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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2016 amounted to approximately RMB4,991,158,000, representing an increase of approximately 126.6% as compared with that of 2015. While there was an increase in sales volume of overall product of approximately 101.6% as compared with that of 2015, the growth in revenue was faster than that of the sales volume, mainly due to the surge of average selling price of camera modules as a result of the significant enhancement of the product pixel mix of camera modules, and the average selling price of the fingerprint recognition modules is higher than the overall product average selling price of 2015. Thus, the overall product average selling price increased by approximately 12.4% as compared with that of 2015.

- Gross profit of the Group for the year ended 31 December 2016 was approximately RMB422,437,000, representing an increase of approximately 75.6% as compared with that of 2015, while gross profit margin for the year ended 31 December 2016 was approximately 8.5% (2015: approximately 10.9%). The decrease in gross profit margin was mainly attributable to: the drop-off range of the average selling price of same product resulting from the intensified market competition exceeded the drop-off range of the average purchase price of the raw materials of the product. Further, various production raw materials of the Group were purchased from overseas and settled in USD. Due to the depreciation of the exchange rate of RMB against USD by approximately 6.8% during the Year, the purchasing costs of raw materials was further pushed up and, hence, increased the proportion of the composite costs of raw materials in the total revenue of the Group.

- Profit of the Group for the year ended 31 December 2016 was approximately RMB190,755,000, representing an increase of approximately 87.0% as compared with that of 2015. The increase in profit was mainly attributable to a year-on-year significant increase in revenue as a result of the year-on-year significant increase in sales volume and increase in overall product average selling price.

- Basic and diluted earnings per share for the year ended 31 December 2016 were approximately RMB0.184 and RMB0.181 respectively.

- The Board has recommended the payment of a final dividend for the year ended 31 December 2016 of approximately RMB3.5 cents (equivalent to approximately HK3.9 cents) per share to the Shareholders whose names appear on the register of members as at Thursday, 8 June 2017.

FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Q Technology (Group) Company Limited (the "Company") announces the audited annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2016 (the "Year") together with the relevant comparative figures for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	**2016** *RMB'000*	2015 *RMB'000*
Revenue	*2*	**4,991,158**	2,202,395
Cost of sales		**(4,568,721)**	(1,961,824)
Gross profit		**422,437**	240,571
Other revenue	*3*	**18,407**	23,622
Other net loss	*3*	**(45,172)**	(31,476)
Selling and distribution expenses		**(9,662)**	(6,237)
Administrative and other operating expenses		**(41,311)**	(27,505)
Research and development expenses		**(124,564)**	(74,326)
Profit from operations		**220,135**	124,649
Finance costs	*4(a)*	**(5,548)**	(9,948)
Profit before taxation	*4*	**214,587**	114,701
Income tax	*5*	**(23,832)**	(12,702)
Profit for the year		**190,755**	101,999
Attributable to:			
Equity shareholders of the company		**190,755**	101,999
Profit for the year		**190,755**	101,999
Earnings per share		**RMB Cents**	RMB Cents
Basic	*6(a)*	**18.4**	10.1
Diluted	*6(b)*	**18.1**	9.8

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016
(Expressed in Renminbi)

	2016 *RMB'000*	2015 *RMB'000*
Profit for the year	**190,755**	101,999
Other comprehensive income for the year (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	**15,189**	23,827
– Available-for-sale financial assets: net movement in the fair value reserve	**–**	(2,871)
Other comprehensive income for the year	**15,189**	20,956
Total comprehensive income for the year	**205,944**	122,955
Attributable to:		
Equity shareholders of the company	**205,944**	122,955
Total comprehensive income for the year	**205,944**	122,955

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016
(Expressed in Renminbi)

	Note	**2016** **RMB'000**	2015 RMB'000
Non-current assets			
Property, plant and equipment		**720,181**	420,670
Lease prepayments		**17,048**	17,464
Intangible assets		**1,315**	1,476
Deferred tax assets		**4,287**	4,922
Prepayment for acquisition of property, plant and equipment		**83,354**	9,398
		826,185	453,930
Current assets			
Inventories		**799,246**	209,262
Trade and other receivables	*7*	**2,606,431**	888,786
Other financial assets		**–**	600
Derivative financial assets	*8*	**126,867**	–
Current tax assets		**152**	10,349
Pledged bank deposits		**96,543**	145,519
Cash and cash equivalents		**64,905**	282,215
		3,694,144	1,536,731
Current liabilities			
Bank borrowings		**335,432**	142,164
Trade and other payables	*9*	**2,592,781**	622,053
Current tax payable		**10,372**	2,095
		2,938,585	766,312
Net current assets		**755,559**	770,419
Total assets less current liabilities		**1,581,744**	1,224,349

CONSOLIDATED STATEMENT OF FINANCIAL POSITION(CONTINUED)

As at 31 December 2016
(Expressed in Renminbi)

	2016	2015
	RMB'000	*RMB'000*
Non-current liabilities		
Deferred income	**11,739**	4,752
Deferred tax liabilities	**2,040**	2,040
	13,779	6,792
NET ASSETS	**1,567,965**	1,217,557
CAPITAL AND RESERVES		
Share capital	**8,605**	8,132
Reserves	**1,559,360**	1,209,425
TOTAL EQUITY	**1,567,965**	1,217,557

NOTES TO THE FINANCIAL STATEMENTS

31 December 2016

(Expressed in Renminbi unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information of any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the "Group").

The financial statements are presented in Renminbi ("RMB"), rounded to the nearest thousand unless otherwise indicated as the Group's principal activities were carried out in the PRC. RMB is the functional currency for the Company's subsidiary established in the Mainland China. The functional currency of the Company and its subsidiaries outside the Mainland China is US dollars.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the derivative financial instruments and other financial assets are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. 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.

2 REVENUE AND SEGMENTAL REPORTING

The principal activities of the Group are manufacturing and sales of camera modules and fingerprint recognition modules for mobile phones and other electronic appliances. No segment information is presented for the Group's business segment as the Group is principally engaged in a single line of business.

Revenue represents the sales value of goods sold, excludes VAT and is after deduction of any trade discounts.

