**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 2018

## HIGHLIGHTS

- Unaudited sales revenue of the Group for the six months ended 30 June 2018 amounted to approximately RMB3,206,712,000, representing a decrease of approximately 11.0% as compared with the corresponding period in the year of 2017 (the "Corresponding Period"). The decrease in revenue was mainly due to unsatisfactory product structure optimization progress of camera modules and fingerprint recognition modules (the "Integrated Products") despite a stable increase in sales volume of camera modules products and fingerprint recognition modules products of the Group as compared with the Corresponding Period, which led to an obvious decrease in product average unit selling price as compared with the Corresponding Period, and resulted a decline of average unit selling price of Integrated Products over its sales volume increase.

- Gross profit for the six months ended 30 June 2018 was approximately RMB39,056,000, while gross profit margin was approximately 1.2%, representing a decrease of approximately 10.9 percentage points as compared with 12.1% in the Corresponding Period.

- Loss of the Group for the six months ended 30 June 2018 was approximately RMB51,288,000, while the profit for the Corresponding Period was approximately RMB201,784,000.

- Basic and diluted losses per share for the six months ended 30 June 2018 were approximately RMB0.046 and RMB0.046 respectively.

## FINANCIAL RESULTS

The board of directors (the "Board") of Q Technology (Group) Company Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018 together with the relevant comparative figures as follows:

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the six months ended 30 June 2018 – unaudited*
*(Expressed in Renminbi)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| | | | *(Note)* |
| **Revenue** | *3* | **3,206,712** | 3,604,998 |
| Cost of sales | | **(3,167,656)** | (3,170,570) |
| **Gross profit** | | **39,056** | 434,428 |
| Other income | *4* | **100,019** | 7,797 |
| Other net loss | *4* | **(6,021)** | (18,769) |
| Selling and distribution expenses | | **(9,261)** | (6,508) |
| Administrative and other operating expenses | | **(39,051)** | (50,552) |
| Research and development expenses | | **(99,199)** | (122,555) |
| **(Loss)/profit from operations** | | **(14,457)** | 243,841 |
| Finance costs | *5(a)* | **(21,400)** | (4,323) |
| Share of loss of an associate | | **(24,814)** | – |
| **(Loss)/profit before taxation** | *5* | **(60,671)** | 239,518 |
| Income tax | *6* | **9,383** | (37,734) |
| **(Loss)/profit for the period** | | **(51,288)** | 201,784 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(51,288)** | 201,784 |
| **(Loss)/profit for the period** | | **(51,288)** | 201,784 |
| | | ***RMB Cents*** | *RMB Cents* |
| **Earnings per share** | | | |
| Basic | *7* | **(4.6)** | 18.4 |
| Diluted | *7* | **(4.6)** | 18.2 |

*Note:* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

Details of dividends payable to equity shareholders of the Company are set out in Note 14.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the six months ended 30 June 2018 – unaudited*
*(Expressed in Renminbi)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| | | | *(Note)* |
| **(Loss)/profit for the period** | | **(51,288)** | 201,784 |
| **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 | | **(17,574)** | (6,608) |
| **Other comprehensive income for the period** | | **(17,574)** | (6,608) |
| **Total comprehensive income for the period** | | **(68,862)** | 195,176 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **(68,862)** | 195,176 |
| **Total comprehensive income for the period** | | **(68,862)** | 195,176 |

*Note:* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018 – unaudited*
*(Expressed in Renminbi)*

| | Note | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* *(Note)* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | **1,703,415** | 1,480,662 |
| Interests in an associate | | **230,922** | 258,318 |
| Lease prepayments | | **52,361** | 16,632 |
| Intangible assets | | **1,074** | 1,154 |
| Deferred tax assets | | **25,116** | 7,672 |
| Prepayment for acquisition of non-current assets | | **13,351** | 176,666 |
| Deposits | | **9,550** | 12,050 |
| | | **2,035,789** | 1,953,154 |
| **Current assets** | | | |
| Inventories | | **850,380** | 688,041 |
| Trade and other receivables | *8* | **2,308,122** | 2,035,045 |
| Other financial assets | *9* | **590,671** | 873,486 |
| Derivative financial assets | *10* | **22,779** | 7,073 |
| Pledged bank deposits | *11* | **–** | 78,469 |
| Cash and cash equivalents | | **223,813** | 464,982 |
| | | **3,995,765** | 4,147,096 |
| **Current liabilities** | | | |
| Bank borrowings | *12* | **1,298,402** | 1,078,119 |
| Trade and other payables | *13* | **2,626,672** | 2,830,117 |
| Derivative financial liabilities | *10* | **–** | 17,989 |
| Current tax payable | | **3,251** | 8,033 |
| | | **3,928,325** | 3,934,258 |
| **Net current assets** | | **67,440** | 212,838 |
| **Total assets less current liabilities** | | **2,103,229** | 2,165,992 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2018 – unaudited* (continued)
*(Expressed in Renminbi)*

