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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2015	**2014**	**Change**
Revenue (RMB'000)	849,118	989,625	-14.20%
Profit (loss) for the year attributable to owners of the Company (RMB'000)	3,780	(138,918)	N/A
Basic earnings (loss) per share attributable to owners of the Company (RMB cents)	0.45	(16.45)	N/A
Dividends (HK cents per share)			
- Final	--	--	--
- Interim	--	--	--

The board of directors (the "Board") of Capxon International Electronic Company Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 together with the comparative figures for the corresponding period as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	NOTES	2015 RMB'000	2014 RMB'000
Revenue	2	849,118	989,625
Cost of sales		(657,164)	(773,119)
Gross profit		191,954	216,506
Other income		12,470	10,540
Other gains and losses		(5,993)	(2,646)
Distribution and selling costs		(55,637)	(62,203)
Administrative expenses		(81,746)	(83,972)
Other expenses		(29,830)	(24,396)
Provision for damages		(7,398)	(174,531)
Finance costs		(9,573)	(16,338)
Profit (loss) before tax		14,247	(137,040)
Income tax expense	3	(11,206)	(6,987)
Profit (loss) for the year	4	3,041	(144,027)
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		1,677	(262)
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation		(10,185)	5,199
Other comprehensive (expense) income for the year		(8,508)	4,937
Total comprehensive expense for the year		(5,467)	(139,090)
Profit (loss) for the year attributable to:			
Owners of the Company		3,780	(138,918)
Non-controlling interests		(739)	(5,109)
		3,041	(144,027)
Total comprehensive expense attributable to:			
Owners of the Company		(5,174)	(134,256)
Non-controlling interests		(293)	(4,834)
		(5,467)	(139,090)
Earnings (loss) per share (RMB cents)			
- Basic	6	0.45	(16.45)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015

	NOTES	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		499,603	549,649
Land use rights		39,453	40,503
Intangible assets		382	2,074
Deferred tax assets		-	730
Deposits paid for acquisition of property, plant and equipment		36,564	29,620
		576,002	622,576
CURRENT ASSETS			
Inventories		142,069	164,660
Land use rights		1,031	1,031
Trade and other receivables	7	335,737	372,725
Tax recoverable		2,107	1,076
Pledged bank deposits		6,730	18,106
Bank balances and cash		93,782	108,163
		581,456	665,761
CURRENT LIABILITIES			
Trade and other payables	8	318,580	311,773
Bank borrowings		158,052	278,056
Amounts due to related parties		4,984	13,341
Tax liabilities		10,120	7,921
		491,736	611,091
NET CURRENT ASSETS		89,720	54,670
TOTAL ASSETS LESS CURRENT LIABILITIES		665,722	677,246
NON-CURRENT LIABILITIES			
Defined benefit obligations		-	4,779
Deferred income		23,010	24,612
Deferred tax liabilities		3,796	3,472
		26,806	32,863
NET ASSETS		638,916	644,383
CAPITAL AND RESERVES			
Share capital		82,244	82,244
Share premium and reserves		553,840	559,014
Equity attributable to owners of the Company		636,084	641,258
Non-controlling interests		2,832	3,125
TOTAL EQUITY		638,916	644,383

NOTES

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

The provisions of the HKCO regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the HKCO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor HKCO or Listing Rules but not under the HKCO or amended Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies.

Application of new and revised IFRSs

The Group has applied the following new and revised IFRSs issued by International Accounting Standards Board for the first time in the current year:

Amendments to International Accounting Standard ("IAS") 19	Defined Benefit Plans: Employee Contributions
Amendments to IFRSs	Annual Improvements to IFRSs 2010 - 2012 Cycle
Amendments to IFRSs	Annual Improvements to IFRSs 2011 - 2013 Cycle

The application of these amendments in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

New and revised IFRSs in issue but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[2]
IFRS 15	Revenue from Contracts with Customers[2]
IFRS 16	Leases[3]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[1]
Amendments to IAS 1	Disclosure Initiative[1]
Amendments to IAS 7	Disclosure Initiative[5]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[1]
Amendments to IAS 27	Equity Method in Separate Financial Statements[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined.
5 Effective for annual periods beginning on or after 1 January 2017.

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IAS *39 Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- in relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company anticipate that the application of IFRS 9 may have impact on the consolidated financial statements of the Group. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group performs a detailed review.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of the other new and revised standards and amendments issued but not yet effective will have no material effect on amounts reported in the consolidated financial statements and/or disclosures set out in these consolidated financial statements of the Group.

