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 2017

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2017	**2016**	**Change**
Revenue (RMB'000)	1,069,104	946,643	+12.94%
(Loss) profit for the year attributable to owners of the Company (RMB'000)	(2,040)	14,339	-114.23%
Basic (loss) earnings per share attributable to owners of the Company (RMB cents)	(0.24)	1.70	-114.12%
Dividends (HK cents per share)			
- Final	--	--	--
- Interim	5.00	--	N/A

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 2017 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 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	2	1,069,104	946,643
Cost of sales		(798,445)	(707,707)
Gross profit		270,659	238,936
Other income		15,251	8,005
Other gains and losses		(46,059)	(1,116)
Impairment loss on property, plant and equipment		-	(27,596)
Distribution and selling costs		(70,900)	(59,374)
Administrative expenses		(85,663)	(79,607)
Other expenses		(49,648)	(33,582)
Interest on provision for damages		(8,834)	(8,899)
Finance costs		(1,703)	(2,398)
Profit before tax		23,103	34,369
Income tax expense	3	(24,915)	(20,655)
(Loss) profit for the year	4	(1,812)	13,714
Other comprehensive income (expense)			
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		13,436	(22,990)
Total comprehensive income (expense) for the year		11,624	(9,276)
(Loss) profit for the year attributable to:			
Owners of the Company		(2,040)	14,339
Non-controlling interests		228	(625)
		(1,812)	13,714
Total comprehensive income (expense) attributable to:			
Owners of the Company		12,229	(8,685)
Non-controlling interests		(605)	(591)
		11,624	(9,276)
(Loss) earnings per share (RMB cents)	6		
- Basic		(0.24)	1.70

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		447,276	443,879
Land use rights		22,352	38,419
Intangible assets		11	153
Deferred tax assets		267	-
Deposits paid for acquisition of property, plant and equipment		15,307	34,903
		485,213	517,354
CURRENT ASSETS			
Inventories		160,142	154,529
Land use rights		681	1,031
Trade and other receivables	7	452,203	383,336
Tax recoverable		2,056	2,056
Pledged bank deposits		1,205	2,424
Bank balances and cash		108,446	123,362
		724,733	666,738
CURRENT LIABILITIES			
Trade and other payables	8	462,318	416,327
Bank borrowings		115,784	87,210
Amounts due to related parties		4,963	4,334
Tax liabilities		17,849	20,119
		600,914	527,990
NET CURRENT ASSETS		123,819	138,748
TOTAL ASSETS LESS CURRENT LIABILITIES		609,032	656,102
NON-CURRENT LIABILITIES			
Deferred income		750	22,698
Deferred tax liabilities		3,648	3,764
		4,398	26,462
NET ASSETS		604,634	629,640
CAPITAL AND RESERVES			
Share capital		82,244	82,244
Share premium and reserves		520,754	545,155
Equity attributable to owners of the Company		602,998	627,399
Non-controlling interests		1,636	2,241
TOTAL EQUITY		604,634	629,640

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.

Amendments to IFRSs that are mandatorily effective for the current year

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

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets of Unrealised Losses
Amendments to IFRS 12	As part of Annual Improvements to IFRSs 2014 - 2016 Cycle

Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other business; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in note to the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional note disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

Except as described above, 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.

2. REVENUE AND SEGMENT 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 2017

	Capacitors	Aluminum foils	Segment total	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
External sales	1,045,836	23,268	1,069,104	-	1,069,104
Inter-segment sales	-	106,406	106,406	(106,406)	-
Segment revenue	1,045,836	129,674	1,175,510	(106,406)	1,069,104
Segment profit (loss)	95,250	(58,984)	36,266	(1,154)	35,112
Interest income					762
Unallocated corporate expenses					(11,538)
Finance costs					(1,703)
Interest on provision for damages					(8,834)
Foreign exchange gain arising on retranslation of provision for damages					9,304
Profit before tax					23,103

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 expenses					(10,960)
Finance costs					(2,398)
Interest on provision for damages					(8,899)
Foreign exchange loss arising on retranslation of provision for damages					(903)
Profit before tax					34,369

