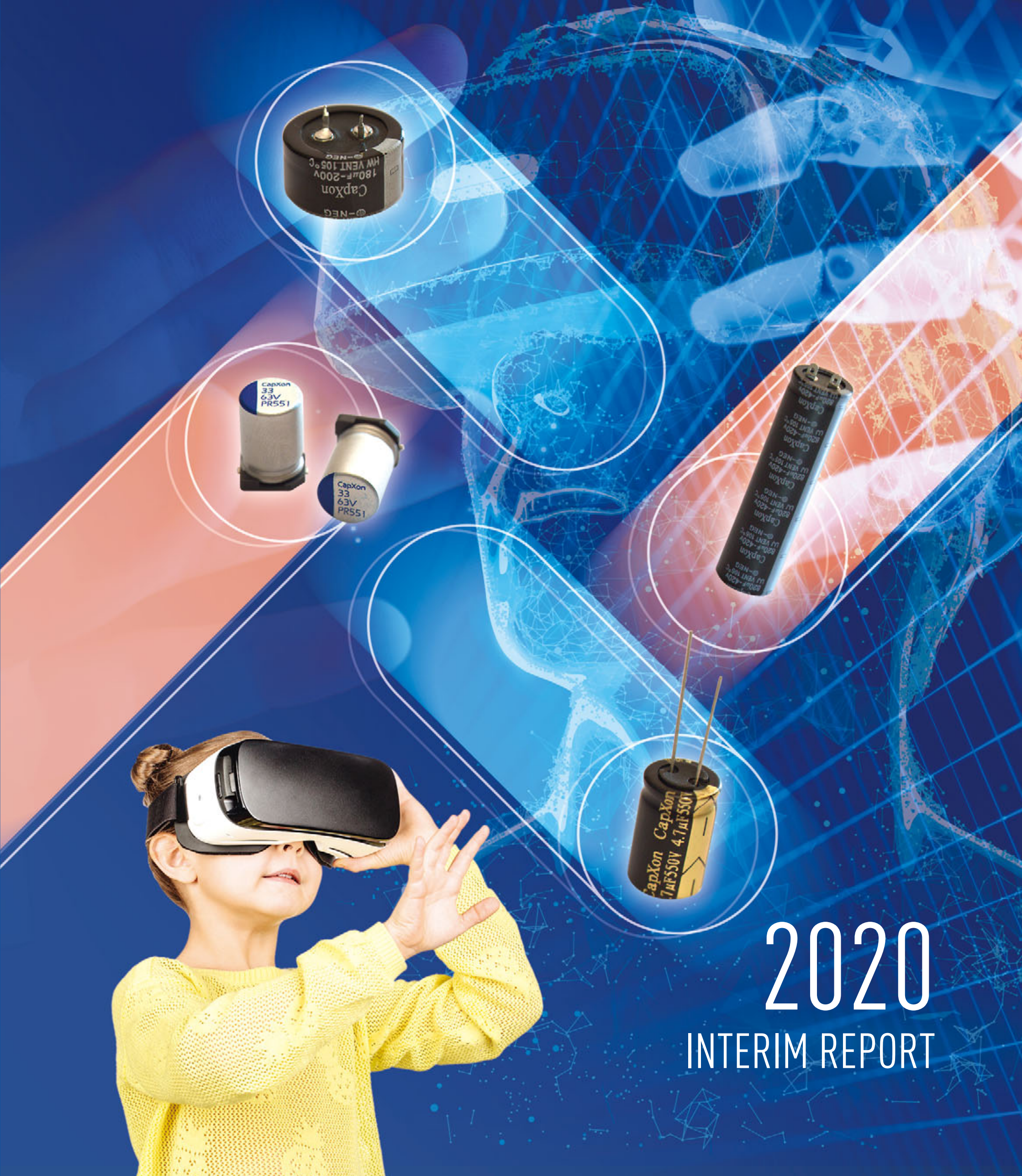
CapXon

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



2020
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
Registered Public Interest Entity Auditors

Legal Adviser

MinterEllison LLP
Level 32 Wu Chung House
213 Queen's Road East
Hong Kong

Principal Bankers

Agricultural Bank of China Limited
Bank of Ningbo
First Commercial Bank
Hua Nan Commercial Bank
Mega International Commercial Bank
Co., Ltd.
Ping An Bank Co., Ltd.

Registered Office

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Principal Share Registrar and Transfer Office

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Cayman Islands

Branch Share Registrar and Transfer Office

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Stock Code

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Chairman's Statement

Dear shareholders,

In the first half of 2020, the COVID-19 pandemic resulted in extreme containment measures being implemented around the world including the lockdown of various cities worldwide with an aim to contain the pandemic. Such extreme measures have led to economic and trade uncertainties and a slowdown in economic growth. Although a number of countries have progressively been lifting the lockdown measures, it is uncertain that the re-opening measures adopted by different countries around the world would be effective in containing the spread of the virus. Meanwhile, given the prevailing unclear conditions, rising unemployment and uncertain timeline of bringing the pandemic under effective control, it remains to be seen how the global economy will recover.

As for the global outlook in 2020, the economy remains dependent on trade frictions as a key factor. Economists point out that the ongoing development of the China-US trade war is critical to the global economic growth in 2020. Should the global trade tensions escalate further, forthcoming uncertainties will affect the willingness of enterprises to invest and have a negative impact on consumer confidence globally, which may as a result lead to a downturn on the economic performance of various countries. It is expected that the central banks worldwide will make greater efforts to loosen their monetary policies to support the worldwide economy. It is hoping that with adequate capital available in the financial market, the stock and bond markets would be impacted to a lesser extent. In view of the major cuts of interest rates around the world, with some down to zero or even negative, and the launch of more quantitative easing measures in various major countries, the stock market may experience major fluctuations, depending on different industries.

From an industrial perspective, passive components will continue to grow at a moderate pace in the coming years, mainly because the innovation of smart devices remains the key to driving business opportunities. Apart from 5G smartphones, Artificial Intelligence ("AI"), the Internet of Things ("IoT") gadgets and robots will become the new driving force for the growth of smart devices, which is also affected by the progress of the China-US trade negotiations and the evolvement of the pandemic situation.

As most passive components are in a relatively mature stage of their product lifetime, there is a 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, with most of the products applied within the 3C sector. In the future, the industry will benefit from other emerging application markets such as IoT, AI, Big Data, blockchain, cloud, information security, edge computing and 5G, and will offer solid support to 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 price. The supply and demand of such end products are less susceptible to fluctuations of economic cycles. By entering into relevant sectors, developing miniaturized and modularized products and adjusting their product portfolios, passive component suppliers can boost their gross profits as well as avoid the operational risks arising from fluctuations of economic cycles. As for future market trends, passive components are expected to develop towards features such as high capacity, high voltage, high frequency, sustained high resistance to heat, and miniaturization. Increasing demand for the top three products, namely smart watches, head-mounted displays (HMD) and ear-worn devices, has led to the growing demand for niche products such as those for industrial and automotive purposes as well as the IoT. Nonetheless, as the global manufacturing hub is being transferred from Mainland China, the question lies in how to shift production lines while maintaining suppliers' support and the same quality. During the development of the China-US trade war, careful attention should be paid to global market changes in the future.

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 develop new customer base, enhance product functions and added value through research and development ("R&D"), and control costs to increase gross profit, so as to adequately satisfy customers' demands and to reward shareholders with returns.