| | Note | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* *(Note)* |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Deferred income | | **50,884** | 14,598 |
| Deferred tax liabilities | | **9,181** | 5,737 |
| | | **60,065** | 20,335 |
| **NET ASSETS** | | **2,043,164** | 2,145,657 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *14(b)* | **9,022** | 8,895 |
| Reserves | | **2,034,142** | 2,136,762 |
| **TOTAL EQUITY** | | **2,043,164** | 2,145,657 |

*Note:* The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See Note 2.

# NOTES

*(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 27 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2018 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, its subsidiaries (the "Group") and the Group's interests in an associate since the 2017 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## 2 Changes in accounting policies

### (a) Overview

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements.

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Under the transition methods chosen, there is no significant cumulative effect of the initial application of IFRS 9 and IFRS 15 recognised by the Group as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. Details of the changes in accounting policies are discussed in Note 2(b) for IFRS 9 and Note 2(c) for IFRS 15.

**(b) IFRS 9, *Financial instruments***

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. Based on the assessment by the Group, no material cumulative effect of initial application needs adjustments to the opening equity at 1 January 2018. Comparative information continues to be reported under IAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

***(i) Classification of financial assets and financial liabilities***

IFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method;

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as other income.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table and the accompanying notes explain the original measurement categories for each class of the Group's financial assets under IAS 39 and new measurement categories under IFRS 9. There is no remeasurement for the adoption of IFRS 9.

| | *Note* | **Original classification under IAS 39** | **New classification under IFRS 9** | **Carrying amount at 31 December 2017 under IAS 39** *RMB'000* | **Carrying amount at 1 January 2018 under IFRS 9** *RMB'000* |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| **Trade and other receivables** | *(1)* | Loans and receivables | Amortised cost | 2,035,045 | 2,035,045 |
| **Other financial assets** | *(2)* | Available-for-sale financial assets | FVPL | 873,486 | 873,486 |
| **Deposits** | *(3)* | Held-to-maturity investments | Amortised cost | 12,050 | 12,050 |
| **Pledged bank deposits** | *(3)* | Held-to-maturity investments | Amortised cost | 78,469 | 78,469 |
| **Cash and cash equivalents** | *(1)* | Loans and receivables | Amortised cost | 464,982 | 464,982 |
| **Total financial assets** | | | | 3,464,032 | 3,464,032 |

*(1) Trade and other receivables and cash and cash equivalents that were previously classified as loans and receivables are now classified as financial assets measured at amortised cost. The Group intends to hold the financial assets to maturity to collect contractual cash flows.*

*(2) Other financial assets that were previously classified as available-for-sale financial assets are now classified as financial assets measured at FVPL.*

*(3) Deposits and pledged bank deposits that were previously classified as held-to-maturity investments are now classified as financial assets measured at amortised cost. The Group intends to hold the assets to maturity to collect contractual cash flows by payments of principal and interest on the principal amount outstanding.*

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

### *(ii) Credit losses*

IFRS 9 replaces the "incurred loss" model in IAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents, and trade and other receivables).

Financial assets measured at fair value, equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For fixed-rate financial assets and trade and other receivables, the expected cash shortfalls are discounted using effective interest rate determined at initial recognition or an approximation thereof.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

*Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

*Basis of calculation of interest income on credit-impaired financial assets*

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

*Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

***(iii) Transition***

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

**(c) IFRS 15, *Revenue from contracts with customers***

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

The Group's business model is straight forward and its contracts with customers for the sale of goods include only single performance obligation. The Group has concluded that revenue from sale should be recognised at the point in time when a customer obtains control. The adoption of IFRS 15 does not have a significant impact on the Group's revenue recognition.

