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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)**

# ANNUAL RESULTS ANNOUNCEMENT
# FOR THE YEAR ENDED 31 DECEMBER 2017

## HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2017 amounted to approximately RMB7,938,958,000, representing an increase of approximately 59.1% as compared with that of 2016. The year-on-year increase of revenue is mainly due to the following factors: (i) although the shipment volume of camera modules decreased by approximately 2.8% on a year-on-year basis due to intense market competition, the average selling price of camera modules recorded a year-on-year increase of approximately 42.0% attributable to the significant enhancement of product mix of camera modules, which resulted in a steady year-on-year increase of approximately 38.1% in the sales revenue of camera modules; and (ii) although the average selling price of fingerprint recognition modules recorded a year-on-year decrease of approximately 26.2%, the sales volume of fingerprint recognition modules recorded a significant year-on-year increase of approximately 285.5%, which resulted in a significant year-on-year increase of approximately 184.4% in the overall sales revenue of fingerprint recognition modules.

- Gross profit of the Group for the year ended 31 December 2017 was approximately RMB882,733,000, representing an increase of approximately 109.0% as compared with that of 2016, while gross profit margin for the year ended 31 December 2017 was approximately 11.1% (2016: approximately 8.5%). The increase in gross profit margin was mainly attributable to the increase in gross profit margin of camera module products on a year-on-year basis due to the significant enhancement of the product mix of camera modules and the significant increase in the proportion of the dual camera modules and the single camera modules with resolutions of 13 mega pixels and above over the same period last year which pushed up the added value of camera module products.

- Profit of the Group for the year ended 31 December 2017 was approximately RMB436,277,000, representing an increase of approximately 128.7% as compared with that of 2016. The increase in profit was mainly attributable to: (i) although the shipment volume of camera modules declined on a year-on-year basis, the average selling price of camera modules recorded a steady year-on-year increase attributable to the significant enhancement of product mix of camera modules, which resulted in a steady increase in the sales revenue of camera modules; (ii) gross profit margin of camera module products improved on a year-on-year basis due to the significant enhancement of product mix which pushed up the added value of camera module products; and (iii) although the average selling price of fingerprint recognition modules recorded a year-on-year decline, the sales volume of fingerprint recognition modules recorded a significant year-on-year increase, which resulted in a significant year-on-year increase in the overall sales revenue of fingerprint recognition modules.

- Basic and diluted earnings per share for the year ended 31 December 2017 were approximately RMB0.398 and RMB0.389 respectively.

- The Board has recommended the payment of a final dividend for the year ended 31 December 2017 of approximately RMB7.8 cents (equivalent to approximately HK9.6 cents) per share to the Shareholders whose names appear on the register of members as at Tuesday, 12 June 2018.

Looking ahead to 2018, despite the coexistence of opportunities and challenges in the market, under the macro environment of the continuing trend towards high-end oriented mobile terminals camera modules, the ever-improving and growing popularity of dual camera modules solutions, the ready-to-use 3D structure light modules and the increasingly popularization of mobile payment through smartphones, the Board is cautiously optimistic about the business development of camera modules and fingerprint recognition modules in 2018 and endeavours to achieve the following objectives:

1) Shipment of camera modules in 2018 will increase by approximately 10% to 20% over the previous year;

2) Shipment of fingerprint recognition modules in 2018 will increase by approximately 20% to 30% over the previous year;

3) While constantly reviewing customers' rolling demand and the Company's business plan, production capacity of camera modules will be gradually expanded to not more than 45 million units per month by the end of 2018, including production capacity of dual camera modules of approximately 10 million units per month.

## FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Q Technology (Group) Company Limited (the "Company") announces the audited consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2017 (the "Year") together with the relevant comparative figures for the year ended 31 December 2016 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 31 December 2017*
*(Expressed in Renminbi)*

| | *Note* | **2017** ***RMB'000*** | 2016 *RMB'000* |
|---|---|---|---|
| **Revenue** | *2* | **7,938,958** | 4,991,158 |
| Cost of sales | | **(7,056,225)** | (4,568,721) |
| **Gross profit** | | **882,733** | 422,437 |
| Other revenue | *3* | **35,099** | 18,407 |
| Other net loss | *3* | **(23,931)** | (45,172) |
| Selling and distribution expenses | | **(16,045)** | (9,662) |
| Administrative and other operating expenses | | **(64,955)** | (41,311) |
| Research and development expenses | | **(269,556)** | (124,564) |
| **Profit from operations** | | **543,345** | 220,135 |
| Finance costs | *4(a)* | **(16,912)** | (5,548) |
| Share of loss of an associate | | **(16,918)** | – |
| **Profit before taxation** | *4* | **509,515** | 214,587 |
| Income tax | *5* | **(73,238)** | (23,832) |
| **Profit for the year** | | **436,277** | 190,755 |
| **Attributable to:** | | | |
| Equity shareholders of the company | | **436,277** | 190,755 |
| **Profit for the year** | | **436,277** | 190,755 |
| **Earnings per share** | | ***RMB Cents*** | *RMB Cents* |
| Basic | *6(a)* | **39.8** | 18.4 |
| Diluted | *6(b)* | **38.9** | 18.1 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 December 2017*
*(Expressed in Renminbi)*

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Profit for the year** | **436,277** | 190,755 |
| **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 | **(12,739)** | 15,189 |
| **Other comprehensive income for the year** | **(12,739)** | 15,189 |
| **Total comprehensive income for the year** | **423,538** | 205,944 |
| **Attributable to:** | | |
| Equity shareholders of the company | **423,538** | 205,944 |
| **Total comprehensive income for the year** | **423,538** | 205,944 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2017*
*(Expressed in Renminbi)*

| | Note | 2017 RMB'000 | 2016 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,480,662** | 720,181 |
| Interests in an associate | | **258,318** | – |
| Lease prepayments | | **16,632** | 17,048 |
| Intangible assets | | **1,154** | 1,315 |
| Deferred tax assets | | **7,672** | 4,287 |
| Prepayment for acquisition of non-current assets | | **176,666** | 83,354 |
| Deposits | | **12,050** | – |
| | | **1,953,154** | 826,185 |
| **Current assets** | | | |
| Inventories | | **688,041** | 799,246 |
| Trade and other receivables | *7* | **2,035,045** | 2,606,431 |
| Other financial assets | | **873,486** | – |
| Derivative financial assets | *8* | **7,073** | 126,867 |
| Current tax assets | | **–** | 152 |
| Pledged bank deposits | | **78,469** | 96,543 |
| Cash and cash equivalents | | **464,982** | 64,905 |
| | | **4,147,096** | 3,694,144 |
| **Current liabilities** | | | |
| Bank borrowings | | **1,078,119** | 335,432 |
| Trade and other payables | *9* | **2,830,117** | 2,592,781 |
| Derivative financial liabilities | *8* | **17,989** | – |
| Current tax payable | | **8,033** | 10,372 |
| | | **3,934,258** | 2,938,585 |
| **Net current assets** | | **212,838** | 755,559 |
| **Total assets less current liabilities** | | **2,165,992** | 1,581,744 |
| **Non-current liabilities** | | | |
| Deferred income | | **14,598** | 11,739 |
| Deferred tax liabilities | | **5,737** | 2,040 |
| | | **20,335** | 13,779 |
| **NET ASSETS** | | **2,145,657** | 1,567,965 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | | **8,895** | 8,605 |
| Reserves | | **2,136,762** | 1,559,360 |
| **TOTAL EQUITY** | | **2,145,657** | 1,567,965 |

