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 2016

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2016	**2015**	**Change**
Revenue (RMB'000)	946,643	849,118	+11.49%
Profit for the year attributable to owners of the Company (RMB'000)	14,339	3,780	+279.34%
Basic earnings per share attributable to owners of the Company (RMB cents)	1.70	0.45	+277.78%
Dividends (HK cents per share)			
- Final	--	--	--
- Interim	--	--	--

The board of directors (the "Board") of Capxon International Electronic Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 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 2016

	NOTES	2016 RMB'000	2015 RMB'000
Revenue	2	946,643	849,118
Cost of sales		(707,707)	(657,164)
Gross profit		238,936	191,954
Other income		8,005	12,470
Other gains and losses		(1,116)	(2,493)
Impairment loss on property, plant and equipment		(27,596)	(3,500)
Distribution and selling costs		(59,374)	(55,637)
Administrative expenses		(79,607)	(81,746)
Other expenses		(33,582)	(29,830)
Provision for damages		(8,899)	(7,398)
Finance costs		(2,398)	(9,573)
Profit before tax		34,369	14,247
Income tax expense	3	(20,655)	(11,206)
Profit for the year	4	13,714	3,041
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit obligations		-	1,677
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operation		(22,990)	(10,185)
Other comprehensive expense for the year		(22,990)	(8,508)
Total comprehensive expense for the year		(9,276)	(5,467)
Profit (loss) for the year attributable to:			
Owners of the Company		14,339	3,780
Non-controlling interests		(625)	(739)
		13,714	3,041
Total comprehensive expense attributable to:			
Owners of the Company		(8,685)	(5,174)
Non-controlling interests		(591)	(293)
		(9,276)	(5,467)
Earnings per share (RMB cents)			
- Basic	6	1.70	0.45

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	NOTES	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		443,879	499,603
Land use rights		38,419	39,453
Intangible assets		153	382
Deposits paid for acquisition of property, plant and equipment		34,903	36,564
		517,354	576,002
CURRENT ASSETS			
Inventories		154,529	142,069
Land use rights		1,031	1,031
Trade and other receivables	7	383,336	335,737
Tax recoverable		2,056	2,107
Pledged bank deposits		2,424	6,730
Bank balances and cash		123,362	93,782
		666,738	581,456
CURRENT LIABILITIES			
Trade and other payables	8	416,327	318,580
Bank borrowings		87,210	158,052
Amounts due to related parties		4,334	4,984
Tax liabilities		20,119	10,120
		527,990	491,736
NET CURRENT ASSETS		138,748	89,720
TOTAL ASSETS LESS CURRENT LIABILITIES		656,102	665,722
NON-CURRENT LIABILITIES			
Deferred income		22,698	23,010
Deferred tax liabilities		3,764	3,796
		26,462	26,806
NET ASSETS		629,640	638,916
CAPITAL AND RESERVES			
Share capital		82,244	82,244
Share premium and reserves		545,155	553,840
Equity attributable to owners of the Company		627,399	636,084
Non-controlling interests		2,241	2,832
TOTAL EQUITY		629,640	638,916

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”) issued by the International Accounting Standards Board ("IASB"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance (Cap 622).

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period.

Application of new and amendments to IFRSs

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

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IFRSs	Annual Improvements to IFRSs 2012 - 2014 Cycle
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception

The application of the above amendments to IFRSs 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 amendments to 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[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014 – 2016 Cycle[5]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined

[4] Effective for annual periods beginning on or after 1 January 2017
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

IFRS 9 *Financial Instruments*

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9:

- all recognised financial assets that are within the scope of IFRS 9 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 fair value through other comprehensive income. 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 *Financial Instruments: Recognition and Measurement*, 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of IFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost.

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.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under IAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review. In addition, the application of IFRS 15 in the future may result in more disclosures in the consolidated financial statements.

IFRS 16 ***Leases***

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows except for the short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating cash flows.