The Group's revenue by geographical location is determined by the locations of operations of the contracting parties.

	2016	2015
	RMB'000	*RMB'000*
Revenue		
PRC (including Hong Kong)	**4,988,798**	2,163,600
Overseas	**2,360**	38,795
	4,991,158	2,202,395

The Group had two (2015: three) customers with whom transactions had exceeded 10% of the Group's revenue for the year ended 31 December 2016. The amount of sales to these customers amounted to approximately RMB3,027,256,000 (2015: RMB1,255,948,000) for the year ended 31 December 2016.

3 OTHER REVENUE AND OTHER NET LOSS

	2016 *RMB'000*	2015 *RMB'000*
Other revenue		
Government grants	**13,620**	5,832
Interest income	**4,256**	11,311
Investment income	**–**	4,741
Others	**531**	1,738
	18,407	23,622

	2016 *RMB'000*	2015 *RMB'000*
Other net loss		
Net foreign exchange loss	**(64,613)**	(30,878)
Net gain on foreign currency forward contracts	**–**	600
Net gain on foreign currency option contracts	**19,458**	–
Loss on disposal of property, plant and equipment	**(17)**	(1,098)
Loss on disposal of intangible assets	**–**	(100)
	(45,172)	(31,476)

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

	2016 *RMB'000*	2015 *RMB'000*
(a) Finance costs		
Interest expenses	**5,548**	9,948
(b) Staff costs		
Contributions to defined contribution retirement plans	**6,944**	5,481
Salaries, wages and other benefits	**270,316**	144,733
Equity settled share-based payment expenses	**1,658**	835
	278,918	151,049
(c) Other items		
Depreciation	**63,443**	41,888
Amortisation		
– lease prepayments	**416**	416
– intangible assets	**161**	145
Auditors' remuneration	**1,750**	1,896
Operating lease charges in respect of properties	**4,117**	1,001
Research and development costs *(Note (i))*	**124,564**	74,326
Impairment losses recognised on trade and other receivables	**9,400**	1
Cost of inventories *(Note (ii))*	**4,641,127**	2,001,968

Notes:

(i) Research and development costs include staff costs of employees in the design, research and development department of approximately RMB43,093,000 for the year ended 31 December 2016 (2015: approximately RMB26,773,000), which are included in the staff costs as disclosed in Note 4(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 approximately RMB252,230,000 (2015: approximately RMB155,762,000) for the year ended 31 December 2016 relating to staff costs, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in Note 4(b) for each of these types of expenses.

5 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Income tax in the consolidated statement of profit or loss represents:

	2016	2015
	RMB'000	*RMB'000*
Current tax		
PRC Corporate Income Tax	**25,339**	11,971
PRC Dividend Withholding Tax	**–**	5,760
Hong Kong Profits Tax	**(2,142)**	–
	23,197	17,731
Deferred tax		
Origination and reversal of temporary differences	**635**	(5,029)
	23,832	12,702

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2016	2015
	RMB'000	*RMB'000*
Profit before taxation	**214,587**	114,701
Notional tax on profit before taxation, calculated at the rates applicable to the tax jurisdictions concerned	**52,180**	29,946
Tax effect of PRC preferential tax treatments *(Note (iii))*	**(17,088)**	(9,275)
Tax effect of additional deduction on research and development costs	**(9,207)**	(8,389)
Effect of non-deductible expenses	**89**	249
Tax effect of unused tax loss not recognised	**–**	171
Over provision in prior years	**(2,142)**	–
Actual tax expense	**23,832**	12,702

Notes:

(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 BVI.

(ii) No provision was made for Hong Kong Profits Tax in 2016 and 2015 as the Group did not earn any assessable profit subject to Hong Kong Profits Tax during 2016 and 2015. Kunshan Q Technology (Hong Kong) Limited ("Kunshan QT Hong Kong") is subject to Hong Kong Profits Tax at 16.5% in 2016 and 2015.

(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, and 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 rate of 5%.

6 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 approximately RMB190,755,000 (2015: approximately RMB101,999,000) and the weighted average of 1,038,359,000 (2015: 1,014,174,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2016	2015
	'000	*'000*
Issued ordinary share at 1 January	**1,027,945**	1,000,000
Effect of share options exercised	**8,332**	14,174
Shares issued for the Placement	**2,082**	–
Weighted average number of ordinary shares at 31 December	**1,038,359**	1,014,174

(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 approximately RMB190,755,000 (2015: approximately RMB101,999,000) and the weighted average of ordinary shares of 1,056,739,000 shares (2015: 1,046,124,000) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2016	2015
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,038,359**	1,014,174
Effect of deemed issue of shares under the Company's share option schemes	**18,380**	31,950
Weighted average number of ordinary shares (diluted) at 31 December	**1,056,739**	1,046,124

7 TRADE AND OTHER RECEIVABLES

	2016	2015
	RMB'000	*RMB'000*
Trade receivables		
– third parties	**2,371,648**	751,647
– related parties	**3,894**	13,546
Bills receivable		
– third parties	**169,105**	116,670
Trade and bills receivables	**2,544,647**	881,863
Less: allowance for doubtful debts	**(9,904)**	(504)
	2,534,743	881,359
Other deposits, prepayments and receivables	**71,688**	7,427
	2,606,431	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 approximately RMB264,000 (2015: approximately RMB9,000) as at 31 December 2016, which are expected to be recovered after more than one year.

Bill receivable represented outstanding bank acceptance bills and commercial acceptance bills. As at 31 December 2016, bills receivable amounting to approximately RMB129,225,000 (2015: approximately RMB27,128,000) were pledged as security for bills payable (see Note 9(a)). Bills receivable are due in 3 to 6 months from the date of issue.

(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:

	2016	2015
	RMB'000	*RMB'000*
Within 1 month	**1,569,991**	613,254
More than 1 month but within 3 months	**902,416**	250,927
More than 3 months but within 6 months	**62,336**	17,165
More than 6 months but within 1 year	**–**	13
	2,534,743	881,359

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movement in the allowance for doubtful debts during the year is as follows:

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**504**	503
Impairment loss recognised	**9,400**	1
At 31 December	**9,904**	504

As at 31 December 2016, there was an impairment provision of RMB9,904,000 (2015: RMB504,000) related to certain customers which balances were overdue and were individually determined to be impaired. The Group does not hold any collateral over these balances. After taking into account their respective financial condition and the subsequent year end settlements from those customers up to the date of these financial statements, the directors considered that such specific provision was adequate but not excessive.