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit (loss) represents the profit (loss) from each segment without allocation of central administration costs, interest income, finance costs, interest on provision for damages and foreign exchange gain (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, deferred tax liabilities, tax recoverable and deferred tax assets are allocated as part of segment liabilities and segment assets. 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:

	2017 RMB'000	2016 RMB'000
Segment assets		
Capacitors	949,403	841,656
Aluminum Foils	534,322	644,131
Total segment assets	1,483,725	1,485,787
Elimination - inter-segment balances	(284,075)	(302,687)
Unallocated assets	10,296	992
Consolidated assets	1,209,946	1,184,092
Segment liabilities		
Capacitors	301,583	223,395
Aluminum Foils	391,981	440,661
Total segment liabilities	693,564	664,056
Elimination - inter-segment balances	(284,075)	(302,687)
Unallocated liabilities	195,823	193,083
Consolidated liabilities	605,312	554,452

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

- all assets, other than other receivables 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 the Group's non-current assets (excluding deferred tax assets) by geographical location of the assets are detailed below:

	2017 RMB'000	2016 RMB'000
The People’s Republic of China (the “PRC”)	473,992	506,386
Taiwan	10,954	10,968
	484,946	517,354

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

	2017 RMB'000	2016 RMB'000
Revenue from external customers:		
The PRC	902,834	760,804
Taiwan	16,583	17,536
Other Asian countries (Note)	120,284	143,723
Europe (Note)	27,877	23,256
Americas and Africa	1,526	1,324
	1,069,104	946,643

Note: The countries of the external customers included in these categories comprised Korea, Japan, Vietnam, Singapore, Germany and others (2016: Korea, Japan, Vietnam, Singapore, India, Germany and others). No further analysis by countries of these categories is presented because the revenue from each individual country is insignificant to the total revenue.

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

	2017 RMB'000	2016 RMB'000
Current tax:		
- PRC Enterprise Income Tax	11,585	15,285
- Taiwan Corporate Income Tax	3,093	3,398
PRC dividend withholding tax	10,504	-
	25,182	18,683
Under(over)provision in prior years:		
- PRC Enterprise Income Tax	-	2,333
- Taiwan Corporate Income tax	-	(361)
	-	1,972
Deferred tax:		
- Current year	(267)	-
	24,915	20,655

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 March 2018, 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 2017. 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. (LOSS) PROFIT FOR THE YEAR

	2017 RMB'000	2016 RMB'000
(Loss) profit for the year has been arrived at after charging:		
Employee benefit expenses (including directors' emoluments):		
Wages, salaries and allowances	206,509	183,826
Defined contribution pension schemes	14,528	12,846
	221,037	196,672
Less: amount capitalised in inventories	(135,305)	(120,979)
	85,732	75,693
Amortisation of intangible assets (included in administrative expenses)	142	229
Amortisation of land use rights	684	1,034
Depreciation of property, plant and equipment		
- capitalised in inventories	35,266	56,933
- recognised in administrative expenses	2,267	1,909
- recognised in other expenses	10,315	-
Total depreciation and amortisation	48,674	60,105
Auditor's remuneration (including audit and non-audit services)	1,633	1,703
Cost of inventories recognised as an expense (including reversal of write-down of inventories of RMB6,473,000 (2016: RMB14,261,000))#	798,445	707,707

\# During the year ended 31 December 2017, certain aged inventories relating to the cessation of operation of Capxon Qinghai were sold at above net realisable values. As a result, a reversal of write-down of inventories of approximately RMB6,473,000 (2016: RMB14,261,000) has been recognised and included in the cost of sales in the current year.

5. DIVIDEND

An interim dividend of HK$0.05 (2016: nil) per share amounting to HK$42,227,992.05 (equivalent to approximately RMB36,630,000) (2016: nil) in aggregate was paid to the ordinary shareholders during the year ended 31 December 2017.

