Q TECHNOLOGY (GROUP) COMPANY LIMITED
丘鈦科技（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1478)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

HIGHLIGHTS

- Unaudited revenue from sales of the Group for the six months ended 30 June 2016 amounted to approximately RMB1,727,031,000, representing an increase of approximately 98.8% as compared with the corresponding period in the year of 2015 (the "Corresponding Period"). The increase in revenue was mainly attributable to the significant increase in sales volume of the Group's products as compared with the Corresponding Period.
- Gross profit for the six months ended 30 June 2016 was approximately RMB161,365,000, while gross profit margin was approximately 9.3%.
- The profit of the Group for the six months ended 30 June 2016 was approximately RMB82,194,000, representing an increase of approximately 30.4% as compared with the Corresponding Period.
- Basic and diluted earnings per share for the six months ended 30 June 2016 were approximately RMB0.08 and RMB0.079 respectively.

FINANCIAL RESULTS

The board of directors (the "Board") of Q Technology (Group) Company Limited (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2016 together with the relevant comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2016 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Revenue	*3&4*	**1,727,031**	868,749
Cost of sales		**(1,565,666)**	(757,210)
Gross profit		**161,365**	111,539
Other income	*5*	**6,014**	15,895
Other net loss	*5*	**(8,061)**	(1,149)
Selling and distribution expenses		**(3,456)**	(2,376)
Administrative and other operating expenses		**(12,316)**	(10,302)
Research and development expenses		**(52,060)**	(35,820)
Profit from operations		**91,486**	77,787
Finance costs	*6(a)*	**(1,398)**	(6,116)
Profit before taxation	*6*	**90,088**	71,671
Income tax	*7*	**(7,894)**	(8,657)
Profit for the period		**82,194**	63,014
		RMB Cents	*RMB Cents*
Earnings per share	*8*		
Basic		**8.0**	6.3
Diluted		**7.9**	6.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2016	2015
	Note	***RMB'000***	*RMB'000*
Profit for the period		**82,194**	63,014
Other comprehensive income for the period (after tax and reclassification adjustments):			
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of the financial statements of subsidiaries outside the Mainland China		**2,086**	(544)
– Available-for-sale financial assets: net movement in the fair value reserve		**–**	(2,871)
Other comprehensive income for the period		**2,086**	(3,415)
Total comprehensive income for the period		**84,280**	59,599

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2016** *RMB'000*	At 31 December 2015 *RMB'000*
Non-current assets			
Property, plant and equipment		**463,416**	420,670
Lease prepayments		**17,256**	17,464
Intangible assets		**1,395**	1,476
Deferred tax assets		**4,562**	4,922
Prepayment for acquisition of property, plant and equipment		**37,020**	9,398
		523,649	453,930
Current assets			
Inventories		**299,131**	209,262
Trade and other receivables	*9*	**1,323,461**	888,786
Other financial assets		**406**	600
Current tax assets		**152**	10,349
Pledged bank deposits	*10*	**178,162**	145,519
Cash and cash equivalents		**158,909**	282,215
		1,960,221	1,536,731
Current liabilities			
Bank borrowings	*11*	**151,732**	142,164
Trade and other payables	*12*	**1,012,182**	622,053
Current tax payable		**7,883**	2,095
		1,171,797	766,312
Net current assets		**788,424**	770,419
Total assets less current liabilities		**1,312,073**	1,224,349

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2016 RMB'000	At 31 December 2015 RMB'000
Non-current liabilities			
Deferred income		**4,434**	4,752
Deferred tax liabilities		**2,040**	2,040
		6,474	6,792
NET ASSETS		**1,305,599**	1,217,557
CAPITAL AND RESERVES			
Capital	*13(b)*	**8,206**	8,132
Reserves		**1,297,393**	1,209,425
TOTAL EQUITY		**1,305,599**	1,217,557

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2016
(Expressed in Renminbi unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 ("IAS 34"), *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 19 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (the "Group") since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the following amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

Annual Improvements to IFRSs 2012-2014 Cycle

Amendments to IAS 1, Presentation of financial statements: Disclosure initiative

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENTAL REPORTING

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial data and information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations. No segment information is presented in respect of the Group's operating segment as the Group is principally engaged in one segment in the People's Republic of China ("PRC").

The principal activities of the Group are manufacturing and sales of camera modules and fingerprint recognition modules for mobile phones and mobile communication terminals. Revenue represents the sales value of goods sold, excludes VAT and is after deduction of any trade discounts.

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Revenue		
PRC (including Hong Kong)	**1,725,229**	864,348
Overseas	**1,802**	4,401
	1,727,031	868,749

The Group had three (six months ended 30 June 2015: three) customers with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2016. The amount of sales to these customers amounted to approximately RMB1,252,205,000 (six months ended 30 June 2015: RMB496,343,000) for the six months ended 30 June 2016.