# NOTES TO THE FINANCIAL STATEMENTS

*31 December 2017*

*(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"), accounting principles generally accepted in Hong Kong 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 2017 comprise the Company, its subsidiaries (together referred to as the "Group") and the Group's interests in an associate.

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.

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| PRC (including Hong Kong) | **7,933,516** | 4,988,798 |
| Overseas | **5,442** | 2,360 |
| | **7,938,958** | 4,991,158 |

The Group had three (2016: two) customers with whom transactions had exceeded 10% of the Group's revenue for the year ended 31 December 2017. The amount of sales to these customers amounted to approximately RMB5,463,529,000 (2016: approximately RMB3,027,256,000) for the year ended 31 December 2017.

## 3 OTHER REVENUE AND OTHER NET LOSS

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Other revenue** | | |
| Government grants | **16,659** | 13,620 |
| Interest income | **18,377** | 4,256 |
| Others | **63** | 531 |
| | **35,099** | 18,407 |

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Other net loss** | | |
| Net foreign exchange gain/(loss) | **41,918** | (64,613) |
| Fair value loss on foreign currency forward contracts | **(17,555)** | – |
| Net realised and unrealised (loss)/gain on foreign exchange option contracts | **(47,911)** | 19,458 |
| Loss on disposal of property, plant and equipment | **(383)** | (17) |
| | **(23,931)** | (45,172) |

## 4 PROFIT BEFORE TAXATION

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

| | | 2017 *RMB'000* | 2016 *RMB'000* |
|---|---|---|---|
| (a) | **Finance costs** | | |
| | Interest expenses | **16,912** | 5,548 |
| (b) | **Staff costs** | | |
| | Contributions to defined contribution retirement plans | **10,270** | 6,944 |
| | Salaries, wages and other benefits | **446,894** | 270,316 |
| | Equity settled share-based payment expenses | **6,704** | 1,658 |
| | | **463,868** | 278,918 |
| (c) | **Other items** | | |
| | Depreciation | **135,228** | 63,443 |
| | Amortisation | | |
| | – lease prepayments | **416** | 416 |
| | – intangible assets | **161** | 161 |
| | Auditors' remuneration | | |
| | – Audit and review services for the Group | **2,047** | 1,651 |
| | – Audit and review services for subsidiaries | **123** | 152 |
| | Operating lease charges in respect of properties | **9,020** | 4,117 |
| | Research and development costs *(Note (i))* | **269,556** | 124,564 |
| | Impairment losses (reversed)/recognised on trade and other receivables | **(9,555)** | 9,400 |
| | Cost of inventories *(Note (ii))* | **7,220,335** | 4,641,127 |

*Notes:*

(i) Research and development costs include staff costs of employees in the design, research and development department of approximately RMB66,104,000 for the year ended 31 December 2017 (2016: approximately RMB43,093,000), 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 RMB478,530,000 (2016: approximately RMB252,230,000) for the year ended 31 December 2017 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:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| ***Current tax*** | | |
| PRC Corporate Income Tax | **66,919** | 25,339 |
| PRC Dividend Withholding Tax | **4,495** | – |
| Hong Kong Profits Tax | **1,512** | (2,142) |
| | **72,926** | 23,197 |
| ***Deferred tax*** | | |
| Origination and reversal of temporary differences | **312** | 635 |
| | **73,238** | 23,832 |

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **509,515** | 214,587 |
| Notional tax on profit before taxation, calculated at the rates applicable to the tax jurisdictions concerned | **131,262** | 52,180 |
| Tax effect of PRC preferential tax treatments *(Note (iii))* | **(44,073)** | (17,088) |
| Tax effect of additional deduction on research and development costs | **(20,035)** | (9,207) |
| Tax effect of non-deductible expenses | **1,589** | 89 |
| Over provision in prior years | **–** | (2,142) |
| PRC dividend withholding tax *(Note (iv))* | **4,495** | – |
| Actual tax expense | **73,238** | 23,832 |

*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) Kunshan Q Technology (Hong Kong) Limited ("Kunshan QT Hong Kong") is subject to Hong Kong Profits Tax at 16.5% in 2017 and 2016.

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

(iv) According to the PRC Corporate Income Tax Law and its related regulations, the Group is subject to a withholding tax at 10%, unless reduced by tax treaties or arrangements, for dividends distributed by a PRC enterprise to its immediate holding company outside the PRC for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. According to the China-HK Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of a PRC enterprise is entitled to a reduced withholding 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 RMB436,277,000 (2016: approximately RMB190,755,000) and the weighted average of 1,095,479,000 (2016: 1,038,359,000) ordinary shares in issue during the year, calculated as follows:

***Weighted average number of ordinary shares***

| | **2017** | 2016 |
|---|---|---|
| | ***'000*** | *'000* |
| Issued ordinary share at 1 January | **1,081,771** | 1,027,945 |
| Effect of share options exercised | **13,599** | 8,332 |
| Shares issued for the Placement | **109** | 2,082 |
| Weighted average number of ordinary shares at 31 December | **1,095,479** | 1,038,359 |

### (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 RMB436,277,000 (2016: approximately RMB190,755,000) and the weighted average of ordinary shares of 1,120,394,000 shares (2016: 1,056,739,000) calculated as follows:

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

| | **2017** | 2016 |
|---|---|---|
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares at 31 December | **1,095,479** | 1,038,359 |
| Effect of deemed issue of shares under the Company's share option schemes | **24,915** | 18,380 |
| Weighted average number of ordinary shares (diluted) at 31 December | **1,120,394** | 1,056,739 |

## 7 TRADE AND OTHER RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Trade receivables | | |
| – third parties | **1,761,433** | 2,371,648 |
| – related parties | **21,893** | 3,894 |
| Bills receivable | | |
| – third parties | **232,346** | 169,105 |
| Trade and bills receivables | **2,015,672** | 2,544,647 |
| *Less:* allowance for doubtful debts | **(349)** | (9,904) |
| | **2,015,323** | 2,534,743 |
| Other deposits, prepayments and receivables | **19,722** | 71,688 |
| | **2,035,045** | 2,606,431 |

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 RMB2,612,000 (2016: approximately RMB264,000) as at 31 December 2017, 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 2017, bills receivable amounting to approximately RMB27,427,000 (2016: approximately RMB129,225,000) 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.

