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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 2017

HIGHLIGHTS

- Unaudited revenue from sales of the Group for the six months ended 30 June 2017 amounted to approximately RMB3,604,998,000, representing an increase of approximately 108.7% as compared with the corresponding period in the year of 2016 (the "Corresponding Period"). The increase in revenue was mainly attributable to the significant increase in sales volume of the Group's fingerprint recognition modules products as compared with the Corresponding Period and the obvious improvement achieved in the average unit selling price of camera modules products as compared with the Corresponding Period.

- Gross profit for the six months ended 30 June 2017 was approximately RMB434,428,000, while gross profit margin was approximately 12.1%, representing an increase of approximately 2.8 percentage points as compared with the Corresponding Period.

- The profit of the Group for the six months ended 30 June 2017 was approximately RMB201,784,000, representing an increase of approximately 145.5% as compared with the Corresponding Period.

- Basic and diluted earnings per share for the six months ended 30 June 2017 were approximately RMB0.184 and RMB0.182 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 2017 together with the relevant comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**3,604,998**	1,727,031
Cost of sales		**(3,170,570)**	(1,565,666)
Gross profit		**434,428**	161,365
Other income	*4*	**7,797**	6,014
Other net loss	*4*	**(18,769)**	(8,061)
Selling and distribution expenses		**(6,508)**	(3,456)
Administrative and other operating expenses		**(50,552)**	(12,316)
Research and development expenses		**(122,555)**	(52,060)
Profit from operations		**243,841**	91,486
Finance costs	*5(a)*	**(4,323)**	(1,398)
Profit before taxation	*5*	**239,518**	90,088
Income tax	*6*	**(37,734)**	(7,894)
Profit for the period		**201,784**	82,194
Attributable to:			
Equity shareholders of the company		**201,784**	82,194
Profit for the period		**201,784**	82,194
		RMB Cents	*RMB Cents*
Earnings per share			
Basic	*7*	**18.4**	8.0
Diluted	*7*	**18.2**	7.9

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Profit for the period		**201,784**	82,194
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		**(6,608)**	2,086
Other comprehensive income for the period		**(6,608)**	2,086
Total comprehensive income for the period		**195,176**	84,280
Attributable to:			
Equity shareholders of the company		**195,176**	84,280
Total comprehensive income for the period		**195,176**	84,280

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2017 RMB'000	At 31 December 2016 RMB'000
Non-current assets			
Property, plant and equipment		**919,674**	720,181
Lease prepayments		**16,841**	17,048
Intangible assets		**1,234**	1,315
Deferred tax assets		**14,282**	4,287
Prepayment for acquisition of property, plant and equipment		**80,431**	83,354
		1,032,462	826,185
Current assets			
Inventories		**670,010**	799,246
Trade and other receivables	*8*	**1,909,531**	2,606,431
Other financial assets	*9*	**445,510**	–
Derivative financial assets	*10*	**38,157**	126,867
Current tax assets		**152**	152
Pledged bank deposits	*11*	**17,379**	96,543
Cash and cash equivalents		**225,505**	64,905
		3,306,244	3,694,144
Current liabilities			
Bank borrowings	*12*	**112,245**	335,432
Trade and other payables	*13*	**2,431,547**	2,592,781
Derivative financial liabilities	*10*	**17,396**	–
Current tax payable		**27,992**	10,372
		2,589,180	2,938,585
Net current assets		**717,064**	755,559
Total assets less current liabilities		**1,749,526**	1,581,744

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Non-current liabilities			
Deferred income		**10,829**	11,739
Deferred tax liabilities		**4,116**	2,040
		14,945	13,779
NET ASSETS		**1,734,581**	1,567,965
CAPITAL AND RESERVES			
Share capital	*14(b)*	**8,727**	8,605
Reserves		**1,725,854**	1,559,360
TOTAL EQUITY		**1,734,581**	1,567,965

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2017
(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 9 August 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 the audit committee of the Company. It has also 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 ("HKICPA").

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued the several 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.

3 REVENUE AND SEGMENT REPORTING

The principal activities of the Group are manufacturing and sales of camera modules and fingerprint recognition modules for mobile phones and other mobile communication terminals. No segment information is presented in respect of 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.

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Revenue		
PRC (including Hong Kong)	**3,447,839**	1,725,229
Overseas	**157,159**	1,802
	3,604,998	1,727,031

The Group had three (six months ended 30 June 2016: three) customers with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2017. The amount of sales to these customers amounted to approximately RMB2,505,770,000 (six months ended 30 June 2016: approximately RMB1,252,205,000).

For the six months ended 30 June 2017 and 2016, certain amounts of revenue are related to sales made to related parties.

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 revenue for the first half of the year than the second half.

For the twelve months ended 30 June 2017, the Group reported revenue of RMB6,869,125,000 (twelve months ended 30 June 2016: RMB3,060,677,000).