For the six months ended 30 June 2016 and 2015, certain amounts of revenue are related to sales made to related parties.

4 SEASONALITY OF OPERATIONS

The Group normally experiences on average 20% to 30% higher sales in the second half year, compared to first half year. As a result, the Group typically reports lower revenues for the first half of the year than the second half.

For the twelve months ended 30 June 2016, the Group reported revenue of RMB3,060,677,000 (twelve months ended 30 June 2015: RMB2,064,752,000).

5 OTHER INCOME AND OTHER NET LOSS

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Other income		
Government grants	**2,262**	4,547
Interest income	**3,461**	5,722
Investment income (reclassified from equity on disposal)	**–**	4,741
Others	**291**	885
	6,014	15,895
Other net loss		
Net foreign exchange loss	**(8,484)**	(1,149)
Net gain on foreign currency forward contracts	**406**	–
Gain on disposal of property, plant and equipment	**17**	–
	(8,061)	(1,149)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2016	2015
		RMB'000	*RMB'000*
(a)	**Finance costs**		
	Interest expenses	**1,398**	6,116
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	**3,167**	2,577
	Salaries, wages and other benefits	**94,071**	59,705
	Equity-settled share based payment expenses	**232**	598
		97,470	62,880
(c)	**Other items**		
	Amortisation		
	– lease prepayments	**208**	208
	– intangible assets	**81**	18
	Depreciation	**26,869**	19,126
	Auditors' remuneration	**592**	552
	Operating lease charges in respect of properties	**1,185**	231
	Research and development costs *(Note (i))*	**52,060**	35,820
	Cost of inventories *(Note (ii))*	**1,596,387**	773,562

Notes:

(i) Research and development costs include staff costs of employees in the design, research and development department of RMB16,254,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB10,517,000) respectively which are included in the staff costs as disclosed in Note 6(b).

The criteria for the recognition of such costs as an asset are generally not met until late in the development state of the project when the remaining development costs are immaterial. Hence both research costs and development costs are generally recognised as expenses in the period in which they are incurred.

(ii) Cost of inventories includes RMB96,683,000 for the six months ended 30 June 2016 (six months ended 30 June 2015: RMB62,014,000) relating to staff costs, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
Current tax		
PRC Corporate Income Tax	9,641	8,315
Hong Kong Profits Tax	(2,107)	–
	7,534	8,315
Deferred tax		
Reversal of temporary differences	360	342
	7,894	8,657

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

(ii) Kunshan Q Technology (Hong Kong) Ltd. ("Kunshan QT Hong Kong") is subject to Hong Kong Profits Tax at 16.5%.

(iii) Effective from 1 January 2008, the PRC statutory income tax rate is 25%. Kunshan Q Technology Limited ("Kunshan QT China") was qualified as a High and New Technology Enterprise ("HNTE") in 2009, which entitled to a preferential income tax rate of 15% from the year 2009 to 2011 according to relevant regulations in the PRC Corporate Income Tax Law. Kunshan QT China successfully renewed the HNTE qualification on 21 May 2012 and 6 July 2015 respectively and continued to enjoy a preferential income tax rate of 15% for another three years commenced from 1 January 2015.

(iv) According to the PRC Corporate Income Tax Law and its related regulations, the Group is subject to a withholding tax at 10%, unless reduced by tax treaties or arrangements, for dividends distributed by a PRC enterprise to its immediate holding company outside the PRC for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. According to the China-HK Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of a PRC enterprise is entitled to a reduced withholding tax rate of 5%.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB82,194,000 (six months ended 30 June 2015: RMB63,014,000) and the weighted average of 1,032,456,000 ordinary shares (six months ended 30 June 2015: weighted average of 1,004,323,000 ordinary shares) in issue during the interim period, calculated as follows:

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2016	2015
	'000	*'000*
Issued ordinary shares at 1 January	**1,027,945**	1,000,000
Effect of share options exercised	**4,511**	4,323
Weighted average number of ordinary shares at 30 June	**1,032,456**	1,004,323

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of RMB82,194,000 (six months ended 30 June 2015: RMB63,014,000) and the weighted average number of ordinary shares of 1,045,839,000 (six months ended 30 June 2015: weighted average of 1,046,344,000 ordinary shares).

(i) Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2016	2015
	'000	*'000*
Weighted average number of ordinary shares at 30 June	**1,032,456**	1,004,323
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**13,383**	42,021
Weighted average number of ordinary shares (diluted) at 30 June	**1,045,839**	1,046,344

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Trade receivables		
– third parties	**1,100,164**	751,647
– related parties	**21,206**	13,546
Bills receivable		
– third parties	**168,315**	116,670
Trade and bills receivables	**1,289,685**	881,863
Less： Allowance for doubtful debts	**(504)**	(504)
	1,289,181	881,359
Other deposits, prepayments and receivables	**34,280**	7,427
	1,323,461	888,786

All of the trade and other receivables are expected to be recovered or recognised as expense within one year, except for the Group's deposits amounting to RMB4,000 as at 30 June 2016 (31 December 2015: RMB9,000), which are expected to be recovered after more than one year.