Under IFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The initial application of IFRS 15 recognised the opening balance of contract liabilities of RMB24,099,000 at 1 January 2018. Comparative information is not restated.

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

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified reportable segments as follows:

– Design, manufacture and sales of camera modules

– Design, manufacture and sales of fingerprint recognition modules

No operating segments have been aggregated to form the reportable segments of the Group.

| | **Camera modules** | **Fingerprint recognition modules** | **Subtotal of reportable segments** | **Others** | **Total** |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Six months ended 30 June 2018** | | | | | |
| Revenue | 2,580,461 | 620,921 | 3,201,382 | 5,330 | 3,206,712 |
| Cost of sales | (2,494,539) | (669,985) | (3,164,524) | (3,132) | (3,167,656) |
| Gross profit | 85,922 | (49,064) | 36,858 | 2,198 | 39,056 |
| Six months ended 30 June 2017 | | | | | |
| Revenue | 2,571,807 | 1,031,180 | 3,602,987 | 2,011 | 3,604,998 |
| Cost of sales | (2,230,035) | (940,179) | (3,170,214) | (356) | (3,170,570) |
| Gross profit | 341,772 | 91,001 | 432,773 | 1,655 | 434,428 |

Others mainly represent revenue from sales of waste materials.

Segment profit represents the gross profit earned by each segment without allocation of expenses and other income and (loss)/profit for the period. This is the measure reported to the most senior executive management for the purposes of resource allocation and assessment of segment performance.

The Group does not allocate specific assets or liabilities to the operating segments as the most senior executive management does not use the information to measure the performance of the segments.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Revenue** | | |
| PRC (including Hong Kong) | **3,076,957** | 3,447,839 |
| Overseas | **129,755** | 157,159 |
| | **3,206,712** | 3,604,998 |

The Group had four (six months ended 30 June 2017: three) customers with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2018. The amount of sales to these customers amounted to approximately RMB2,550,409,000 (six months ended 30 June 2017: RMB2,505,770,000).

For the six months ended 30 June 2018 and 2017, 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 revenues for the first half of the year than the second half.

For the twelve months ended 30 June 2018, the Group reported revenue of approximately RMB7,540,672,000 (twelve months ended 30 June 2017: approximately RMB6,869,125,000).

## 4 Other income and other net loss

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Other income** | | |
| Government grants | **82,711** | 3,026 |
| Unrealised gain on other financial assets | **13,929** | – |
| Interest income | **3,007** | 4,716 |
| Others | **372** | 55 |
| | **100,019** | 7,797 |
| **Other net loss** | | |
| Net foreign exchange (loss)/gain | **(6,117)** | 14,847 |
| Net realised and unrealised gain/(loss) on foreign exchange option contracts | **968** | (16,069) |
| Net realised and unrealised loss on foreign currency forward contracts | **(600)** | (17,185) |
| Loss on disposal of property, plant and equipment | **(272)** | (362) |
| | **(6,021)** | (18,769) |

## 5 (Loss)/profit before taxation

(Loss)/profit before taxation is arrived at after charging:

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | ***RMB'000*** | *RMB'000* |
| **(a)** | **Finance costs** | | |
| | Interest expenses | **21,400** | 4,323 |
| **(b)** | **Staff costs** | | |
| | Contributions to defined contribution retirement plans | **6,829** | 3,915 |
| | Salaries, wages and other benefits | **286,993** | 171,656 |
| | Equity-settled share based payment expenses | **3,399** | 3,055 |
| | | **297,221** | 178,626 |
| **(c)** | **Other items** | | |
| | Amortisation | | |
| | – lease prepayments | **510** | 208 |
| | – intangible assets | **81** | 81 |
| | Depreciation | **109,435** | 57,840 |
| | Auditors' remuneration | **600** | 550 |
| | Operating lease charges in respect of properties | **7,667** | 3,464 |
| | Research and development costs *(Note (i))* | **99,199** | 122,555 |
| | Cost of inventories *(Note (ii))* | **3,196,284** | 3,252,226 |
| | 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 RMB40,463,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB28,343,000) 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 is 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 RMB327,291,000 for the six months ended 30 June 2018 (six months ended 30 June 2017: RMB183,358,000) 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 | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| **Current tax** | | |
| PRC Corporate Income Tax | **4,617** | 41,392 |
| PRC dividend withholding tax *(Note(iv))* | **–** | 4,261 |
| | **4,617** | 45,653 |
| **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 | **7,143** | (5,780) |
| – Tax losses | **(13,334)** | – |
| – Others | **(7,809)** | 1,898 |
| | **(14,000)** | (7,919) |
| Total | **(9,383)** | 37,734 |