4 OTHER INCOME AND OTHER NET LOSS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Other income		
Government grants	**3,026**	2,262
Interest income	**4,716**	3,461
Others	**55**	291
	7,797	6,014
Other net loss		
Net foreign exchange gain/(loss)	**14,847**	(8,484)
Net realised and unrealised loss on foreign currency option contracts	**(16,069)**	–
Fair value (loss)/gain on foreign currency forward contracts	**(17,185)**	406
(Loss)/gain on disposal of property, plant and equipment	**(362)**	17
	(18,769)	(8,061)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		Six months ended 30 June	
		2017	2016
		RMB'000	*RMB'000*
(a)	**Finance costs**		
	Interest expenses	**4,323**	1,398
(b)	**Staff costs**		
	Contributions to defined contribution retirement plans	**3,915**	3,167
	Salaries, wages and other benefits	**171,656**	94,071
	Equity-settled share based payment expenses	**3,055**	232
		178,626	97,470
(c)	**Other items**		
	Amortisation		
	– lease prepayments	**208**	208
	– intangible assets	**81**	81
	Depreciation	**57,840**	26,869
	Auditors' remuneration	**550**	592
	Operating lease charges in respect of properties	**3,464**	1,185
	Research and development costs *(Note (i))*	**122,555**	52,060
	Cost of inventories *(Note (ii))*	**3,252,226**	1,596,387
	Impairment losses on trade and other receivables	**26,913**	–

Notes:

(i) Research and development costs include staff costs of employees in the design, research and development department of approximately RMB28,343,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB16,254,000) respectively which are included in the staff costs as disclosed in Note 5(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 RMB183,358,000 for the six months ended 30 June 2017 (six months ended 30 June 2016: RMB96,683,000) relating to staff costs, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in Note 5(b) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current tax		
PRC Corporate Income Tax	**41,392**	9,641
PRC dividend withholding tax *(Note (iv))*	**4,261**	–
Hong Kong Profits Tax	**–**	(2,107)
	45,653	7,534
Deferred tax		
Origination and reversal of temporary differences due to		
– Impairment losses on trade and other receivables	**(4,037)**	–
– Fair value gain/loss of derivative instruments	**(5,780)**	–
– Others	**1,898**	360
	(7,919)	360
Total	**37,734**	7,894

(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%. No provision was made for Hong Kong Profits Tax in the six months ended 30 June 2017 (six months ended 30 June 2016: nil) as the Group did not earn any assessable profit subject to Hong Kong Profits Tax during related periods.

(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 had 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 implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to a withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Sino-Hong Kong Double Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company. Deferred tax liabilities have been provided for in this regard based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008.

PRC dividend withholding tax under current tax represents tax charged by the PRC tax authority on dividends distributed by the Group's PRC subsidiaries during the period.

7 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 RMB201,784,000 (six months ended 30 June 2016: RMB82,194,000) and the weighted average number of 1,095,213,000 ordinary shares (six months ended 30 June 2016: weighted average number of 1,032,456,000 ordinary shares) in issue during the interim period, calculated as follows:

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2017	2016
	'000	*'000*
Issued ordinary shares at 1 January	**1,081,771**	1,027,945
Effect of share options exercised	**13,442**	4,511
Weighted average number of ordinary shares at 30 June	**1,095,213**	1,032,456

(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 RMB201,784,000 (six months ended 30 June 2016: RMB82,194,000) and the weighted average number of ordinary shares of 1,105,680,000 (six months ended 30 June 2016: weighted average number of 1,045,839,000 ordinary shares).

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

	Six months ended 30 June	
	2017	2016
	'000	*'000*
Weighted average number of ordinary shares at 30 June	**1,095,213**	1,032,456
Effect of deemed issue of shares under the Company's share option scheme for nil consideration	**10,467**	13,383
Weighted average number of ordinary shares (diluted) at 30 June	**1,105,680**	1,045,839

8 TRADE AND OTHER RECEIVABLES

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Trade receivables		
– third parties	**1,762,150**	2,371,648
– related parties	**23,585**	3,894
Bills receivable		
– third parties	**153,301**	169,105
Trade and bills receivables	**1,939,036**	2,544,647
Less: Allowance for doubtful debts	**(36,817)**	(9,904)
	1,902,219	2,534,743
Other deposits, prepayments and receivables	**7,312**	71,688
	1,909,531	2,606,431

(i) 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 RMB245,000 as at 30 June 2017 (31 December 2016: RMB264,000), which are expected to be recovered after more than one year.

(ii) Bills receivable represented outstanding bank acceptance bills and commercial acceptance bills. As at 30 June 2017, bills receivable amounting to RMB33,605,000 (31 December 2016: RMB129,225,000) and RMB86,620,000 (31 December 2016: nil) were pledged as security for bills payable and bank borrowing respectively. Bills receivable are due in 3 to 6 months from the date of issue.

The Group derecognised bills receivable when it transferred bank acceptance bills to suppliers through endorsement. Bill holders in due course preserve right of recourse against the Group in case of dishonor of the bills. As at 30 June 2017, the outstanding balance of bills endorsed with recourse totaled RMB237,327,000 (31 December 2016: RMB65,099,000), which represents the Group's exposure to credit risk. All of these bills are due within one year.

The Group only accepts bank acceptance bills issued by major banks or banks with qualified rating in the PRC and thus 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.