Under IAS 17, the Group has already recognised land use rights for leasehold lands where the Group is a lessee. The application of IFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of RMB3,219,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipate that the application of other new and amendments to IFRSs 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 2016

	Capacitors	Aluminum foils	Segment total	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
External sales	928,376	18,267	946,643	-	946,643
Inter-segment sales	-	77,763	77,763	(77,763)	-
Segment revenue	928,376	96,030	1,024,406	(77,763)	946,643
Segment profit (loss)	139,486	(82,594)	56,892	(54)	56,838
Interest income					691
Unallocated corporate expense					(10,960)
Finance costs					(2,398)
Provision for damages					(8,899)
Foreign exchange loss arising on retranslation of provision for damages					(903)
Profit before tax					34,369

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)	74,909	(35,510)	39,399	5,263	44,662
Interest income					1,062
Unallocated corporate expense					(9,418)
Finance costs					(9,573)
Provision for damages					(7,398)
Foreign exchange loss arising on retranslation of provision for damages					(5,088)
Profit before tax					14,247

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, provision for damages and foreign exchange loss arising on retranslation of 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:

	2016 RMB'000	2015 RMB'000
Segment assets		
Capacitors	841,657	778,314
Aluminium Foils	644,131	660,700
Total segment assets	1,485,788	1,439,014
Elimination - inter-segment balances	(302,687)	(282,445)
Unallocated assets	991	889
Consolidated assets	1,184,092	1,157,458
Segment liabilities		
Capacitors	223,395	251,364
Aluminium Foils	440,661	382,520
Total segment liabilities	664,056	633,884
Elimination - inter-segment balances	(302,687)	(282,445)
Unallocated liabilities	193,083	167,103
Consolidated liabilities	554,452	518,542

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 by geographical location of the assets are detailed below:

	2016 RMB'000	2015 RMB'000
The People's Republic of China (the "PRC")	506,386	565,712
Taiwan	10,968	10,290
	517,354	576,002

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

	2016 RMB'000	2015 RMB'000
Revenue from external customers:		
The PRC	760,804	679,358
Taiwan	17,536	16,547
Other Asian countries (Note)	143,723	130,880
Europe (Note)	23,256	17,718
Americas and Africa (Note)	1,324	4,615
	946,643	849,118

Note: The countries of the external customers included in these categories comprised Korea, Japan, Vietnam, Singapore, India, Germany and others (2015: Korea, Japan, Vietnam, Singapore, India, Germany, 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

	2016 RMB'000	2015 RMB'000
Current tax:		
- PRC Enterprise Income Tax	15,285	8,250
- Taiwan Corporate Income Tax	3,398	2,697
	18,683	10,947
Under(over) provision in prior years:		
- PRC Enterprise Income Tax	2,333	-
- Taiwan Corporate Income tax	(361)	(608)
	1,972	(608)
Deferred tax:		
- Current year	-	867
	20,655	11,206

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits 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"), a subsidiary 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 2017, Capxon Shenzhen was approved for 1 year as enterprise that satisfied the condition as high technology development enterprise and is subject to a preferential tax rate of 15% in 2016.

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

4. PROFIT FOR THE YEAR

	2016 RMB'000	2015 RMB'000
Profit for the year has been arrived at after charging:		
Employee benefit expenses (including directors' emoluments):		
Wages, salaries and allowances	183,826	172,102
Defined contribution pension schemes	12,846	11,052
Defined benefit pension plan	-	36
	196,672	183,190
Amortisation of intangible assets		
- in cost of sales	-	1,444
- in administrative expenses	229	267
Amortisation of land use rights	1,034	1,034
Auditor's remuneration (including audit and non-audit services)	1,703	1,978
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB14,261,000 (2015: RMB3,780,000)) (Note)	707,707	657,164
Depreciation of property, plant and equipment	58,842	66,364

Note: During the year ended 31 December 2016, certain aged inventories which were written-down in prior years were sold. As a result, a reversal of write-down of inventories of approximately RMB14,261,000 (2015: 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 PER SHARE

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

	2016 RMB'000	2015 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share Profit for the year attributable to owners of the Company	14,339	3,780

	2016	2015
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	844,559,841	844,559,841

Diluted earnings per share is not presented for the years ended 31 December 2016 and 2015 as there were no potential dilutive ordinary shares outstanding during both years.