As at 31 December 2017, bills receivable amounting to approximately RMB37,513,000 (2016: Nil) was pledged as security for bank borrowings.

As at 31 December 2017, trade receivable amounting to approximately RMB128,704,000 (2016: Nil) and approximately RMB46,224,000 was pledged as security for bills payable (see Note 9(a)) and bank borrowings respectively.

### (a) Ageing analysis

As of the end of the Year, 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:

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 1 month | **1,495,748** | 1,569,991 |
| More than 1 month but within 3 months | **492,370** | 902,416 |
| More than 3 months but within 6 months | **27,161** | 62,336 |
| More than 6 months but within 1 year | **44** | – |
| | **2,015,323** | 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 year is as follows:

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At 1 January | **9,904** | 504 |
| Impairment loss recognised | **–** | 9,400 |
| Reversal of impairment loss recognised | **(9,555)** | – |
| At 31 December | **349** | 9,904 |

As at 31 December 2017, there was an impairment provision of RMB349,000 (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:

| | 2017 | 2016 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Neither past due nor impaired | **2,014,957** | 2,453,442 |
| Less than 3 month past due | **322** | 617 |
| Over 6 less than 12 months past due | **44** | – |
| | **2,015,323** | 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 31 December 2017, 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 AND LIABILITIES

| | **At 31 December 2017** | | |
|---|---|---|---|
| | **Notional amount** *RMB'000* | **Assets** *RMB'000* | **Liabilities** *RMB'000* |
| Foreign currency derivative instruments | | | |
| – Forward contracts | **841,866** | **–** | **(17,555)** |
| – Option contracts | **3,677,645** | **7,073** | **(434)** |
| Total | **4,519,511** | **7,073** | **(17,989)** |

| | At 31 December 2016 | | |
|---|---|---|---|
| | Notional amount *RMB'000* | Assets *RMB'000* | Liabilities *RMB'000* |
| Foreign currency derivative instruments | | | |
| – Option contracts | 884,468 | 126,867 | – |

The Group entered into foreign currency option and forward contracts with three banks. As at 31 December 2017, the notional amount of outstanding contracts amounted to approximately USD691,670,000 (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 contracts.

## 9 TRADE AND OTHER PAYABLES

| | **2017** *RMB'000* | 2016 *RMB'000* |
|---|---|---|
| Trade payables and accruals | | |
| – third parties | **1,858,471** | 2,054,547 |
| – related parties | **24,334** | 1,170 |
| Bills payable *(Note (a))* | | |
| – third parties | **770,356** | 318,154 |
| Trade and bills payables *(Note (b))* | **2,653,161** | 2,373,871 |
| Accrued payroll | **60,894** | 50,161 |
| Foreign currency option premium | **–** | 107,409 |
| Other payables and accruals | **116,062** | 61,340 |
| | **2,830,117** | 2,592,781 |

All of the trade and other payables as at 31 December 2017 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**

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Bills payable secured by | | |
| – Bills receivable | **27,427** | 124,760 |
| – Pledged bank deposits | **20,153** | 102,748 |
| – Trade receivable | **100,000** | – |
| | **147,580** | 227,508 |
| Bills payable unsecured | **622,776** | 90,646 |
| | **770,356** | 318,154 |

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

| | **2017** | 2016 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Within 3 months | **1,700,477** | 2,046,742 |
| More than 3 months but within 6 months | **695,397** | 182,461 |
| More than 6 months but within 1 year | **169,407** | 896 |
| More than 1 year | **11,422** | 829 |
| | **2,576,703** | 2,230,928 |

As at 31 December 2017, the accrued trade payables which represented the amounts with no invoice received by the end of the year, amounted to approximately RMB76,458,000 (2016: approximately RMB142,943,000).

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

During the Year, both the global and the PRC economies were in the courses of recovery. According to the data released by the National Bureau of Statistics of China on 18 January 2018, China's gross domestic product (GDP) amounted to approximately RMB82,712.2 billion in 2017, representing an increase of 6.9% over the previous year, achieving the first increase in GDP growth rate since 2011. It has been pointed out in the Report on the Work of the Government delivered by Mr. Li Keqiang, Premier of the State Council, at the First Session of the 13th National People's Congress of the People's Republic of China held on 5 March 2018 that the target for GDP growth of China in 2018 has been set at around 6.5%, and the Chinese economy will remain capable of maintaining a steady growth. On the other hand, protectionism in some countries is rising, adversely affecting the trend of economic globalization, which hinders the growth of the world economy with challenges and risks. At the same time, according to some professional research institutions, the growth in shipment of smartphones may slow down due to the extension of smartphone replacement cycle. Although China's smartphone brands received better recognition from customers on product design and cost/price performance through continuous product innovation and effective marketing, they need to tackle various barriers such as trade protection in some countries. As a result, the overall growth rate slowed down from the previous year. Nevertheless, we still considered camera modules and fingerprint recognition modules to be one of the consumers' most concerned smartphone components. The continuous pursuit of better images has further driven the improvement of camera modules with progressive transition from 2-dimension to 3-dimension. The demand for privacy protection of smartphones has further increased the popularity of fingerprint recognition modules. This has promoted the steady development of the supply chain of camera modules and fingerprint recognition modules. Through relentless efforts, the Group has comprehensively demonstrated its excellence in the design, research and development, manufacture and after-sales of mid-to-high end camera modules and fingerprint recognition modules, and successfully acquired camera module supplier qualification from Huawei, as well as dual camera module supplier qualifications from vivo and many other well-known brands. Consequently, the customer and product mixes improved greatly, and the Group's business achieved a rapid growth during the Year.