(c) 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:

	2016	2015
	RMB'000	*RMB'000*
Neither past due nor impaired	**2,453,442**	864,181
Less than 3 month past due	**617**	17,165
Over 6 less than 12 months past due	**–**	13
	2,454,059	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 31 December 2016, receivables that were past due but not impaired related to customers that maintain continuing trading relationship with the Group. Based on past experience and customer's financial condition, management believes that no impairment allowance is necessary as the balances are still considered fully recoverable.

8 DERIVATIVE FINANCIAL ASSETS

	2016	2015
	RMB'000	*RMB'000*
Foreign currency option contracts	**126,867**	–

The Group entered into foreign currency option contracts with one bank. As at 31 December 2016, the notional amount of outstanding contracts amounted to USD127,500,000 (2015: nil). All these option contracts are matured within one year.

The fair value of the foreign currency option contracts is measured using the Black-Scholes-Merton Model. Main parameters used in the model include the spot price of the foreign exchange rates as of the valuation date, strike rates, forward foreign exchange rates, implied volatilities of foreign exchange rates and the risk-free rates.

9 TRADE AND OTHER PAYABLES

	2016	2015
	RMB'000	*RMB'000*
Trade payables and accruals		
– third parties	**2,054,547**	547,636
– related parties	**1,170**	203
Bills payable *(Note (a))*		
– third parties	**318,154**	34,117
Trade and bills payables *(Note (b))*	**2,373,871**	581,956
Accrued payroll	**50,161**	24,231
Foreign currency option premium *(Note (c))*	**107,409**	–
Other payables and accruals	**61,340**	15,866
	2,592,781	622,053

All of the trade and other payables as at 31 December 2016 are expected to be settled or recognised as income within one year or are repayable on demand.

(a) Bills payable analysed by type of security

	2016	2015
	RMB'000	*RMB'000*
Bills payable secured by		
– Bills receivable	**124,760**	25,771
– Pledged bank deposits	**102,748**	8,346
	227,508	34,117
Bills payable unsecured	**90,646**	–
	318,154	34,117

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

	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**2,046,742**	530,719
More than 3 months but within 6 months	**182,461**	1,464
More than 6 months but within 1 year	**896**	912
More than 1 year	**829**	4
	2,230,928	533,099

As at 31 December 2016, the accrued trade payables which represented the amounts with no invoice received by the end of the year, amounted to approximately RMB142,943,000 (2015: approximately RMB48,857,000).

(c) Foreign currency option premium

Foreign currency option premium represented the amount payable for entering into the foreign currency option contracts (Note 8).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year, although the global and the PRC economies encountered more fluctuations due to influences from various aspects and many sectors faced considerable difficulties and challenges, however, the global mobile phones market still maintained a stable growth. China's smartphone brands received higher recognition from customers on product design reputation and cost/price performance through continuous product innovation and effective marketing measures, hence, the market share of various leading brands increased significantly, and the market share of China's smartphone brands increased steadily and the supply chain of China's smartphone brands also achieved a stable development. Through relentless efforts, the Group established cooperative relationships with China's major smartphone brands which had greatly improved our customer base and rapidly enhanced our product portfolio, and the Group was able to maintain its strong competitiveness in the intense competitive market. During the Year, the Group's business achieved a rapid growth.

Looking back to the year of 2016, with the trust and support of our core customers and the relentless efforts of all our employees, both the sales volume and revenue of the Group increased rapidly, among which, the sales volume of camera modules reached approximately 177.40 million units, representing an increase of approximately 80.3% as compared with that of 2015, while the sales volume of fingerprint recognition modules reached approximately 20.94 million units, representing an increase of over 2,000 times than that of 2015. The revenue recorded by the Group amounted to approximately RMB4,991,158,000, representing an increase of approximately 126.6% as compared with that of 2015. The year-on-year growth in revenue was faster than that of the sales volume, mainly due to the surge of average selling price of camera modules as a result of the significant enhancement of the product pixel mix of camera modules, and the average selling price of fingerprint recognition modules which recorded a rapid growth in 2016 is higher than the overall product average selling price of 2015. Thus, the overall product average selling price increased by approximately RMB2.78 (or approximately 12.4%) as compared with that of 2015 to approximately RMB25.16. The average selling price of camera modules increased by approximately RMB1.71 (or approximately 7.7%) as compared with that of 2015 to approximately RMB24.09, mainly due to the significant enhancement of product pixel mix of camera modules and the commencement of mass production of dual camera modules.

During the Year, the gross profit margin of the Group was approximately 8.5%, representing a decrease of approximately 2.4 percentage points as compared with approximately 10.9% of 2015. The decrease in gross profit margin was mainly attributable to: the drop-off range of the average selling price of same product resulting from the intensified market competition exceeded the drop-off range of the average purchase price of the raw materials of the product. Further, various production raw materials of the Group were purchased from overseas and settled in US dollars ("USD"). Due to the depreciation of the exchange rate of RMB against USD by approximately 6.8% during the Year, the purchasing costs of raw materials was further pushed up and, hence, increased the proportion of the composite costs of raw materials in the total revenue of the Group.

During the year under review, the Group has proactively responded to the market demand for high pixel products and developed the mid-to-high end camera modules with resolution of 8 mega pixels and above. The total sales volume of camera modules with resolution of 8 mega pixels and above significantly increased by approximately 78.27 million units to approximately 117.16 million units as compared with that of 2015, which accounted for approximately 66.0% of the Group's total sales volume of camera modules for the Year (2015: approximately 39.5%), and approximately 81.2% of the Group's total revenue of camera modules for the Year (2015: approximately 55.2%). The sales volume of high-end camera modules with resolution of 13 mega pixels and above has significantly increased by approximately 35.82 million units to approximately 41.48 million units as compared with that of 2015, which accounted for approximately 23.4% of the Group's total sales volume of camera modules for the Year (2015: approximately 5.8%), and approximately 39.8% of the Group's total revenue of camera modules for the Year (2015: approximately 13.4%). The rapid increase in the sales volume and proportion of mid-to-high end camera modules has demonstrated the increasing market recognition of the Group's high-end products, which made the Group to be more competitive in the high pixels products segment and laid a solid foundation for further increasing the sales volume of products with resolution of 13 mega pixels and above as well as the dual camera modules in future.