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

6. (LOSS) EARNINGS PER SHARE

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

	2017 RMB'000	2016 RMB'000
(Loss) earnings		
(Loss) earnings for the purposes of basic (loss) earnings per share		
(Loss) profit for the year attributable to owners of the Company	(2,040)	14,339

	2017	2016
Number of shares		
Number of ordinary shares for the purposes of basic (loss) earnings per share	844,559,841	844,559,841

Diluted (loss) earnings per share is not presented for the years ended 31 December 2017 and 2016 as there were no potential dilutive ordinary shares outstanding during both years.

7. TRADE AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade and bills receivables	421,224	354,189
Less: allowance for doubtful debts	(18,188)	(18,098)
Total trade receivables	403,036	336,091
Advances to suppliers	16,961	7,810
Value added tax recoverable	11,430	18,362
Prepayments and deposits	14,699	11,446
Others	6,077	9,627
Total trade and other receivables	452,203	383,336

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 approximate to respective revenue recognition dates.

	2017 RMB'000	2016 RMB'000
0 - 60 days	220,953	187,826
61 - 90 days	81,700	58,871
91 - 180 days	96,059	85,464
181 - 270 days	4,314	3,915
Over 360 days	10	15
	403,036	336,091

8. TRADE AND OTHER PAYABLES

	2017 RMB'000	2016 RMB'000
Trade and bills payables	206,082	181,599
Advances from customers	1,842	5,828
Payroll payables	19,137	14,931
Accruals	8,138	14,054
Provision for damages	193,980	190,864
Government grants payables	22,626	-
Payable for acquisition of property, plant and equipment	5,064	-
Others	5,449	9,051
	462,318	416,327

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:

	2017 RMB'000	2016 RMB'000
0 - 60 days	131,682	145,835
61- 90 days	28,020	7,638
91 - 180 days	23,945	9,439
181 - 270 days	2,601	375
271 - 360 days	2,185	113
Over 360 days	17,649	18,199
	206,082	181,599

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

A summary of the financial results of the Group for the year ended 31 December 2017 (the "Year") is as follows:

- Revenue increased by approximately 12.94% to approximately RMB1,069,104,000.
- Gross profit increased by approximately 13.28% to approximately RMB270,659,000.
- Loss for the Year attributable to owners of the Company amounted to approximately RMB2,040,000 (for the year ended 31 December 2016: profit of RMB14,339,000).

During the Year under review, the Group's revenue was approximately RMB1,069,104,000, representing an increase of approximately 12.94% over the corresponding period last year. Sales of aluminum electrolytic capacitors for the Year were approximately RMB1,045,836,000, representing an increase of approximately 12.65% as compared to RMB928,376,000 in the corresponding period last year. The year-on-year increase in sales came from better performance as a result of successive shipments of newly developed solid-state capacitors, high-voltage capacitors and charging piles. Sales of aluminum foils for the Year were approximately RMB23,268,000, representing an increase of approximately 27.38% as compared to RMB18,267,000 in the corresponding period last year. Such increase was mainly due to the slow recovery of economic climate in general and the excessive demand in the aluminum foils market where large capacitor manufacturers, in particular, has secured the majority of aluminum foils, leaving a shortfall in aluminum foils supply for medium and small capacitor manufacturers. Hence, the Group has started expanding its production lines in Baotou since 2017, in an effort to support such demand. During the Year, the gross profit margin of the Group slightly increased from approximately 25.24% for the corresponding period last year to approximately 25.32% for this Year.

During the Year, the Group recorded a loss attributable to owners of the Company amounted to approximately RMB2,040,000, which was mainly due to the fact that a subsidiary of the Company closed its production plant in mainland China during the Year, resulting in impairment losses on certain assets.

BUSINESS REVIEW

With successive years of sluggish economic growth behind, mobile devices and the Internet of Things helped deliver a trend of thriving development to the global cloud industry in 2017, with the mushrooming of various innovative application services. Meanwhile, robust PMI figures of the manufacturing sectors in the US and the Eurozone invariably point to the support for external demand, which accounted for a sales rebound in electronic parts and components.