Looking back to the Year, with the trust and support of our core customers and the relentless efforts of all of our employees, the revenue of the Group recorded a rapid growth, driven by a substantial increase in the sales volume of fingerprint recognition modules and significant optimization of the product mix of camera modules. The sales volume of camera modules reached approximately 172.45 million units, representing a decrease of approximately 2.8% as compared with that of 2016 (approximately 177.40 million units), while the sales volume of fingerprint recognition modules reached approximately 80.73 million units, representing an increase of approximately 285.5% as compared with that of 2016 (approximately 20.94 million units). The revenue of the Group amounted to approximately RMB7,938,958,000, representing an increase of approximately 59.1% as compared with that of 2016 (approximately RMB4,991,158,000), among which, the revenue of camera modules reached approximately RMB5,901,798,000, representing an increase of approximately 38.1% as compared with that of 2016 (approximately RMB4,274,867,000), while the revenue of fingerprint recognition modules reached approximately RMB2,037,160,000, representing an increase of 184.4% as compared with that of 2016 (approximately RMB716,291,000). The year-on-year growth in revenue of camera modules was faster than that of the sales volume, mainly due to the surge of average selling price of camera modules to approximately RMB34.22 (2016: approximately RMB24.09) as a result of the significant enhancement of the product mix of camera modules and the significant increase in the proportion of dual camera modules. The year-on-year growth in revenue of fingerprint recognition modules was slower than that of the sales volume, mainly due to a decline in the average selling price of fingerprint recognition modules to approximately RMB25.23 (2016: approximately RMB34.20) as a result of the change in the product mix of fingerprint recognition modules and a significant decrease in the selling price driven by material cost. The overall product average selling price was approximately RMB31.36, representing an increase of approximately RMB6.20 (approximately 24.6%) as compared with that of 2016 (2016: approximately RMB25.16).

During the Year, the gross profit margin of the Group was approximately 11.1%, representing an increase of approximately 2.6 percentage points as compared with approximately 8.5% of 2016. The increase in gross profit margin was mainly attributable to a year-on-year increase in the gross profit margin of camera modules due to an increase in the added value of camera modules resulting from the significant enhancement of product mix of camera modules, significant increase in the proportion of dual camera modules and single camera modules with resolutions of 13 mega pixels and above as compared with that of the last year. At the same time, the gross profit margin of fingerprint recognition modules decreased due to the intensified market competition, despite the fact that a significant expansion of the sales scale of the fingerprint recognition modules helped reduce the marginal cost.

During the Year, the Group has proactively responded to the market demand for single and dual camera modules with higher pixels and developed the mid-to-high end camera modules with resolutions of 13 mega pixels and above. The total sales volume of camera modules with resolutions of 13 mega pixels and above significantly increased to approximately 83.05 million units (2016: approximately 41.48 million units), which accounted for approximately 48.2% of the Group's total sales volume of camera modules for the Year (2016: approximately 23.4%), and approximately 75.1% of the Group's total revenue of the camera modules for the Year (2016: approximately 39.8%), among which, the sales volume of the dual camera modules was approximately 20.78 million units, accounting for approximately 12.0% of the Group's total sales volume of camera modules for the Year (2016: approximately 0.9%). The rapid increase in the sales volume and higher proportion of mid-to-high end camera modules has demonstrated the increasing market recognition of the Group's mid-to-high end products, which reflected the Group's stronger competitiveness in the mid-to-high end camera module products and laid a solid foundation for further optimization of the product mix of camera modules of the Group in the future.

Meanwhile, the Group's sales volume of fingerprint recognition modules for the Year amounted to approximately 80.73 million units (2016: approximately 20.94 million units), which accounted for approximately 31.9% of the Group's total sales volume for the Year (2016: approximately 10.6%), and approximately 25.7% of the Group's total revenue for the Year (2016: approximately 14.4%), among which, the fingerprint recognition modules that adopted cover lens technique accounted for approximately 25.0% of the total sales volume of fingerprint recognition modules (2016: approximately 35.3%). The year-on-year decline in the proportion of the fingerprint recognition modules that adopted cover lens technique was mainly affected by the introduction of full screen design of smartphones. The rapid increase in the sales volume of fingerprint recognition modules was benefited from, on one hand, the rapid growth in demand from smartphone brands for fingerprint recognition modules, and, on the other hand, the higher market recognition of the Group's manufacturing ability of fingerprint recognition modules, which enhanced the market share of the Group's fingerprint recognition modules.

During the Year, the Group continued to strengthen its research and development on camera modules, in order to develop more advanced functionalities and products. On one hand, the Group vigorously promoted the development of miniaturized technology for camera modules in response to the demand for smaller camera modules due to the continuous growth in dual camera modules and gradual popularity of multi-camera modules in the future. Research in miniaturized technology for modules such as molding on chips, molding on board and holding on chips has resulted in substantial progress. Camera modules that adopted molding on chips and molding on board technology have achieved bulk deliveries for the Year, which enables the Group to become one of the few earliest companies in the stage of mass production and sales of camera modules with miniaturized module technology in Mainland China. On the other hand, the Group continued to strengthen the development of high-end modules with resolutions of 16 mega pixels and above, dual camera modules and 3D camera modules, especially the research and development in the production of dual camera modules and 3D structure light modules without AA process. As of the end of the Year, scaffold dual camera modules without AA process have already achieved bulk deliveries. At the same time, the Group also focused on the research and development of under-glass fingerprint products, and has mastered the various principles and manufacturing technology of optical under-glass fingerprint products, which laid a solid foundation for the development of under-glass fingerprint products in the future.

## AWARDS AND HONOURS

During the Year, the Group 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 high recognition of the Group's products and services from the industry, local governments and our customers.

In April 2017, Kunshan QT China, a wholly-owned subsidiary of the Company, won the "High Quality Award" granted by vivo, one of the most well-known global handset brands, becoming the only camera module supplier that won this award;

In August 2017, Chengdu Q Technology Limited ("Chengdu QT"), a wholly-owned subsidiary of the Company, was successfully recognized as a HNTE and obtained the recognition certificate as a HNTE with a validity period of three years, becoming the second HNTE of the Group which obtained the recognition certificate following Kunshan QT China.

In October 2017, Kunshan QT China won the "Best Quality Award" granted by Xiaomi, one of the most well-known global handset brands, becoming the only camera module and fingerprint recognition module supplier that won the quality related award in 2017;

In October 2017, Mr. Wang Jianqiang, Executive Director and CEO of the Company, was granted "Honorary Citizen of Kunshan" by Kunshan Municipal Government, becoming the second senior manager of the Group who has been granted such an honour following Mr. He Ningning, the Chairman;

In November 2017, Kunshan QT China won the "Global Best Partner Award" granted by ZTE Corporation, one of the most well-known global handset companies, becoming the only camera module supplier that won this highest award in 2017;

In November 2017, Kunshan QT China was recognized as the "Corporate Technical Center" of Jiangsu Province by Jiangsu Economic and Information Technology Commission;

In November 2017, Kunshan QT China won the "Best Collaboration Partner" granted by Huawei, one of the most well-known global handset brands, becoming the only fingerprint recognition module supplier that won this prestige award in 2017;

In December 2017, the "Q TECH fingerprint recognition modules" manufactured by Kunshan QT China was recognized as the 2017 "Jiangsu Famous-brand Product" by Jiangsu Strategic Top Brand Promotion Committee;

In January 2018, "2017 China Financial Market Award" hosted by China Financial Market, a well-known financial magazine, granted Mr. Fan Fuqiang, CFO of the Company, the "Best CFO of the Year" honorary title. The appraisal organizations of the activity included The Listed Companies Council of Hong Kong Chinese Enterprises Association, The Chinese Asset Management Association of Hong Kong, The Hong Kong Institute of Financial Analysts and Professional Commentators Limited, China Mergers & Acquisitions Association Hong Kong Branch, Chinese Securities Association of Hong Kong, The Hong Kong Institute of Chartered Secretaries and Chinese Financial Association of Hong Kong and other authority organizations.