2. REVENUE AND SEGMENTAL INFORMATION

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

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

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

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

Segment revenue and results

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

For the year ended 31 December 2015

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	803,615	45,503	849,118	-	849,118
Inter-segment sales	-	89,041	89,041	(89,041)	-
Segment revenue	803,615	134,544	938,159	(89,041)	849,118
Segment profit (loss)	69,821	(35,510)	34,311	5,263	39,574
Interest income					1,062
Unallocated corporate expense					(9,418)
Finance costs					(9,573)
Provision for damages					(7,398)
Profit before tax					14,247

For the year ended 31 December 2014

	Capacitors RMB'000	Aluminum foils RMB'000	Segment total RMB'000	Elimination RMB'000	Total RMB'000
External sales	896,354	93,271	989,625	-	989,625
Inter-segment sales	-	229,007	229,007	(229,007)	-
Segment revenue	896,354	322,278	1,218,632	(229,007)	989,625
Segment profit (loss)	66,714	(6,969)	59,745	2,990	62,735
Interest income					614
Unallocated corporate expense					(9,520)
Finance costs					(16,338)
Provision for damages					(174,531)
Loss before tax					(137,040)

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of central administration costs, interest income, finance costs and provision for damages. However, the related bank balances and the bank borrowings of the reportable segments are reported to the Group's chief decision makers as part of segment assets and liabilities. In addition, tax expense is not allocated to segments while tax liabilities and deferred tax assets are allocated as part of segment liabilities and segment assets respectively. This is the measure reported to the Group's chief decision makers for the purposes of resource allocation and assessment of segment performance.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

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

	2015 RMB'000	2014 RMB'000
Segment assets		
Capacitors	778,314	837,699
Aluminium Foils	660,700	491,222
Total segment assets	1,439,014	1,328,921
Elimination - inter-segment balances	(282,445)	(44,425)
Unallocated assets	889	3,841
Consolidated assets	1,157,458	1,288,337
Segment liabilities		
Capacitors	251,364	364,894
Aluminium Foils	382,520	171,952
Total segment liabilities	633,884	536,846
Elimination - inter-segment balances	(282,445)	(44,425)
Unallocated liabilities	167,103	151,533
Consolidated liabilities	518,542	643,954

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

- all assets, other than deposits and prepayments and bank balances of the Company, are allocated to reportable segments; and

- all liabilities, other than other payables and accruals of the Company and provision for damages of the Company's subsidiary in Taiwan, are allocated to reportable segments.

Geographical information

The geographical information about its non-current assets excluded deferred tax assets by geographical location of the assets are detailed below:

	2015 RMB'000	2014 RMB'000
The People's Republic of China (the "PRC")	565,712	611,609
Taiwan	10,290	10,237
	576,002	621,846

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

	2015	2014
	RMB'000	RMB'000
Revenue from external customers:		
The PRC	679,358	765,978
Taiwan	16,547	23,592
Other Asian countries (Note)	130,880	152,126
Europe (Note)	17,718	35,362
Americas and Africa (Note)	4,615	12,567
	849,118	989,625

Note: The countries of the external customers included in these categories comprised Korea, Japan, Vietnam, Singapore, India, Germany, Italy, Russia, Spain and others (2014: Korea, Japan, Singapore, India, Israel, Germany, Poland, Italy, Russia, Spain 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.

Information about major customers

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

3. INCOME TAX EXPENSE

	2015	2014
	RMB'000	RMB'000
Current tax:		
- PRC Enterprise Income Tax	8,250	6,563
- Taiwan Corporate Income Tax	2,697	1,572
	10,947	8,135
Overprovision in prior years:		
- PRC Enterprise Income Tax	-	(4,650)
- Taiwan Corporate Income tax	(608)	(250)
	(608)	(4,900)
Deferred tax:		
- Current year	867	3,752
	11,206	6,987

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulations of the EIT Law, except for Capxon Electronic (Shenzhen) Co., Ltd. 豐賓電子(深圳)有限公司 ("Capxon Shenzhen") and Capxon Electronic Technology (Qinghai) Co., Ltd. 凱普松電子科技(青海)有限公司 ("Capxon Qinghai"), subsidiaries of the Company, the tax rate of the Group's subsidiaries in the PRC is 25%.

In February 2014, Capxon Shenzhen was approved for 3 years as enterprise that satisfied the condition as high technology development enterprise and is subject to a preferential tax rate of 15% in 2013, 2014 and 2015.