Below sets out the strategies for the Group's two major products in 2020:

1. Operations in the Aluminum Foil Market

In early 2020, the outbreak of the COVID-19 pandemic started to spread all over the world, leading to an unprecedented blow to both domestic and overseas markets. Most of the suppliers and users were in a state of suspension or semi-suspension of work, presenting a bleak picture of the market. This was directly reflected in sales, as orders and shipments were largely stagnated and sales prices remained low. In response to such industrial characteristics and prevailing market conditions and having evaluated the market conditions and potential supply in the future, the Group further reduced production costs, enhanced the competitiveness of aluminum foil manufacturers and increased the exploration of and cooperation with domestic customers, with an aim to ensure a stable stream of orders to be placed by aluminum foil manufacturers. This was achieved by improving production technologies and widening the channels of the Group's supply chain for major raw materials during the period. Moreover, in respect of the overseas market, apart from the successful entry into the supply chain of Japan, the Group also plans to explore the Korean market this year in which we had achieved good result so far. It is expected that the Group will manage to enter the Korean market in the second half of the year and increase the diversity of its overseas sales. In addition, to maintain the Group's operational competitiveness and advantages, it has started to execute its special scheme to set up six high-speed production lines for high-pressure formed foils as planned in 2019, which are expected to commence production in October 2020 and boost its monthly production of high-pressure formed foils by 130,000 square meters. Should the plan come into fruition, the Group can lower existing costs and bolster product quality even further.

In 2020, the industry market will retain moderate growth. Increasingly rigorous environmental regulations will lift the production cost of aluminum foils, the major raw material of passive components, whose production capacity remains dominated by large-scale capacitor manufacturers. Prospective industry adjustments may lead to upward integration in the aluminum foil industry, i.e. the integration of the production of formed foils and etched aluminum foils into upstream foil production to meet the future requirements on quality, or downward integration, i.e. the integration of the production of formed foils and etched aluminum foils with downstream manufacturers of aluminum electrolytic capacitors to meet the end demand of customers. As aluminum foils are the principal raw materials of capacitors, the Group has excellent processing technologies and a stable production capacity for formed foils to produce customized products that cater to customers' demand. In addition, the Group stays active in exploring the developmental potential of markets with high added value in order to prepare for future market changes. The Group will stay attentive to and address the future changes in the aluminum foils market cautiously.

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

Etched aluminum foils

- *A new generation of high-speed etching production lines*
  In light of the existing high-speed etching production lines, the Group optimized production technology and equipment, conducted R&D to design a new generation of high-speed etching production lines, and completed equipment installation. After initial commissioning, the Group's production efficiency doubled that of the existing high-speed production lines, further improving the quality of etched aluminum foils.

- *Chemical etching process development*
  Through adjusting and improving the etching process and formula, a chemical etching production process at lower cost was successfully developed. Given the same specifications and quality of etched aluminum foils under manufacturing, the production cost has been reduced effectively.

Formed foils

- Development of the energy-saving technology for manufacturing ultrahigh capacity formed aluminum foils has entered the stage of trial production, with the electricity consumption of formed aluminum foils down by over 10%.

- Technological development for manufacturing ultra-long-lifespan, ultrahigh-stability inorganic-acid formed aluminum foils used in aluminum electrolytic capacitors, which are applicable to the capacitors in 5G base station equipment, has entered the stage of lifespan test.

- Development of the high-speed formation technology for aluminum foils has entered the stage of trial production, with production volume up by over 50% on top of the original formation technology.

- Development of the boric acid-free formation technology has entered the stage of sample production. The project will provide technical reserves for future discharge standards for boric-containing sewage.

- Development of the formation technology for ultrahigh-voltage high-capacity foils. Currently, the capacity of 810VF ultrahigh-voltage formed foils can exceed 0.43uf/cm^2, with the capacity improved by more than 10%.

- The power supply transformation scheme eliminated outdated power sources, reduced failure rates and improved production efficiency, with production volume up by approximately 20% after the transformation.

2. Operations in the Electrolytic Capacitor Market

Multiple regions have embraced the 5G era with the arrival of IoT as the "Next Big Event". Developed by focusing on IoT and AI in the future, AIoT will lead a swift rise of the new economy and new industries. Regarding the R&D and mass production of capacitors, the Group primarily focused on high-end products such as variable-frequency drives, servo drives, chargers for communications bases and communications terminal products and in-vehicle electronic applications in the first half of 2020, with great achievements in addressing the relevant demand. In the future, the Group will commit more efforts to meet the requirements of special tailor-made products which consist of miniaturization, high capacity, high and ultrahigh voltage, high frequency and high temperature. The Group will also take steps in developing custom-made products that cater to the front-end demand of the market across different sectors. Furthermore, the Group will promote the market application of capacitors in various fields and expand the global market share of its capacitor products.

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

- The structure of digital and intelligent management has been completed for departments throughout the factory, enabling efficient problem-solving, synchronized information update and execution of improvement measures to take place at the same time. Such management has been highly recognized by a number of international high-end clients of factory audit.

- By cooperating with 5G equipment manufacturers to develop suitable aluminum electrolytic capacitors and actively tapping into the 5G communications market, the Group has designed and developed the liquid SMD electrolytic capacitor SV series that features an ultra-small size and high-quality and can be widely used in smart IoT devices.

- Application of power devices GaN and SiC keeps amplifying the power density per unit volume of power supply, requiring smaller capacitors and higher temperatures. At present, aluminum electrolytic capacitors have become the mainstream in the design and development of miniaturized power supply.

- As for large televisions which require spindly high-voltage capacitors, the Group has passed the test at the client end, with the commissioning of trial production equipment completed.

- Products with ultrahigh capacity, ultralow loss and ultra-long lifespan have been verified by medical power supply customers, and the capacity can be controlled at –5%, which has been recognized by customers and on mass production.

- The cancellation of cross-provincial expressway toll collection in China will result in a surge of the information collection equipment for expressway vehicles. Accordingly, the Company strives to develop capacitors applicable to high-speed flash photography, with an analog application test with customers under way.

- 10×16.5 and 12.5×16.5 SMD solid aluminum electrolytic capacitors are being developed in response to the demand for solid large-capacity capacitors in the market.

- To cater to 5G smart home applications and communications base stations, long-lifespan and high-temperature resistant products have been developed and passed the 85°C, 85%RH load life test.

- With the development of online conference system amid the global pandemic, there is a large demand for the power supply equipment for 5G communications base stations. The demand for high-voltage guide pins and Snap-in high-voltage products has increased significantly.

- The online conference system has driven the demand for large-size smart televisions, and orders for spindly types increase considerably.

- In respect of the demands for in-vehicle capacitors in European and American markets, the Group has been notified of the VDA6.3 review and the reliability test for AEC-Q200 products.

- The Group's whole-process management system connects to ERP, R&D and quality assurance systems to realize automated connection with production equipment, which can significantly reduce production failure rates and control the online characteristics of products to meet market demand in the supply chain.

Key areas such as IoT, AI, Big Data, blockchain, cloud, information security, edge computing and 5G have become essential competition areas for industry players and dominated the technology war between China and the US. It is anticipated that China and the US will continue to compete in the international standards of technology, and Mainland China will also develop its own standard by mobilizing its national strength and resources. The trend of "One World, Multiple Technological Standards" is expected to take shape gradually. More importantly, key technologies with accelerating iteration and growth will experience exponential growth and lead diverse interdisciplinary application to turn R&D concepts into market commercialization quickly.

Given the accelerated popularity and maturity of the new generation of telecommunications technology such as AI, IoT and 5G, the manufacturing sector has embarked on platform-based competition regarding the industry's ecosystems. As new smart manufacturing models gradually replace traditional ones, manufacturers must work on digital transformation to distinguish themselves from others in the era of digital economy. Meanwhile, industry alliances provide an important strategic direction in light of digital transformation. This is because the alliance allows companies to work together on technology standards, R&D, industry chain and cooperate in the market. It also enables companies to realize industry integration and innovation across different sectors and disciplines, establishing fresh competitive edges in the digital economy era.