Bills receivable represented outstanding bank acceptance bills and commercial acceptance bills. As at 30 June 2016, bills receivable amounting to RMB51,859,000 (31 December 2015: RMB27,128,000) were pledged as security for bills payable. Bills receivable are due in 3 to 6 months from the date of issue.

The management considers that related parties are under influence of the Company's controlling shareholder, hence no material credit risk exists on sales to related companies.

In respect of the sales to third party customers, individual credit evaluations are performed on all customers requiring credit terms. These evaluations focus on the customer's history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These trade receivables are due within 30 to 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Within 1 month	**957,084**	613,254
More than 1 month but within 3 months	**310,670**	250,927
More than 3 months but within 6 months	**21,427**	17,165
More than 6 months but within 1 year	**–**	13
	1,289,181	881,359

As at 30 June 2016, trade receivables amounting to RMB168,315,000 (31 December 2015: RMB116,670,000) were settled by bills and recorded as bills receivable which will be matured within 3 months. Such settlement arrangement therefore would result in actual cash receipts in relation to those customers beyond the respective original credit periods from the Group's cashflow perspective.

The Group had unmatured bank acceptance bills by endorsement totalling RMB86,925,000 as at 30 June 2016 (31 December 2015: RMB60,144,000), which were derecognised as financial assets. The transferees have recourse to the Group in case of default payment by the issuing banks. In such cases, the Group would have to repurchase these bank acceptance bills at face value. As these bank acceptance bills mature within one year from their respective dates of issue, the Group's maximum loss in case of default payment is RMB86,925,000 as at 30 June 2016 (31 December 2015: RMB60,144,000) before these bills mature.

The Group only accepts bank acceptance bills issued by major banks or banks with qualified rating in the PRC and considers that the credit risk associated with such bank acceptance bills to be insignificant. The Group had not suffered any losses in this respect during the period.

(b) Trade and bills receivables that are not impaired

The ageing analysis of trade and bills receivables that are neither individually nor collectively considered to be impaired are as follows:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Neither past due nor impaired	**1,267,754**	864,181
Less than 3 months past due	**21,427**	17,165
Over 3 less than 6 months past due	**–**	–
Over 6 less than 12 months past due	**–**	13
	1,289,181	881,359

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

As at 30 June 2016, receivables that were past due but not impaired related to customers that have good track records with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

10 PLEDGED BANK DEPOSITS

As at 30 June 2016, bank deposits amounting to RMB178,162,000 (31 December 2015: RMB145,519,000) have been mainly pledged as security for bank borrowings and bills payable (see Notes 11 and 12). The pledged bank deposits will be released upon the settlement of relevant bank borrowings and bills payable.

11 BANK BORROWINGS

As at 30 June 2016, the bank borrowings with annual interest rate of 1.95% (31 December 2015: 3.03%), were repayable within one year or on demand as follows:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Bank borrowings		
– secured *(Note)*	**133,653**	142,164
– unsecured	**18,079**	–
	151,732	142,164

Note: The bank borrowings were secured by assets of the Group and the carrying amounts of these assets are as follows:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Pledged bank deposits	**137,052**	144,684

12 TRADE AND OTHER PAYABLES

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Trade payables and accruals		
– third parties	**849,173**	547,636
– related parties	**2,312**	203
Bills payable *(Note (a))*		
– third parties	**88,320**	34,117
Trade and bills payables *(Note (b))*	**939,805**	581,956
Accrued payroll	**20,002**	24,231
Other payables and accruals	**52,375**	15,866
	1,012,182	622,053

All of the trade and other payables as at 30 June 2016 are expected to be settled or recognised as income within one year or are repayable on demand.

(a) As at 30 June 2016, bills payable with carrying value of RMB49,265,000 (31 December 2015: RMB25,771,000) and RMB39,055,000 (31 December 2015: RMB8,346,000) were secured by bills receivable and pledged bank deposits, respectively.

(b) An ageing analysis of the trade and bills payables based on the invoice date is as follows:

	At 30 June 2016 *RMB'000*	At 31 December 2015 *RMB'000*
Within 3 months	**861,459**	530,719
Over 3 months but within 6 months	**20,434**	1,464
Over 6 months but within 1 year	**1,152**	912
Over 1 year	**710**	4
	883,755	533,099

As at 30 June 2016, the accrued trade payables which represented the amounts with no invoice received by the end of the reporting period date, amounted to RMB56,050,000 (31 December 2015: RMB48,857,000).