In March 2014, Capxon Qinghai was approved for 2 years as enterprise that satisfied the conditions that the enterprise principally engages in state encouraged industries as defined under the New Western Catalogue for the Western Region Development and is subject to a preferential tax rate of 15% in 2013 and 2014. The tax rate of Capxon Qinghai for the year ended 31 December 2015 is 25%

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

4. PROFIT (LOSS) FOR THE YEAR

	2015 RMB'000	2014 RMB'000
Profit (loss) for the year has been arrived at after charging:		
Employee benefit expenses (including directors' emoluments):		
Wages, salaries and allowances	172,102	171,676
Defined contribution pension schemes	11,052	13,081
Defined benefit pension plan	36	316
	183,190	185,073
Amortisation of intangible assets		
- in cost of sales	1,444	1,678
- in administrative expenses	267	683
Amortisation of land use rights	1,034	1,034
Auditor's remuneration	1,978	1,562
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB3,780,000 (2014: write-down of inventories of RMB12,649,000)) (Note)	657,164	773,119
Depreciation of property, plant and equipment	66,364	72,765

Note: During the year ended 31 December 2015, certain aged inventories which were written-down in prior years were sold. As a result, a reversal of write-down of inventories of approximately RMB3,780,000 has been recognised and included in the cost of sales in the current year.

5. DIVIDENDS

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

6. EARNINGS (LOSS) PER SHARE

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

	2015 RMB'000	2014 RMB'000
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings (loss) per share		
Earnings (loss) for the year attributable to owners of the Company	3,780	(138,918)

Number of shares	2015	2014
Number of ordinary shares for the purposes of basic earnings (loss) per share	844,559,841	844,559,841

Diluted earnings (loss) per share is not presented for the years ended 31 December 2015 and 2014 as there were no potential dilutive ordinary shares outstanding during both years.

7. TRADE AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade and bills receivables	300,395	341,903
Less: allowance for doubtful debts	(19,864)	(18,783)
Total trade receivables	280,531	323,120
Advances to suppliers	1,600	5,273
Value added tax recoverable	32,990	22,283
Prepayments	12,981	12,755
Others	7,635	9,294
Total trade and other receivables	335,737	372,725

The Group generally allows its trade customers a credit period of 30 days to 180 days. The following is an aged analysis of the trade and bills receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated to respective revenue recognition dates.

	2015 RMB'000	2014 RMB'000
0 - 60 days	158,310	184,952
61 - 90 days	61,976	63,302
91 - 180 days	56,139	73,576
181 - 270 days	3,243	1,115
271 - 360 days	636	88
Over 360 days	227	87
	280,531	323,120

8. TRADE AND OTHER PAYABLES

	2015 RMB'000	2014 RMB'000
Trade and bills payables	113,955	125,629
Advances from customers	6,189	4,948
Payroll payables	14,275	13,496
Accruals	9,471	8,591
Land use rights payable	5,481	5,522
Provision for damages	165,845	150,169
Others	3,364	3,418
	318,580	311,773

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:

	2015 RMB'000	2014 RMB'000
0 - 60 days	78,679	62,157
61- 90 days	8,366	17,814
91 - 180 days	6,513	28,090
181 - 270 days	2,426	1,468
271 - 360 days	1,318	604
Over 360 days	16,653	15,496
	113,955	125,629

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

A summary of the financial results of the Group for the year ended 31 December 2015 (the "Year") is as follows:

- Revenue decreased by approximately 14.20% to approximately RMB849,118,000.
- Gross profit decreased by approximately 11.34% to approximately RMB191,954,000.
- Profit for the Year attributable to owners of the Company amounted to approximately RMB3,780,000 (for the year ended 31 December 2014: loss of RMB138,918,000).

During the financial year under review, the Group's revenue was approximately RMB849,118,000, representing a decrease of approximately 14.20% over the same period last year. Sales of aluminum electrolytic capacitors for the Year were approximately RMB803,615,000, representing a decrease of approximately 10.35% as compared to that of RMB896,354,000 in the same period last year. In addition to a slow market performance with an estimated general economic growth of approximately 2.4% in 2015, weak market demand for electronic parts and components, and a continued sluggish market sentiment and trade weakness in the Asian regions, contributed to the decline of our Group's sales performance of electrolytic capacitors, as our operations are primarily related to manufacturers in Mainland China and other Asian customers. The sales of aluminum foils for the Year were approximately RMB45,503,000, representing a decrease of approximately 51.21% as compared to that of RMB93,271,000 in the same period last year. The decrease was mainly due to excessive supply in the aluminum foil market as a result of the persistent weak recovery of the overall economy, and the more competitive selling prices of aluminum foils produced by Japanese manufacturers under the depreciation of Japanese Yen. As a result, the sales of aluminum foils did not meet our expectations. Whilst the Group's revenue for the Year did not increase, our overall cost controls enabled the Group to record an improved gross profit margin of approximately 22.61%, which represented an increase from the gross profit margin of approximately 21.88% for the same period last year.