Furthermore, the combination of edge computing, AI and IoT will generate greater impetus. At the same time, technologies that can create immersive experience, such as virtual reality, will continue to reshape people's perceptions of the digital world. Blockchain offers solutions to operational performance, enables interaction and connection in smart spaces, or helps establish safety nets to prevent network attacks amidst privacy and security concerns in an increasingly open system. Also, corporates must work as reliable suppliers in respect of security, reliability, information privacy and ethics, to advance with forward-looking technologies that continuously create unlimited possibilities in the future. As part of the electronic industry market, the Group should naturally maintain its competitiveness and master the latest technology to accelerate the development of new technologies, products and solutions in order 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 its current achievements, conduct innovation, and consolidate its established 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 Mainland China, Hong Kong and Taiwan with a view to maximizing investment returns for the Company's shareholders as a whole.

LIN Chin Tsun
Chairman

Hong Kong, 25 August 2020

Financial Review

A summary of the financial results of the Group for the six months ended 30 June 2020 (the "Period") is set out below:

- Revenue increased by approximately 7.40% to approximately RMB641,125,000 (for the six months ended 30 June 2019: RMB596,951,000).

- Gross profit increased by approximately 5.72% to approximately RMB175,174,000 (for the six months ended 30 June 2019: RMB165,694,000).

- Profit for the Period attributable to owners of the Company amounted to approximately RMB27,824,000 (for the six months ended 30 June 2019: RMB32,615,000).

During the Period under review, the Group's revenue was approximately RMB641,125,000, representing an increase of approximately 7.40% over the corresponding period of last year. Sales of capacitors for the Period amounted to approximately RMB611,340,000, representing an increase of approximately 10.22% as compared to RMB554,647,000 for the corresponding period of last year. The increase of sales was mainly attributable to the purchase of capacitors made in China as an alternative by some domestic customers as a result of the COVID-19 pandemic. Sales of aluminum foils for the Period amounted to approximately RMB29,785,000, representing a decrease of approximately 29.59% as compared to RMB42,304,000 for the corresponding period of last year. Such decrease was mainly attributable to the the outbreak of COVID-19 pandemic in China, the demand for orders decreased abruptly as a result of the user being basically in the state of stagnation or semi-stagnation. During the Period, the Group's gross profit margin slightly decreased from approximately 27.76% for the corresponding period of last year to approximately 27.32% for the Period.

Business Review

In 2020, the global economic and trade tension created a climate of uncertainty with declining economic growth worldwide. In light of the combined effects of foreign divestment from the Mainland China as a result of the COVID-19 pandemic, as well as the intensified trade dispute and scientific and technological war between the U.S. and the PRC, the global pandemic has brought multiple and complicated impacts on the economies worldwide, particularly on scientific and technological industry. According to the revenue performance as recently published by the research institutes and terminal brand operators, it is noted that in the ICT market, hardware-related industries became the most vulnerable to the outbreak of pandemic as we witnessed a continuous reduction in demands for 3C products such as smart phone and TV, whereas there has been a surge in demand for laptops in response to the needs for distant teaching and learning as well as home office. As a result, two distinctly different phenomena arose amid the pandemic. The analysts from research institutes anticipated that, owing to the need for working from home and distant teaching and learning, the purchase of laptops will rocket in the second quarter of 2020 and a proportion of shipment in the first quarter of 2020 will be delayed. Despite the shortage of materials and transportation difficulties, the global shipment of laptops for the Period will still increase by over 40% as compared with that of the previous quarter, and representing a growth on a year-on-year basis. The Chromebook, with a focus on educational market, recorded the most remarkable growth. As indicated by the research institutes, the drastic growth of Chromebook was primarily attributable to the switch to distant teaching and learning at all education levels as adopted by many countries across the world due to the pandemic, and the impact from production chain disruption in the Mainland China and the increasing demand from market amid the pandemic. It is a fact that our lives have been slowly integrated with the prevalence of AI, digitalized ecosystems, DIY biohackers, transparent and immersive experience, and ubiquitous infrastructure. The continuous advancement of technologies, wearable devices and unmanned carrier technologies in particular, will still bring drastic change to the human's life. Coupled with technology transformation brought from competition, there will be a boost on the demand for technically upgrading electronic parts and components, in terms of quantity and quality. Overall, the upstream and downstream supply chain in electronic industry have a close connection, and any slight movement will trigger a butterfly effect. It is expected that the COVID-19 pandemic will have an impact on the industry as a whole. While it remains uncertain as to when the pandemic will be controlled effectively, it is a challenging time for the electronic industry to turnaround the situation.

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 RMB29,785,000, representing a decrease of approximately 29.59% as compared to the external sales of aluminum foils of approximately RMB42,304,000 for the corresponding period of last year.

At the beginning of 2020, the sales volume of aluminum foils fell sharply, and the market suffered an unprecedented blow. It was mainly due to the outbreak of COVID-19 pandemic in China, the demand for orders decreased abruptly as a result of the user being basically in the state of stagnation or semi-stagnation, and the logistics industry announced a suspension of transportation resulting in blocked shipment. The market saw a depression. In response to such industrial characteristics, having assessed market dynamics and considered future market demand, in order to enhance the competitiveness of aluminum foil suppliers in the industry and reduce the impact of the market and the pandemic, amid the pandemic, the Group had made specific decisions of production reduction by phase and closed factory management, required the on-the-job employees to stay in the factory and prohibited such employees from leaving the factory, and actively responded to the government's pandemic control measures and policies. Such decisions were proven effective in the reduction of inventory, while ensuring the health and safety of employees to avoid any halt of production at the factory due to the occurrence of infected cases among the employees. After the implementation of the above measures, as the pandemic subsequently relieved in China, such measures played a key role in the production resumption rate of the aluminum foil suppliers, and enabled the Group to make a quick delivery for its orders. These had successfully overcome the issues of work resumption and shipment after the pandemic was relieved, while deepening the customer's trust in the supply of aluminum foil suppliers.

As aluminum foils are the principal raw materials of capacitors, the Group has excellent production processing technologies and a stable production capacity for the formed foils. Currently, all key R&D projects and quality control techniques have been completed. In addition, the Group continues to actively study the development potential of markets with high added value in order to prepare for future market changes. The Group will stay attentive and prudent to address the future development in the aluminum foils market cautiously.

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

Etched aluminum foils

- *A new generation of high-speed etching production lines*
  In light of the existing high-speed etching production lines, the Group optimized production technology and equipment, conducted R&D to design a new generation of high-speed etching production lines, and completed equipment installation. After initial commissioning, the Group's production efficiency doubled that of the existing high-speed production lines, improving the quality of etched aluminum foils.

- *Chemical etching process development*
  Through adjusting and improving the etching process and formula, a cheaper chemical etching production process was successfully developed. Given the same specifications and quality of the manufacturing of such foils, the production cost of etched aluminum foils has been effectively reduced.

Formed foils

- Development of the energy-saving technology for manufacturing ultra-high capacity formed aluminum foils is currently under the stage of trial production, decreasing the electricity consumption of the formed aluminum foils by more than 10%.

- Technological development for manufacturing ultra-long-lifespan, ultra-high stability inorganic acid formed aluminum foils used in aluminum electrolytic capacitors, which are applicable to those capacitors in equipment of 5G base station, is currently under the stage of lifespan test.

- Development of the high-speed formation technology for aluminum foils is currently under the stage of trial production, and the production is increased by more than 50% comparing with the original formation technology.

- Development of the boric acid-free formation technology is currently under the stage of sample production. The project will provide technical reserves for future discharge standards for boric-containing wastewater.

- Development of the formation technology for manufacturing ultrahigh-voltage and high capacity foils has boosted the current capacity of ultrahigh-voltage formed foils (810VF) to reach above 0.43uf/cm^2 and the capacity is lifted by more than 10%.

- Eliminating old power sources, reducing failure rates and improving production efficiency through power supply transformation plans boosted the output by approximately 20% after the transformation.