13 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	At 30 June 2016 *RMB'000*	At 30 June 2015 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period is nil (six months ended 30 June 2015: RMB4.10 cents (equivalent to HK5.20 cents per share))	**–**	41,699

The Company did not propose any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil).

(b) Share capital

Authorised shares of the Company

	No. of shares	**Amount** ***HK$***
Ordinary share of HK$0.01 each	50,000,000,000	500,000,000

Ordinary shares of the Company	**Number of shares issued**	**Nominal value of fully paid shares** *HK$'000*	**Nominal value of fully paid shares** *RMB'000*
At 1 January 2015	1,000,000,000	10,000	7,908
Shares issued under share option scheme *(Note(c))*	16,495,000	165	130
At 30 June 2015	1,016,495,000	10,165	8,038
Shares issued under share option scheme	11,000,000	114	94
At 31 December 2015	1,027,945,000	10,279	8,132
At 1 January 2016	1,027,945,000	10,279	8,132
Shares issued under share option scheme *(Note(c))*	8,826,000	88	74
At 30 June 2016	1,036,771,000	10,367	8,206

(c) Equity settled share-based transactions

For the six months ended 30 June 2016, pursuant to the Company's Employee Share Option Schemes, 8,826,000 options (six months ended 30 June 2015: 16,495,000) were exercised to subscribe for 8,826,000 (six months ended 30 June 2015: 16,495,000) ordinary shares in the Company at a consideration of RMB3,530,400 (six months ended 30 June 2015: RMB6,598,000). As at 30 June 2016, the total number of options outstanding was 18,826,000 (31 December 2015: 27,745,000), of which 5,000,000 (31 December 2015: Nil) was exercisable at an exercise price of RMB0.4.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

With influences from various aspects, China's economy and Renminbi ("RMB") exchange rates were still facing tremendous downturn pressure, many sectors were facing considerable difficulties and challenges. While China's smartphone brands received higher recognition from customers on product reputation and cost/price performance through continuous product innovation and appropriate marketing measures, the market share of various leading brands increased significantly, so that the supply chain of China's smartphone brands also achieved a stable development. Through our strategic adjustment in 2015, the Group's customer portfolio and product structure improved significantly, and the Group was able to maintain its strong competitiveness in the intense competitive market. During the six months ended 30 June 2016, our business achieved a rapid growth.

Looking back into the six months ended 30 June 2016 (the "Period"), with the trust and support of our core customers and the relentless efforts of all our employees, both the sales volume and sales income of the Group increased rapidly, of which, the sales volume of camera modules reached approximately 74,080,000 units, representing an increase of approximately 100.2% as compared with the Corresponding Period and a growth of approximately 20.7% as compared with the second half of last year. With sales commenced at the second half of last year, the sales volume of fingerprint recognition modules for the Period reached approximately 1,400,000 units, representing approximately 192-fold growth as compared with the second half of last year. The sales income of the Group amounted to approximately RMB1,727,031,000, representing an increase of approximately 98.8% as compared with approximately RMB868,749,000 in the Corresponding Period and a growth of approximately 29.5% as compared with approximately RMB1,333,646,000 in the second half of last year. The year-on-year growth of sales income was less than that of its sales volume, which was due to the fact that although obvious improvement has been achieved in the pixel structure of camera modules, the consolidated average selling price of camera modules and fingerprint recognition modules for the Period was approximately RMB22.88, which still dropped by approximately 2.6% as compared with RMB23.48 in the Corresponding Period, albeit an increase of approximately 5.3% as compared with RMB21.72 in the second half of last year.

During the Period, gross profit margin of the Group was approximately 9.3%, representing a decrease of approximately 3.5 percentage points as compared with the Corresponding Period and a decrease of approximately 0.4 percentage points as compared with the second half of last year. The decrease in gross profit margin was mainly attributable to the following factors: (i) the percentage of costs of raw materials to revenue increased by approximately 5.9 percentage points as compared with the Corresponding Period due to the combined impact of the decrease in average selling price which exceeded the decrease in average purchasing price and the depreciation in exchange rates of RMB against US dollar; (ii) the consolidated gross profit margin for the Period decreased by approximately 0.3 percentage points as a result of increased investments in production base and human resources reserve due to higher demand for fingerprint recognition modules in the second half year; (iii) the scale effect due to the increase in revenue resulting in a decrease in manufacturing labour rate, manufacturing depreciation rate and other production costs, which in turn led to an increase of approximately 2.7 percentage points in gross profit margin as compared with the Corresponding Period.