The loss attributable to owners of the Company of approximately RMB138,918,000 for the year ended 31 December 2014 saw an improvement for the Year, resulting in a profit attributable to owners of the Company of RMB3,780,000. The turnaround was mainly due to the receipt of an arbitral award against the Company's subsidiary in the year ended 31 December 2014 as a result of an arbitration claim filed by a Japanese customer in 2011 against Capxon Electronic Industrial Company Limited ("Capxon Taiwan"), a non-wholly owned subsidiary of the Company, where the Japanese customer claimed for losses incurred from certain allegedly defective electrolytic capacitors supplied by Capxon Taiwan. Pursuant to the arbitral award, Capxon Taiwan was required to compensate the Japanese customer damages in the amount of approximately RMB174,531,000 for which provision was made in the consolidated statement of profit or loss and other comprehensive income for the previous year. During the Year, save for the provision of interest related to the deferred payment of damages in the amount of RMB7,398,000 in the consolidated statement of profit or loss and other comprehensive income, the Group did not make any provision for compensation for material litigation during the Year.

BUSINESS REVIEW

Notwithstanding lumbering recovery of the global economy powered by major economies like the U.S. and Eurozone, the pace of growth of emerging markets fell short of the target and even retreated drastically against the headwinds of falling global commodities prices, the U.S.'s monetary austerity measures and economic reform policies, posing a threat to the outlook of the global economy. Continuously decreasing crude oil prices, low commodities prices and geopolitical conflicts in the Middle East, Russia and Turkey have also impacted negatively upon the global economy. The recovery momentum was weak as a whole with weak trading and slow capital flows. Consumer market demand for end-products and the market demand of upstream raw materials also failed to expand significantly.

Ø *Manufacture and sale of aluminum foils*

During the Year, after satisfying internal production demand, the external sales of aluminum foils amounted to approximately RMB45,503,000, representing a decrease of approximately 51.21% as compared to that of approximately RMB93,271,000 for the same period last year. The proportion of aluminum foils in relation to the Group's total external sales decreased from approximately 9.42% for the same period last year to approximately 5.36% for the Year.

The general economic recovery momentum remained weak, and thus failed to drive the market demand for end-products significantly. The weak demand resulted in insufficient sales orders in the face of excessive production capacity for formed foils, which led to higher unit costs of production of aluminum foils, and in turn suppressed gross profit under such high cost yet low selling prices. Faced with such industrial and market conditions, the Group has prudently reduced the production capacity temporarily after assessing the market situation and future potential supplies. The Group also mitigated the impact of low gross profit through effective energy-savings and reduced consumption. Aluminum foils are the main raw materials of capacitors. The Group has excellent production processing technologies for formed foils and a stable production capacity. Currently, the Group has completed various key research and development ("R&D") projects and quality control techniques. On the other hand, the Group is also actively exploring the markets with high added values in response to the market changes in the future. The Group will continue to pay close attention to the future developments within the aluminium foil markets.

Ø *Manufacture and sale of capacitors*

During the Year, the Group recorded external sales of aluminum electrolytic capacitors of approximately RMB803,615,000, representing approximately 94.64% of the Group's total external sales and an increase of approximately 4.06 percentage points from approximately 90.58% for the same period last year.

Since 2015, the growth momentum of passive components has been derived from non-3C applications, such as automobile electronics, netcom equipment, LED lightings, and application of automatic industrial production equipment. In light of the changes in end-application fields, the Group continues to advance the R&D and the manufacturing technology of its capacitors, offering a series of aluminum electrolytic capacitors with the features such as long life, high capacitance, low impedance, energy-saving, high temperature resistance and high voltage tolerance.

Ø To meet the customers' requirements of quick cell phone chargers for their major models, we successfully developed ultra-thin solid-state cell phone chargers (PX series 470μF/16V, ψ5*9mm); and successfully delivered samples and entered mass production stage. They will be introduced to the quick cell phone chargers market in the PRC in the future.