Manufacture and sale of capacitors

During the Period, the Group recorded external sales of aluminum electrolytic capacitors of approximately RMB611,340,000, which accounted for approximately 95.35% of the Group's total external sales and represented an increase of approximately 2.44% from approximately 92.91% 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 bring the 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 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, innovate technologies and products ahead of the trend and expand the global market share of its capacitor products.

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

- Construction of a digitalized intelligent production management system throughout our plant has been completed, which can fully lead to the inspection of raw materials, and the production of production process and the features of final products, allowing the use of connected automatic production equipment to significantly improve product yield and reduce wastage of material.

- Construction of an automatic production equipment of chip-integrated capacitor has been put in place.

- An ultra-compact electronic system which is suitable for micro-weapons has been successfully developed for military high-capacity semi-solid products, and samples have been sent to customers for testing simultaneously.

- The vibration requirement of liquid-state Radial type 135°C and durable 20G has passed mechanical shock test conducted by a third party manufacturer.

- Internal verification for the 125°C 3000H pin-type products for 5G base station power supply have been successfully conducted, in which the 10-year lifespan in miniaturized and adverse conditions is satisfied.

- Intelligent monitoring of high-voltage Radial type capacitor manufacturing has been achieved, and fully automatic aging equipments have been put into operation and are ready to undergo trial production stage, which can monitor the products' electronic characteristics along the entire charging and discharging process. A computer program is used to automatically determine and eliminate defective products by charging curve.

- Verification for the 135°C pin-type high-capacity ultra-compact products is being sought among various customers in the North American market.

- In the field of medical and aesthetic application, the conductive foil products of the durable 120A high current discharge have been successfully developed, and now SF 1800uF-300V has been mass-produced.

- At present, in respect of high-end solid products, with the adoption of floating-point adjuster against aging, together with the 6 sigma lean production strategy, to better control the uniformity of product parameters to ensure product quality and improve customer satisfaction.

- High-capacitance foils are used in in-vehicle semi-solid state high-voltage products, which effectively increased capacitance and reduced ESR value, improving the ripple endurance and lifespan extension of semi-solid state products.

- The capability process index (CPK) of solid capacitors uses dispersion liquid instead of monomer oxidants to supplement treatment liquid, greatly improving the advantages of capacitance and low electric leakage, and at the same time fully meeting customers' requirements for high temperature reflow soldering process of SMD products.

- Chip-integrated capacitor products of 2V 330uF, 2V 470uF, 2.5V 330uF and 2.5V 470uF have been developed.

- High-quality, high-durable charged/discharged and long-life flashlight capacitors, which are widely used in medical and aesthetic instruments, have been mass-produced successfully in 2020.

- The horn-shaped 125℃, 3000Hrs products have been applied to 5G communication power supplies for key customers, and 5000Hrs product will be developed in the future.

- Semi-solid-state development of products of high-temperature and high-voltage endurance of 150 degrees 100V of 10*16.7 under AP series.

- Solid-state development of high-capacity and high-ripple PH2700/35 products of size 12.5*30.

Liquidity and Financial Resources

Cash and cash equivalents

As at 30 June 2020, the Group had cash and cash equivalents of approximately RMB190,343,000 (31 December 2019: RMB177,445,000), which were mainly held in Renminbi and US Dollars (31 December 2019: Renminbi and US Dollars).

Borrowings

As at 30 June 2020, the Group had bank and other borrowings of approximately RMB312,568,000 (31 December 2019: RMB205,637,000), which were mainly denominated in Euro, Renminbi, New Taiwan Dollars and Japanese Yen (31 December 2019: Euro, US Dollars, New Taiwan Dollars and Japanese Yen). Among such bank and other borrowings, approximately RMB186,382,000 (31 December 2019: RMB171,290,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of bank and other borrowings:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Within one year	**236,083**	189,517
More than one year but not exceeding two years	**34,950**	4,104
More than two years but not exceeding five years	**32,601**	2,903
More than five years	**8,934**	9,113
	312,568	205,637

Pledge of Assets

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

	30 June 2020 RMB'000	31 December 2019 RMB'000
Property, plant and equipment	**158,575**	77,580
Pledged bank deposits	**2,268**	2,190
Pledged deposits in financial institutions	**17,121**	2,090
Right-of-use assets	**13,738**	10,805
	191,702	92,665

Financial Ratios

As at 30 June 2020, the Group's gearing ratio (net debt divided by the sum of equity attributable to owners of the Company and net debt) was approximately 40.28%, representing an increase of approximately 3.16% as compared to 37.12% as at 31 December 2019. Such increase was mainly due to the increase in bank and other borrowings of approximately RMB106,931,000.

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

	For six months ended 30 June	
	2020	2019
Inventory turnover	**88 days**	78 days
Trade and bills receivable turnover	**152 days**	123 days
Trade and bills payable turnover	**108 days**	81 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 30 June 2020, the Group had capital commitments contracted but not provided for in the consolidated financial statements amounting to approximately RMB91,695,000 (31 December 2019: RMB98,180,000).

Material Proceedings

During the year ended 31 December 2011, a customer (the "Claimant") 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"), claiming damages of JPY1,412,106,000, equivalent to RMB92,709,000 (31 December 2019: JPY1,412,106,000, equivalent to RMB90,489,000) 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 RMB159,351,000 (31 December 2019: JPY2,427,186,647, equivalent to RMB155,535,000) including:

    (a) first claim of JPY1,311,973,002, equivalent to RMB86,134,000 (31 December 2019: JPY1,311,973,002, equivalent to RMB84,072,000) ("First Claim");

    (b) second claim of JPY942,366,339, equivalent to RMB61,869,000 (31 December 2019: JPY942,366,339, equivalent to RMB60,387,000) ("Second Claim");

    (c) third claim of JPY172,847,306, equivalent to RMB11,348,000 (31 December 2019: JPY172,847,306, equivalent to RMB11,076,000) ("Third Claim");

(ii) interest calculated at 6% per annum on the above deferred payment as follows:

    (a) First Claim accrued from 1 January 2011 until payment in full;

    (b) Second Claim accrued from 1 July 2012 until payment in full;

    (c) Third Claim accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062, equivalent to RMB1,551,000 (31 December 2019: JPY23,618,062, equivalent to RMB1,513,000).

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 ("Japan Supreme Court"), 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 ("Enforcement Order") and subsequently a charging order nisi was made in November 2017 ("Charging Order Nisi") by the HK Court. Capxon Taiwan applied to the HK Court to oppose against the Charging Order Nisi in February 2018 ("Charging Order Proceedings") 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 Claimant 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 ("Disclosure Application Proceedings"). The HK Court reserved its judgments at the conclusion of the hearing for the Charging Order Proceedings and Disclosure Application Proceedings in September 2019. In May 2020, the HK Court handed down its judgments in respect of the Charging Order Proceedings and Disclosure Application Proceedings, whereby it (i) made the Charging Order Nisi absolute and (ii) by way of a post-judgment disclosure order, ordered Capxon Taiwan to disclose certain information regarding the financial position of and transactions involving the assets of Capxon Taiwan and Lancom Limited to the Claimant.

In July 2020, on application by the Claimant, the HK Court made an order entitled "Injunction Prohibiting Disposal of Assets in Hong Kong" ("Injunction Order") against Lancom Limited and the Company, with notice to Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh.