During the Period, the Group has proactively responded to the market demand for high pixel products in developing the mid-to-high end camera modules with resolutions of 8 mega pixels and higher. The total sales volume of products with 8 mega pixels and higher has significantly increased by approximately 309.6% to approximately 46.43 million units as compared with approximately 11.34 million units during the Corresponding Period, the total sales volume of which accounted for approximately 61.5% of the Group's total sales volume for the Period (the Corresponding Period: approximately 30.6%), whilst the total revenue of which accounted for approximately 75.5% of the Group's total revenue for the Period (the Corresponding Period: approximately 47.2%). The sales volume of fingerprint recognition modules amounted to approximately 1.4 million units, the sales volume of which accounted for approximately 1.8% of the Group's total sales volume for the Period (which sales had not yet commenced in the Corresponding Period), whilst the revenue of which accounted for approximately 2.4% of the Group's total revenue for the Period (which sales had not yet commenced in the Corresponding Period). The significant increase in the sales volume of higher pixels camera modules has demonstrated the market recognition of the Group's high-end products, which allowed the Group to be more competitive in the high pixels products segment and laid a foundation for further increasing the shipment volume of products with resolution of 13 mega pixels and higher in future.

During the Period, the Group continues to place great emphasis on maintaining and expanding its domestic and overseas customer base as well as on sustaining the close co-operative relationship with its existing core customers. Since the cooperation with new customers such as Xiaomi in 2015, the Group has started mass production of its new customers' products and delivered satisfactory performance. In addition, during the Period, the Group has successfully maintained and expanded its customer base, and established business relationships with numerous renowned branded smartphone manufacturers in China such as vivo, OPPO, Huawei and Letv for its dual camera modules and/or fingerprint recognition modules business, which demonstrated the Group's good customer relationship management and sales capabilities, as well as further the optimization of the customer base of the Group and laid a good foundation for the subsequent business development of camera modules and fingerprint recognition modules.

During the Period, the Group reviewed and improved its production know-how continuously and was dedicated to developing more advanced technologies and products. On one hand, the Group had established cooperation with global leading fingerprint recognition chips suppliers such as Fingerprint Cards AB ("FPC") from Sweden, Goodix and Synaptics successively, which greatly improved its ability to launch new products featuring the fingerprint recognition modules. On the other hand, the Group constantly enhanced its research and development ("R&D") efforts on the leading technologies such as dual camera, phase detection auto-focus ("PDAF"), gesture recognition, iris recognition, high-end module with resolution of 16 mega pixels and higher, and actively prepared for production capacity and customer base, which enables the Group to become one of the few camera modules manufacturers in China with large sales volume in dual camera, PDAF, gesture recognition, iris recognition, high-end module with resolution of 16 mega pixels and higher. Furthermore, the Group continues to expand the production capacity and back-end production process automation for dual camera modules and has adopted an increasing number of active alignment ("AA") devices and technologies, which will cater for the needs of more sophisticated and cutting-edge products from the Group's customers in general.

The directors of the Company (the "Directors") believe that, despite challenges such as the unfavorable macro-economic environment, the weakened consumer demand and pressure from keen competition, the Group's efforts in the optimisation of its product structure, expansion of customer base, and improvement in R&D of new products and their functionality, are expected to gradually pay off and lay a good foundation for its operation and development in the future.

PROSPECTS

In general, the second half of the year is the traditional peak season for the smartphone industry, however, the Directors are also well aware that the second half of 2016 will be full of challenges. On one hand, overseas mobile phone brands may endeavor to scramble back the lost market share, whereas the impact of new products that will be launched by those brands on China's brand smartphone manufacturers is unpredictable and our existing customers may be unable to continue to record its growth rate as in the past. On the other hand, the saturation of China's smartphone market may not be improved in the short run and profit may be constrained by the intense competition in the industry. Nevertheless, the Directors remain cautiously optimistic about the ongoing demand for camera modules and fingerprint recognition modules, and believe that on one hand, the end-consumer's demand for camera modules with enhanced functionality remains high, which will lead to a continuous improvement of product specifications. At the same time, with the continuous expansion of applications of camera modules and the improved dual camera solutions, their penetration rate is expected to improve remarkably in the future and therefore will bring new and increased demand for camera modules. On the other hand, intelligent mobile communication terminals such as mobile phones are becoming important personal data storage and mobile payment instruments for end-consumers. With the increasing demand for higher security, fingerprint recognition modules are expected to become the standard equipment for mid-to-high end smartphones and therefore stimulate the rapid growth of fingerprint recognition modules business. As opportunities coexist with challenges, the Group will continue to enhance the R&D of new products and their functionality, improve production techniques, proactively carry out customer relationship marketing and continuously enhance the core competence of the Group. We will focus on developing high-end camera modules, dual camera modules and fingerprint recognition modules with resolutions of 16 mega pixels and higher. Meanwhile, we will prepare for camera modules that are used for augmented reality (AR), virtual reality (VR) and 360° pan-shot. The Directors are confident to lead the Group to embrace the challenges, and make further efforts to achieve good development and strive to create greater value for the shareholders of the Company (the "Shareholders").