- *Manufacture and sale of aluminum foils*

  During the Year, after satisfying internal production demand, the Group's external sales of aluminum foils amounted to approximately RMB23,268,000, representing an increase of approximately 27.38% as compared to approximately RMB18,267,000 in the corresponding period last year. The sales of our aluminum foils increased from approximately 1.93% of our Group's total external sales in the corresponding period last year, to approximately 2.18% for the Year.

  Despite slow economic recovery in general and relatively conservative trading outlook against a number of factors, there has been an improvement in terms of excessive production capacity and insufficient sales orders of formed foils. While the majority of production capacity was dominated by large-scaled capacitor manufacturers, small and medium-sized ones are confronted with a dire shortage of aluminum foils supply. Having assessed market conditions and considered future potential factors in light of the current industry characteristics, the Group has replaced its conservative practice of production capacity reduction, by establishing new production lines in addition to effective energy conservation and consumption reduction, in a bid to address the market demand of small and medium-sized customers. Aluminum foils are the major raw material of capacitors, and the Group has excellent production processing technologies for formed foils and a stable production capacity. Currently, it has completed key R&D projects and quality control techniques. Besides, the Group is actively exploring markets with high added value to prepare for future market changes. The Group will continue to pay close attention to and deal with the future changes in the aluminum foils market with care.

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

  - *Etched Aluminum Foils*:
    (i) Multi-level electrolytic etching has been adopted to develop fast production lines for etched aluminum foils, which has raised daily production capacity by 2.5 times and led to a 10% improvement in such technical indicators as specific volume and uniformity.

(ii) Ultra-high voltage etching has been developed, which has substantially improved the capacity and strength of formed ultra-high-voltage etched aluminum foils in the high-voltage (especially higher than 750 Vf) section.

➢ *Formed Foil:*

(i) Special formation technology has been developed that caters to the customer, with all indicators (especially deterioration test) meeting the basic requirements from customers.

(ii) Water and electricity consumption policy has been transformed to save energy and reduce consumption. In particular, the organic-acid energy saving technology can reduce electricity consumption per unit by 4% to 7%; the roasting furnaces of production lines have been transformed to preserve heat and save energy; and the water used for washing foils has been reused.

➢ *Manufacture and sale of capacitors*

The Group recorded external sales of aluminum electrolytic capacitors of approximately RMB1,045,836,000 during the Year, representing approximately 97.82% of the Group's total external sales, and a decrease of approximately 0.25% from approximately 98.07% of the Group's total external sales for the same period last year.

Whereas the passive component industry entered into a mild growth period in relation to the global sales growth of smartphones, there is considerable potential demand from other application markets or high-end application fields such as automobile, high-end smart home appliances, smart electricity meters, safety control systems and industrial control. As such, we are cautiously optimistic about the passive component industry for the years to come. Also, in response to the growing business opportunities in the application of artificial intelligence, VR, AR and MR, the Group focused its R&D for mass production of electrolytic capacitors primarily on high-end products such as variable-frequency drives, servo drives, chargers for communication bases and communication terminal products, and in-vehicle electronic applications, with great results already achieved in addressing relevant demand. In the future, the Group will commit more efforts to meeting the requirements for specific tailor-made products, including miniaturization, high capacity, high voltage, and high frequency and high temperature. The Group will also take steps to develop custom-made products that cater to meet the front-end demand of the market and can be applied across different sectors, promote the application of electrolytic capacitors in various fields, and expand the global market share of its electrolytic capacitor products.

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

➢ Completed technical R&D and manufacture of the stitching, winding and assembly equipment for quasi-solid state aluminum electrolytic capacitors;
➢ Developed quasi-solid burst-proof aluminum cases, and improved burst-proof pressure and the capability of manufacturing processes;
➢ Developed quasi-solid shockproof base plates;
➢ Rectified the defect of solid-state capacitors in low-temperature surge voltage test (-55℃);
➢ Succeeded in mass producing the electric polymer material for solid-state capacitors and introduced such material to the manufacturing process of capacitors, which improved the yield of qualified products;
➢ Introduced carbon foils with different techniques for development, design and quality tracking, and lowered the ESR value of solid-state capacitors;
➢ Developed liquid-state V-CHIP by applying super-cathode foils, which can significantly increase the capacity;

- Developed products of ultra-high voltage (500V-600V) and low temperature (-40℃), to satisfy diverse market demands;
- Developed 550V-600V foil-type products capable of resisting high-voltage shock, to meet the new energy demand for PV inverters; and
- Online surveillance of liquid-state high-voltage products and the aging production of charging cradles, with improved application of products in the new energy field.