(iii) During the period, the Group entered into a factoring arrangement with a commercial factoring company and a customer in relation to certain trade receivables from the customer, amounting to RMB30,000,000. The Group received the amount from the factoring company and undertakes the obligation to repay any outstanding amount under the factoring arrangement in the event that the customer fails to pay upon maturity. Consequently, such trade receivables are not derecognised from the Group's trade receivables balance, and the amount paid by the factoring company is recognised in trade and other payables.

(iv) 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.

(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 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Within 1 month	**1,348,131**	1,569,991
More than 1 month but within 3 months	**396,226**	902,416
More than 3 months but within 6 months	**157,816**	62,336
More than 6 months but within 1 year	**46**	–
	1,902,219	2,534,743

(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 period is as follows:

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
At 1 January	**9,904**	504
Impairment loss recognised	**26,913**	9,400
As at 30 June/31 December	**36,817**	9,904

As at 30 June 2017, there was an impairment provision of RMB36,817,000 (31 December 2016: RMB9,904,000) 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:

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Neither past due nor impaired	**1,891,144**	2,453,442
Less than 3 months past due	**1,214**	617
Over 3 less than 6 months past due	**–**	–
Over 6 less than 12 months past due	**–**	–
	1,892,358	2,454,059

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 2017, receivables that were past due but not impaired related to customers that maintain continuing trading relationships 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.

9 OTHER FINANCIAL ASSETS

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Other financial assets	**445,510**	–

Other financial assets represent investments in short-term wealth management products issued by commercial banks in mainland China whose principal and returns are not guaranteed, and a variable return structured deposit of RMB34,000,000 which was pledged for bills payable.

10 DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

	At 30 June 2017		
	Notional amount *RMB'000*	**Assets** *RMB'000*	**Liabilities** *RMB'000*
Foreign currency derivative instruments			
– Forward contracts	**1,456,496**	**211**	**(17,396)**
– Option contracts	**1,930,704**	**37,946**	**–**
Total	**3,387,200**	**38,157**	**(17,396)**

	At 31 December 2016		
	Notional amount *RMB'000*	Assets *RMB'000*	Liabilities *RMB'000*
Foreign currency derivative instruments			
– Option contracts	889,058	126,867	–

The Group entered into foreign currency option and foreign currency forward contracts with a bank. As at 30 June 2017, the notional amount of outstanding contracts amounted to USD500,000,000 (31 December 2016: USD127,500,000). All these option and forward 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.

The fair value of foreign currency forward contracts takes into account the market interest rate and the estimated future pay-off of the forward contract.

11 PLEDGED BANK DEPOSITS

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Pledged for		
– bank borrowings *(Note 12)*	**–**	12,000
– bills payable *(Note 13)*	**8,329**	75,493
– letter of guarantee	**9,050**	9,050
Pledged bank deposits	**17,379**	96,543

The pledged bank deposits will be released upon the settlement of relevant bank borrowings, bills payable, and the maturity of letter of guarantee.

12 BANK BORROWINGS

As at 30 June 2017, the bank borrowings with effective interest rate of 2.6% (31 December 2016: 1.91%), were repayable within one year or on demand as follows:

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Bank borrowings		
– secured *(Note)*	**54,135**	111,335
– unsecured	**58,110**	224,097
	112,245	335,432

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

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Pledged bank deposits *(Note 11)*	**–**	12,000
Bills receivable *(Note 8(ii))*	**86,620**	–
	86,620	12,000

13 TRADE AND OTHER PAYABLES

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Trade payables and accruals		
– third parties	**1,773,667**	2,054,547
– related parties	**20,932**	1,170
Bills payable *(Note (a))*		
– third parties	**347,826**	318,154
Trade and bills payables *(Note (b))*	**2,142,425**	2,373,871
Accrued payroll	**35,624**	50,161
Foreign currency option premium *(Note (c))*	**39,834**	107,409
Payable under factoring arrangement *(Note 8(iii))*	**30,000**	–
Receipts in advance	**112,968**	8,637
Other payables and accruals	**70,696**	52,703
	2,431,547	2,592,781

All of the trade and other payables as at 30 June 2017 are expected to be settled or recognised as income within one year or are repayable on demand.

(a) As at 30 June 2017, bills payable with carrying value of RMB33,605,000 (31 December 2016: RMB124,760,000), RMB35,401,000 (31 December 2016: RMB102,748,000), and RMB33,699,000 (31 December 2016: nil) were secured by bills receivable, pledged bank deposits and other financial assets, respectively.

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

	At 30 June 2017 *RMB'000*	At 31 December 2016 *RMB'000*
Within 3 months	**1,869,484**	2,046,742
Over 3 months but within 6 months	**149,237**	182,461
Over 6 months but within 1 year	**3,181**	896
Over 1 year	**3,892**	829
	2,025,794	2,230,928

As at 30 June 2017, the accrued trade payables which represented the amounts with no invoice received by the end of the reporting period date, amounted to approximately RMB116,631,000 (31 December 2016: approximately RMB142,943,000).