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2016, the revenue of the Group was approximately RMB1,727,031,000, representing an increase of approximately 98.8% as compared with approximately RMB868,749,000 of the Corresponding Period. The increase in revenue was mainly attributable to (i) the sales volume of camera modules amounted to approximately 74,080,000 units, representing an increase of approximately 100.2% as compared with the Corresponding Period; and (ii) the sales volume of fingerprint recognition modules amounted to approximately 1,400,000 units, while sales had not yet commenced during the Corresponding Period, and the average selling price of fingerprint recognition modules was higher than that of the average selling price of camera modules.

Cost of sales

For the six months ended 30 June 2016, the cost of sales of the Group was approximately RMB1,565,666,000, representing an increase of approximately 106.8% as compared with approximately RMB757,210,000 of the Corresponding Period. The increase in the cost of sales of the Group was primarily attributable to (i) the total investments in raw materials increased by approximately 113.9% to approximately RMB1,407,293,000 as compared with the Corresponding Period; (ii) labour cost increased by approximately 56.1% to approximately RMB74,636,000 as compared with the Corresponding Period due to an increase in the salaries arising from an increase in the total number of employees, contracted staff and interns of the Group; (iii) depreciation cost from production base and equipment being invested for expanding the production capacity increased by approximately 28.9% to approximately RMB22,047,000 as compared with the Corresponding Period; (iv) sub-contracting charges increased by approximately 125.6% to approximately RMB30,350,000 as compared with the Corresponding Period due to the increase in production capacity of the Company.

Gross profit and gross profit margin

For the six months ended 30 June 2016, the gross profit of the Group was approximately RMB161,365,000 (the Corresponding Period: RMB111,539,000), representing an increase of approximately 44.7% as compared with the Corresponding Period, while the gross profit margin was approximately 9.3% (the Corresponding Period: 12.8%). The decrease in gross profit margin was mainly attributable to the following factors: (i) the percentage of costs of raw materials to revenue increased by approximately 5.9 percentage points as compared with the Corresponding Period due to the combined impact of the decrease in average selling price which exceeded the decrease in average purchasing price and the depreciation in exchange rates of RMB against US dollar; (ii) the consolidated gross profit margin for the Period decreased by approximately 0.3 percentage points as a result of increased investments in production base and human resources reserve due to higher demand for fingerprint recognition modules in the second half year; (iii) the scale effect due to the increase in revenue resulting in a decrease in manufacturing labour rate, manufacturing depreciation rate and other production costs, which in turn led to an increase of approximately 2.7 percentage points in gross profit margin as compared with the Corresponding Period.

Other income

For the six months ended 30 June 2016, other income of the Group was approximately RMB6,014,000, representing a decrease of approximately 62.2% as compared with approximately RMB15,895,000 of the Corresponding Period. The decrease in other income was primarily due to (i) interest income from the bank deposits of the Group decreased from approximately RMB5,722,000 for the six months ended 30 June 2015 to approximately RMB3,461,000 for the six months ended 30 June 2016; (ii) government grants received from the Kunshan government by the Group decreased from approximately RMB4,547,000 for the six months ended 30 June 2015 to approximately RMB2,262,000 for the six months ended 30 June 2016; and (iii) there were gains of wealth management and investment of approximately RMB4,741,000 for the six months ended 30 June 2015, while the Group did not carry out any wealth management and investment business during the Period.

Other net loss

The Group had other net loss of approximately RMB8,061,000 for the six months ended 30 June 2016, while the Group had other net loss of approximately RMB1,149,000 for the six months ended 30 June 2015, primarily due to the increase of net exchange losses.

Selling and distribution expenses

For the six months ended 30 June 2016, the selling and distribution expenses of the Group amounted to approximately RMB3,456,000, representing an increase of approximately RMB1,080,000 as compared with approximately RMB2,376,000 of the Corresponding Period. The increase in selling and distribution expenses was mainly attributed to the increase of sales staff's salaries and entertainment expenses due to the selling activities during the Period. However, the ratio of selling and distribution expenses decreased from approximately 0.3% for the Corresponding Period to approximately 0.2% for the Period.

Administrative and other operating expenses

For the six months ended 30 June 2016, the total administrative and other operating expenses of the Group increased from approximately RMB10,302,000 of the Corresponding Period to approximately RMB12,316,000, representing an increase of approximately 19.5%. The increase in administrative and other operating expenses was mainly attributable to the increase in staffs in functional departments due to operation scale expansion of the Group and increase in staff salary. However, the management expenses rate decreased from approximately 1.2% for the Corresponding Period to approximately 0.7% for the Period.