Meanwhile, the sales volume of fingerprint recognition modules amounted to approximately 20.94 million units (2015: approximately 7,000 units), which accounted for approximately 10.6% of the Group's total sales volume for the Year, and approximately 14.4% of the Group's total revenue for the Year, among which, the fingerprint recognition modules that adopted cover plate technique accounted for approximately 35.3% of the total sales volume of fingerprint recognition modules. The rapid increase in the sales volume of fingerprint recognition modules was, on one hand, benefited from the rapid growth in demand from smartphone brands for fingerprint recognition modules, and, on the other hand, it also demonstrated the high market recognition of the Group's comprehensive ability, which laid a solid foundation for further increasing the market share of the Group in fingerprint recognition modules in future.

During the Year, the Group continues to place great emphasis on maintaining and expanding its domestic and overseas quality customer base. On one hand, the Group maintained close cooperative relationship with its core customers, and no core customers was lost. On the other hand, subsequent to the establishment of cooperative relationships with several customers such as Xiaomi, Asus and Chino in 2015, the Group also developed various customers such as Huawei and Motorola during the Year, and established supply cooperative relationships with these renowned enterprises for camera modules and/or fingerprint recognition modules products, which demonstrated the Group's good customer relationship management and sales capabilities. The optimization of customer base laid a good foundation for the subsequent strengthening of business development of fingerprint recognition modules, camera modules with resolution of 13 mega pixels and above and dual camera modules.

During the Year, the Group continuously reviewed and improved its production know-how and was dedicated in developing more advanced functionalities and products. On one hand, the Group established cooperative relationships with several companies such as MTK and Qualcomm on dual camera modules algorithm to further enhance the Group's capability of developing dual camera modules products, which enables the Group to become one of the few earliest companies in the mass production and sales of dual camera modules in Mainland China, and one of the few companies able to mass produce dual camera modules with various solutions such as RGB+RGB, RGB+MONO and WIDE+TELE in Mainland China. On the other hand, the Group constantly enhanced its research and development ("R&D") efforts in the leading technologies such as gesture recognition, light sensing recognition, iris recognition and super-large aperture, which enables the Group to become one of the few camera modules manufacturers in the industry with leading technologies such as dual camera, PDAF, gesture recognition, iris recognition, high-end modules with resolution of 16 mega pixels and above, and F1.7 large aperture. The shipments of dual camera modules, high-end modules with resolution of 16 mega pixels and above, fingerprint recognition modules and outdoor sports camera modules have already achieved bulk deliveries.

AWARDS AND HONORS

During the Year, we continued to adhere to our customer-oriented service strategies, always considered the provision of good personal experience for customers as our operation direction and devoted our best efforts to satisfy customers' needs in product R&D, sales delivery, after-sales service, product quality and technology innovation, and earned positive recognition of the Group's products and services from the industry, local governments and our customers.

In April 2016, the trademark "Q Tech and Q Image" used by Kunshan Q Technology Limited ("Kunshan QT China"), a wholly-owned subsidiary of the Group, received the 2015 "Jiangsu Renowned Trademark" honorary title granted by Jiangsu Administration for Industry and Commerce. The honorary title is valid for three years and is effective from 28 December 2015.

In April 2016, the "Q Tech camera modules" manufactured and sold by Kunshan QT China won the 2015 "Jiangsu Famous-brand Product" honorary title granted by Jiangsu Strategic Top Brand Promotion Committee. The honorary title is valid for three years and is effective from December 2015 to December 2018.

In December 2016, Kunshan QT China won the “2016 ZTE Global Best Partner Award” granted by ZTE Corporation. This is the fifth consecutive year that Kunshan QT China has won the said award.

In January 2017, Kunshan QT China won the “Quality Advance Award” granted by Huaqin Telecom Technology Co., Ltd..

In January 2017, Kunshan QT China won the “Quality Management Standard Award” granted by Huawei Device Company Limited.

The aforementioned awards and honors had reflected the high recognition by local governments and our core customers, which has further enhanced our confidence in driving the product mix optimization strategies and providing customers with good personal experience, and also further strengthened our confidence in maintaining a sound operation.

PROSPECTS

Although the operating results of the Group in 2016 recorded a significant growth as compared with that of 2015, and the customer base and product mix were significantly optimized, however, the Directors are also well aware that 2017 will still be full of challenges. On one hand, the global macro political and economic situation remains unpredictable and fraught with uncertainties, the growth in overseas and China’s consumer demand are still difficult to ascertain, uncertainties in the prospect of the intelligent mobile communication terminal industry also remains high under the macro-economic environment, and the growth rate of mobile phones and tablet PC industry may be lower. On the other hand, major customers of the Group are brand smartphone manufacturers in Mainland China, while overseas mobile phone brands are actively scrambling for market share, the impact of new products that will be launched by those overseas 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, thereby affecting our shipments. Moreover, affected by multiple factors such as politics, economy, and supply and demand, the trend of RMB against USD may still be fluctuating. As it is difficult to reverse in the short run the Group’s business pattern that comprises of sales revenue settled in RMB but overseas purchases of various core components settled in USD, accordingly, the task on management of exchange risks remains heavy. However, the Directors remain cautiously optimistic about the ongoing demand for camera modules and fingerprint recognition modules, and believe that:

(i) Camera modules will remain one of the end-consumers’ most concerned smartphone configuration, and consumer demands for camera modules with enhanced functionality will continue to remain high, which will lead to continuous improvement in product specifications. The Group has obtained the qualification for supplying high pixel products to the major customers in camera module products, which will help the Company to further uplift the shipment proportion of single camera modules with resolution of 13 mega pixels and above.