7. TRADE AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade and bills receivables	354,189	300,395
Less: allowance for doubtful debts	(18,098)	(19,864)
Total trade receivables	336,091	280,531
Advances to suppliers	7,810	1,600
Value added tax recoverable	18,362	32,990
Prepayments	11,446	12,981
Others	9,627	7,635
Total trade and other receivables	383,336	335,737

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.

	2016 RMB'000	2015 RMB'000
0 - 60 days	187,826	158,310
61 - 90 days	58,871	61,976
91 - 180 days	85,464	56,139
181 - 270 days	3,915	3,243
271 - 360 days	-	636
Over 360 days	15	227
	336,091	280,531

8. TRADE AND OTHER PAYABLES

	2016 RMB'000	2015 RMB'000
Trade and bills payables	181,599	113,955
Advances from customers	5,828	6,189
Payroll payables	14,931	14,275
Accruals	14,054	9,471
Land use rights payable	5,481	5,481
Provision for damages	190,864	165,845
Others	3,570	3,364
	416,327	318,580

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:

	2016 RMB'000	2015 RMB'000
0 - 60 days	145,835	78,679
61- 90 days	7,638	8,366
91 - 180 days	9,439	6,513
181 - 270 days	375	2,426
271 - 360 days	113	1,318
Over 360 days	18,199	16,653
	181,599	113,955

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

A summary of the financial results of the Group for the year ended 31 December 2016 (the "Year") is as follows:

- Revenue increased by approximately 11.49% to approximately RMB946,643,000.
- Gross profit increased by approximately 24.48% to approximately RMB238,936,000.
- Profit for the Year attributable to owners of the Company amounted to approximately RMB14,339,000 (for the year ended 31 December 2015: RMB3,780,000).

During the Year under review, the Group's revenue was approximately RMB946,643,000, representing an increase of approximately 11.49% over the corresponding period last year. Sales of aluminum electrolytic capacitors for the Year were approximately RMB928,376,000, representing an increase of approximately 15.52% as compared to that of RMB803,615,000 in the corresponding period last year. The increase in sales as compared to the corresponding period last year was due to improved performance as a result of successive shipments of the newly developed solid-state capacitors, high-voltage capacitors and charging pile products. Sales of aluminum foils for the Year were approximately RMB18,267,000, representing a decrease of approximately 59.86% as compared to that of RMB45,503,000 in the corresponding period last year. Such decrease was mainly due to the persistently weak recovery of the overall economy, the excessive supply over demand in the aluminum foils market, and the relatively more competitive selling prices of aluminum foils produced by Japanese manufacturers due to fluctuations in the Japanese Yen exchange rate. As a result, sales of aluminum foils of the Group were affected. In view of the market condition for aluminum foils and the future operation strategies of the Group, the Group has made an impairment loss for idle plant and equipment under the aluminum foils segment of approximately RMB27,596,000 during the Year. During the Year, the gross profit margin of the Group increased from approximately 22.61% in the corresponding period of last year to approximately 25.24% of this Year due to the proper control of general costs of the Group and the depreciation of the Renminbi.

BUSINESS REVIEW

The year 2016 ended with black swan events such as Britain's resolution to exit the European Union, and Donald Trump being elected as the President of the United States of America. An observation of the electronic component industry reveals that, due to a lack of demand momentum from end users, the entry of global sales of smart phones and the demand in other electronic industries into a mild growth stage, the overall growth rate for passive components has not been high. Under the effects of various uncertainties, consumption trends have been conservative. Although the central banks of major countries have successively implemented various quantitative easing monetary policies, they have had limited effect.

➢ *Manufacture and sale of aluminum foils*

During the Year, after satisfying internal production demand, external sales of aluminum foils amounted to approximately RMB18,267,000, representing a decrease of approximately 59.86% as compared to RMB45,503,000 in the corresponding period last year. The proportion of aluminum foils in relation to the Group's total external sales decreased from approximately 5.36% in the corresponding Year last year to approximately 1.93% for the Year.