(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 2018 (six months ended 30 June 2017: 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. The Group had applied to renew the qualification in 2018 and expected to obtain the qualification on November 2018.

(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%.

## 7 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately RMB51,288,000 (six months ended 30 June 2017: profit of approximately RMB201,784,000) and the weighted average of 1,123,372,000 ordinary shares (six months ended 30 June 2017: weighted average of 1,095,213,000 ordinary shares) in issue during the interim period, calculated as follows:

#### *(i) Weighted average number of ordinary shares*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***'000*** | *'000* |
| Issued ordinary shares at 1 January | **1,115,597** | 1,081,771 |
| Effect of share options exercised | **7,775** | 13,442 |
| Weighted average number of ordinary shares at 30 June | **1,123,372** | 1,095,213 |

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of approximately RMB51,288,000 (six months ended 30 June 2017: profit of approximately RMB201,784,000) and the weighted average number of ordinary shares of 1,123,372,000 (six months ended 30 June 2017: weighted average of 1,105,680,000 ordinary shares).

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares at 30 June | **1,123,372** | 1,095,213 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration | **–** | 10,467 |
| Weighted average number of ordinary shares (diluted) at 30 June | **1,123,372** | 1,105,680 |

## 8 Trade and other receivables

| | At 30 June 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Trade receivables | | |
| – third parties | **2,111,492** | 1,761,433 |
| – related parties | **4,461** | 21,893 |
| Bills receivable | | |
| – third parties | **138,781** | 232,346 |
| Trade and bills receivables | **2,254,734** | 2,015,672 |
| Less: Allowance for doubtful debts | **(349)** | (349) |
| | **2,254,385** | 2,015,323 |
| Other deposits, prepayments and receivables | **53,737** | 19,722 |
| | **2,308,122** | 2,035,045 |

(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 approximately RMB5,124,000 as at 30 June 2018 (31 December 2017: approximately RMB2,612,000), which are expected to be recovered after more than one year.

(ii) As at 30 June 2018, no trade receivables (31 December 2017: approximately RMB128,704,000 and approximately RMB46,224,000) were pledged as security for bills payable (see Note 13(a)) and bank borrowings respectively (see Note 12).

As at 30 June 2018, no bills receivable (31 December 2017: approximately RMB27,427,000) were pledged as security for bills payable (see Note 13(a)), but bills receivable of approximately RMB58,034,000 (31 December 2017: approximately RMB37,513,000) were pledged as security for bank borrowings (see Note 12).

(iii) 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 2018, the outstanding balance of bills endorsed with recourse totaled approximately RMB75,784,000 (31 December 2017: approximately RMB148,297,000), which represents the Group's exposure to credit risk. All of these bills are due within one year.

### (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 2018 RMB'000 | At 31 December 2017 RMB'000 |
|---|---|---|
| Within 1 month | **1,282,991** | 1,495,748 |
| More than 1 month but within 3 months | **949,545** | 492,370 |
| More than 3 months but within 6 months | **21,706** | 27,161 |
| More than 6 months but within 1 year | **99** | 44 |
| More than 1 year | **44** | – |
| | **2,254,385** | 2,015,323 |

**(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/year is as follows:

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| At 1 January | **349** | 9,904 |
| Reversal of impairment loss recognised | **–** | (9,555) |
| As at 30 June/31 December | **349** | 349 |

**(c) Trade and bills receivables that are not impaired**

The ageing analysis of trade and bills receivables are as follows:

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Neither past due nor impaired | **2,253,957** | 2,014,957 |
| Less than 3 months past due | **304** | 322 |
| Over 3 less than 6 months past due | **75** | – |
| Over 6 less than 12 months past due | **5** | 44 |
| Over 12 months past due | **44** | – |
| | **2,254,385** | 2,015,323 |

**9 Other financial assets**

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Other financial assets | **590,671** | 873,486 |

As at 30 June 2018, other financial assets amounting to RMB569,000,000 (31 December 2017: RMB576,742,000) was pledged as security for bank borrowings (see Note 12).