(ii) Camera modules are the most important human-machinery information interactive interface during the Internet of Things era, which enable the continuous expansion of camera modules’ application fields. The demand for camera modules by products such as AR, VR, MR and motor vehicles may give a new growth potential for the volume expansion of camera modules.

(iii) With the increasingly improved dual camera modules solutions, a number of global and China's renowned brands have already adopted the dual camera modules solutions in their products and positive feedback from end-consumers have been received. This may lead to a remarkable improvement in penetration rate of dual camera modules in the future and hence will bring new and increased demand for camera modules.

(iv) While personal data privacy protection and mobile payment become an increasingly important demand for end-consumers, intelligent mobile communication terminals such as mobile phones are becoming important personal data storage and mobile payment instruments for end-consumers. As such, with the end-consumer's increasing demand for higher security for mobile phones, fingerprint recognition modules are gradually becoming the standard equipment for smartphones and therefore stimulate the rapid growth of fingerprint recognition modules business. The Group has established the supply cooperation with various well-known brand smartphone manufacturers in China regarding fingerprint recognition modules, which will contribute to our continuous efforts in striving for rapid development of the fingerprint recognition modules business.

(v) In addition to optical design and precision manufacturing, the sound functionalities of dual/multiple camera modules have more vital demand for image algorithm. Our related company established in Chengdu possessed good technical preparation in image algorithm and with certain customer resources, and the technical cooperation and customers' collaborative marketing between the Group and the related company in precision manufacturing and image algorithm is likely to favour our expansion in the dual/multiple camera modules business.

Hence, the Directors believe, as opportunities coexist with challenges, the Group will adhere to the mission of "providing comprehensive machinery vision and human vision product solutions for intelligent mobile terminals" to strengthen the capacity deployment in three aspects, namely optical design, computing vision and deep learning, continue to enhance the R&D of new products and new processes, continue to improve precision manufacturing capability, proactively carry out customer relationship marketing, aggressively expand overseas renowned smartphone branded customers and continuously enhance the core competitiveness of the Group. We will focus on developing high-end camera modules with resolution of 16 mega pixels and above and dual camera modules, with an effort to strengthen the technical cooperation and resource integration in image algorithm of dual/multiple camera modules, at the same time striving to achieve a breakthrough in the application of camera modules in non-mobile-phone sector. 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 Year, the revenue of the Group was approximately RMB4,991,158,000, representing an increase of approximately 126.6% or approximately RMB2,788,763,000 as compared with 2015. While there was an increase in sales volume of approximately 101.6% as compared with that of 2015, the year-on-year growth in revenue was faster than that of the sales volume, mainly due to the surge of average selling price of camera modules as a result of the significant enhancement of the product pixel mix of camera modules, and the average selling price of fingerprint recognition modules which recorded a rapid growth in 2016 is higher than the overall product average selling price of 2015. Thus, the overall product average selling price increased by approximately RMB2.78 (or approximately 12.4%) as compared with that of 2015 to approximately RMB25.16. The average selling price of camera modules increased by approximately RMB1.71 (or approximately 7.7%) as compared with that of 2015 to approximately RMB24.09, mainly due to the significant enhancement of product pixel mix of camera modules and the commencement of mass production of dual camera modules.

Cost of sales

For the Year, the cost of sales of the Group was approximately RMB4,568,721,000, representing an increase of approximately 132.9% as compared with approximately RMB1,961,824,000 in 2015. The increase in the cost of sales was primarily attributed to (i) a year-on-year increase in the total input costs of raw materials by approximately 138.0% due to a year-on-year increase in revenue by approximately 126.6%; (ii) a year-on-year increase in manufacturing labor cost by approximately 80.7% to approximately RMB200,835,000; and (iii) a year-on-year increase in depreciation cost that was attributed to manufacturing cost by approximately 52.6% to approximately RMB51,395,000.

Gross profit and gross profit margin

For the Year, the gross profit of the Group was approximately RMB422,437,000 (2015: approximately RMB240,571,000), representing a year-on-year increase of approximately 75.6%; while the gross profit margin was approximately 8.5% (2015: approximately 10.9%), representing a year-on-year decrease of approximately 2.4 percentage points. The decrease in gross profit margin was mainly attributable to: the drop-off range of the average selling price of same product resulting from the intensified market competition exceeded the drop-off range of the average purchase price of the raw materials of the product. Further, various production raw materials of the Group were purchased from overseas and settled in USD. Due to the depreciation of the exchange rate of RMB against USD by approximately 6.8% during the Year, the purchasing costs of raw materials was further pushed up and, hence, increased the proportion of the composite costs of raw materials in the total revenue of the Group.

Other revenue

For the Year, other revenue of the Group was approximately RMB18,407,000, representing a decrease of approximately 22.1% as compared with approximately RMB23,622,000 in 2015. The decrease in other revenue was primarily due to the following factors: (i) the government subsidies recognised amounted to approximately RMB13,620,000, representing an increase of approximately RMB7,788,000 as compared with approximately RMB5,832,000 in year 2015; (ii) interest income amounted to approximately RMB4,256,000, representing a decrease of approximately RMB7,055,000 as compared with approximately RMB11,311,000 in year 2015; and (iii) approximately RMB4,741,000 in investment income was recorded from the available-for-sale financial assets in year 2015, and there was no such income generated for the Year.

Other net loss

For the Year, the Group had other net loss of approximately RMB45,172,000, representing an increase of approximately 43.5% as compared with other net loss of approximately RMB31,476,000 in 2015. The increase in other net loss was primary due to the following factors: (i) exchange loss of approximately RMB64,613,000, representing an increase of approximately RMB33,735,000 as compared with approximately RMB30,878,000 in 2015; and (ii) approximately RMB19,458,000 of fair value gain generated from the valuation of foreign exchange option contracts at the end of year.

Selling and distribution expenses

For the Year, the total selling and distribution expenses of the Group amounted to approximately RMB9,662,000, representing an increase of approximately 54.9% as compared with approximately RMB6,237,000 for year 2015, which accounted for approximately 0.2% of the revenue (2015: approximately 0.3%). The increase in selling and distribution expenses was mainly attributed to the increase of sales staff's salaries as compared with last year.