Pursuant to the Injunction Order, Lancom Limited and the Company must not (i) remove from Hong Kong any of their assets which are within Hong Kong, whether in their own name or not, and whether solely or jointly owned, up to the value of JPY3,700,000,000 (equivalent to HK$273,000,000) ("Stated Amount"); or (ii) in any way dispose of or deal with or diminish the value of any of their assets, which are within Hong Kong (except any assets specified in the Injunction Order that may be situated outside Hong Kong), whether in their own name or not, and whether solely or jointly owned up to the Stated Amount. In particular, the prohibition in the Injunction Order includes (i) money in the bank accounts of Lancom Limited and the Company; (ii) Lancom Limited's accounts receivables against Waystech Trading Limited (威達貿易有限公司) and Capxon Trading (Shenzhen) Co., Ltd (凱普松貿易(深圳)有限公司); and (iii) the Company's direct or indirect shareholding or equity interests in Capxon Taiwan, Lancom Limited and the companies specified in the Injunction Order. On 7 August 2020, being the return date for a further hearing for the Injunction Order, the HK Court granted a continuation of the Injunction Order until determination or further order with variations to the scope thereof ("7 August Order"). A substantive hearing for the Injunction Order is scheduled for 7 October 2020. For details of the Injunction Order (as amended by the 7 August Order), please refer to the announcements of the Company dated 3 August 2020, 20 August 2020 and 23 August 2020, respectively.

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 were distrained by the Taiwan Court for enforcing the settlement of 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 NTD91,690,000 (equivalent to RMB20,106,000) was received and held by the Taiwan Court to settle Capxon Taiwan's liabilities below:

(i) secured bank borrowings of NTD80,953,000, equivalent to RMB17,751,000;

(ii) settlements of the Damages to the Claimant of NTD6,990,000, equivalent to RMB1,533,000;

(iii) other creditors of NTD377,000, equivalent to RMB83,000; and

(iv) corresponding expenses and taxes arising from the auction of NTD3,370,000, equivalent to RMB739,000.

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

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

As at 30 June 2020, an aggregate amount of JPY3,695,549,075, equivalent to RMB242,622,000 (31 December 2019: JPY3,622,932,971, equivalent to RMB232,159,000), was recognised 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 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 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 2020, the Group had approximately 2,605 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 them with on-the-job education and training as well as subsidies on travel and transportation expenses for home visits. In addition, the Group also adopts non-discriminatory recruitment and employment practices and is committed to providing a safe and healthy working environment. During the Period, staff costs (including directors' emoluments) amounted to approximately RMB130,155,000 (for the six months ended 30 June 2019: RMB111,017,000).

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

The COVID-19 pandemic accelerates the substantial application of 5G: The sudden outbreak of the pandemic has also delayed the construction of 5G network in various countries, but in the long run, it has unexpectedly accelerated the increasing influence of 5G applications on future life, including online e-commerce, remote work, smart marketing, quantitative finance and digital learning, and is expected to drive and expedite the development and growth of related industries. Catalyzed by the pandemic, the global manufacturing industry has again become the mainstream of the world economy and power for social stability. It is also stepping up the full-speed and all-round model transfer, making good use of innovative technologies, increasing the resistance to pandemic, and leading the world to speed up the recovery after the pandemic.

In general, the global manufacturing industry is actively promoting digital transformation, applying advanced technology to manufacturing, embracing the four major transformations of digitalization, networking, intelligence and service, creating five new competitive forces of data trends, software definitions, platform support, organizational reconstruction and smart leadership, which accelerate the new digital transformation of the manufacturing industry. 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.

- *Human resources:* Streamlining labor 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 capacitors in 2020:

► *Etched aluminum foils*

- Adjusting the equipment and technology of the high-speed etching production lines based on the existing version to further increase the speed and efficiency and improving the quality.

- Developing low-cost etching processes through adjusting and improving the technology and equipment so as to further reduce the production cost of etched aluminum foils and increase market competitiveness.

► *Formed foils*

- Development of low-leakage current formed aluminum foils for energy conservation lamps

- Development of new manufacturing technology for high-capacity formed aluminum foils

- Transformation project for cooling water used in formed foils production line

- Transformation project for foil dispenser with 2000m large foil roll

- Transformation project for automatic inspection for formed foils appearance

- Transformation project for clean production

Capacitors

- The development of 150℃ heat-resistant rubber plugs and anti-vibration seat plate of SMD products has brought leapfrogging advancement to the performance of SMD in-vehicle products, and further enlarge the market share of related applications in the in-vehicle field.

- The Company has conducted cooperative research and development with South China University of Technology in view of the exclusivity and high cost of imported electrolytic paper. The Group has developed a kind of low-impedance and high-voltage-resistance electrolytic paper, which has passed the initial testing. After verification, the cost can be greatly reduced.

- 135℃ 6.3-100WV heat-resistant electrolyte, together with the high voltage GBL system electrolyte under 125℃ that the Group developed and the 135℃ heat-resistant plastic cover developed for matching purpose, have applied to pin-type products that boast heat resistance and a long lifespan.

- The 125℃ 3000Hrs product under the Snap-in series that possess long lifespan has passed the requirement of a lifespan in the special environment of fanless cooling systems with proven verification.

- Mass production of the 5G products of extreme size with high-voltage and thunderbolt resistance has been carried out at a full scale. The thunderbolt test and inspection of each batch of products and the online monitoring of product characteristics have been recognized by customers.

Future Prospects

The global manufacturing industry is more actively embracing 5G, which is aimed at the enterprise networks of manufacturing group, immediately promoting the integration and development of Industry 4.0, the industrial Internet of Things and industrial big data, while ensuring the security of corporate data. During the period of pandemic containment and prevention, it was difficult for the factories to start production as scheduled and medical materials were in short supply, thus highlighting the importance of intelligent and automated factories. 5G ultra-low latency can meet the communication requirements of the equipment in the factory, provide remote control and other means for the intelligent production of the factory, and prevent operators from entering into the dangerous zone.

In addition, the following market trends are noteworthy at the time of pandemic:

1. De-globalization: The supply chain of globalization is too long, which can easily lead to chain breaks and extremely high logistics costs.

2. De-materialization: Digital economic activities such as e-commerce, distance education, delivery platforms, and video conferences are expanding due to the implementation of measures on social distancing and isolation.

3. Pollution and carbon reduction: The emphasis on environmental protection and green food in the future will create space for differentiation and added value.

4. Eliminating the weak and retaining the strong: Those who lack cash flows, adaptability and core competitiveness at the time of the pandemic will be ruled out by the trend.

Looking into the future, creating greater business opportunities would not be possible without combining digital economy development and the Company's business model. Also, automation, reducing labor costs, or making good use of big data may be considered to develop clientele and focused marketing. At the same time, since business opportunities in the 5G era come from innovation, the Group shall leverage on the advantages of innovation and integration of cross-industry and cross-fields and collectively face the challenges in the market. Only by these, first-mover advantages under full-speed and all-round digital transformation strategy in this digital economy era can be captured.

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 (collectively referred to as the "Group") set out on pages 30 to 52, which comprise the condensed consolidated statement of financial position as of 30 June 2020 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 inquiries, 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
25 August 2020

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020

	NOTES	Six months ended 30 June **2020** **RMB'000** **(unaudited)**	 2019 RMB'000 (unaudited)
Revenue	3A	**641,125**	596,951
Cost of sales		**(465,951)**	(431,257)
Gross profit		**175,174**	165,694
Other income	5	**8,296**	9,402
Other expenses		**(28,727)**	(28,347)
Other gains and losses	5	**(892)**	(5,175)
Impairment losses under expected credit loss model, net of reversal	10	**(11,977)**	(3,470)
Distribution and selling costs		**(42,444)**	(34,680)
Administrative expenses		**(52,053)**	(49,007)
Interest on provision for damages		**(4,734)**	(4,477)
Finance costs		**(5,418)**	(4,888)
Profit before tax		**37,225**	45,052
Income tax expense	4	**(9,585)**	(12,489)
Profit for the period	5	**27,640**	32,563
Other comprehensive expense:			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(7,289)**	(4,719)
Total comprehensive income for the period		**20,351**	27,844
Profit (loss) for the period attributable to:			
Owners of the Company		**27,824**	32,615
Non-controlling interests		**(184)**	(52)
		27,640	32,563
Total comprehensive income (expense) attributable to:			
Owners of the Company		**20,401**	27,896
Non-controlling interests		**(50)**	(52)
		20,351	27,844
Earnings per share (RMB cents)	7		
Basic		**3.29**	3.86