- We have developed the 16V SMD products for servers. In response to the demand for new models from customers, we successfully developed PM series 180μF/16V, ψ6.3*5.8mm, PM series 82μF/16V, ψ5*5.8mm and PM series 120μF/20V, ψ6.3*5.8mm; and successfully delivered samples and entered mass production stage. They will be introduced to the relevant markets in the PRC in the future.
- We kept abreast of the trend of all-solid-state power supply and developed alternating/direct current inputs with solid-state high-voltage 400V capacitors, researched and developed high pressure conducting polymers in order to cater for the product needs of high voltage capacitors.
- In light of the product solution regarding ultra-thin cell phone chargers with high compressive strength, we have developed the KM series 4.7μF/400V,ψ8*11.5mm and put it into mass production to cater to customer-end demands. To meet the Korean customers' sample requirements (450V~500V), we successfully developed relevant products and entered mass production stage. In addition, we entered low-volume production stage in the PRC market.
- In response to the demand for long life and high voltage of SMD products from clients, we have designed and developed 400V~450V capacitors specifically for high-end TV inputs with high reliability and long life.
- To meet the demand for the miniaturization of advanced mother boards and intelligent home appliances, we conducted R&D into miniaturized SMD solid state products such as 180μF/16V, with the dimension reduced from the original φ6.3*7.7mm to φ6.3*5.8mm, and the product launch was promoted. Currently, the properties of the product are similar to those produced by Japanese manufacturers.
- In response to the demand for improved product appearance from mother board clients, the Company and the upstream supplier jointly developed aluminum cases in the black and gold colours, and were put into mass production.
- We have developed vehicle-mounted capacitors of 550V and expanded the mass production of various vehicle-mounted capacitors, including SMD, Radial and Snap-in.
- To meet the demand for high power sources and adapters, we expanded the highest capacity of 16V and 25V from 1000μF to 1500μF and from 560μF to 820μF respectively, with the largest dimension of φ10×12.5mm remaining unchanged.
- Innovative R&D of the production techniques for conductive polymers: with the integration of the solvent and solid-state electrolytes such as conductive polymers, we have developed conductive polymer aluminum electrolytic capacitors characterized by features such as high voltage, high capacitance, low impedance and low leakage current. The solvent adopted in this invention enhances the repair of defects in the oxide layers of the anodes and prevents the occurrence of short circuits. The design and R&D of high voltage conductive polymers 400V products are underway.
- Electricity charging equipment with high temperature resistance and long life span has been successfully developed and introduced to the market with mass production.
- We have made a breakthrough in the life span of 450V 85℃ screw type products, capable of lasting more than 10,000 hours, with a ripple-current resistance 1.4 times higher than that of the RP series. We intend to launch screw type capacitors with a high ripple-current resistance, long life span and high voltage of 500V or above in 2016.
- We have established a laboratory for the R&D of frequency variation, electricity charging equipment and quality assurance so as to attain the rolled throughput yield of 100%.

LIQUIDITY AND FINANCIAL RESOURCES

- *Cash flows*

The Group's cash demand was primarily derived from the acquisition of property, plants and equipment, costs and expenses related to operating activities, and payment of bank loan interest and borrowings. During the Year, the Group obtained its cash resources from operating activities.

During the Year, the Group had a total net cash outflow of approximately RMB15,034,000 from operating, investing and financing activities before foreign exchange adjustment, the details of which are set out below:

Net cash inflow from operating activities was approximately RMB139,535,000, which was mainly due to the profit before tax for the Year of approximately RMB14,247,000 together with the changes in the flow of funds as a result of the adjustments for finance costs and depreciation, etc., and the movements in inventories, accounts receivable, and accounts payable, etc.

Net cash outflow from investing activities was approximately RMB17,517,000, which was mainly due to the payment of approximately RMB34,495,000 for the purchase of machinery and equipment, and a net decrease of approximately RMB11,376,000 in secured bank deposits.

Net cash outflow from financing activities was approximately RMB137,052,000, which was mainly due to borrowings of approximately RMB394,717,000 from the banks, repayment of the bank borrowings of approximately RMB519,233,000, interest payment of approximately RMB9,573,000 for the borrowings, and repayment to related parties of approximately RMB8,544,000.

As at 31 December 2015, the Group had cash and cash equivalents of approximately RMB93,782,000 (31 December 2014: RMB108,163,000), which were mainly denominated in Renminbi and US dollars.