(c) **Foreign currency option premium**

Foreign currency option premium represented the amount payable for entering into the foreign currency option contracts.

14 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 2017 *RMB'000*	At 30 June 2016 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period of RMB3.5 cents equivalent to HK3.9 cents (six months ended 30 June 2016: nil)	**37,145**	–

The Company did not propose any interim dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: nil).

(b) Share capital

Authorised and issued share capital

	Number of Shares *'000*	**Amount** *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each	50,000,000	500,000

	Number of shares	**Nominal value of ordinary shares**	
	'000	*HK$'000*	*RMB'000*
Issued and fully paid:			
At 1 January 2016	1,027,945	10,279	8,132
Shares issued under Pre-IPO Share Option Scheme	13,826	138	117
Shares issued for the Placement	40,000	400	356
At 31 December 2016 and 1 January 2017	1,081,771	10,817	8,605
Shares issued under Pre-IPO Share Option Scheme	13,826	138	122
At 30 June 2017	1,095,597	10,955	8,727

During the period, pursuant to the Company's share option schemes (notes (c)), options were exercised to subscribe for 13,826,000 ordinary shares (six months ended 30 June 2016: 8,826,000 shares) in the Company at a consideration of RMB5,530,000 (six months ended 30 June 2016: RMB3,530,000) of which RMB122,000 (six months ended 30 June 2016: RMB74,000) was credited to share capital and the balance of RMB7,903,000 (six months ended 30 June 2016: RMB5,140,000) was credited to the share premium account. RMB2,495,000 (six months ended 30 June 2016: RMB1,684,000) has been transferred from the share-based compensation reserve to the share premium account. 1,949,000 options were lapsed during the period (six months ended 30 June 2016: 93,000). As at 30 June 2017, the total number of shares which may be issued upon the exercise of all options outstanding from the Company's share option schemes is 44,878,000 (31 December 2016: 52,570,000), of which 37,265,000 options are exercisable at an exercise price of HK$4.13 and 7,613,000 options are exercisable at an exercise price of HK$6.22.

(c) Equity settled share-based transactions

(i) Shares issued under Pre-IPO Share Option Scheme

On 13 November 2014, the Company adopted a pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") and a share option conversion scheme (the "Conversion Scheme") and granted a total of 59,935,000 share options under the Pre-IPO Share Option Scheme to the eligible participants with an aim to reward their contribution to the Group made or possibly made. The directors of the Company were authorised, at their discretion, to invite certain employees of the Group, including directors of any company in the Group, to take up options at nil consideration to subscribe for shares of the Company.

(ii) 2016 Share Option Scheme

On 26 October 2016, the Company granted a total of 39,425,000 share options (the "2016 Share Option Scheme") to eligible participants to subscribe for a total of 39,425,000 ordinary shares of HK$0.01 each in the capital of the Company, subject to performance conditions related to certain revenue growth target of the Company's 2017, 2018 and 2019 financial years.

(iii) 2017 Share Option Scheme

On 9 June 2017, the Company granted a total of 8,083,000 share options (the "2017 Share Option Scheme") to eligible participants to subscribe for a total of 8,083,000 ordinary shares of HK$0.01 each in the capital of the Company, subject to performance conditions related to certain revenue growth target of the Company's 2017, 2018, 2019 and 2020 financial years.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back into the six months ended 30 June 2017 (the "Period"), the global economic development grew steadily, while several indicators issued by the PRC government also reflected the stable growth in China's economic development with social consumption demand and purchasing power both improving. After many years of development and competition among China's smartphone brands, on one hand, the branded market continued to be increasingly concentrated, while on the other hand, leading brands of China's smartphone brands received higher recognition from customers on product reputation and cost/price performance through continuous product innovation and appropriate marketing measures. Thus, the market share of various leading brands increased significantly and thereby the supply chain of China's smartphone brands also achieved a stable development. In 2016, the Group entered into the fingerprint recognition modules market successfully, which enabled the Group's business development stepped into a new stage of "dual-wheel driver" for camera modules and fingerprint recognition modules. During the Period, the strategic focus of camera modules business of the Group was to improve the quality of growth of camera modules and, on the basis of continuous and solid growth in the sales volume of camera modules, successfully achieved significant improvement in the camera modules product structure. Meanwhile, the strategic focus of the fingerprint module business of the Group was to grasp more market share and to significantly increase shipment volume, the rapid growth in shipment achieved fully demonstrated the Group's strong competitiveness in the intense competitive market. The "dual-wheel driver" high speed turnover enabled the Group to achieve a rapid growth in business during the Period.