## 10 Derivative financial assets and liabilities

| | **At 30 June 2018** | | |
|---|---|---|---|
| | **Notional amount** *RMB'000* | **Assets** *RMB'000* | **Liabilities** *RMB'000* |
| Foreign currency derivative instruments | | | |
| – Forward contracts | **547,882** | **18,355** | **–** |
| – Option contracts | **1,984,980** | **4,424** | **–** |
| Total | **2,532,862** | **22,779** | **–** |

| | 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) |

The Group entered into foreign currency option and foreign currency forward contracts with three banks. As at 30 June 2018, the notional amount of outstanding contracts amounted to USD382,900,000 (31 December 2017: USD691,670,000). 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 foreign exchange forward contract.

## 11 Pledged bank deposits

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Pledged for | | |
| – bank borrowings *(Note 12)* | **–** | 49,468 |
| – bills payable *(Note 13)* | **–** | 28,201 |
| – letter of guarantee | **–** | 800 |
| Pledged bank deposits | **–** | 78,469 |

## 12 Bank borrowings

As at 30 June 2018, the bank borrowings with effective interest rate of 4.25% (31 December 2017: 3.31%), were repayable within one year or on demand as follows:

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| **Bank borrowings** | | |
| – secured *(Note)* | **573,533** | 673,891 |
| – unsecured | **724,869** | 404,228 |
| | **1,298,402** | 1,078,119 |

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

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Other financial assets *(Note 9)* | **569,000** | 576,742 |
| Pledged bank deposits *(Note 11)* | **–** | 49,468 |
| Trade receivables *(Note 8(ii))* | **–** | 46,224 |
| Bills receivable *(Note 8(ii))* | **58,034** | 37,513 |
| | **627,034** | 709,947 |

## 13 Trade and other payables

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Trade payables and accruals | | |
| – third parties | **2,086,652** | 1,858,471 |
| – related parties | **60,416** | 24,334 |
| Bills payable *(Note (a))* | | |
| – third parties | **280,975** | 770,356 |
| Trade and bills payables *(Note (b))* | **2,428,043** | 2,653,161 |
| Accrued payroll | **51,972** | 60,894 |
| Other payables and accruals *(Note)* | **107,603** | 116,062 |
| Contract liabilities *(Note)* | **39,054** | – |
| | **2,626,672** | 2,830,117 |

*Note:* As a result of the adoption of IFRS 15, advance received is included in contract liabilities (see Note 2(c)).

All of the trade and other payables as at 30 June 2018 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**

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Bills payable secured by | | |
| – Trade receivables *(Note 8(ii))* | **–** | 100,000 |
| – Bills receivable *(Note 8(ii))* | **–** | 27,427 |
| – Pledged bank deposits *(Note 11)* | **–** | 20,153 |
| | **–** | 147,580 |
| Bills payable unsecured | **280,975** | 622,776 |
| | **280,975** | 770,356 |

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

| | **At 30 June 2018** *RMB'000* | At 31 December 2017 *RMB'000* |
|---|---|---|
| Within 3 months | **1,965,912** | 1,700,477 |
| Over 3 months but within 6 months | **181,952** | 695,397 |
| Over 6 months but within 1 year | **7,719** | 169,407 |
| Over 1 year | **3,096** | 11,422 |
| | **2,158,679** | 2,576,703 |

As at 30 June 2018, the accrued trade payables which represented the amounts with no invoice received by the end of the reporting period date, were amounted to approximately RMB269,364,000 (31 December 2017: approximately RMB76,458,000).