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 outflow of approximately RMB14,176,000 from operating, investing, and financing activities before foreign exchange adjustment, details of which are set out below:

Net cash inflow from operating activities was approximately RMB46,122,000, which was mainly due to the profit before tax for the Year of approximately RMB23,103,000 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 RMB50,743,000, which was mainly due to the payment of approximately RMB57,732,000 for the purchase of machinery and equipment.

Net cash outflow from financing activities was approximately RMB9,555,000, which was mainly due to borrowings of approximately RMB237,822,000 from banks, repayment of bank borrowings of approximately RMB209,756,000, payment of interest from borrowings of approximately RMB1,620,000 and payment of dividend of approximately RMB36,630,000.

As at 31 December 2017, the Group had cash and cash equivalents of approximately RMB108,446,000 (31 December 2016: RMB123,362,000), which were mainly held in Renminbi, U.S. Dollars and Euro (31 December 2016: Renminbi and U.S. Dollars).

- *Borrowings*

As at 31 December 2017, the Group had bank borrowings of approximately RMB115,784,000 (31 December 2016: RMB87,210,000), which were mainly denominated in U.S. Dollars, New Taiwan Dollars, Japanese Yen and Euro (31 December 2016: U.S. Dollars, New Taiwan Dollars and Japanese Yen). Among such bank borrowings, approximately RMB74,070,000 (31 December 2016: RMB44,150,000) was subject to fixed interest rates. Below is an analysis of the repayment profile of the bank borrowings:

	31 December 2017	31 December 2016
	RMB'000	RMB'000
Within one year	115,784	87,210

PLEDGE OF ASSETS

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

	31 December 2017 RMB'000	31 December 2016 RMB'000
Bank deposits	1,205	2,424
Land use rights	-	13,818
Property, plant and equipment	10,864	97,614
	12,069	113,856

The pledged land use rights and certain pledged property, plant and equipment as at 31 December 2016 were released during the year ended 31 December 2017 due to expiry of relevant banking facilities.

FINANCIAL RATIOS

As at 31 December 2017, the Group's gearing ratio (net debt divided by equity attributable to owners of the Company plus net debt) amounted to approximately 29.97%, representing an increase of approximately 6.38% as compared to 23.59% as at 31 December 2016. The increase was mainly due to an increase in bank borrowings of approximately RMB28,574,000, an increase in trade and bills payable of approximately RMB24,483,000 and a decrease in cash and cash equivalents of approximately RMB14,916,000.

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	
	2017	2016
Inventory turnover	72 days	76 days
Trade and bills receivable turnover	126 days	119 days
Trade and bills payable turnover	89 days	76 days

The Group's turnover days of inventories decreased by about 4 days, while the turnover days of trade and bills receivable and trade and bills payable increased by about 7 days and 13 days respectively, as compared to those for the same period last year. The Group will continue to improve the management of its inventories, trade receivables and trade payables in order to achieve even more efficient use of its funds.

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had capital commitments contracted for but not provided in the consolidated financial statements amounting to approximately RMB18,934,000 (31 December 2016: RMB33,430,000).

MATERIAL PROCEEDINGS

(a) During the year ended 31 December 2011, a customer (the "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 RMB81,375,000 (2016: RMB83,664,000)) allegedly suffered by the customer with respect to certain alleged defective 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 RMB3,458,000 (2016: RMB3,555,000) for damages caused, plus interest from 16 November 2011 up to the settlement date at 6% per annum and all arbitration related expenses.