During the period under review, 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, among which, the sales volume of camera modules reached approximately 83.19 million units, representing an increase of approximately 12.3% as compared with approximately 74.08 million units of the Corresponding Period and a period-on-period decrease of approximately 19.5% as compared with approximately 103.32 million units in the second half of last year, while the sales volume of fingerprint recognition modules reached approximately 34.32 million units, representing an increase of approximately 2,360.3% as compared with the Corresponding Period and a period-on-period increase of approximately 75.6% as compared with the second half of last year. Total sales volume of camera modules and fingerprint recognition modules reached approximately 117.51 million units, representing a growth of approximately 55.7% as compared with approximately 75.48 million units of the Corresponding Period and a period-on-period decrease of approximately 4.4% as compared with approximately 122.86 million units in the second half of last year. The sales income of the Group amounted to approximately RMB3,604,998,000, representing an increase of approximately 108.7% as compared with approximately RMB1,727,031,000 of the Corresponding Period, and a growth of approximately 10.4% as compared with approximately RMB3,264,127,000 in the second half of last year. The year-on-year growth of sales income was higher than its sales volume due to the obvious improvement achieved in the pixel structure of camera modules and the increase in proportion of dual camera modules, whereby the consolidated average unit selling price of the Group's products reached approximately RMB30.7, representing an increase of approximately 34.1% as compared with approximately RMB22.9 of the Corresponding Period, and a period-on-period growth of approximately 15.4% as compared with the consolidated average unit selling price of approximately RMB26.6 in the second half of last year. Among which, the average unit selling price of camera modules reached approximately RMB30.9, representing an increase of approximately 35.5% as compared with approximately RMB22.8 of the Corresponding Period, and the average unit selling price of fingerprint recognition modules reached approximately RMB30.1, representing a growth of approximately 1.3% as compared with approximately RMB29.7 of the Corresponding Period.

During the Period, gross profit margin of the Group was approximately 12.1%, representing an increase of approximately 2.8 percentage points as compared with approximately 9.3% of the Corresponding Period and an increase of approximately 4.1 percentage points as compared with approximately 8.0% in the second half of last year. The increase in gross profit margin was mainly attributable to the following factors: (i) the year-on-year decrease in percentage of integrated material costs to revenue of approximately 1.9 percentage points due to the combined impact of the increase in average unit selling price which exceeded the increase in average unit purchasing price and the appreciation in exchange rates of RMB against US dollar; (ii) the obvious improvement in the pixel structure of camera modules and the increase in proportion of dual camera modules which pushed up the added value of products; (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 a year-on-year increase of approximately 0.9 percentage points in gross profit margin.

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 13 mega pixels and higher. The sales volume of products with 13 mega pixels and higher has significantly increased by approximately 249.1% to approximately 36.17 million units as compared with approximately 10.36 million units during the Corresponding Period, the sales volume of which accounted for approximately 43.5% of the Group's sales volume of camera modules for the Period (the Corresponding Period: approximately 14%), the revenue achieved which accounted for approximately 67.8% of the Group's revenue of camera modules for the Period (the Corresponding Period: approximately 25.5%), whilst the total revenue of which accounted for approximately 48.4% of the Group's total revenue for the Period (the Corresponding Period: approximately 24.9%). The sales volume of fingerprint recognition modules amounted to approximately 34.32 million units, which accounted for approximately 29.2% of the Group's total sales volume for the Period (the Corresponding Period: approximately 1.8%), whilst the revenue accounted for approximately 28.6% of the Group's total revenue for the Period (the Corresponding Period: approximately 2.4%). The significant increase in the sales volume of mid-to-high end camera modules with resolutions of 13 mega pixels and higher had 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 good foundation for further increasing the shipment volume of camera modules with resolution of 13 mega pixels and higher as well as the dual camera modules in future.

During the Period, the Group continued to place great emphasis on maintaining and expanding its domestic and overseas customer base. On the basis of sustaining the close co-operative relationship with its primary core customers, the Group successfully established a direct co-operative relationship with Huawei for its camera modules business, which demonstrated the Group's good customer relationship management and sales capabilities as well as the increasing recognition from the leading enterprises of China mobile brands of the Group's comprehensive competitiveness. Not only had this further optimized the customer base of the Group but also laid a good foundation for the subsequent business development for camera modules.

During the Period, the Group continued to input resources and strengthened its efforts in improving product design and manufacturing capabilities, enhanced production efficiency to develop better products and satisfied the ever-changing demand of customers. Among which, the Group strived to advance the technology of miniaturized packaging for new molding, which will gradually put into production this year. The Group also introduced the active alignment (AA) free process for single and dual camera modules with high pixels to save production time and cost through controlling materials and precise processing. On the other hand, the Group continued to strengthen the research and development ("R&D") of advanced technologies for dual camera, high-end camera modules with resolution of 16 mega pixels and higher, especially on wide aperture and wide angle functions. Currently, the Group possesses the ability to mass-produce the 1.7 aperture products. In addition, the Group is focusing on the relevant technologies of 3D modules, especially the relevant technologies of 3D structure light modules, in order to meet the continuous demand of high-end products from our customers.

The directors of the Company (the "Directors") believe that, despite the global macro-economic environment may still fluctuate, the demand of high-end image products from customers still has room for growth. Despite the intensified fierce market competition, the Group's efforts in the optimisation of product structure, expansion of customer base, and improvement in the R&D of new products functions, are expected to gradually pay off and lay a good foundation for its operation and development in future.