## 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 2018** *RMB'000* | At 30 June 2017 *RMB'000* |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the following interim period of RMB7.8 cents equivalent to HK$9.6 cents (six months ended 30 June 2017: RMB3.5 cents equivalent to HK$3.9 cents) | **91,622** | 37,145 |

The Company did not propose any interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: 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 |

| | *Note* | Number of shares *'000* | Nominal value of ordinary shares *HK$'000* | *RMB'000* |
|---|---|---|---|---|
| **Issued and fully paid:** | | | | |
| At 1 January 2017 | | 1,081,771 | 10,817 | 8,605 |
| Shares issued under Pre-IPO Share Option Scheme | | 13,826 | 138 | 122 |
| Shares issued for the Placement | | 20,000 | 200 | 168 |
| At 31 December 2017 and 1 January 2018 | | 1,115,597 | 11,155 | 8,895 |
| Shares issued under 2016 Share Option Scheme | | 14,706 | 147 | 116 |
| Shares issued under 2017 Share Option Scheme I | | 1,419 | 14 | 11 |
| At 30 June 2018 | | 1,131,722 | 11,316 | 9,022 |

During the period, pursuant to the Company' s share option schemes (Note 14(c)), options were exercised to subscribe for 16,125,200 ordinary shares (six months ended 30 June 2017: 13,826,000 shares) in the Company at a consideration of RMB54,592,000 (six months ended 30 June 2017: RMB5,530,000) of which RMB127,000 (six months ended 30 June 2017: RMB122,000) was credited to share capital and the balance of RMB61,384,000 (six months ended 30 June 2017: RMB7,903,000) was credited to the share premium account. RMB6,919,000 (six months ended 30 June 2017: RMB2,495,000) has been transferred from the share-based payment reserve to the share premium account. approximately 679,000 options were lapsed during the period (six months ended 30 June 2017: 1,949,000). As at 30 June 2018, the total number of shares which may be issued upon the exercise of all options outstanding from the Company's share option schemes is approximately 26,513,000 (31 December 2017: 43,318,000), of which approximately 21,791,000 options are exercisable at an exercise price of HK$4.13 and approximately 4,722,000 options are exercisable at an exercise price of HK$6.22.

**(c) Equity settled share-based transactions**

***(i) Shares Issued Under the 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 2018 (the "Period"), despite various unfavorable factors such as global political instability and surging international trade barriers, the Chinese economy was still able to maintain its medium to high speed growth. According to the data issued by National Bureau of Statistics of China on 16 July 2018, in the first half of 2018, China's gross domestic product ("GDP") grew by 6.8% year-on-year, and the total retail sales of consumer goods increased by 9.4% year-on-year, which clearly depicted that the major economic indicators in China were stable in the first half year. The consumption contribution to economic growth kept going up, which would help China in responding to the on-going depletion caused by international trade friction, and benefit the sustainable development of optional consumer goods markets such as smartphones.

During the Period, whilst constantly pushing forward the development of intelligent vision systematic strategy with confidence and focusing on promoting the scale and intelligent capabilities upgrading of the Group in production and manufacturing, the Group intensified its efforts in the research and development of new materials, new processes and new technologies and continued to vigorously propel the vertical integration in the intelligent visual sector.

For production capacity scale, as at 30 June 2018, the production capacity of camera modules of the Group had already increased to approximately 34 million units per month, including the production capacity of dual camera modules of approximately 8 million units per month. The production capacity of capacitive fingerprint recognition modules continued its stable production of approximately 17 million units per month, while the production capacity of under-glass fingerprint recognition modules and 3D sensing modules were also expanding steadily. The scalable capability for serving domestic and foreign leading brands at the same time was further enhanced.

For technology development, the Group had fully mastered technologies of high-end products, such as dual camera modules with various solutions, triple camera modules, 3D sensing modules, optical under-glass fingerprint recognition modules, and wide aperture camera modules with aperture value of 1.65, as well as miniaturized technologies, such as Molding on Chip, Molding on Board and Holding on Chip comprehensively. In respect of 3D structured light modules, during the Period, the Group successfully obtained the qualification from a Chinese leading smartphone brand manufacturer, an independent third party, and small batch production and deliveries were already taking place, and is expected to become the first Chinese manufacturer to conduct mass production and deliveries of 3D structured light modules in the second half year. Meanwhile, with a breakthrough in developing optical under-glass fingerprint recognition module products, the Group has become a key leader of second generation technology solutions, and successfully obtained a qualification from another Chinese leading smartphone brand manufacturer, an independent third party, and is expected to have more customers to adopt such solutions in the second half year, so as to address the security needs for mobile phones in entering into the bezel-less display era.