The aforementioned awards and honours have reflected the high recognition by local governments, our core customers and all sectors of society, which has further enhanced our confidence in further implementing the long-term strategy to develop intelligent visual system products, further consolidated 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 Group recorded a significant growth in the operating results for the Year as compared with that of 2016, coupled with the significant optimization of the product mix of camera modules, which led to the significant increase in our comprehensive gross profit margin as compared with that of 2016, the Directors are well aware that 2018 will still be full of challenges. On one hand, coupled with the rising of the protectionism in some countries, some economic powers may enter into the interest rate hike cycle. The market liquidity will be tightened with the shrinking balance sheet by some countries or economies affecting the overall trend of economic globalization. Therefore, the growth of the global economy will still be confronted with challenges and risks, and the prospect of the intelligent mobile communication terminal industry also remains highly uncertain under the macro-economic environment. Meanwhile, according to professional research institutions, the extended replacement cycle of smartphones will lead to the slower growth of the shipment volume of smartphones, resulting in lower or even zero growth rate of the industry. On the other hand, although the customer mix of the Group has been significantly enhanced with establishment of supply cooperation relationship with famous brands in the world such as Huawei, Xiaomi, vivo, OPPO, ZTE and Lenovo, major customers of the Group remain to be smartphone manufacturers in Mainland China with relatively high regional concentration. The probable trade protection under protectionism may pose new barriers for their entry into overseas markets, and affect their overseas expansion. Meanwhile, overseas smartphone brands are also actively scrambling for market share with launch of new products, which may compete with smartphone manufacturers in China. Therefore, our existing customers may not be able to record the same growth rate as in the past, thereby affecting our sales. Moreover, the exchange rates of RMB against USD experienced significant appreciation for the Year, but may fluctuate in the future due to various factors such as politics, economy and supply and demand. As it is difficult in the short run to adjust the Group's business model, under which sales revenue will be settled in RMB but overseas purchases of several core components will be settled in USD, the exchange risks may still have impacts on the operation of the Group in 2018. However, the Directors remain unswerving in continuously promoting the development of intelligent visual system products, and cautiously optimistic about the development of the camera modules and fingerprint recognition modules in the coming year, and believe that:

(i) Camera modules will remain one of the end-consumers' most concerned smartphone components, as consumers prefer to take photos with portable and convenient smartphones instead of cameras, and they hope to have more video functions in their smartphones, which will lead to continuous improvement in product specifications of camera modules. The proportion of products with resolutions of 8 mega pixels and below remains as high as approximately 51.8% during the Year. The Group currently has obtained the qualification for supplying high pixel single camera module products to all customers, which will help the Group to further uplift the shipment proportion of single camera modules with resolutions of 10 mega pixels and above.

(ii) With the increasingly improved dual camera module solutions, consumers' recognition of the photographing functions of dual camera modules has been continuously enhanced. Smartphone brands may likely adopt dual camera modules, which were previously equipped in high-end flagship phones only, into other mid-end phones. This may lead to a remarkable improvement in market penetration of dual camera modules in the future. The Group has obtained the qualification for supplying dual camera module products to major customers except Huawei, and become the main supplier of dual camera modules of several high-end flagship phones for core customers in 2017, which can help the Group further increase the shipment proportion of dual camera modules and further optimize the product specification of camera modules in 2018.

(iii) Camera modules are one of the most important human-machinery interactive interfaces during the Internet of Things era. A famous worldwide brand has launched smartphones with 3D structure light modules with functions such as face recognition in 2017. Smartphone brands in Mainland China will probably follow with their launch of smartphone with 3D modules. The Group has made long-term preparations in 3D module field. If smartphone brands in Mainland China launch smartphones with 3D modules as scheduled, the Group may be benefited in gaining new momentum for the growth of camera modules. In addition, the on-going demand for camera modules by products such as AR, VR, MR and motor vehicles may give a new growth potential for the volume and value expansion of camera modules.

(iv) Nowadays consumers are accustomed to mobile payment via smartphones, and many of them regard smartphones as important official and personal data storage tools. Therefore, consumers have continuously increased their demand on the security of smartphones. On one hand, 3D modules may satisfy the demand through face recognition. But due to the higher cost and incomplete supply chain of 3D modules, traditional capacitive fingerprint recognition modules with increasingly mature technology and lower cost will probably remain an important choice as the standard configuration of smartphones. Therefore, the market penetration of capacitive fingerprint recognition modules may continue to grow. The Group has established supply cooperative relationship in terms of capacitive fingerprint recognition modules with most of the Chinese renowned smartphone brands, which can help the Group increase its market share of the capacitive fingerprint recognition modules in 2018. Meanwhile, the Group has made long-term preparations for developing the optical under-glass fingerprint recognition modules, so it will be ready to be benefited and gain from the potential for growth in the fingerprint recognition modules if the potential customers launch smartphones with optical under-glass fingerprint recognition modules as scheduled.

Hence, the Directors believe that opportunities coexist with challenges. The Group will adhere to the mission of "providing intelligent vision systematic products for intelligent mobile terminals" and strengthen its capacity development in three aspects, namely optical design, computing vision and system integration, continue to enhance the R&D of new products and new processes and improve its precision manufacturing capability, and proactively carry out marketing activities to enhance its customer relationship, 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 resolutions of 16 mega pixels and above, dual camera modules, 3D structure light modules and under-glass fingerprint recognition modules, provide assistance to Newmax Technology Co., Ltd. ("Newmax Technology"), our associate, in the development of camera module lens and 3D structure light module VCSEL Lens, with an effort to strengthen the technical cooperation and resource integration in image algorithm of dual/multiple camera modules and strengthen the technical cooperation and resource integration between camera modules and key components such as lens, at the same time striving to achieve a breakthrough in the application of camera modules in non-mobile-phone sector. The Group endeavours to achieve the following objectives: (i) Shipment of camera modules in 2018 will increase by approximately 10% to 20% over the previous year; (ii) Shipment of fingerprint recognition modules in 2018 will increase by approximately 20% to 30% over the previous year; (iii) While constantly reviewing customers rolling demand and the Group's business plan, production capacity of camera modules will be gradually expanded to not more than 45 million per month by the end of 2018, including production capacity of dual camera modules of approximately 10 million per month. The Directors are confident in leading 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 RMB7,938,958,000, representing an increase of approximately 59.1% as compared with approximately RMB4,991,158,000 of 2016. The increase in revenue was mainly attributable to: (i) the sales volume of fingerprint recognition modules amounted to approximately 80.73 million units, representing an increase of approximately 285.5% as compared with approximately 20.94 million units of 2016; and (ii) the surge of average selling price of camera modules amounted to approximately RMB34.22 as a result of the obvious improvement in the product mix of camera modules, representing an increase of approximately 42.0% as compared with approximately RMB24.09 of 2016.