Condensed Consolidated Statement of Financial Position

At 30 June 2020

	NOTES	**30 June 2020 RMB'000 (unaudited)**	31 December 2019 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	**536,989**	519,674
Right-of-use assets	8	**37,006**	29,138
Intangible assets		**2**	4
Pledged deposit in a financial institution		**15,000**	2,090
Deposits paid for acquisition of property, plant and equipment		**34,802**	33,269
Deferred tax asset		**2,986**	2,190
		626,785	586,365
CURRENT ASSETS			
Inventories		**233,947**	215,489
Trade and other receivables	9	**579,058**	599,711
Tax recoverable		**183**	183
Pledged bank deposits		**2,268**	2,190
Pledged deposit in a financial institution		**2,121**	–
Fixed bank deposits		**100,000**	45,000
Bank balances and cash		**190,343**	177,445
		1,107,920	1,040,018
CURRENT LIABILITIES			
Trade and other payables	11	**360,361**	388,602
Leases liabilities		**8,538**	4,398
Provision for damages	17	**242,622**	232,159
Contract liabilities		**3,697**	2,393
Amounts due to related parties	15	**4,069**	3,979
Tax liabilities		**14,891**	30,464
Bank and other borrowings	12	**236,083**	189,517
		870,261	851,512
NET CURRENT ASSETS		**237,659**	188,506
TOTAL ASSETS LESS CURRENT LIABILITIES		**864,444**	774,871

	NOTES	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Lease liabilities		**7,682**	3,242
Deferred tax liabilities		**29,552**	25,135
Bank and other borrowings	*12*	**76,485**	16,120
		113,719	44,497
NET ASSETS		**750,725**	730,374
CAPITAL AND RESERVES			
Share capital		**82,244**	82,244
Share premium and reserves		**667,948**	647,547
Equity attributable to owners of the Company		**750,192**	729,791
Non-controlling interests		**533**	583
TOTAL EQUITY		**750,725**	730,374

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	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)	Retained profits RMB'000	Sub-total RMB'000	Non-controlling interests RMB'000	Total RMB'000
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
At 1 January 2020 (audited)	**82,244**	**436,626**	**(30,753)**	**144,505**	**(18,230)**	**3,650**	**111,749**	**729,791**	**583**	**730,374**
Profit (loss) for the period	**-**	**-**	**-**	**-**	**-**	**-**	**27,824**	**27,824**	**(184)**	**27,640**
Other comprehensive expense for the period	**-**	**-**	**-**	**-**	**(7,423)**	**-**	**-**	**(7,423)**	**134**	**(7,289)**
Total comprehensive (expense) income	**-**	**-**	**-**	**-**	**(7,423)**	**-**	**27,824**	**20,401**	**(50)**	**20,351**
Appropriation	**-**	**-**	**-**	**5,306**	**-**	**-**	**(5,306)**	**-**	**-**	**-**
At 30 June 2020 (unaudited)	**82,244**	**436,626**	**(30,753)**	**149,811**	**(25,653)**	**3,650**	**134,267**	**750,192**	**533**	**750,725**

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 which is incorporated in Taiwan is required to set aside 10% of its statutory net income each year to 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 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net cash from operating activities	**29,907**	20,961
Net cash used in investing activities		
Placement of fixed bank deposits	**(100,000)**	–
Deposits paid for acquisition of property, plant and equipment	**(34,802)**	(30,298)
Placement of pledged deposit in a financial institution	**(15,000)**	–
Purchase of property, plant and equipment	**(9,762)**	(12,592)
Placement of pledged bank deposits	**(2,268)**	(211)
Placement of rental deposits	**(585)**	–
Withdrawal of fixed bank deposits	**45,000**	442
Withdrawal of pledged bank deposits	**2,190**	1,223
Proceeds from disposal of property, plant and equipment	**–**	792
Other investing cash flows	**1,151**	880
	(114,076)	(39,764)
Net cash from financing activities		
New bank and other borrowings raised	**170,069**	191,034
Repayment of bank and other borrowings	**(64,297)**	(152,420)
Payment of lease liabilities	**(3,735)**	(2,364)
Interest paid	**(4,953)**	(4,657)
Interest paid on lease liabilities	**(465)**	(231)
	96,619	31,362
Net increase in cash and cash equivalents	**12,450**	12,559
Cash and cash equivalents at 1 January	**177,445**	248,918
Effect of foreign exchange rate changes	**448**	16
Cash and cash equivalents at 30 June, represented by bank balances and cash	**190,343**	261,493

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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 the same as the functional currency of Capxon International Electronic Company Limited (the "Company").

1A. Significant Events and Transaction in the Current Interim Period

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed in the PRC have had negative impacts to the economy, business environment and directly and indirectly affect the operations of the Group. 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 in Mainland China, since February 2020. Despite the temporary suspension of production plant, the increase in demand of capacitors produced in Mainland China from mainland customers as a result of the COVID-19 pandemic has created greater business opportunities for the Group, resulting in higher revenue for the capacitor segment in the current interim period.

Regarding the Group's aluminum foils business segment, the production plant located in Baotou City of Inner Mongolia Autonomous Region has resumed since February 2020 while the operation of another production plant located in Yichang of Hubei province, was suspended since the end of the Chinese New Year holiday in 2020 and resumed in April 2020. As such, the performance of the aluminum foil segment was negatively affected, including a reduction in revenue and production level and decrease in gross profit due to fixed production overheads during the close-down period.

2. Principal Accounting Policies

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

Other than additional accounting policies resulting from application of amendments to International Financial Reporting Standards ("IFRSs") and application of an accounting policy which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the International Accounting Standards Board, for the first time, which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in IFRS Standards and the 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.

2.1 Impacts of application of Amendments to IAS 1 and IAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

2. Principal Accounting Policies *(continued)*

Accounting policy newly applied by the Group

Leasing

Sales and leaseback transactions

The Group applies the requirements of IFRS 15 "*Revenue from Contracts with Customers*" to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group acts as a seller - lessee

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee accounts for the transfer proceeds as other borrowings within the scope of IFRS 9 "*Financial Instruments*".

3A. Revenue

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

	Six months ended 30 June 2020 (Unaudited)		
	Capacitors RMB'000	**Aluminum foils RMB'000**	**Total RMB'000**
Geographical markets			
The PRC	**532,009**	**29,785**	**561,794**
Taiwan	**6,727**	**–**	**6,727**
Other Asian countries *(Note)*	**46,435**	**–**	**46,435**
Europe *(Note)*	**25,432**	**–**	**25,432**
America and Africa	**737**	**–**	**737**
Revenue from contracts with customers	**611,340**	**29,785**	**641,125**

	Six months ended 30 June 2019 (Unaudited)		
	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

3A. Revenue *(continued)*

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

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

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. Segment information in prior period have been represented to conform with the current year's presentation.

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

Capacitors	–	Manufacture and sale of capacitors
Aluminum foils	–	Manufacture and sale of aluminum foils

For the six months ended 30 June 2020 (unaudited)

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	611,340	29,785	641,125	–	641,125
Inter-segment sales	–	89,859	89,859	(89,859)	–
Segment revenue	611,340	119,644	730,984	(89,859)	641,125
Segment profit	50,980	2,979	53,959	(4,370)	49,589
Interest income					1,201
Unallocated corporate expenses					(5,918)
Finance costs					(5,418)
Interest on provision for damages					(4,734)
Exchange gain arising on retranslation of provision for damages					2,505
Profit before tax					37,225

3B. Segmental Information *(continued)*

For the six months ended 30 June 2019 (unaudited)

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination 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	51,789	13,940	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)
Exchange loss arising on retranslation of provision for damages					(2,355)
Profit before tax					45,052

Inter-segment sales are charged at prevailing market rates.