General economic recovery remained uncertain while trading outlook has clearly tended to be conservative due to various factors. The over-supply and insufficient orders of formed foils also caused higher unit cost of production and negative gross profit. Faced with such industrial characteristics and market conditions of excessive supply over demand, the Group has, after assessing the market conditions and considering future potential factors, prudently reduced its production capacity temporarily, effectively achieving energy-saving and reducing consumption in order to offset the impact of low gross profit. Aluminum foils are the major raw materials of capacitors. The Group has excellent production processing technologies in place for formed foils and stable production capacity. Currently, all key research and development ("R&D") and quality control technical processes have been completed. In addition, the Group is still actively exploring markets with high added-value to improve our prospects in adapting towards future market changes. The Group will continue to pay close attention to the future developments of the aluminum foils markets with care.

Currently, the following key R&D and quality control technical processes have been completed:

- *Etched Aluminum Foil:* ①The establishment of acid re-collecting system, which minimizes the usage of production acid and reduces environmental costs; and ②The installation of fast production lines for multiple-level etching and the trial production of high-CV etched aluminum foil.

- *Formed foil:* ① The formation technique of organic acid of high capacity and flexibility;② automatic cleaning and crystallization system for production lines; ③ the automatic examination and control system for bath solution; ④automatic record system for production lines operation; and ⑤the processing system of heating pipes for phosphoric acid.

- *Manufacture and sale of capacitors*

The Group recorded the external sales of aluminum electrolytic capacitors of approximately RMB928,376,000 during the Year, representing approximately 98.07% of the Group's total external sales, and an increase of approximately 3.43% from approximately 94.64% of the Group's total external sales for the same period last year.

The noticeable decrease in demand of various parts and components by end manufacturers was caused by the turbulence in the passive components industry as a result of the global political and economic turbulence, and the entry of the global sales of smart phones into a mild growth period. With the development of artificial intelligence and commercial application opportunities of VR, AR and MR, the R&D and production capacity of electrolytic capacitors of the Group primarily focused on addressing the high-ended products for the Year, including variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and vehicle-mounted electronic applications. Relevant demands have achieved a better result. In the future, the Group will endeavor to meet the requirements for specific customized products, including miniaturization, high capacity, high voltage, high frequency, and high temperature, so as to gradually develop the front-end demand in the market and customized products across various areas, promote the application of electrolytic capacitors in various sectors in the market, and expand the global market share of its electrolytic capacitor products.

- Further optimised the product designs and production techniques, reduce material costs and consumption during production, increase market competitiveness of the products;

- Miniaturized the specifications and size of the entire product series, optimize the features and life-span according to special requests by our customers, so as to fully open up the European market;

- Developed SMD liquid-state capacitors products;

- Developed LED lightings liquid-state capacitors products, with ultra-long life-span Radial products samples delivered for testing;

- Snap-in products samples with liquid-state high voltage capacitors development standard have been delivered for testing;

- With the development of the field of electricity charging piles, collaborated with customers to develop new charging modules;

- Developed fundamental raw material - coated high-proportion foil;
- Developed semi-solid-state capacitors miniaturized high capacity products: high capacity titanium foil design adopted for cathode foil, and increased the high temperature resistance of the products;
- Developed Low ESR thin solid-stated capacitors;
- Successfully developed miniaturized and high capacity products for quick cell phone chargers series; and
- Exclusive dispersion liquid for solid-state capacitors: developed high voltage solid-stated capacitor materials which increased the reliability and life-span of the solid-state capacitor.

LIQUIDITY AND FINANCIAL RESOURCES

- *Cash flows*

The Group's cash demand was primarily derived from the acquisition of property, plant and equipment, the costs and expenses involved in operating activities, and repayment of bank loan interest and borrowings. During the Year, the Group obtained its cash resources from its operating activities.

During the Year, the Group had a total net cash inflow of approximately RMB27,529,000 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 RMB133,379,000, which was mainly due to the profit before tax for the Year of approximately RMB34,369,000, together with the changes in the flow of funds as a result of the adjustments for items including finance costs and depreciation, and the movements in inventories, accounts receivables, and accounts payables, etc.

Net cash outflow from investing activities was approximately RMB32,983,000, which was mainly due to the payment of approximately RMB39,135,000 for the purchase of machinery and equipment, and the net decrease in pledged bank borrowings of approximately RMB4,306,000.