Administrative and other operating expenses

For the Year, total administrative and other operating expenses of the Group amounted to approximately RMB41,311,000, representing an increase of approximately 50.2% as compared with year 2015 (2015: approximately RMB27,505,000), which accounted for approximately 0.8% of the revenue (2015: approximately 1.2%). The increase in administrative and other operating expenses for the Year was mainly attributed to the increase in salaries and benefits of management personnel as compared with last year and the provision of allowance for doubtful debts on trade receivables for the Year of RMB9,400,000 (2015: approximately RMB1,000).

R&D expenses

For the Year, the total R&D expenses of the Group amounted to approximately RMB124,564,000, representing an increase of approximately 67.6% as compared with last year (2015: approximately RMB74,326,000), which accounted for approximately 2.5% of the revenue (2015: approximately 3.4%). The increase in R&D expenses for the Year was mainly attributed to the additional efforts and resources devoted to the research and development of new products and new functionalities by the Group. This allowed the Group to develop products with higher pixels, enhance functionality and diversification, such as dual camera products, fingerprint recognition modules, PDAF, gesture recognition, camera modules used in other application sectors, as well as to optimize and enhance the efficiency and standards of production techniques through intelligentized production.

Finance costs

Finance costs of the Group decreased by approximately 44.2% from RMB9,948,000 for year 2015 to approximately RMB5,548,000 for the Year, which was primarily due to: (i) the decrease in statutory interest rate in borrowings in RMB for the Year; and (ii) the majority of bank borrowings were generated in the fourth quarter of the Year, so that the daily average balance of bank borrowings of the Year was lower than that of 2015.

Income tax expenses

The income tax expenses of the Group increased by approximately 87.6% from approximately RMB12,702,000 of 2015 to approximately RMB23,832,000 for the Year, which was primarily due to the significant increase in revenue that resulted in significant increase in profit before taxation of approximately 87.1% as compared with last year.

Kunshan QT China, a wholly-owned subsidiary of the Group, was successfully recognized as a High and New Technology Enterprise ("HNTE") on 6 July 2015, and obtained the recognition certificate as a HNTE. Kunshan QT China will continue to enjoy preferential policies of income tax rate of 15% and bonus deduction allowance of R&D expenses with a validity period up to 31 December 2017. Chengdu Q Technology Limited ("Chengdu QT"), a wholly-owned subsidiary of the Group, was recognized as a software enterprise. According to the relevant PRC policies, Chengdu QT is entitled to preferential policies in a value-added tax levy-refund and "2-year exemption and 3-year half payment" of income tax from 1 January 2015, with a validity period up to 31 December 2019.

Profit for the year

For the Year, the profit of the Group amounted to approximately RMB190,755,000 (2015: approximately RMB101,999,000), representing an increase of approximately 87.0% as compared with last year. Net profit margin was approximately 3.8% (2015: approximately 4.6%). The decrease in net profit margin for the Year was mainly attributed to the decrease in gross profit margin and the increase in foreign exchange loss.

LIQUIDITY AND FINANCIAL RESOURCES

Bank borrowings

As at 31 December 2016, the Group's balance of bank borrowings amounted to approximately RMB335,432,000, representing an increase of approximately 135.9% as compared with approximately RMB142,164,000 as at 31 December 2015. The maturities of all of those bank borrowings are less than 1 year.

As at 31 December 2016, the Group's bank borrowings were denominated in RMB and/or USD.

The overview of the Group's cash flow for the Year and 2015 was set out as follows:

	For the year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	**(38,614)**	323,999
Net cash (used in)/generated from investing activities	**(429,711)**	4,067
Net cash generated from/(used in) financing activities	**245,529**	(617,697)

For the Year, the operating activities of the Group recorded net cash outflow, and investing activities also recorded net cash outflow due to additional capital expenditure for capacity expansion, which has led to the balance of cash and cash equivalents as at 31 December 2016 amounting to approximately RMB64,905,000, representing a decrease of approximately RMB217,310,000 as compared with the balance as at 31 December 2015.

Operating activities

For the Year, the Group's net cash outflow of operating activities amounted to approximately RMB38,614,000, representing a decrease of approximately RMB362,613,000 as compared with the net cash inflow of approximately RMB323,999,000 in 2015, which was primarily attributed to (i) the balance of inventory amounted to approximately RMB799,246,000, representing an increase of approximately RMB589,984,000 as compared with the balance as at the end of 2015; and (ii) a decrease in gross profit margin of the Group in 2016 as compared with that of 2015.

Investing activities

The net cash outflow from investing activities of the Group in 2016 amounted to approximately RMB429,711,000, which was mainly due to the purchase of equipment and construction of plants with amount of approximately RMB408,893,000, the net cash outflow of purchase and redemption of other financial assets of approximately RMB25,500,000, and the inflow of interest income of approximately RMB5,279,000.

Financing activities

As at 31 December 2016, the net cash inflow from financing activities of the Group amounted to approximately RMB245,529,000, which was mainly attributed to (i) the proceeds of approximately RMB137,276,000 (equivalent to approximately HK$154,428,000) from the shares placing of 40,000,000 ordinary shares on 12 December 2016 after deducting relevant expenses; (ii) inflow from bank borrowings of approximately RMB245,746,000, outflow of bank borrowings repayment of approximately RMB270,172,000; and (iii) the decrease in the amount of bank deposits pledged for borrowings by approximately RMB132,684,000.

Gearing ratio

As at 31 December 2016, the gearing ratio, which is defined by bank borrowings and related parties divided by total equity at the end of the Year, was approximately 21.4%, representing an increase of approximately 9.7 percentage points as compared with approximately 11.7% in year 2015, which was mainly due to: (i) significant additional new bank borrowings, which increased the amount of bank borrowings to approximately RMB335,432,000 as at 31 December 2016, representing a year-on-year increase of approximately 135.9% (2015: approximately RMB142,164,000); (ii) the net profit recorded in the Year was approximately RMB190,755,000, and no dividend was paid to shareholders for the year 2015.