PROSPECTS

In general, the second half of the year is the traditional peak season for the smartphone industry, therefore, the Group continues to maintain the target guidance on the sales volume for camera modules, fingerprint recognition modules and the proportion of camera modules with 13 mega pixels and higher stipulated at the beginning of the year, and will endeavor to do so. However, the Directors are also well aware that the second half of 2017 will be full of challenges with opportunities also go alongside. On one hand, overseas mobile phone brands will 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, which will affect our sales growth as a result. On the other hand, the pace of global smartphone market growth tends to be gentle and may not be improved in the short run, gross profit margin may be constrained by the intense competition in the industry. The exchange rates of RMB against US dollar may change from appreciation to depreciation and thus affect profit growth. Nevertheless, the Directors believe that the Internet of Things driven by artificial intelligence (AI) is a relative definite trend. The image system will be the most important interface for information interaction of the Internet of Things, which will drive the growth in demand of camera modules, and the dual/multi camera is expected to be applied widely for mobile intelligent communication terminals, in which it will improve the added value of camera modules and facilitate the effective growth of camera modules market size. 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, the demand for biological recognition modules such as fingerprint recognition modules, 3D recognition modules, iris recognition modules continuously increase, of which fingerprint recognition modules may become standard accessories of smartphones and benefit the Group in maintaining the rapid development of our relevant businesses. As opportunities co-exist with challenges, the Group will continue to enhance the R&D of new products and their functionality, fully promote the miniaturized technology development of molding, actively prepare manufacturing technique capabilities of 3D recognition modules, actively carry out customer relationship marketing and gradually expand the production capacity of camera modules to not less than 30 million units per month and fingerprint recognition modules to not less than 17 million units per month, and endeavor to enhance the Group's core competitiveness. The Directors are confident to lead the Group to embrace the challenges, seize new development opportunities 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 2017, the revenue of the Group was approximately RMB3,604,998,000, representing an increase of approximately 108.7% as compared with approximately RMB1,727,031,000 of the Corresponding Period. The increase in revenue was mainly attributable to (i) the sales volume of camera modules amounted to approximately 83.19 million units, representing an increase of approximately 12.3% as compared with the Corresponding Period; (ii) the sales volume of fingerprint recognition modules amounted to approximately 34.32 million units, representing an increase of approximately 23.6 times as compared with approximately 1.4 million units for the Corresponding Period; and (iii) the consolidated average unit selling price of fingerprint recognition modules and camera modules amounted to approximately RMB30.7, representing an increase of approximately 34.1% as compared with approximately RMB22.9 of the Corresponding Period.

Cost of sales

For the six months ended 30 June 2017, the cost of sales of the Group was approximately RMB3,170,570,000, representing an increase of approximately 102.5% as compared with approximately RMB1,565,666,000 of the Corresponding Period. The increase in the cost of sales was primarily attributable to the increase in sales volume and sales size and resulted in that (i) total investments in raw materials increased by approximately 103.9% to approximately RMB2,868,842,000 as compared with the Corresponding Period; (ii) labour cost increased by approximately 83.5% to approximately RMB136,963,000 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 110.4% to approximately RMB46,395,000 as compared with the Corresponding Period; (iv) sub-contracting charges increased by approximately 108.3% to approximately RMB63,228,000 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 2017, the gross profit of the Group was approximately RMB434,428,000 (the Corresponding Period: approximately RMB161,365,000), representing an increase of approximately 169.2% as compared with the Corresponding Period, while the gross profit margin was approximately 12.1% (the Corresponding Period: approximately 9.3%). The increase in gross profit margin was mainly attributable to the following factors: (i) the year-on-year decrease in percentage of costs of raw materials to revenue of approximately 1.9 percentage points due to the combined impact of the increase in average unit selling price of the products which exceeded the increase in average unit purchasing price of raw materials and the appreciation in exchange rates of RMB against US dollar; (ii) the obvious improvement in the pixel structure of camera modules and the increase in proportion of dual camera modules which pushed up the added value of products; (iii) the scale effect due to the increase in revenue resulting in a decrease in manufacturing labour rate and other production costs, which in turn led to a year-on-year increase of approximately 0.9 percentage points in gross profit margin.

Other income

For the six months ended 30 June 2017, other income of the Group was approximately RMB7,797,000, representing an increase of approximately 29.7% as compared with approximately RMB6,014,000 of the Corresponding Period. The increase in other income was primarily due to: (i) interest income from the bank deposits of the Group increased from approximately RMB3,461,000 for the six months ended 30 June 2016 to approximately RMB4,716,000 for the six months ended 30 June 2017; and (ii) the recognised government grants of the Group increased from approximately RMB2,262,000 for the six months ended 30 June 2016 to approximately RMB3,026,000 for the six months ended 30 June 2017.

Other net loss

For the six months ended 30 June 2017, the Group recorded other net loss of approximately RMB18,769,000, while other net loss of approximately RMB8,061,000 was recorded for the six months ended 30 June 2016. Such other net loss was primarily attributable to: (i) net exchange gain recorded of approximately RMB14,847,000 due to the appreciation in exchange rates of RMB against US dollar during the Period; (ii) the net realised and unrealised loss on foreign currency option contracts amounted to approximately RMB16,069,000; and (iii) the estimated fair value loss of foreign currency forward contracts was approximately RMB17,185,000.