Ø *Borrowings*

As at 31 December 2015, the Group had bank borrowings of approximately RMB158,052,000 (31 December 2014: RMB278,056,000), which were mainly denominated in Renminbi, US dollars and New Taiwan dollars. Among these bank borrowings, approximately RMB80,061,000 (31 December 2014: RMB208,800,000) were subject to fixed interest rates. Below is an analysis of the repayment profile of the bank borrowings:

	31 December 2015 RMB'000	31 December 2014 RMB'000
Within one year or on demand	158,052	278,056

PLEDGE OF ASSETS

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

	31 December 2015 RMB'000	31 December 2014 RMB'000
Bank deposits	6,730	18,106
Land use rights	14,239	21,747
Property, plant and equipment	99,048	153,064
	120,017	192,917

FINANCIAL RATIOS

As at 31 December 2015, the Group's gearing ratio (net debts divided by equity attributable to owners of the Company plus net debts) amounted to approximately 25.87%, representing a decrease of approximately 9.10% as compared to 34.97% as at 31 December 2014. The decrease was mainly due to a decrease in bank borrowings of approximately RMB120,004,000.

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

	For the year ended 31 December	
	2015	2014
Inventory turnover	85 days	78 days
Trade and bills receivable turnover	130 days	136 days
Trade and bills payable turnover	67 days	75 days

The Group's turnover days of inventories increased by about 7 days, and both turnover days of trade and bills receivable and turnover days of trade and bills payable decreased by about 6 days and 8 days, respectively, as compared to those for the same period last year. The Group will continue to improve on the management of its inventories, trade receivable and trade payable in order to better utilize the available funds.

CAPITAL COMMITMENTS

As at 31 December 2015, the Group had capital commitments contracted but not provided for amounting to approximately RMB35,975,000 (31 December 2014: RMB28,921,000).

MATERIAL PROCEEDINGS

(a) During the year ended 31 December 2011, a customer filed an arbitration claim against Capxon Taiwan with The Japan Commercial Arbitration Association (the "Arbitration Association") in Japan, claiming damages of JPY1,412,106,000 (equivalent to approximately RMB76,113,000 (2014: RMB72,300,000)) allegedly suffered by the customer with respect to certain alleged defective electrolytic capacitors supplied by Capxon Taiwan, plus interest accrued thereon from 1 January 2011 up to the settlement date at 6% per annum, and all arbitration related expenses. Capxon Taiwan rejected the claims and filed a counterclaim for JPY60,000,000 (equivalent to approximately RMB3,234,000 (2014: RMB3,072,000) for damages, plus interest from 17 November 2011 up to the settlement date at 6% per annum, and all arbitration related expenses.

In August 2014, Capxon Taiwan received the arbitral award from the Arbitration Association which required Capxon Taiwan to compensate the customer damages in an aggregate sum of:

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB130,927,000 (2014: RMB124,272,000));

(ii) interest on deferred payment of (i) above and such interest calculated at 6% per annum on (a) JPY1,311,973,002 (equivalent to approximately RMB70,770,000 (2014: RMB67,173,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB50,833,000 (2014: RMB48,249,000)) accrued from 1 July 2012 until payment in full and (c) JPY172,847,306 (equivalent to approximately RMB9,324,000 (2014: RMB8,850,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,274,000 (2014: RMB1,209,000).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. The directors of the Company lodged a further appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. The final decision of the appeal has not been reached by the Tokyo High Court as at the date of this announcement. The directors of the Company believe that the Group has sufficient grounds to the appeal. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage. Therefore, an aggregate amount of JPY3,074,519,231 (2014: JPY2,928,888,032), equivalent to approximately RMB165,845,000 (2014: RMB150,169,000), was accrued and included in trade and other payables as at 31 December 2015 as a result of the initial arbitral award.

(b) During the year ended 31 December 2011, a customer filed a civil complaint to the People's Court of Shenzhen in the PRC against Capxon Shenzhen, alleging product defects and claiming a sum of RMB12,877,000 in damages. In December 2014, the court ruled that the complainant had failed to provide sufficient evidence and accordingly the court ruled in favour of Capxon Shenzhen. The customer subsequently filed an appeal against the court's decision. As at the date of this announcement, the parties are still awaiting the court's deliberation on the matter. The directors of the Company believe that the probability of the court overturning its decision is highly unlikely, and has thus made no provision for any potential liability in the consolidated financial statements.

FOREIGN EXCHANGE FLUCTUATIONS

The Group receives its revenue from operations principally in US dollars and Renminbi, whilst its expenses are mainly denominated in Japanese Yen, Renminbi, US dollars and New Taiwan dollars. As the revenue and expenses are denominated in different currencies, the exposure to exchange risks was mostly managed through natural hedges. However, where there is a relatively large fluctuation in Renminbi, the Group will still be indirectly affected.