Treasury policies

The Group's treasury policy was disclosed in the prospectus of the Company dated 20 November 2014 (the "Prospectus"), apart from the following amendments to the funds management policy of the Group, there was no amendment to the treasury policy during the Year. The Board, the risk management committee of the Board ("Risk Management Committee") and the staff at the relevant positions always remain alert to the performance and risk assessment of the available-for-sale financial assets so as to assure 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 that the sufficiency of its working capital is not affected.

On a meeting of the Risk Management Committee held on 24 March 2016, the members of the Risk Management Committee reviewed and passed certain amendments to the funds management policy of the Group, including:

1) the increase in transaction amount of non-principal protected wealth management that requires approval of the Risk Management Committee. After the amendments, the chief financial officer shall complete the approval for a single transaction of wealth management business operation with transaction amount of RMB50 million or below (inclusive of RMB50 million) (previously RMB10 million or below (inclusive of RMB10 million)), while a single transaction of wealth management business operation with transaction amount exceeding RMB50 million (exclusive of RMB50 million) (previously exceeding RMB10 million (exclusive of RMB10 million)) will, in addition, require approval from the Risk Management Committee. Further, the amount of an instructed single transaction was amended from not exceeding RMB50 million to not exceeding RMB50 million "in principle"; and

2) certain adjustments on the restrictions towards the input of funds to non-principal protected wealth management business, including: (i) the previous restriction on input of funds to wealth management products issued by commercial banks ranked outside top 10 in the PRC was adjusted and relaxed to restricting input of funds to commercial banks ranked outside top 20 (inclusive) in the PRC; (ii) the risk level for all bank wealth management products in which input of funds was restricted was adjusted from "exceeding low to medium risk" to restricting input of funds to "high risk" wealth management products; (iii) the previous restriction on input of funds to wealth management products with duration of "more than one year" was amended to restricting input of funds to wealth management products with duration of "more than one year (exclusive of one year)". Further, the previous restriction on input of funds to wealth management products not accepted as security for financing and with duration of "not exceeding one year" was amended to restricting input of funds to wealth management products "not accepted as security for financing or issuance of bills payables" and with duration of "exceeding three months"; (iv) the restriction on "prohibition on repurchase of wealth management products which are non-principal protected, with floating income and unable to purchase insurance coverage" was deleted; and (v) for non-principal protected wealth management products instructed by the Company which are fixed term and covered by insurance purchased on the financing principal, the maximum balance of which has been increased from not exceeding RMB300 million or equivalent to not exceeding RMB one billion or equivalent.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisitions or disposals of its subsidiaries, associates and joint ventures during the Year.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment during the Year.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 22 February 2017, the Company entered into a Letter of Intent (the "Letter of Intent") with Newmax Technology Co., Ltd.（新鉅科技股份有限公司）("Newmax Technology"), a company listed on the Taipei Exchange (stock code: 3630), in relation to the Company's intention to the conditional participation in the possible private placement of Newmax Technology. The details of the Letter of Intent were disclosed in the announcement of the Company dated 22 February 2017.

Save as disclosed in the announcement, the Group had not entered into any legally binding agreements or arrangements with respect to any investment opportunities as at 31 December 2016.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2016, the assets pledged by the Group were bank deposits of approximately RMB96,543,000 and bank acceptance bills of approximately RMB129,225,000, all of which were pledged as security for bank borrowings, bills payable, customs payment guarantee and construction project payment guarantee. As at 31 December 2016, the Group did not have any available-for-sale financial assets or fixed assets which were pledged.

EMPLOYEE POLICIES AND REMUNERATION

As of 31 December 2016, the Group had a total of 1,850 employees (31 December 2015: 1,314) (excluding staff under labor service agreements and internship agreements). During the Year, the Group committed to providing all staff with fair working and living environment, providing newly recruited staff with induction training and job technical counseling to help them to adapt to job requirements quickly, providing all staff with clear job responsibilities guidelines and for employees at different positions with on-the-job training together with other training programmes to help improving their skills and knowledge, and strived to provide all staff with competitive remuneration packages. Total remuneration of the employees of the Group was approximately RMB278,918,000 (31 December 2015: approximately RMB151,049,000). Apart from basic salary, the package also includes year-end bonus, medical insurance and provident fund (staff under labor service agreements and internship agreements are treated according to the laws and regulations of the PRC). Meanwhile, the Group has accepted the applications from 42 staff to exercise their options and issued a total of 13,826,000 ordinary shares during the Year pursuant to the pre-IPO share option scheme and a share option scheme adopted on 13 November 2014 (please see the disclosures in sections D1 and D2 headed "Share Option Scheme" and "Pre-IPO Share Option Scheme" of Appendix IV "Statutory and General Information" of the Prospectus respectively for details), the exercise price was RMB0.40 per share and total consideration received was RMB5,530,400, which assured the stability of the core management and technical personnel. In addition, on 26 October 2016, the Group granted 39,425,000 share options in total to 165 staff (including two Executive Directors, Mr. Wang Jianqiang and Mr. Hu Sanmu) in accordance with the share option scheme adopted by the Company on 13 November 2014 as incentives or returns for certain staff for the contributions made or may be made to the Company and/or subsidiaries, the exercise price of the share options was HK$4.13 per share and the grantees may apply to exercise the share options by phases in the future under fulfilling certain conditions (please refer to the announcement of the Company dated 26 October 2016 on Hong Kong Stock Exchange for details). In respect of the compliance in the labor and social security aspect, there was no material non-compliance act occurred in the Group and we had obtained the Certificate of Compliance and No Punishment issued by Kunshan Municipal Human Resources and Social Security Bureau successfully.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through bank borrowings, product sales and purchase of raw materials which give rise to receivables, payables, cash balances and loans that are denominated in foreign currencies other than RMB. The currencies that give rise to our currency risk are primarily generated from the exchange or translation of USD and Hong Kong Dollars into RMB. During the Year, the Group recorded an exchange loss of approximately RMB64,613,000 as the sales income of the Group was still mainly settled in RMB but various raw materials for production were purchased from overseas and settled in USD, and depreciated approximately 6.8% in the RMB against USD exchange rate for the Year. As affected by multiple factors such as politics, economic, and supply and demand, the trend of RMB against USD in the future is still subject to great uncertainties and the control task of the Company's exchange risks remains heavy. The Company will, on one hand, strive to strengthen the expansion of overseas business continuously to increase USD income; on the other hand, coordinate actively with suppliers receiving settlement in USD to seek the consent of certain suppliers to purchase domestically or arrange settlement in RMB, so as to reduce the demand for USD. Meanwhile, the Group will enhance monitoring of the exchange rate fluctuation on a daily basis, adjust the proportion of USD deposits to total deposits balance and the proportion of USD loans to total loans balance from time to time with reference to the analysis of exchange rates fluctuation trend, and fix the future foreign exchange costs by using currency derivative instruments such as foreign exchange forwards and options, so as to strengthen the management of foreign exchange risks and strive to reduce foreign exchange loss.