R&D expenses

For the six months ended 30 June 2016, the total R&D expenses of the Group amounted to approximately RMB52,060,000, representing an increase of approximately 45.3% as compared with approximately RMB35,820,000 of the Corresponding Period. The increase in R&D expenses for the Period was mainly attributable to Group's continuous investments in the R&D of new products and new functionality, so as to allow the Group to develop more diversified products with higher pixels and more functions, such as dual camera products, optical image stabilisation products, fingerprint recognition products, PDAF, outdoor sports camera modules and so on, as well as to optimise and enhance the standards of production techniques.

Finance costs

The finance costs of the Group decreased by approximately 77.1% from approximately RMB6,116,000 for the six months ended 30 June 2015 to approximately RMB1,398,000 for the six months ended 30 June 2016, primarily due to the combined effect of the year-on-year decrease in bank borrowings of the Group as compared with the Corresponding Period and reduced interest rate of borrowings.

Income tax expenses

The income tax expenses of the Group decreased from approximately RMB8,657,000 for the six months ended 30 June 2015 to approximately RMB7,894,000 for the six months ended 30 June 2016, which was mainly attributable to the reversal of over-accrued Hong Kong profits tax that amounted to approximately RMB2,107,000 by Hong Kong subsidiary during the Period.

Profit for the Period

Based on the foregoing, the profit of the Group for the six months ended 30 June 2016 amounted to approximately RMB82,194,000 (the Corresponding Period: RMB63,014,000), representing an increase of approximately 30.4% as compared with the Corresponding Period.

LIQUIDITY AND FINANCIAL RESOURCES

Bank borrowings

As at 30 June 2016, the Group's bank borrowings amounted to approximately RMB151,732,000, representing an increase of approximately 6.7% from approximately RMB142,164,000 as at 31 December 2015. The maturities of all of those bank borrowings are less than 1 year.

As at 30 June 2016, the Group's bank borrowings were denominated in RMB and USD.

For the six months ended 30 June 2016 and 2015, the overview of the Group's cash flow was set out as follows:

	For the six months ended 30 June	
	2016	2015
	RMB	*RMB*
Net cash (used in)/generated from operating activities	**(61,770,000)**	223,093,000
Net cash used in investing activities	**(74,729,000)**	(10,150,000)
Net cash generated from/(used in) financing activities	**1,201,000**	(405,718,000)

As of 30 June 2016, cash and cash equivalents of the Group amounted to approximately RMB158,909,000, representing a decrease of approximately RMB123,306,000 from approximately RMB282,215,000 as at 31 December 2015, due to the net cash outflow used in operating activities and investing activities.

Operating activities

For the six months ended 30 June 2016, the Group's net cash outflow of operating activities amounted to approximately RMB61,770,000. The Group's cash flow recorded a net outflow from its operating activities, which was primarily attributed to (i) the Group's revenue for the Period was primary concentrated from April to June, while receivables collection dates for this part was not yet due for payment; (ii) purchase of raw materials and commenced production in advance by the Group due to the continuous increasing demand for its orders in the second half of the year.

Investing activities

The net cash outflow used in the investing activities of the Group during the Period amounted to approximately RMB74,729,000, which was mainly due to the purchase of equipment and the expenses for plant expansion in the amount of approximately RMB76,941,000.

Financing activities

The net cash inflow used in the financing activities of the Group during the Period amounted to approximately RMB1,201,000, which was mainly due to the net cash inflow incurred by bank borrowings.

Gearing ratio

The gearing ratio as at 30 June 2016, which is defined by bank borrowings divided by total equity at the end of the Period, was approximately 11.6%, which were comparable with the gearing ratio of approximately 11.7% as at 31 December 2015.

Treasury policies

The Group's treasury policy was disclosed in the prospectus of the Company dated 20 November 2014 (the "Prospectus"), and was amended according to the amendments passed by the risk management committee on 24 March 2016 which was disclosed under the "Corporate Governance Report" section of the 2015 annual report. The Board, the risk management committee of the Company and the staff at the relevant positions always remain alert to the performance and risk assessment of the wealth management products, so as to ensure that the wealth management operation does not pose excessive risk to the principal amount. At the same time, the Company also pays attention to the liquidity position of the Group in order to ensure the sufficiency of its working capital.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisitions or disposals of its subsidiaries, associates and joint ventures for the six months ended 30 June 2016.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment during the six months ended 30 June 2016.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

As at 30 June 2016, the Group had not entered into any legally binding agreements or arrangements with respect to any material investment opportunities.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2016, the assets pledged by the Group included bank deposits and bills receivable of approximately RMB230,021,000, which were pledged as security for bank borrowings and bills payable. As at 30 June 2016, there were no available-for-sale financial assets of the Group under pledge.