Net cash outflow from financing activities was approximately RMB72,867,000, which was mainly due to borrowings of approximately RMB202,464,000 from banks, repayments of bank borrowings of approximately RMB275,459,000, interest payments on borrowings of approximately RMB2,398,000 and repayment of amount due to a related party of approximately RMB890,000.

As at 31 December 2016, the Group had cash and cash equivalents of approximately RMB123,362,000 (31 December 2015: RMB93,782,000), which were mainly denominated in Renminbi and United States ("U.S.") dollars.

- *Borrowings*

As at 31 December 2016, the Group had bank borrowings of approximately RMB87,210,000 (31 December 2015: RMB158,052,000), which were mainly denominated in U.S. dollars, New Taiwan Dollars and Japanese Yen (31 December 2015: Renminbi, U.S. dollars and New Taiwan Dollars). Among such bank borrowings, approximately RMB44,150,000 (31 December 2015: RMB80,061,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of the bank borrowings:

	31 December 2016 RMB'000	31 December 2015 RMB'000
Within one year or on demand	87,210	158,052

PLEDGE OF ASSETS

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

	31 December 2016 RMB'000	31 December 2015 RMB'000
Bank deposits	2,424	6,730
Land use rights	13,818	14,239
Property, plant and equipment	97,614	99,048
	113,856	120,017

FINANCIAL RATIOS

As at 31 December 2016, the Group's gearing ratio (net debt divided by equity attributable to owners of the Company plus net debt) was approximately 23.59%, representing a decrease of approximately 2.28% as compared to 25.87% as at 31 December 2015. The decrease was mainly due to a reduction in bank borrowings of approximately RMB70,842,000, and an increase in cash and cash equivalents of approximately RMB29,580,000.

Below are the turnover days of the inventories, trade and bills receivables, and trade and bills payables of the Group during the Year:

	For the year ended 31 December 2016	2015
Inventory turnover	76 days	85 days
Trade and bills receivables turnover	119 days	130 days
Trade and bills payables turnover	76 days	67 days

The Group's turnover days of inventories and turnover days of trade and bills receivables decreased by about 9 days and 11 days, respectively, and the turnover days of trade and bills payables increased about 9 days, as compared to those for the corresponding period last year. The Group will continue to improve the management of its inventories, trade receivables and trade payables in order to achieve a more efficient use of its funds.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately RMB33,430,000 (31 December 2015: RMB35,975,000).

MATERIAL PROCEEDINGS

(a) During the year ended 31 December 2011, a customer filed an arbitration claim against the Company's subsidiary Capxon Electronic Industrial Company Limited ("Capxon Taiwan") with The Japan Commercial Arbitration Association (the "Arbitration Association"), claiming damages of JPY1,412,106,000 (equivalent to approximately RMB83,664,000 (2015: RMB76,113,000)) 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 counter claim for JPY60,000,000 (equivalent to approximately RMB3,555,000 (2015: RMB3,234,000)) for damages caused, 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 RMB143,806,000 (2015: RMB130,927,000));

(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 RMB77,732,000 (2015: RMB70,770,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB55,833,000 (2015: RMB50,833,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (equivalent to approximately RMB10,241,000 (2015: RMB9,324,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,399,000 (2015: RMB1,274,000)).

In October 2014, Capxon Taiwan filed a petition to the Tokyo District Court for the annulment of the arbitral award. In January 2016, the Tokyo District Court issued its decision in relation to the arbitral award, whereby it dismissed the petition of Capxon Taiwan and upheld the original decision regarding the arbitral award. Capxon Taiwan lodged a further appeal to the Tokyo High Court for the annulment of the arbitral award in February 2016. In February 2017, the Tokyo High Court rejected the appeal, and Capxon Taiwan then filed to the Japan Supreme Court an extraordinary appeal and to the Tokyo High Court a request for a permission to file an appeal. In March 2017, the Tokyo High Court rejected Capxon Taiwan's request for a permission to file an appeal. The final decision of the extraordinary appeal has not been reached by the Japan Supreme Court as at the date of this announcement. The directors of the Company believe that Capxon Taiwan 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 JPY3,220,549,420 (2015: JPY3,074,519,231), equivalent to approximately RMB190,864,000 (2015: RMB165,845,000), was accrued and included in trade and other payables as at 31 December 2016 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 favor 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 derives its revenue from operations principally in U.S. dollars and Renminbi, while its expenses are mainly denominated in Japanese Yen, Renminbi, U.S. dollars and New Taiwan dollars. As the revenue and expenses are denominated in different currencies, the exposure to exchange risks was mostly managed through natural hedges. However, where there is a relatively large fluctuation in the exchange rates of Renminbi and Japanese Yen, the Group will still be indirectly affected.

