration and developing new forms and models. According to the Science & Technology

International Strategy Center (ISTI) under the Industrial Technology Research Institute (ITRI), China-US trade disputes intensified in 2019, while the Japan-Korea trade war also started, both of which will have a far-reaching impact on the global industrial chain for the next decade. As such, separation of industrial chains may serve as a new starting point for the future world order.

In general, the technology industry will manifest different development situations across such sub-fields as semiconductors, communications network, intelligent terminals and application software, amidst the increasing global economic and trade competition, the rapid evolution of new technologies and the deeper penetration of intelligent applications in human life. Therefore, 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 confront technological transformations. As such, the Group will also transform its business based on the following objectives:

Ø *Human resources*: Streamlining labor demand, and tackling higher labor cost of production lines and improving labor efficiency through education, training and more automation equipment.

Ø *Production equipment*: Installing more automation equipment, with trial production to take place.

Ø *Material costs*: Consolidating common materials to cut inventory backlog.

Ø *Material development*: Developing fundamental materials – coated high-capacitance foils and high-voltage solid-state materials.

Ø *Verification and delivery*: Strengthening 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 pattern of failure on capacitor performance and the reasons thereof, in order to improve the quality of capacitors and meet the demand.

Ø *Technological reforms:*

Currently, the Group expects to develop the following key technologies in relation to aluminum foils and electrolytic capacitors in 2020:

Ø Aluminum foils
- Technological development of manufacturing ultra-long-lifespan, ultrahigh stability inorganic acid formed aluminum foils used in aluminum electrolytic capacitors.
- Development of the technology for manufacturing ultrahigh-speed formed aluminum foils.
- Development of the technology for manufacturing ultrahigh capacity formed aluminum foils which are mainly applicable to miniaturized, high-capacity aluminum electrolytic capacitors.
- Development of the technology for manufacturing ultrahigh-voltage (above 900VF) formed foils.

Ø Capacitors
- Foil and pin-type products developed for 5G products will be launched in the market shortly, which will lead the market development trend.
- A new type of explosion-proof aluminum shells for small high-voltage products has been developed, with enhanced safety and competitiveness for such products.

- With the application of 5G power supplies, the Group launches the 125'C 3000Hrs product under the Snap-in HH series to meet the requirement of power density, miniaturization and a 10-year lifespan in the application environment of fanless cooling systems.

FUTURE PROSPECTS

Given the successive application of 5G worldwide in 2019, 2020 will witness the full launch of 5G across the globe as it emerges as a growth highlight that leads the future technology industry and generates a continuous stream of business opportunities for various electronic components in the future 5G communications system. Hence, so far as the technology sector is concerned, AI, 5G, high-performance computing (HPC) and experiential technology will doubtlessly become the key issues that drive “smart” life applications in the days to come, and stand as trends that cannot be overlooked by any market player. According to the Institute for Information Industry, in 5G networks, applications such as multi-player cloud games, augmented reality, virtual reality, smart manufacturing and vehicle-to-everything are based on low latency and supported by IoT. This will raise the demands for distributed computing and storage, draw particular attention from the edge computing market, and help promote the growth of scale of the network equipment market. The Institute for Information Industry also estimates that the shipment of 5G mobile phones will reach 260 million in 2020 and 540 million in 2021. The upgrade of the specifications of 5G parts and components will propel the industry growth for semiconductors, RF components, heat dissipation, circuit boards, passive components, antennas and memory. Therefore, with the comprehensive commercialization of 5G and its rapid growth in applications, the technology sector will embrace business opportunities from network equipment, base stations and mobile phones to relevant key parts and components. Nevertheless, the market shall not overlook and ignore the impact of novel coronavirus. With the lockdown of countries across the world successively due to the hazards caused by the virus, it has become the matter that needs to be paid close attention to in 2020 as to whether the economic model would step back from globalization to small region as a results of economy depression and close-door policy of countries.

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 the Group’s 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 create industry value and revenue steadily, in order to reward the Company’s shareholders for their support with profits.

OTHER INFORMATION

DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 June 2019 and 2018.

The Board does not recommend the payment of any final dividend for the Year (2018: nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules during the Year, 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 to the board chairman and/or the chief executive. As the company secretary is also involved in handling the financial reporting matters of the Group, it simplifies the reporting process if she reports to the chief financial officer, who in turn reports to the board chairman on matters concerning the Group's financial affairs and corporate governance.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the Year.

ANNUAL REPORT

The 2019 annual report of the Company containing all the information required by the Listing Rules is expected to be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and on the Company's website (www.capxongroup.com) on 14 May 2020.

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

Hong Kong, 29 April 2020

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