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CAPXON INTERNATIONAL ELECTRONIC COMPANY LIMITED

凱普松國際電子有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 469)

website: www.capxongroup.com

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

	Six months ended 30 June		
	2020	2019	Changes
Revenue (RMB'000)	641,125	596,951	+7.40%
Profit for the period attributable to owners of the Company (RMB'000)	27,824	32,615	-14.69%
Basic earnings per share (RMB cents)	3.29	3.86	-14.77%
Interim dividends (HK cents per share)	--	--	--

The board of directors (the "Board") of Capxon International Electronic Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2020 (the "Period") together with the comparative figures for the corresponding period of last year as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**
FOR THE SIX MONTHS ENDED 30 JUNE 2020

	<u>NOTES</u>	Six months ended 30 June <u>2020</u> RMB'000 (unaudited)	<u>2019</u> RMB'000 (unaudited)
Revenue	3A	641,125	596,951
Cost of sales		<u>(465,951)</u>	<u>(431,257)</u>
Gross profit		175,174	165,694
Other income	5	8,296	9,402
Other expenses	5	(28,727)	(28,347)
Other gains and losses	5	(892)	(5,175)
Impairment losses under expected credit loss model, net of reversal		(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		<u>(5,418)</u>	<u>(4,888)</u>
Profit before tax		37,225	45,052
Income tax expense	4	<u>(9,585)</u>	<u>(12,489)</u>
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		<u>(7,289)</u>	<u>(4,719)</u>
Total comprehensive income for the period		<u>20,351</u>	<u>27,844</u>
Profit (loss) for the period attributable to:			
Owners of the Company		27,824	32,615
Non-controlling interests		<u>(184)</u>	<u>(52)</u>
		<u>27,640</u>	<u>32,563</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		20,401	27,896
Non-controlling interests		<u>(50)</u>	<u>(52)</u>
		<u>20,351</u>	<u>27,844</u>
Earnings per share (RMB cents)	7		
Basic		<u>3.29</u>	<u>3.86</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2020

	<u>NOTES</u>	30 June <u>2020</u> RMB'000 (unaudited)	31 December <u>2019</u> RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		536,989	519,674
Right-of-use assets		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
		<u>626,785</u>	<u>586,365</u>
CURRENT ASSETS			
Inventories		233,947	215,489
Trade and other receivables	8	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
		<u>1,107,920</u>	<u>1,040,018</u>
CURRENT LIABILITIES			
Trade and other payables	9	360,361	388,602
Leases liabilities		8,538	4,398
Provision for damages		242,622	232,159
Contract liabilities		3,697	2,393
Amounts due to related parties		4,069	3,979
Tax liabilities		14,891	30,464
Bank and other borrowings		236,083	189,517
		<u>870,261</u>	<u>851,512</u>
NET CURRENT ASSETS		<u>237,659</u>	<u>188,506</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>864,444</u>	<u>774,871</u>
NON-CURRENT LIABILITIES			
Lease liabilities		7,682	3,242
Deferred tax liabilities		29,552	25,135
Bank and other borrowings		76,485	16,120
		<u>113,719</u>	<u>44,497</u>
NET ASSETS		<u>750,725</u>	<u>730,374</u>
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		<u>750,725</u>	<u>730,374</u>

NOTES

1. BASIS OF PREPARATION

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

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

1A. SIGNIFICANT EVENTS IN THE CURRENT INTERIM PERIOD

The outbreak of COVID-19 and the subsequent quarantine measures as well as the travel restrictions imposed in the People's Republic of China 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 COVID-19 pandemic has created greater business opportunities for the Group, resulting in higher revenue for the capacitors segment in the current interim period.

Regarding the Group’s aluminum foil 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
Amendments to IFRS 3
Amendments to IFRS 9, IAS 39
and IFRS 7

Definition of Material
Definition of a Business
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.