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

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2016, the Group had approximately 2,382 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. During the Year, staff costs (including directors' emoluments) amounted to approximately RMB196,672,000 (for the year ended 31 December 2015: RMB183,190,000).

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 operations during the Year.

FUTURE STRATEGIES AND PLANNING

From 2016 onwards, the three major discoveries of technology industry and the changing trends in competition are: 1. the growth rate of mobile phone industry is slowing down; 2. companies solely committed to hardware are transforming into integrated corporations for both hardware and software; and 3. seeking new creative momentum to return to the market. In the future of the technology industry, we see new patterns of across five major categories: 1. Leading corporations, such as those with specialized products or market position; 2. Merger corporations: corporations that grew through mergers and acquisitions; 3. Corporations with innovation and continuous investment on R&D; 4. Corporations that provide solutions and customization; and 5. Corporations that create values. As such, global technology industry will continue its cross-border transformation. The way in which we redefine our own values through change and reformation and how we turn the crisis around into opportunity will be the most important issue in 2017. We will also set the following objectives for our corporate transformation:

- *Human resources:* Streamlining labour requirements, and tackling the increased labour cost of production lines and improving labour efficiency by providing education and training, and increasing the number of automatic equipment.
- *Production equipment:* Increasing the number of automated equipment, which will be put to trial run.
- *Material costs:* Consolidating common materials to cut inventory backlog.
- *Material development:* Developing fundamental materials - coated high proportion capacitance foil and high pressure 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 laboratory to simulate product applications for end customers, pre-determining the potential failure of capacitor performance and the reasons thereof, in order to uplift the quality of capacitors for better customer satisfaction.
- *Technical reforms:*
  - developing HYBRID solid-state and liquid-state electrolyte, satisfying the needs of the vehicle-mounted electronic market;
  - developing fundamental raw materials for LED lightings series;
  - updating and upgrading conductive electrodes, heat exchanger, and power supply;
  - Establishing acid recollection equipment, which effectively reduces the usage of etching bath solution and lowers the material costs; and
  - Developing new chemical synthesizing technology, in anticipation of an increase of electrostatic capacity by 8-10%.

FUTURE PROSPECTS

In 2017, the technology industry will look forward to products in the areas of artificial intelligence, block chain, AR, VR, MR, 360-degree panorama video, and commercial drones. It is clear that breakthroughs in technology and products happen every day. Technology giants around the world are putting their best efforts into: 1. achieving precise marketing campaigns through precise personal usage of big data; 2. engaging customers and involving them in designing the products and creating new concepts through large-scale customization and direct customer contact; and 3. establishing smart cities; the global urban population is expected to increase to 6.3 billion, which will bring new business opportunities in areas of transportation, safety, healthcare, energy, and environment, etc. Problems are solved by utilizing all manner of data, and as mobile cloud services enter into everyday life, the sustained development of robotics technology, as well as the birth of platform economy and online celebrities economy, we expect there to be more and more startups that make use of platform economy to erode and damage traditional economy, and may even lead or dominate future economic development.

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 industry, innovative R&D, and to strive for excellence, as well as effectively control costs and enhance manufacturing efficiency, in order to maintain its competitiveness in the industry. With our technological R&D and product innovation services, 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, 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

DIVIDENDS

The Board does not recommend the payment of any final dividend for the Year (year ended 31 December 2015: 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 27 May 2016 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 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 matters concerning the Group's financial affairs and corporate governance.

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

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

REVIEW BY AUDIT COMMITTEE

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

ANNUAL REPORT

The 2016 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, 30 March 2017