Selling and distribution expenses

For the six months ended 30 June 2017, the selling and distribution expenses of the Group amounted to approximately RMB6,508,000, representing an increase of approximately RMB3,052,000 as compared with approximately RMB3,456,000 of the Corresponding Period. The increase in selling and distribution expenses was mainly attributed to the increase of sales staff's total salaries as a result of the expansion in the sales scale and increase in number of staff, and increase in entertainment expenses due to the selling activities during the Period. However, the ratio of selling and distribution expenses was at similar level of approximately 0.2% for the Corresponding Period.

Administrative and other operating expenses

For the six months ended 30 June 2017, total administrative and other operating expenses of the Group increased from approximately RMB12,316,000 of the Corresponding Period to approximately RMB50,552,000, representing an increase of approximately 310.5%. The increase in administrative and other operating expenses was mainly attributable to: (i) an impairment loss of RMB26,913,000 was recognised related to certain customers whose balances were overdue and were individually determined to be impaired, while there was no such provision made during the Corresponding Period; and (ii) due to business expansion during the Period, staff costs and other administrative expenses increased accordingly. Excluding the impact of impairment loss, the administrative and other operating expenses accounted for approximately 0.7% of the revenue for both the Period and the Corresponding Period.

R&D expenses

For the six months ended 30 June 2017, total R&D expenses of the Group amounted to approximately RMB122,555,000, representing an increase of approximately 135.4% as compared with approximately RMB52,060,000 of the Corresponding Period. The increase in R&D expenses for the Period was mainly attributable to the Group's continuous investments in the R&D of new products, new functionality and new production techniques, so as to allow the Group to develop camera modules products with higher pixels, dual camera modules products with different functions and applications, camera modules products with thinner optical image stabilisation camera modules products, camera modules products with broader wide-angle and aperture functions, more miniature fingerprint recognition modules products with higher definition and iris recognition modules products, as well as to optimise and enhance the standards of production automation.

Finance costs

The finance costs of the Group increased by approximately 209.2% from approximately RMB1,398,000 for the six months ended 30 June 2016 to approximately RMB4,323,000 for the six months ended 30 June 2017, which was primarily due to the combined effect of the period-on-period increase in the Group's daily average balance of bank borrowings as compared with the Corresponding Period and the increase in interest rate of USD borrowings.

Income tax expenses

The income tax expenses of the Group increased from approximately RMB7,894,000 for the six months ended 30 June 2016 to approximately RMB37,734,000 for the six months ended 30 June 2017, which was mainly attributable to increase in revenue and gross profit margin that resulted in significant increase in net profit amount during the Period. The income tax rate for the Period was approximately 15.8%, representing an increase of 7.0 percentage points as compared with approximately 8.8% of the Corresponding Period. The increase in income tax rate was mainly due to: (i) provision of PRC dividend withholding tax of approximately RMB4,261,000 was provided for during the Period, while no such provision was made during the Corresponding Period; and (ii) Hong Kong profits tax refund of approximately RMB2,107,000 (the Corresponding Period: nil) was received by Kunshan QT Hong Kong during the Corresponding Period.

Profit for the Period

Based on the foregoing, the profit of the Group for the six months ended 30 June 2017 amounted to approximately RMB201,784,000 (the Corresponding Period: RMB82,194,000), representing an increase of approximately 145.5% as compared with the Corresponding Period.

LIQUIDITY AND FINANCIAL RESOURCES

Bank borrowings

As at 30 June 2017, the Group's bank borrowings amounted to approximately RMB112,245,000, representing a decrease of approximately 66.5% from approximately RMB335,432,000 as at 31 December 2016. The maturities of all of those bank borrowings are less than 1 year.

As at 30 June 2017, the Group's bank borrowings were denominated in RMB and USD.

For the six months ended 30 June 2017 and 2016, the overview of the Group's cash flow was set out as follows:

	For the six months ended 30 June	
	2017	2016
	RMB	*RMB*
Net cash flow generated from/(used in) operating activities	**1,226,683**	(61,770,000)
Net cash flow used in investing activities	**(606,246)**	(74,729,000)
Net cash flow (used in)/generated from financing activities	**(459,024)**	1,201,000

As of 30 June 2017, cash and cash equivalents of the Group amounted to approximately RMB225,505,000, representing an increase of approximately RMB160,600,000 from approximately RMB64,905,000 as at 31 December 2016. The increase in cash and cash equivalents was mainly due to the net cash inflow in operating activities.

Operating activities

For the six months ended 30 June 2017, the Group's net cash inflow of operating activities amounted to approximately RMB1,226,683,000. The Group's cash flow recorded a net inflow from its operating activities, which was primarily attributed to: (i) the decrease in turnover days of receivables during the Period as compared with the Corresponding Period, while there was an increase in turnover days of payables; and (ii) the increase in gross profit margin of the Group during the Period.