### Cost of sales

For the Year, the cost of sales of the Group was approximately RMB7,056,225,000, representing an increase of approximately 54.4% as compared with approximately RMB4,568,721,000 of 2016. The increase in the cost of sales was primarily attributed to the increase in sales volume of fingerprint recognition modules as well as the increase in sales size of both camera modules and fingerprint recognition modules and resulted in that: (i) total investments in raw materials increased by approximately 50.9% to approximately RMB6,264,797,000 as compared with the 2016; (ii) labour cost increased by approximately 84.8% to approximately RMB371,086,000 as compared with 2016 due to an increase in the total number of employees, staff under labour service agreements and interns of the Group; (iii) depreciation cost from production base and equipment being invested for expanding the production capacity increased by approximately 109.1% to approximately RMB107,444,000 as compared with 2016; and (iv) sub-contracting charges increased by approximately 89.5% to approximately RMB140,923,000 as compared with 2016.

## Gross profit and gross profit margin

For the Year, the gross profit of the Group was approximately RMB882,733,000 (2016: approximately RMB422,437,000), representing an increase of approximately 109.0% as compared with 2016, while the gross profit margin was approximately 11.1% (2016: approximately 8.5%). The increase in gross profit margin was mainly attributable to the significant increase in the proportion of dual camera modules and single camera modules with resolutions of 13 mega pixels and above as compared with 2016 as a result of the significant enhancement of product mix of camera modules, which pushed up the added value of camera module products and resulted in the year-on-year increase in the gross profit margin of camera module products. Meanwhile, although the obvious expansion of sales of fingerprint recognition modules reduced the marginal cost, the gross profit margin of fingerprint recognition modules decreased due to the intense market competition.

## Other revenue

For the Year, other revenue of the Group was approximately RMB35,099,000, representing an increase of approximately 90.7% as compared with approximately RMB18,407,000 of 2016. The increase in other revenue was primarily due to: (i) interest income from the bank deposits of the Group was approximately RMB18,377,000, representing an increase of approximately 331.8% as compared with approximately RMB4,256,000 of 2016; and (ii) the recognised government grants of the Group was approximately RMB16,659,000, representing an increase of approximately 22.3% as compared with approximately RMB13,620,000 of 2016.

## Other net loss

For the Year, the Group had other net loss of approximately RMB23,931,000, representing a decrease of approximately 47.0% as compared with other net loss of approximately RMB45,172,000 in 2016. Such other net loss was primarily attributable to: (i) net exchange gain recorded of approximately RMB41,918,000 due to the appreciation in exchange rates of RMB against US dollar during the Year; (ii) the net realised and unrealised loss on foreign currency option contracts entrusted in 2016 and early 2017 amounted to approximately RMB47,911,000; and (iii) the estimated fair value loss of foreign currency forward contracts was approximately RMB17,555,000.

## Selling and distribution expenses

For the Year, the selling and distribution expenses of the Group amounted to approximately RMB16,045,000, representing an increase of approximately RMB6,383,000 or approximately 66.1% as compared with approximately RMB9,662,000 of 2016. The ratio of selling and distribution expenses in turnover was approximately 0.2%, which was at similar level of approximately 0.2% for 2016. 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 in relation to the sales activities during the Year.

**Administrative and other operating expenses**

For the Year, total administrative and other operating expenses of the Group increased from approximately RMB41,311,000 of 2016 to approximately RMB64,955,000, representing an increase of approximately RMB23,644,000 or approximately 57.2%. The increase in administrative and other operating expenses was mainly attributable to: (i) due to business expansion during the Year, staff costs and other administrative expenses increased accordingly, and the staff recruitment expenses increased significantly from approximately RMB1,444,000 in 2016 to approximately RMB24,441,000 for the Year, representing an increase of approximately 1,592.6% in particularly for resolving the abnormal capacity as a result of the difficulties in recruitment; and (ii) the reversal of provision of allowance for doubtful debts on trade receivables for the Year of approximately RMB9,555,000 as compared with approximately RMB9,400,000 provision of allowance for doubtful debts on trade receivables of 2016.

**R&D expenses**

For the Year, total R&D expenses of the Group amounted to approximately RMB269,556,000, representing an increase of approximately 116.4% as compared with approximately RMB124,564,000 of 2016. The increase in R&D expenses for the Year 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 module products with higher pixels, dual camera modules products with different functions and applications, camera module products with smaller size, 3D optical module products, camera module products applied in automotive and smart home areas, more miniature fingerprint recognition module products with higher definition, fingerprint recognition module products under optical screen, as well as to optimise and enhance the standards of production automation.

**Finance costs**

For the Year, the finance costs of the Group was approximately RMB16,912,000, increased by approximately 204.8% from approximately RMB5,548,000 of 2016, which was primarily due to the combined effect of the year-on-year increase in the Group's daily average balance of bank borrowings as compared with 2016 and the increase in interest rate of USD borrowings.

**Income tax expenses**

For the Year, the income tax expenses of the Group increased by approximately 207.3% from approximately RMB23,832,000 for 2016 to approximately RMB73,238,000, which was mainly attributable to increase in revenue and gross profit margin that resulted in significant increase in net profit amount during the Year. The income tax rate for the Year was approximately 14.4%, representing an increase of approximately 3.3 percentage points as compared with approximately 11.1% of 2016. The increase in income tax rate was mainly due to the following factors: (i) the tax effect of additional deduction of research and development expenses of Kunshan QT China for the Year amounted to approximately RMB20,035,000 (2016: approximately RMB9,207,000), accounting for approximately 3.9% (2016: approximately 4.3%) of the profit before tax. The decrease in the deduction rate reduced the contribution of income tax deduction; (ii) for the Year, a withholding tax of approximately RMB4,495,000 was incurred due to dividend proposed, while there was no withholding tax in 2016; (iii) for the Year, profits tax of Kunshan Q Technology (Hong Kong) Limited ("Kunshan QT Hong Kong"), a wholly-owned subsidiary of the Company, amounted to approximately RMB1,512,000, while profits tax refund of approximately RMB2,142,000 was recorded in 2016; and (iv) for the Year, the proportion of the profit before tax of Kunshan QT China in the profit before tax of the Group increased to approximately 99% from approximately 95% of 2016.