EMPLOYEE POLICIES AND REMUNERATION

As at 30 June 2016, the Group had a total of 1,802 employees (31 December 2015: 1,314) (excluding staff under labour service agreements and internship agreements). The remuneration of the employees of the Group was approximately RMB97,470,000 for the six months ended 30 June 2016 (the Corresponding Period: RMB62,880,000). The Group has adopted an equal policy on remuneration with same position receiving same package and provides to all staff attractive salary benefits. Apart from the basic salary, the package also includes year-end bonus, medical insurance and provident fund (staff under labour service agreements and internship agreements is treated according to the laws and regulations of the PRC). In addition, the Company has adopted the pre-IPO share option scheme and a share option scheme on 13 November 2014. Further information on those schemes was available in the annual report of the Company for the year ended 31 December 2015. The Company provided on-the-job training together with other training programmes for the employees at different positions to improve their skills and knowledge during the Period.

FOREIGN EXCHANGE EXPOSURE

The denominated currency of the Group's financial statement is Renminbi despite some products are exported overseas and primary denominated and settled in US dollars. However, at the same time, we also purchase plenty of materials and equipment from overseas markets which are primary denominated and settled in US dollars. During the Period, Renminbi depreciated against US dollar to a certain extent, which caused a certain amount of exchange loss to the Group. The Group will continue to pay close attention to the fluctuation of relevant exchange rate, and take every effort to adopt appropriate measures to control the exchange rate risk effectively. The Group is also clearly aware that there are many factors affecting exchange rates, and the mechanism to determine exchange rate is complicated and fickle, thus it is difficult to estimate its trend. Therefore, the profit or loss of the Group may still be affected by exchange rate fluctuation.

USE OF PROCEEDS FROM GLOBAL OFFERING

On 2 December 2014, the shares of the Company were initially listed on the Main Board of the Stock Exchange. The net proceeds from the above global offering were approximately HK$658,000,000 (after deducting relevant listing expenses). As at 30 June 2016, approximately HK$520,195,000 of the net proceeds was utilised, among which: (i) approximately HK$130,792,000 was utilised to purchase equipment; (ii) approximately HK$164,500,000 was utilised for R&D; (iii) approximately HK$101,990,000 was utilised for base construction; (iv) approximately HK$46,718,000 was utilised to repay bank borrowings; (v) approximately HK$65,800,000 was utilised for general corporate purposes; and (vi) approximately HK$10,395,000 was utilised for sales promotion.

DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (six months ended 30 June 2015: Nil).

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

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company has made specific enquiries with the Directors and all of them confirmed that they had complied with the required standard set out in the Model Code during the Period.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to fulfilling its responsibilities to the Shareholders and enhancing Shareholders' value through good corporate governance.

The Company has fully complied with the applicable code provisions as set out in the Corporate Governance Code as contained in Appendix 14 to the Listing Rules (the "CG Code") during the Period.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has established an audit committee (the "Audit Committee") in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The Audit Committee comprises three members, namely Mr. Ng Sui Yin (the chairman), Ms. Chen Jun and Mr. Chu Chia-Hsiang, all being independent non-executive Directors. The Audit Committee has reviewed the interim results and the interim report of the Company for the Period with the Company's management.

EVENTS AFTER THE PERIOD

During the Period and up to the date of this announcement, the Group made a number of changes in its key staff on 8 July 2016, which were primarily: Mr. Yang Peikun resigned as an executive director and chief executive officer of the Company; Mr. Hu Sanmu was appointed as an executive director; Mr. Wang Jianqiang, an executive director, was re-designated from chief financial officer of the Company to chief executive officer of the Company; and Mr. Fan Fuqiang, joint company secretary of the Company, was appointed as chief financial officer of the Company. Details of the changes had been disclosed in the announcement of the Company dated 8 July 2016.

Saved as disclosed in the section headed "Business Review" and above, there was no other important event affecting the Group that occurred after 30 June 2016 and up to the date of this announcement.

INTERIM REPORT

This results announcement is available on the respective websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.qtechglobal.com). The 2016 interim report will be despatched to the Shareholders and will be published on the above websites in due course.

APPRECIATION

The Company would like to take this opportunity to express its sincere thanks and gratitude to the Shareholders, and various parties for their continuous support as well as the Directors and its staff for their dedication and hard work.

By Order of the Board
Q Technology (Group) Company Limited
Chairman and Executive Director
He Ningning

Hong Kong, 19 August 2016

As at the date of this announcement, the executive directors of the Company are Mr. He Ningning (chairman), Mr. Wang Jianqiang (chief executive officer) and Mr. Hu Sanmu; and the independent non-executive directors of the Company are Mr. Chu Chia-Hsiang, Ms. Chen Jun, and Mr. Ng Sui Yin.