In August 2014, an arbitral award was made against Capxon Taiwan and Capxon Taiwan was ordered to pay to the customer damages in an aggregate sum of ("Arbitral Award"):

(i) damages of JPY2,427,186,647 (equivalent to approximately RMB139,871,000 (2016: RMB143,806,000));

(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 RMB75,605,000 (2016: RMB77,732,000)) accrued from 1 January 2011 until payment in full; (b) JPY942,366,339 (equivalent to approximately RMB54,305,000 (2016: RMB55,833,000)) accrued from 1 July 2012 until payment in full; and (c) JPY172,847,306 (equivalent to approximately RMB9,961,000 (2016: RMB10,241,000)) accrued from 1 December 2012 until payment in full; and

(iii) arbitration related expenses of JPY23,618,062 (equivalent to approximately RMB1,361,000 (2016: RMB1,399,000)).

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 the Capxon Taiwan's request for a permission to file an appeal. In May 2017, the Japan Supreme Court issued its decision, whereby it dismissed the extraordinary appeal of Capxon Taiwan and upheld the original decision of the Arbitration Association regarding the Arbitral Award.

In September 2017, the Customer filed an application to the High Court of the Hong Kong Special Administrative Region ("HK Court") to enforce the Arbitral Award in Hong Kong. An enforcement order was made in October 2017 and subsequently a charging order nisi was made in November 2017 by the HK Court. Capxon Taiwan applied to the HK Court to oppose against the charging order nisi in February 2018 and to set aside the enforcement order in March 2018 ("Applications"). The final decision of the Applications has not been reached by the HK Court as of the date of this announcement.

In November 2017, the Customer also filed an application to Taiwan Shilin District Court for the recognition of the Arbitral Award in Taiwan. In March 2018, the Taiwan Shilin District Court issued a decision granting the recognition of the Arbitral Award (the "Decision"). Capxon Taiwan is in the process of appealing the Decision.

The outcome of the Applications in Hong Kong and the appeal to the Decision cannot be determined at this stage. Therefore, an aggregate amount of JPY3,366,180,618 (31 December 2016: JPY3,220,549,420), equivalent to approximately RMB193,980,000 (31 December 2016: RMB190,864,000), was accrued and included in trade and other payables as at 31 December 2017 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 (the "PRC action"). In December 2014, the court ruled that the complainant had failed to provide sufficient evidence, and ruled in favor of Capxon Shenzhen. The customer subsequently filed an appeal against the court's decision. In May 2017, the Higher People's Court of Guangdong Province issued its final judgement, rejecting the appeal of the customer and upholding the original decision. Capxon Shenzhen will therefore not be liable to any claims or damages under the PRC action.

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 is 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 2017, the Group had approximately 2,406 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 RMB221,037,000 (for the year ended 31 December 2016: RMB196,672,000).

REGULATORY COMPLIANCE

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

FUTURE STRATEGIES AND PLANNING

Industry trends in 2018 include: 1) 5G mobile technology will unleash diverse demands for new applications; 2) the introduction of AI will accelerate the demand for edge computing and cloud-based data analysis; 3) block chain will be deployed for commercial purposes; 4) VR products will focus on separate VR devices; and 5) biometric technology will be an emerging star for its application to smartphones. Globally, the technology industry will continue its cross-border transformation. For businesses, how to redefine their value amidst changes and turn crises into opportunities will be the most critical agenda in 2018. Accordingly, we have set out 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 foils 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 laboratories to simulate product application for end customers, and pre-determining the potential failure of capacitor performance and the reasons thereof, in order to uplift the quality of capacitors for better customer satisfaction.

- *Technical reforms*:
  So far, the Group expects to develop the following key technologies in relation to electrolytic capacitors in 2018:

  - *Aluminum Laminate*
    The Group has completed the development of Aluminum Laminate 2.5 - 6.3V to cater to such application in IC smoothing circuits for consumption and commercial purposes, with samples delivered to large notebook factories. In addition, the development of 16V to 25V products is expected to be completed this year.