Kunshan QT China, a wholly-owned subsidiary of the Company, was successfully recognized as a 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. Kunshan QT China was actively pushing on the review issue. Chengdu QT, a wholly-owned subsidiary of the Company, was qualified for the recognition of software enterprises. According to relevant policies, software enterprises are subject to the preferential policy of "refund immediately after payment" for the excess of actual tax on value-added tax over 3% after the payment of the value-added tax at the tax rate of 17% for the sales of self-developed and produced software products. At the same time, Chengdu QT is entitled to preferential policies in the"2-year exemption and 3-year half payment" of income tax from 1 January 2015, with a validity period up to 31 December 2019. Chengdu QT was successfully recognized as a HNTE on 29 August 2017, and obtained the recognition certificate as a HNTE. Therefore, Chengdu QT can 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 2019.

**Profit for the Year**

Based on the foregoing, the profit of the Group for the Year amounted to approximately RMB436,277,000 (2016: approximately RMB190,755,000), representing an increase of approximately 128.7% as compared with 2016.

## LIQUIDITY AND FINANCIAL RESOURCES

**Bank borrowings**

As at 31 December 2017, the Group's bank borrowings amounted to approximately RMB1,078,119,000, representing an increase of approximately 221.4% 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 31 December 2017, the Group's bank borrowings were denominated in RMB and/or USD. The overview of the Group's cash flow for the Year and 2016 was set out as follows:

| | **For the year ended 31 December** | |
|---|---|---|
| | **2017** | 2016 |
| | ***RMB'000*** | *RMB'000* |
| Net cash generated/(used in) from operating activities | **2,221,513** | (38,614) |
| Net cash used in investing activities | **(2,118,977)** | (429,711) |
| Net cash generated from financing activities | **311,626** | 245,529 |

As of 31 December 2017, cash and cash equivalents of the Group amounted to approximately RMB464,982,000, representing an increase of approximately RMB400,077,000 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 and the funds raised by placing of new shares under general mandate (which has been completed on 29 December 2017).

**Operating activities**

For the Year, the Group's net cash inflow of operating activities amounted to approximately RMB2,221,513,000, while there was a net cash outflow of operating activities of approximately RMB38,614,000 in 2016. The Group's cash flow recorded a net inflow from its operating activities, which was primarily attributed to: (i) the decrease by approximately 20 days to approximately 104 days in turnover days of receivables during the Year from approximately 124 days in 2016, while the turnover days of payables increased by approximately 12 days to approximately 130 days during the Year from approximately 118 days in 2016; and (ii) the increase in gross profit margin of the Group during the Year.

**Investing activities**

The net cash outflow used in the investing activities of the Group in the Year amounted to approximately RMB2,118,977,000, which was mainly due to (i) the expenses for plant expansion and purchasing equipment in the amount of approximately RMB942,196,000; and (ii) the net cash outflow of purchase and redemption of other financial assets of approximately RMB865,744,000; and (iii) investments in Newmax Technology in the amount of approximately RMB275,236,000.

**Financing activities**

The net cash inflow generated from the financing activities of the Group during the Year amounted to approximately RMB311,626,000, which was mainly due to: (i) the inflow of bank borrowings of approximately RMB877,046,000 and the cash outflows for repaying bank borrowings of approximately RMB658,554,000; (ii) the net proceeds from placing of 20 million new ordinary shares under general mandate (which has been completed on 29 December 2017) of approximately RMB179,065,000; and (iii) the payment of dividend of approximately RMB37,145,000.

**Gearing ratio**

As at 31 December 2017, the gearing ratio, which is defined as bank borrowings divided by total equity at the end of the Year, was approximately 50.2%, representing an increase of approximately 28.8 percentage points as compared with approximately 21.4% as at 31 December 2016, which was mainly due to: (i) significant increase in bank borrowings balance, which increased by approximately 221.4% from approximately RMB335,432,000 as at 31 December 2016 to RMB1,078,119,000 as at 31 December 2017; (ii) payment of dividend during the Year amounting to approximately RMB37,145,000; and (iii) the net profit recorded in the Year was approximately RMB436,277,000, and no dividend has been paid to shareholders of the Company in respect of such profit recorded for the year 2017.

**Treasury policies**

The Group's treasury policy was disclosed in the prospectus of the Company dated 20 November 2014 (the "Prospectus"), and was amended by the risk management committee on 24 March 2016, the details of which were 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 close 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

Save for participation in the private placement of shares of Newmax Technology, the Group did not have any material acquisitions or disposals of its subsidiaries, associates and joint ventures as at 31 December 2017.

## SIGNIFICANT INVESTMENT

On 31 August 2017, the Company completed its participation in the private placement of shares of Newmax Technology, a company listed on the Taipei Exchange (stock code: 3630). A total of 57,008,888 placing shares, representing approximately 36.0% of the total number of issued ordinary shares of the Newmax Technology after the completion of private placement, has been issued and allotted to the Company at the price of TWD21.88. Details of the private placement are disclosed in the announcements of the Company dated 22 February 2017, 19 March 2017, 24 August 2017 and 31 August 2017.

On 17 October 2017, Kunshan QT China entered into an investment agreement (the "Investment Agreement") with the management committee ("Kunshan Management Committee") of Kunshan Hi-tech Industrial Development Park ("Kunshan High-Tech Park"), pursuant to which Kunshan QT China has agreed to increase its investment in Kunshan Hi-tech Park by way of increase of registered capital of US$100 million in Kunshan QT China and establishment of a camera lens project company with a registered capital of US$30 million in Kunshan Hi-tech Park. As part of the arrangement under the Investment Agreement, on 29 December 2017, Kunshan QT China entered into a project supervisory agreement with Kunshan Management Committee, pursuant to which the Group agreed to invest a total amount of not less than US$300 million (including an investment amount of not less than RMB215 million in fixed assets) towards the new production base to be constructed on a parcel of industrial land located at Kunshan High-Tech Park, which will be funded by internally generated funds and other internal resources of the Group and/or external borrowings and financing. Construction of the new production base on the land will commence within six months from the date of the delivery of the land (which is currently scheduled to be delivered on or before 22 March 2018), and is scheduled to be completed within two years. Details of the investment are disclosed in the announcements of the Company dated 17 October 2017 and 29 December 2017.

Save as disclosed in the above announcements, as at 31 December 2017, the Group did not hold any significant investment and there were no legally binding agreements or arrangements with respect to any investment opportunities entered into by the Group.

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any contingent liabilities.

## PLEDGE OF ASSETS

As at 31 December 2017, the assets pledged by the Group included bank deposits, trade receivables, bills receivable and other financial assets of approximately RMB894,153,000, which were pledged as security for bank borrowings and bills payable.