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

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

As at 31 December 2015, the Group had approximately 2,322 employees in total. Salary, bonus and fringe benefits were determined with reference to the prevailing market terms and the individual employee’s performance, qualification and experience. Employees are the backbone of an enterprise. The Group highly values loyal and diligent employees, and provides its employees with on-the-job education and training as well as subsidies on tourism and travelling expenses for home visits. In addition, the Group adopts non-discriminatory hiring and employment practices and strives to provide a safe and healthy workplace. Employees’ cost (including directors’ emoluments) amounted to approximately RMB183,190,000 for the Year (for the year ended 31 December 2014: RMB185,073,000).

Good customer relationships are fundamental to our operations. The Group maintains close relationships with its customers in order to foster a satisfactory and balanced demand and supply.

The Group does not have any major suppliers that materially affect its operation, and has always maintained a fair and excellent cooperative relationship with its suppliers.

ENVIROMENTAL POLICIES

Restriction of Hazardous Substances Directive 2002/95/EC (“RoHS”) is an environmental protection directive enacted by the European Union in 2003, which came into effect in July 2006. It principally regulates the standards of the raw materials and production process used in electronic products. As far as the examination of the composition of raw materials and the overall production process are concerned, the Group has installed the relevant equipment and apparatuses to support quality control management. During the Year, the Group also introduced ICP-OES spectrometer to conduct material analysis and testing so as to ensure compliance with the requirements of the RoHS. In addition, in full compliance with the SVHC (Substances of Very High Concern) and halogen-free regulations, the Group has procured a green production environment and shouldered environmental protection responsibilities, thereby winning the trustworthiness of its clients and creating new opportunities for green business.

In addition, the Group utilised resources and reduced wastes in an effective way by adopting measures for recycling, application of eco-friendly stationeries and energy saving.

REGULATORY COMPLIANCE

To the best knowledge of the Company, it has complied, in all material aspects, with the relevant laws and regulations which have significant impact on the Group's business and operation during the Year.

FUTURE STRATEGY AND PLANNING

Starting from 2015, the growth momentum of the overall capacitor market has turned to being dependent upon the low-volume high-priced niche markets for non-3C application industries, such as automobile electronics, high level household electronic appliances, safety control system, industrial equipment, renewable energy resources equipment, network products and LED lightings. Looking forward, the passive components will continue its market trend in the evolvement of a niche market primarily oriented with tailor-made and modularized products featuring miniaturization, high frequency, high capacity, high voltage, durability and high resistance to heat. It is expected that the output value of global passive components will continue to see positive growth in 2016. In view of the uncertain and ever-changing external economic circumstances and the potential development of the industrial market, the Group will adhere to its inherent operating strategy of researching and developing advanced and sophisticated production process and strictly managing quality control, implementing source management and endeavoring to reduce costs, as well as effectively ensuring profitability with economies of scale and attempting to adopt the supply model for the cross-industry integration to enhance its competitive edges in the market.

- *Human resources:* Streamline labour requirements by controlling overtime man-hours with operational targets and minimize labour costs by managing the number of hours with the actual operation rate. Automatic corner processing equipment has been introduced under the Snap-in production line plan to save manpower and enhance efficiency.
- *Production equipment:* Increase production lines for conductive polymers to expand production capacity, and set up automated equipment for semi-conductive polymers which will be put to trial run.
- *Material costs:* Consolidate various types of materials, reduce part numbers and specification, and cut inventory backlog, procurement costs and slow-moving materials. As for conductive polymers, the induced rate has been raised while the voltage forming ratio has been lowered, with an effective reduction of material usage.
- *Material development:* Develop SMD production line by using titanium foils as the cathode foil to maximize capacitance and satisfy the customized requirements of miniaturized and high-proportion capacitance.
- *Verification:* Strengthen communications regarding applications at customer end and promptly understand the development dynamics of products. Establish state-of-the-art electronic application laboratory to simulate product applications at end customers, foresee the potential failure of capacitor performance and the reasons thereof, in order to uplift the quality of capacitors for better customer satisfaction.
- *Technical reform:*
    - **Oriented by application-led development:** Leveraging upon our advantages in the R&D of application technology, the Company aims to develop, using inhouse capability, packages similar to that of end customers for testing and verifying the actual environment for applications (e.g. high-speed charging and discharging packages, variable-frequency

wave electric current sources, etc.), to swiftly grasp the actual requirements for capacitors, which is an active approach to guiding customers in their choices for suitable capacitors rather than the original passive approach in which customers choose their own capacitors. This strategy has been used in various application areas including industrial frequency variations, frequency variations in air-conditioners and washing machines, electricity sources at stations, photovoltaic energy sources, automobile electronics, and has been successful to a certain extent.