Segment profit represents the profit from each segment without allocation of central administration costs, bank interest income, finance costs, interest on provision for damages and exchange gain (loss) arising on 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 from the amounts disclosed in the consolidated financial statements for the year ended 31 December 2019 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	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
– PRC Enterprise Income Tax ("EIT")	**5,848**	19,888
– Taiwan Corporate Income Tax	**1,567**	2,233
	7,415	22,121
Overprovision in prior year	**(1,449)**	(14,579)
Deferred tax	**3,619**	4,947
	9,585	12,489

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% (six months ended 30 June 2019: 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 a preferential tax rate of 15% for the year ended 31 December 2018. Accordingly, overprovision for EIT amounting to RMB14,579,000 had been recognised during the period ended 30 June 2019. Capxon Shenzhen is entitled to the preferential tax rate until the financial year ending 31 December 2021.

On 16 May 2019, Capxon Electronic Technology (Baotou) Co., Ltd. (凱普松電子科技(包頭)有限公司) ("Capxon Baotou") is included in the Catalogue of Encouraging Industries in Western China published by Inner Mongolia Development and Reform Commission and Capxon Baotou is subject to a preferential tax rate of 15% for the year ended 31 December 2019 and for the financial year ending 31 December 2020.

4. Income Tax Expense *(continued)*

According to relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, entity engaging in research and development activities is entitled to claim up to 175% of the qualifying research and development expenses so incurred starting from 2018 as tax deductible expenses when determining its assessable profits for that year.

Under the Income Tax Law in Taiwan, the corporate income tax rate of the Group's subsidiaries in Taiwan is 20% (30 June 2019: 20%).

5. Profit for the Period

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

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Amortisation of intangible assets (included in administrative expenses)	**2**	2
Depreciation of property, plant and equipment		
– capitalised in inventories	**20,611**	18,459
– recognised in administrative expenses	**3,989**	3,563
Depreciation of right-of-use assets	**4,594**	2,742
Total depreciation and amortisation	**29,196**	24,766
Loss on disposal/written-off of property, plant and equipment	**1,858**	1,376
Net foreign exchange (gains) losses	**(966)**	3,799
Other gains and losses	**892**	5,175
Cost of inventories recognised as an expense (including net write-down of inventories of RMB1,112,000 (six months ended 30 June 2019: RMB4,798,000))	**465,951**	431,257
Research and development costs (included in other expenses)	**28,128**	20,413
Government grants (included in other income)	**(6,427)**	(7,219)
Interest income (included in other income)	**(1,201)**	(880)

6. Dividend

No dividends were paid, declared or proposed during both periods. The board of directors of the Company have 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 2020 is based on the profit for the period attributable to owners of the Company of RMB27,824,000 (six months ended 30 June 2019: RMB32,615,000) and on 844,559,841 ordinary shares in issue.

There were no potential ordinary shares outstanding during the six months ended 30 June 2020 and 2019.

8. Property, Plant and Equipment and Right-of-use Assets

During the current interim period, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB1,858,000 (six months ended 30 June 2019: RMB2,168,000) at nil consideration (six months ended 30 June 2019: for cash proceeds of RMB792,000).

During the current interim period, the Group had additions of property, plant and equipment, including construction in progress, of RMB43,031,000 (six months ended 30 June 2019: RMB23,869,000) for the purposes of expanding the Group's business.

To better manage the Group's capital structure and financing needs, during the six months ended 30 June 2020, the Group entered into sale and leaseback arrangements in relation to machinery leases. These legal transfers do not satisfy the requirements of IFRS 15 to be accounted for as a sale of the machinery. During the current interim period, the Group has raised RMB100,000,000 borrowings in respect of such sale and leaseback arrangements.

During the current interim period, the Group entered into several new lease agreements with lease term ranged from two to three years. On lease commencement, the Group recognised right-of-use assets of RMB12,464,000 (six months ended 30 June 2019: nil) and lease liabilities of RMB12,315,000 (six months ended 30 June 2019: nil), which constitute non-cash transactions.

Included in property, plant and equipment are buildings in Baotou City, Inner Mongolia Autonomous Region, the PRC, with a carrying value of RMB4,432,000 (31 December 2019: RMB4,654,000) for which the Group is in the process of obtaining the building ownership certificates.

9. Trade and Other Receivables

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables arising from contract with customers, net	**529,911**	544,047
Prepayments for purchase of inventories	**13,218**	17,342
Value added tax recoverable	**16,262**	14,572
Other receivables, prepayment and deposits	**19,667**	23,750
	579,058	599,711

The Group generally allows its trade customers a credit period of 30 days 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, which approximated to respective revenue recognition dates:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0–60 days	**370,202**	373,923
61–90 days	**100,093**	86,634
91–180 days	**53,328**	77,065
181–270 days	**6,288**	6,425
	529,911	544,047

At 30 June 2020, the trade receivables (before allowance for credit losses) include trade receivables backed by the bills issued by reputable banks in Mainland China amounting to RMB53,810,000 (31 December 2019: RMB52,062,000). All bills received by 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	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Impairment losses recognised in respect of		
Trade receivables	**5,463**	3,470
Other receivables	**6,514**	–
	11,977	3,470

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 2020 are the same as those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2019.

During the current interim period, the Group recognised impairment losses of RMB6,514,000 (six months ended 30 June 2019: nil) on other receivables relating to refundable deposits that have become credit-impaired.

11. Trade and Other Payables

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade and bills payables	**266,293**	287,118
Payroll payables	**19,308**	26,164
Payable to PRC government authorities	**22,446**	22,482
Other tax payables	**15,394**	15,525
Accruals and others	**36,920**	37,313
	360,361	388,602

11. Trade and Other Payables *(continued)*

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 at the end of the reporting period:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
0–60 days	**179,318**	181,184
61–90 days	**39,679**	28,849
91–180 days	**26,892**	57,945
181–270 days	**2,446**	536
271–360 days	**1,105**	523
Over 360 days	**16,853**	18,081
	266,293	287,118

12. Bank and Other Borrowings

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Secured bank borrowings	**209,921**	195,394
Secured other borrowings	**102,647**	10,243
Total bank and other borrowings	**312,568**	205,637
The carrying amounts of the above borrowings are repayable:		
Within one year	**236,083**	189,517
More than one year but not exceeding two years	**34,950**	4,104
More than two years but not exceeding five years	**32,601**	2,903
More than five years	**8,934**	9,113
	312,568	205,637
Less: Amounts due within one year shown under current liabilities	**(236,083)**	(189,517)
Amounts shown under non-current liabilities	**76,485**	16,120

12. Bank and Other Borrowings *(continued)*

All secured bank and other borrowings are guaranteed by the Company's directors who are also shareholders.

As at 30 June 2020, certain wholly-owned subsidiaries of the Group provided financial guarantees to a bank and a financial institution in respect of bank and other borrowings granted to the Group, amounting to RMB186,382,000 (31 December 2019: RMB171,290,000) and RMB95,859,000 (31 December 2019: nil), respectively.

During the current interim period, the Group obtained new bank and other borrowings of RMB170,069,000 (six months ended 30 June 2019: RMB191,034,000). The new bank and other borrowings consist of fixed-rate borrowings with effective interest rates of approximately 3.00% per annum and variable-rate borrowings with effective interest rates ranging from 1.27% to 7.08% per annum.

13. Capital Commitments

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**91,695**	98,180

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 balances

Name of related party	Relationship	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Amounts due to related parties			
Lin Chin Tsun	Director	**3,806**	3,725
Chou Chiu Yueh	Director	**263**	254
		4,069	3,979

The amounts due to related parties are non-trade, interest-free, unsecured and repayable on demand.