Investing activities

The net cash outflow used in the investing activities of the Group during the Period amounted to approximately RMB606,246,000, which was mainly due to: (i) the expenses for plant expansion in the amount of approximately RMB250,551,000; and (ii) the purchase of other financial assets was approximately RMB445,510,000.

Financing activities

The net cash outflow used in the financing activities of the Group during the Period amounted to approximately RMB459,024,000, which was mainly due to: (i) the cash for repayment of bank borrowings of approximately RMB499,285,000; and (ii) the payment of dividend of approximately RMB37,145,000.

Gearing ratio

The gearing ratio as at 30 June 2017, which is defined by bank borrowings divided by total equity at the end of the Period, was approximately 6.5%, representing a decrease of approximately 5.1 percentage points from 11.6% as at 30 June 2016, and representing a decrease of approximately 14.9 percentage points from approximately 21.4% as at 31 December 2016.

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 "Management Discussion and Analysis" section of the 2016 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 and debt asset position of the Group in order to ensure the sufficiency of its working capital and maintain the debt asset ratio at a reasonable level.

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 2017.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment during the six months ended 30 June 2017.

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.

Subsequently, the Company entered into the Share Subscription Agreement (the "Subscription Agreement") with Newmax Technology on 18 March 2017, the details of which were disclosed in the announcement of the Company dated 19 March 2017.

Save as disclosed in the aforesaid announcements, the Group had not entered into any legally binding agreements or arrangements with respect to any investment opportunities as of 30 June 2017.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group did not have any contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2017, the assets pledged by the Group included bank deposits, bills receivable and other financial assets of approximately RMB171,604,000, which were pledged as security for bank borrowings, bills payable and letter of guarantee.

EMPLOYEE POLICIES AND REMUNERATION

As at 30 June 2017, the Group had a total of 2,682 employees (30 June 2016: 1,802) (excluding staff under labor service agreements and internship agreements). The Group is 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. For the six months ended 30 June 2017, the remuneration of the employees of the Group was approximately RMB178,626,000 (six months ended 30 June 2016: approximately RMB97,470,000). Apart from basic salary, the package also includes performance 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 Period 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 approximately RMB5,530,000, which assured the stability of the core management and technical personnel. In addition, subsequent to the Group granting the 39,425,000 share options in total to 165 staff (including two Executive Directors, Mr. Wang Jianqiang and Mr. Hu Sanmu) on 26 October 2016 in accordance with the share option scheme adopted by the Company on 13 November 2014 in which the exercise price of the share options was HK$4.13 per share (please refer to the announcement of the Company dated 26 October 2016 on Hong Kong Stock Exchange for details), on 9 June 2017, the Group granted 8,083,000 share options in total to 48 staff (none of the grantees are Directors, chief executive or substantial shareholders of the Company or any of their respective associates) with the exercise price of HK$6.22 per Share, and the grantees may apply to exercise the share options by phases in the future upon fulfilling certain conditions (please refer to the announcement of the Company dated 9 June 2017 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.

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 Period, the Group recorded an exchange gain of approximately RMB14,847,000 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 appreciated approximately 2.3% in the RMB against USD exchange rate for the Period. However, the realized and unrealized loss on foreign currency option contracts amounted to approximately RMB16,069,000, and the fair value loss on foreign currency forward contracts amounted to approximately RMB17,185,000. 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 it is difficult to change the business mode of the Company that sales income was mainly settled in RMB and a large volume of raw materials are required to be settled in USD in a short run, as such, 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. 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 2017, the fund raised was fully utilised. Among the net proceeds used: (i) approximately HK$256,620,000 was utilised to purchase production and testing equipment; (ii) approximately HK$164,500,000 was utilised for promoting R&D capabilities; (iii) approximately HK$101,990,000 was utilised to expand production base; (iv) approximately HK$46,718,000 was utilised to repay bank borrowings; (v) approximately HK$ 22,372,000 was utilised for overseas sales and procurement as well as overseas market expansion in the future; 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 placing of 40,000,000 new ordinary shares under general mandate. The net proceeds of the aforesaid placing were approximately HK$154,428,000 (after deducting relevant placing commission, professional fees and all related expenses). As of 30 June 2017, the fund raised was fully utilised. Among the net proceeds used, (i) approximately HK$70,000,000 was utilised for capital expenditure; (ii) approximately HK$70,000,000 was utilised for research and development; and (iii) approximately HK$14,428,000 was utilised for working capital of the Group. The purpose of capital utilisation is consistent with that in the intended use of the placing.

DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (six months ended 30 June 2016: Nil).

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

During the six months ended 30 June 2017, 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 of three independent non-executive Directors, namely Mr. Ng Sui Yin (the chairman), Mr. Ko Ping Keung and Mr. Chu Chia-Hsiang. The Audit Committee has reviewed the interim results and the interim report of the Company for the Period with the Company's management. The Company's independent auditor, KPMG, has also reviewed the interim financial report 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 HKICPA.

EVENTS AFTER THE PERIOD

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 2017 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 2017 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
He Ningning
Chairman and Executive Director

Hong Kong, 9 August 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. Ko Ping Keung, Mr. Chu Chia-Hsiang and Mr. Ng Sui Yin.