- **Project development and promotion:** During the Year, the Group primarily launched two projects: 1. Variable-frequency capacitors, varying from basic raw materials (e.g. aluminum foil craftsmanship, electrolyte formula, etc.) to specialty formulations and specialty series (e.g. UJ/UB/UC/UD/UK/UL series, etc.), to make use of its ability in the R&D of applications and development of capacitor series, and to uplift our position in the market supply of variable-frequency capacitor applications. 2. Automobile electronics: Currently, the Group has made progress in the applications and market supply of automobile electronics in mainland China. During the Year, the Group has established dedicated workshops for automobile electronics to be operated by dedicated staff members who are responsible for technology, quality assurance and R&D, so that the Group's vehicle-mounted electronics and electrolytic capacitors can become better and more sophisticated, the Group's R&D of applications in relevant areas can become stronger, and the overall quality of our capacitor products can become more stable by means of technological upgrade.
- **Breakthrough in the development of basic materials:** 1. The uplift in the high ratio capacitors for formed foils, so as to consolidate the Group's leading position in its capacity production technology by means of material R&D. 2. Development of highly reliable specialty capacitors and electrolytes: self-enhancement of GBL electrolytes for promoting the development of research of vehicle-mounted electronic applications. The development and application of variable-frequency capacitors and electrolytes can ensure that variable-frequency capacitors can stand at the frontier of industrial development.
- **Super capacitor:** The Group strategically plans for the technological support from researches conducted by colleges and the introduction of the development and production of farad capacitors, in order to address the needs for high-speed charging given the long stand-by time required by modern-day mobile electronic devices.

FUTURE PROSPECTS

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 persistently focus on the existing industry, innovative R&D, and strive for excellence. The Group will effectively control costs and enhance manufacturing efficiency, in order to maintain its competitiveness in the industry. With technological advancement and product innovation, the Group will serve and maintain a stable relationship with its existing customers. The Group will put forth effort to develop an industry-integrated production and marketing model , proactively explore new markets to meet mass production planning, overcome the challenges of economies of scale as well as stabilize the value and revenue from the industry, in order to reward the Company's shareholders for their support with profits.

OTHER INFORMATION

DIVIDENDS

The Board does not recommend the payment of any final dividend for the year ended 31 December 2015 (year ended 31 December 2014: Nil).

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules during the Year, save as disclosed below:

(i) Code provision A.6.7 of the CG Code stipulates that independent non-executive directors should also attend general meetings. Mr. Lu Hong Te, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 29 May 2015 due to personal reasons.

(ii) 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 also involves in handling financial reporting matters of the Group, it will simplify the reporting process if she reports to the chief financial officer who will report 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 Year.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company has reviewed the annual results of the Group for the Year.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

The Company's external auditor has included the Emphasis of Matter paragraph in the independent auditor's report on the audit of the consolidated financial statements of the Group for the Year as set out below:

> "Without qualifying our opinion, we draw attention to note 33(a) to the consolidated financial statements which explains that included in trade and other payables as at 31 December 2015, an aggregate amount of approximately RMB165,845,000 (2014:RMB150,169,000) was provided, in respect of damages, interest, arbitration and appeal related expenses as a result of an arbitral award against the Group's subsidiary in Taiwan received in August 2014. As further stated in note 33(a) to the consolidated financial statements, the Group filed a petition to the Tokyo District Court for the annulment of the arbitral award in October 2014. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of the Group and upheld the original decision regarding the arbitral award. In February 2016, the Group has filed an appeal to the Tokyo High Court for the annulment of the arbitral award. The final decision of the appeal has not been reached by the Tokyo High Court up to the date of this report. The eventual success or otherwise of the appeal may have a material effect on the provision amount already included in trade and other payables as at 31 December 2015. However, the ultimate outcome of the appeal cannot be assessed at this preliminary stage."

For details of note 33(a) to the consolidated financial statements, please refer to item (a) of "Material Proceedings" set out under the section headed "Management Discussion and Analysis" of this announcement.

ANNUAL REPORT

The 2015 annual 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 Company's website (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. Lai Chung Ching, 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, 29 March 2016