(b) Provision of guarantees and security by the Company's directors and shareholders

Certain directors and shareholders of the Company have provided guarantees, free of charge to the Group, to banks and financial institutions to support facilities granted by those banks and financial institution to the Group as follows:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Guarantees provided by:		
Lin Chin Tsun	**256,789**	260,243
Lin Chin Tsun, Chou Chiu Yueh and Lin Yuan Yu	**35,784**	34,564
Lin Chin Tsun, Chou Chiu Yueh, Lin Yuan Yu and Lin I Chu	**100,000**	–
Lin Yuan Yu and Chou Chiu Yueh	**31,013**	29,955
	423,586	324,762

The expiry dates of the above guarantees fall within the period from November 2020 to May 2034 (31 December 2019: November 2020 to May 2034).

As at 30 June 2020, Ms. Chou Chiu Yueh and Ms. Lin I Chu pledged their property to a bank to secure banking facilities of NTD30,000,000, equivalent to RMB7,157,000 (31 December 2019: NTD30,000,000, equivalent to RMB6,913,000) granted to the Group.

15. Related Party Disclosures *(continued)*

(b) Provision of guarantees and security by the Company's directors and shareholders *(continued)*

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.

(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	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Short-term benefits	**5,230**	4,931
Post-employment benefits	**92**	100
	5,322	5,031

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 or Restriction on Assets

At the end of the reporting periods, the following assets were pledged to banks for banking facilities granted to the Group and to financial institutions for other borrowings granted to the Group:

	30 June	31 December
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Property, plant and equipment	**158,575**	77,580
Right-of-use assets	**13,737**	10,805
Pledged bank deposits	**2,268**	2,190
Pledged deposits in financial institution	**17,121**	2,090
	191,701	92,665

16. Pledge of or Restriction on Assets *(continued)*

Restriction on assets

In addition, lease liabilities of RMB16,220,000 (31 December 2019: RMB7,640,000) are recognised with related right-of-use assets of RMB15,684,000 (31 December 2019: RMB7,474,000) as at 30 June 2020. The lease agreements do not impose any covenants other than the security interests in the leased assets and refundable rental deposits that are held by the lessor and the relevant leased assets may not be used as security for borrowing purposes.

17. Material Proceedings

During the year ended 31 December 2011, a customer (the "Claimant") 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"), claiming damages of JPY1,412,106,000, equivalent to RMB92,709,000 (31 December 2019: JPY1,412,106,000, equivalent to RMB90,489,000) 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 RMB159,351,000 (31 December 2019: JPY2,427,186,647, equivalent to RMB155,535,000) including:

    (a) first claim of JPY1,311,973,002, equivalent to RMB86,134,000 (31 December 2019: JPY1,311,973,002, equivalent to RMB84,072,000) ("First Claim");

    (b) second claim of JPY942,366,339, equivalent to RMB61,869,000 (31 December 2019: JPY942,366,339, equivalent to RMB60,387,000) ("Second Claim");

    (c) third claim of JPY172,847,306, equivalent to RMB11,348,000 (31 December 2019: JPY172,847,306, equivalent to RMB11,076,000) ("Third Claim");

(ii) interest calculated at 6% per annum on the above deferred payment as follows:

    (a) First Claim accrued from 1 January 2011 until payment in full;

    (b) Second Claim accrued from 1 July 2012 until payment in full;

    (c) Third Claim accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062, equivalent to RMB1,551,000 (31 December 2019: JPY23,618,062, equivalent to RMB1,513,000).

17. Material Proceedings *(continued)*

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 ("Japan Supreme Court"), 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 ("Enforcement Order") and subsequently a charging order nisi was made in November 2017 ("Charging Order Nisi") by the HK Court. Capxon Taiwan applied to the HK Court to oppose against the Charging Order Nisi in February 2018 ("Charging Order Proceedings") 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 Claimant 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 ("Disclosure Application Proceedings"). The HK Court reserved its judgments at the conclusion of the hearing for the Charging Order Proceedings and Disclosure Application Proceedings in September 2019. In May 2020, the HK Court handed down its judgments in respect of the Charging Order Proceedings and Disclosure Application Proceedings, whereby it (i) made the Charging Order Nisi absolute and (ii) by way of a post-judgment disclosure order, ordered Capxon Taiwan to disclose certain information regarding the financial position of and transactions involving the assets of Capxon Taiwan and Lancom Limited to the Claimant.

17. Material Proceedings *(continued)*

In July 2020, on application by the Claimant, the HK Court made an order entitled "Injunction Prohibiting Disposal of Assets in Hong Kong" ("Injunction Order") against Lancom Limited and the Company, with notice to Mr. Lin Chin Tsun and Ms. Chou Chiu Yueh.

Pursuant to the Injunction Order, Lancom Limited and the Company must not (i) remove from Hong Kong any of their assets which are within Hong Kong, whether in their own name or not, and whether solely or jointly owned, up to the value of JPY3,700,000,000 (equivalent to HK$273,000,000) ("Stated Amount"); or (ii) in any way dispose of or deal with or diminish the value of any of their assets, which are within Hong Kong (except any assets specified in the Injunction Order that may be situated outside Hong Kong), whether in their own name or not, and whether solely or jointly owned up to the Stated Amount. In particular, the prohibition in the Injunction Order includes (i) money in the bank accounts of Lancom Limited and the Company; (ii) Lancom Limited's accounts receivables against Waystech Trading Limited (威達貿易有限公司) and Capxon Trading (Shengzhen) Co., Ltd (凱普松貿易(深圳)有限公司); and (iii) the Company's direct or indirect shareholding or equity interests in Capxon Taiwan, Lancom Limited and the companies specified in the Injunction Order. On 7 August 2020, being the return date for a further hearing for the Injunction Order, the HK Court granted a continuation of the Injunction Order until determination or further order with variations to the scope thereof ("7 August Order"). A substantive hearing for the Injunction Order is scheduled for 7 October 2020. For details of the Injunction Order (as amended by the 7 August Order), please refer to the announcements of the Company dated 3 August 2020, 20 August 2020 and 23 August 2020, respectively.

17. Material Proceedings *(continued)*

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 were distrained by the Taiwan Court for enforcing the settlement of 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 NTD91,690,000 (equivalent to RMB20,106,000) was received and held by the Taiwan Court to settle Capxon Taiwan's liabilities below:

(i) secured bank borrowings of NTD80,953,000, equivalent to RMB17,751,000;

(ii) settlements of the Damages to the Claimant of NTD6,990,000, equivalent to RMB1,533,000;

(iii) other creditors of NTD377,000, equivalent to RMB83,000; and

(iv) corresponding expenses and taxes arising from the auction of NTD3,370,000, equivalent to RMB739,000.

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

As at the date of approval of these condensed consolidated financial statements, the winding-up procedures of Capxon Taiwan are still in progress.

As at 30 June 2020, an aggregate amount of JPY3,695,549,075, equivalent to RMB242,622,000 (31 December 2019: JPY3,622,932,971, equivalent to RMB232,159,000), was recognised in respect of the Damages.

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

As at 30 June 2020, 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 2020.

(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 2020, 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 2020, 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 2020.*

Save as disclosed above, the Directors are not aware of any other persons who, as at 30 June 2020, 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 2020 (six months ended 30 June 2019: 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 2020.

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 2020, 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.

Change in Information of Directors

Pursuant to rule 13.51B(1) of the Listing Rules, the change in information of the Director subsequent to the publication of the annual report of the Company for the year ended 31 December 2019 is set out below:

Mr. Tung Chin Chuan ceased to act as an independent director of Tai Tien Electronics Co., Ltd. (泰藝電子股份有限公司) whose shares are listed on Gre Tai Securities Market in Taiwan with effect from 19 June 2020.

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 2020.

Review of Financial Statements

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 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, 25 August 2020