## EMPLOYEE POLICIES AND REMUNERATION

As at 31 December 2017, the Group had a total of 2,526 employees (as at 31 December 2016: 1,850) (excluding staff under labour service agreements and internship agreements). The Group is committed to providing all staff with fair working 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 Year, the remuneration of the employees (including staff under labour service agreements and internship agreements) of the Group was approximately RMB463,868,000 (2016: approximately RMB278,918,000). Apart from basic salary, the package also includes performance bonus, medical insurance and provident fund (staff under labour 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 adopted on 13 November 2014, at the exercise price was RMB0.40 per share and total consideration received was approximately RMB5,530,000, which highlighted the confidence of the core management and technical personnel in the Company. In addition, the Group granted share options for a total of 39,425,000 ordinary shares 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 with the exercise price of HK$4.13 per share (please refer to the announcement of the Company dated 26 October 2016 for details). No option granted on 26 October 2016 was exercised during the Year, but options for a total of 2,660,000 ordinary shares were waived as a result of the resignations of 14 grantees as at 31 December 2017. On 9 June 2017, the Group granted options for a total of 8,083,000 ordinary shares to 48 staff (none of whom 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 subject to certain vesting conditions and exercise periods (please refer to the announcement of the Company dated 9 June 2017 for details). During the Year, no option granted on 9 June 2017 was exercised, but options for a total of 1,530,000 ordinary shares were waived as a result of the resignations of 6 grantees during the Year. Since 1 January 2018 up to the date of this announcement, option granted on 9 June 2017 for a total of 160,000 ordinary shares was also waived as a result of the resignation of one grantee. (For details of the terms of the pre-IPO share option scheme and the share option scheme adopted on 13 November 2014, please refer to the disclosures set out in sections D1 and D2 headed "Share Option Scheme" and "Pre-IPO Share Option Scheme" respectively in Appendix IV – "Statutory and General Information" to the Prospectus.).

In respect of the compliance in the labour and social security aspect, there was no material non-compliance incidents involved by the Group and we had obtained the Certificate of Compliance and No Punishment issued by Kunshan Municipal Human Resources and Social Security Bureau.

## FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily due to certain receivables, payables, cash balances and loans that are denominated in foreign currencies other than RMB arising from the operating activities such as bank borrowings, product sales and purchase of raw materials. The Group is also exposed to currency risk from the exchange or translation of USD and Hong Kong Dollars into RMB. During the Year, the Group recorded an exchange gain of approximately RMB41,918,000 as the sales income of the Group was still mainly settled in RMB but various raw materials for production and some equipment for production were purchased from overseas and settled in USD, and appreciated approximately 6.2% in the RMB against USD exchange rate for the Year. However, the realized and unrealized loss on foreign currency option contracts amounted to approximately RMB47,911,000, and the fair value loss on foreign currency forward contracts amounted to approximately RMB17,555,000. As affected by multiple factors such as politics, economic, and supply and demand, the trend of RMB against USD in the future is subject to great uncertainties. It is difficult to adjust the business mode of the Group in the short run. Therefore, the profit or loss of the Group may still be affected by exchange rate fluctuation in the future. The Company will, on one hand, strive to strengthen the expansion of overseas business continuously to increase USD income; on the other hand, the Group will 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, fix the future foreign exchange costs by properly using currency derivative instruments such as foreign exchange forwards and options, and take into account of costs during the price quotation for purchase or sales, 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 by global offering. The net proceeds from the above global offering was approximately HK$658,000,000 (after deducting relevant listing expenses). As at 31 December 2017, the fund raised was fully 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$22,372,000 was utilised for sales costs of product and business expansion; and (vi) approximately HK$65,800,000 was utilised for general corporate purposes. The capital utilisation is consistent with the intended use of the global offering.

## USE OF PROCEEDS FROM PLACING OF SHARES

On 12 December 2016, the Company completed the placing of 40,000,000 new ordinary shares under a general mandate granted to the Directors by the Shareholders. 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 2017, the fund raised was fully utilised. Among the utilised net proceeds: (i) approximately HK$70,000,000 was utilised for capital expenses; (ii) approximately HK$70,000,000 was utilised for R&D activities; and (iii) approximately HK$14,428,000 was utilised for general working capital. The capital utilisation is consistent with the intended use of the net proceeds of the placing.

On 29 December 2017, the Company completed the placing of 20,000,000 new ordinary shares under a general mandate granted to the Directors by the Shareholders. The net proceeds from the above placing was approximately HK$214,218,000, after deducting the related placing commission, professional fees and all related expenses. As at 31 December 2017, the fund raised was utilised as to HK$93,889,000. Among the utilised net proceeds: (i) approximately HK$59,996,000 was utilised for capital expenses; and (ii) approximately HK$33,893,000 was utilised for R&D activities. It is contemplated that the capital utilisation will be consistent with the intended use of the net proceeds of the placing.

## DIVIDEND

The Board recommended the payment of a final dividend for the year ended 31 December 2017 of RMB7.8 cents (equivalent to approximately HK9.6 cents) per share (final dividend for the year ended 31 December 2016: RMB3.5 cents (equivalent to HK3.9 cents) per share) to the Shareholders whose names appear on the register of members of the Company on Tuesday, 12 June 2018. 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 Monday, 25 June 2018.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the eligibility to attend the 2017 annual general meeting, the register of members of the Company will be closed from 21 May 2018 to 25 May 2018. 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 18 May 2018.

For the purpose of determining the eligibility to receive the final dividend, the register of members of the Company will be closed from 8 June 2018 to 12 June 2018, 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 7 June 2018.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

On 29 December 2017, the Company completed the placing of 20,000,000 new ordinary shares under general mandate at the placing price of HK$10.80 per share. Save as the aforesaid, during the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

## ENVIRONMENTAL PROTECTION MANAGEMENT

The Group has strictly complied with the applicable environmental protection laws and policies in the jurisdictions where the respective members of the Group are located. During the Year, the Group had continued to revise, improve and implement a number of internal 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 , and 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 so as 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. As the same time, the Group had also amended and implemented certain regulations and measures including improving the Fire Safety Management Regulations and Emergency Plan, held fire drills 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 Administration of Work Safety and Environmental Protection of Kunshan Hi-tech Industrial Development Park.

Particulars of the environmental protection management of the Company will be disclosed in the Environmental, Social and Governance Report set out in the 2017 annual report of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS

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 Directors have been aware and have confirmed that they had complied with the required standard for securities transactions by Directors 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 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 performed by different individuals to enhance the respective roles' 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, and all or the majority of members of the committees consist 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 2017 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), Mr. Ko Ping Keung 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 2017 with the Company's management.

## EVENTS AFTER THE REPORTING YEAR

Save 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 2017 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 (http://www.hkexnews.hk) and the Company (http://www.qtechglobal.com). The annual report for the year 2017 will be available on the above websites and despatched 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, 19 March 2018

*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, Mr. Ko Ping Keung and Mr. Ng Sui Yin.*