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 was approximately HK$658,000,000 (after deducting relevant listing expenses). As at 31 December 2016, the balance of the fund raised was approximately 0.5% or approximately HK$3,341,000, and approximately 99.5% or approximately HK$654,659,000 were utilised. Among the utilised net proceeds: (i) approximately HK$256,620,000 was utilised to purchase production and testing machinery and equipment; (ii) approximately HK$164,500,000 was utilised to enhance R&D capabilities; (iii) approximately HK$101,990,000 was utilised to expand the production base; (iv) approximately HK$46,718,000 was utilised to repay bank borrowings; (v) approximately HK$19,031,000 was utilised for overseas sales and procurement and future expansion to the overseas markets; and (vi) approximately HK$65,800,000 was utilised for general corporate purposes.

USE OF PROCEEDS FROM SHARES PLACING

On 12 December 2016, the Company completed the new shares placing of 40,000,000 ordinary shares under general mandate, the net proceeds from the above placing was approximately HK$154,428,000, after deducting the related placing commission, professional fees and all related expenses. As at 31 December 2016, the balance of the fund raised was approximately 24% or HK$36,687,000, and approximately 76% or approximately HK$117,741,000 were utilised, among which: (i) approximately HK$70,000,000 was utilised for capital expenses; (ii) approximately HK$33,313,000 was utilised for R&D activities; and (iii) approximately HK$14,428,000 was utilised for general working capital.

DIVIDEND

For the year ended 31 December 2015, the Board had resolved not to declare any dividend.

The Board recommended the payment of a final dividend for the year ended 31 December 2016 of approximately RMB3.5 cents (equivalent to approximately HK3.9 cents) per share to the Shareholders whose names appear on the register of members of the Company on Thursday, 8 June 2017. Subject to the approval by the Shareholders at the forthcoming annual general meeting (the "AGM"), the proposed final dividend is expected to be paid on or around Tuesday, 20 June 2017.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the eligibility to attend the 2016 annual general meeting, the register of members of the Company will be closed from 16 May 2017 to 19 May 2017. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 15 May 2017.

For the purpose of determining the eligibility to receive the final dividend, the register of members of the Company will be closed from 6 June 2017 to 8 June 2017, during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 5 June 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Pursuant to the applicable Company Law of the Cayman Islands and the articles of association, the Company may repurchase its shares under certain restrictions, and must comply with any of the applicable requirements implemented by the Stock Exchange from time to time when the Board exercises such right on behalf of the Company. During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

ENVIRONMENTAL PROTECTION MANAGEMENT

The Group has all along strictly complied with the environmental protection laws and policies in the jurisdictions where respective member companies are located. For the year ended 31 December 2016, the Group had newly added, formulated and implemented a number of rules and regulations in relation to environmental protection management such as the implementation of Wastewater Management Regulations, Waste Gas Management Regulations and Greenhouse Gas Management Measures to further perfect the wastewater, waste gas and greenhouse gas treatment system, in order to strengthen its management and control in production and domestic sewage to ensure that the wastewater discharge is in compliance with statutory requirements, and clarified the ranges, procedure and instrument of collecting the data of greenhouse gas for the effective management of greenhouse gas of the Group in the long run and prepared for reducing carbon emissions. Meanwhile, the Group had also amended and implemented the relevant regulations including the Fire Safety Management Regulations and Emergency Plan, held fire drill with particular focus on strengthening of self-check of the fire control facilities and improving the fire prevention and control capability, and Kunshan QT China successfully obtained the compliance certificate in terms of work safety granted by Kunshan Administration of Work Safety.

Particulars of environmental protection management of the Company will be disclosed in the Environmental Protection Management set out in the 2016 annual report of the Company.

MODEL CODE

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

CORPORATE GOVERNANCE

The Board is committed to maintaining a high standard of corporate governance, and protecting and enhancing Shareholders' value through good corporate governance. For the Year, the Company has fully complied with the applicable code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. The roles of the Chairman and the Chief Executive Officer are separate and performed by different individuals to enhance their respective independence, accountability and responsibility.

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group, setting the Group's values and standards, formulating the business plans and strategies, deciding all significant financial and operational issues, developing, monitoring and reviewing the Group's corporate governance. The Board has established the audit committee (the "Audit Committee"), the nomination committee, the remuneration committee and the risk management committee, all or the majority of members of the committees consists of independent non-executive directors. The respective terms of reference for such committees have been published on the respective websites of the Stock Exchange and the Company.

Particulars of the principal corporate governance practices adopted by the Company will be disclosed in the Corporate Governance Report set out in the 2016 annual report of the Company.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has established 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 (chairman of Audit Committee), Ms. Chen Jun and Mr. Chu Chia-Hsiang, all being Independent Non-executive Directors. The Audit Committee had reviewed the annual results of the Company for the year ended 31 December 2016 with the Company's management.

EVENTS AFTER THE REPORTING YEAR

Saved as disclosed in this announcement and/or other announcements of the Company, there were no other important events affecting the Group that had occurred after 31 December 2016 and up to the date of this announcement.

ANNUAL REPORT

The annual results announcement of the Company is published on the respective websites of the Stock Exchange of Hong Kong Limited (http://www.hkexnews.hk) and the Company (http://www.qtechglobal.com). The annual report for the year 2016 will be available on the above websites and dispatched to Shareholders 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
He Ningning
Chairman and Executive Director

Hong Kong, 16 March 2017

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