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

	<u>Six months ended 30 June 2020 (Unaudited)</u>		
	<u>Capacitors</u>	<u>Aluminum</u>	<u>Total</u>
	<u>RMB'000</u>	<u>foils</u>	<u>RMB'000</u>
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
	<u>611,340</u>	<u>29,785</u>	<u>641,125</u>

	<u>Six months ended 30 June 2019 (Unaudited)</u>		
	<u>Capacitors</u>	<u>Aluminum</u>	<u>Total</u>
	<u>RMB'000</u>	<u>foils</u>	<u>RMB'000</u>
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
	<u>554,647</u>	<u>42,304</u>	<u>596,951</u>

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)

	<u>Capacitors</u> RMB'000	<u>Aluminum foils</u> RMB'000	<u>Segment total</u> RMB'000	<u>Elimination</u> RMB'000	<u>Total</u> RMB'000
External sales	611,340	29,785	641,125	-	641,125
Inter-segment sales	-	89,859	89,859	(89,859)	-
Segment revenue	<u>611,340</u>	<u>119,644</u>	<u>730,984</u>	<u>(89,859)</u>	<u>641,125</u>
Segment profit	<u>50,980</u>	<u>2,979</u>	<u>53,959</u>	<u>(4,370)</u>	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					<u>2,505</u>
Profit before tax					<u>37,225</u>

For the six months ended 30 June 2019 (unaudited)

	<u>Capacitors</u> RMB'000	<u>Aluminum foils</u> RMB'000	<u>Segment total</u> RMB'000	<u>Elimination</u> RMB'000	<u>Total</u> RMB'000
External sales	554,647	42,304	596,951	-	596,951
Inter-segment sales	-	99,244	99,244	(99,244)	-
Segment revenue	<u>554,647</u>	<u>141,548</u>	<u>696,195</u>	<u>(99,244)</u>	<u>596,951</u>
Segment profit	<u>51,789</u>	<u>13,940</u>	<u>65,729</u>	<u>(3,998)</u>	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					<u>(2,355)</u>
Profit before tax					<u>45,052</u>

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 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	
	<u>2020</u>	<u>2019</u>
	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
	<u>7,415</u>	<u>22,121</u>
Overprovision in prior year	(1,449)	(14,579)
Deferred tax	3,619	4,947
	<u>9,585</u>	<u>12,489</u>

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	<u>2020</u>	<u>2019</u>
	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	<u>29,196</u>	<u>24,766</u>
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	<u>892</u>	<u>5,175</u>
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)
	<u>(1,201)</u>	<u>(880)</u>

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. TRADE AND OTHER RECEIVABLES

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 <u>2020</u> RMB'000 (Unaudited)	31 December <u>2019</u> 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
	<u>529,911</u>	<u>544,047</u>

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.

9. TRADE AND OTHER PAYABLES

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

	30 June <u>2020</u> RMB'000 (Unaudited)	31 December <u>2019</u> 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
	<u>266,293</u>	<u>287,118</u>

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

- Revenue increased by approximately 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 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 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 most vulnerable to the outbreak of pandemic as we witnessed a continuous reduction in demands for 3C products such as smart phones and TV, whereas there has been a surge in demand for laptops in respond 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, but even with 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 artificial intelligence ("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 intensify 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 contained 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. To respond 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 research and development ("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/cm² 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, 2.5V330uF 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°C 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 H2700/35 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
	<u>312,568</u>	<u>205,637</u>

PLEDGE OF ASSETS

The following assets have been pledged as security for the Group's bank and other borrowings:

	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	13,737	10,805
	<u>191,701</u>	<u>92,665</u>

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

OTHER INFORMATION

DIVIDEND

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 FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Upon specific enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 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.

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.

INTERIM REPORT

The 2020 interim report containing all the information required by the Listing Rules will be published on the website of Hong Kong Exchanges and Clearing Limited (www.hkex.com.hk) and on the website of the Company (www.capxongroup.com).

DIRECTORS

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

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

Hong Kong, 25 August 2020