  - *Semi-solid State*
    We have completed the development of 16V to 80V products and delivered their samples. In respect of production technology, we have completed the development of impregnation-based assembly and wiring machines (含浸組立連線機). As for 6.3Φ - 10Φ, mass production for all series will be fully completed in 2018;
    In response to the rapidly growing demand for in-vehicle products, we have introduced a series of shockproof base plates in our development of quasi-solid-state (V-chip) products to meet the market demands.

  - *Solid State*
    Given the shortage of raw materials and rising costs caused by environmental protection issues, we have completed the development of special polymer material. We will gradually expand its production and extend its application to 16 to 100V products.

  - *Liquid-state High-voltage Electrolytic Capacitors*
    In 2018, the Group is expected to complete the development of the following materials:
    (1) Hose: PET hoses capable of withstanding 1000 cycles of thermal shock at temperatures between -40℃ and - 125 ℃
    (2) Negative foils: Development and mass production of electrochemical etched high-purity high-capacity negative foils
    (3) Aluminum cases: Development and mass production of double-layer, burst-proof safety aluminum cases
    (4) Electrolytic paper: Development of ultra-low ESR puncture-proof low-voltage electrolytic paper

  - In respect of the production lines for ultra-high-pressure formed foils of the electrolytic capacitors for solar power generation and EV charging piles, we will enhance research and development to improve our equipment and technology and ultimately raise the production efficiency of such production lines.

  - We will further optimize the formed foil production technology for specific electrolytic capacitors to our customers, reduce the leakage current ratio to the level, similar to that of Japanese products, and realize mass production.

  - In respect of the electrolytic capacitors used in adverse environments such as high temperature, high voltage and high moisture, we will develop medium-voltage formed foils capable of lower leakage current.

FUTURE PROSPECTS

In 2018, there is no question that the evolution of technology has been ushered into an era of comprehensive intelligence functions. Whether it is the unlimited possibilities in intelligence-inspired lifestyles brought about by artificial intelligence, or the wide-ranging innovative applications of AR/VR in all sorts of industries and sectors, all point to the arrival of a comprehensive digital age. With the sector's ecosystem now more fully developed, contents of both software and hardware, the development of their diverse applications as well as the solid establishment of wireless transmission, all represent new business opportunities for the industry. The realization of artificial intelligence (AI) trend relies on a breakthrough in the calculation ability of computing chips, while EVs or driverless vehicles rely on instant feedback from terminal environment. Therefore, for the future, the first priorities lie in the database analysis powered by big data, 5G-transmission time and a cloud-based management mechanism. Undoubtedly, when technology turns the world upside down, industries and human resources are bound to embrace the upgrade of this trend. The arrival of AI also means the necessity of transformation. We are also a member of the industry seeking opportunities of transformation.

Pursuing sustainable operations and sharing profit with shareholders of the Company have always been the goals of the Group. In the future, the Group will continue to focus on its existing industries and innovative R&D, strive for excellence, control costs effectively and enhance manufacturing efficiency, all in a bid to maintain its competitiveness in the industry. With our technological R&D and product innovation services, the Group will serve and maintain a stable relationship with its existing customers. The Group will also attempt to develop a production-marketing model that integrates different industries, proactively explore markets in Europe and America to meet mass production planning, as well as stabilize the value and revenue from the manufacturing industry, in order to reward the Company's shareholders for their support with profits.

OTHER INFORMATION

DIVIDEND

During the Year, the Board declared an interim dividend of HK$0.05 (2016: Nil) per share, amounting to a total of HK$42,227,992.05 (equivalent to approximately RMB 36,630,000) (2016: Nil) which was paid to the shareholders of the Company on 11 December 2017.

The Board does not recommend the payment of any final dividend for the Year (2016: 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. Lai Chung Ching, an independent non-executive director of the Company, was unable to attend the annual general meeting of the Company held on 1 June 2017 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 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 2017 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. Hsieh King-Hu, Miles, Mr. Lu Hong Te and Mr. Tung Chin Chuan.

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

Hong Kong, 29 March 2018