For vertical integration, our investment in Newmax Technology Co., Ltd. ("Newmax Technology") (a company listed on the Taipei Exchange in Taiwan, stock code: 3630) began to show progress. On one hand, the revenue of Newmax Technology has achieved a faster year-on-year increase since May 2018 (for details, please refer to the relevant announcement of Newmax Technology). On the other hand, Newmax Technology and the Group continued to deepen the technology cooperation and resources integration in different areas, such as under-glass fingerprint recognition modules, 3D structured light modules, 3D Time of Flight ("ToF") modules and camera modules, laying more solid foundation for the Group and Newmax Technology in improving the capabilities for serving core customers.

For sales scale, during the Period, with the support and trust of core customers, suppliers and all of our staff, the Group was still able to record a steady growth in overall product sales volume. But due to the decrease of the Integrated Products average selling price, during the Period, the Group recorded a revenue of approximately RMB3,206,712,000, representing a decrease of approximately 11.0% as compared with approximately RMB3,604,998,000 of the Corresponding Period, among which,

(i) The sales volume of camera module products reached approximately 102.85 million units, representing an increase of approximately 23.6% as compared with approximately 83.19 million units of the Corresponding Period. The sales income of camera module products was approximately RMB2,580,461,000, representing an increase of approximately 0.3% as compared with approximately RMB2,571,807,000 of the Corresponding Period. Of which, total sales volume of camera modules with resolutions of 10 mega pixels and above increased year-on-year by approximately 12.9% to approximately 40.85 million units, which accounted for approximately 39.7% of the Group's sales volume of camera modules for the Period, representing a decrease of 3.8 percentage points as compared with approximately 43.5% of the Corresponding Period. The revenue of camera modules with resolutions of 10 mega pixels and above was approximately RMB1,863,340,000, which accounted for approximately 72.2% of the Group's revenue of camera modules for the Period (the Corresponding Period: approximately 67.9%) and accounted for approximately 58.1% of the Group's total revenue for the Period (the Corresponding Period: approximately 48.4%). Among which, the sales volume of the dual camera modules was approximately 11.76 million units, accounted for approximately 11.4% of the Group's sales volume of camera modules for the Period and representing an increase of approximately 4.2 percentage points as compared with approximately 7.2% of the Corresponding Period. As the cooperation with individual large customers in camera modules was at preliminary stage, the Group mainly undertook products with resolutions of 8 mega pixels and below and thus it affected the product mix of camera modules. However, the Group's high-end products on Chinese customers coverage was expanding gradually and our position as a supplier in different key customers was also improving, thereby laying a solid foundation for future cooperation and development of more high-end camera module projects.

(ii) The sales volume of fingerprint recognition module products reached approximately 45.27 million units, representing an increase of approximately 31.9% as compared with approximately 34.32 million units of the Corresponding Period. The sales income was approximately RMB620,921,000, representing a decrease of approximately 39.8% as compared with approximately RMB1,031,180,000 of the Corresponding Period. Of which, the proportion of fingerprint recognition modules adopting the cover plate technique to total sales volume of fingerprint recognition modules decreased to approximately 14.7% (the Corresponding Period: approximately 33.7%), which was mainly due to the thin bezel and even infinity display mobile phones gradually becoming the dominant industry stream, and more fingerprint recognition modules having changed to rear-position design and adopted the coating fingerprint recognition modules and may further advance to under-glass fingerprint recognition modules.

Although the sales volume of camera modules and fingerprint recognition modules recorded a stable growth as compared with the Corresponding Period, however, the sales income of the Group decreased during the Period. This was mainly due to the decrease in Integrated Products average selling price for the Period by approximately 29.6% from approximately RMB30.7 for the Corresponding Period to approximately RMB21.6. Of which, the average selling price of camera modules was approximately RMB25.1, representing a decrease of approximately 18.8% as compared with approximately RMB30.9 of the Corresponding Period, while the average selling price of fingerprint recognition modules was approximately RMB13.7, representing a decrease of approximately 54.5% as compared with approximately RMB30.1 of the Corresponding Period. The decrease in average selling price was mainly due to the following factors: (i) fierce market competition and in order to further optimize customer mix and product mix and expand sales size, the Group adopted a periodically aggressive price competitive strategy; (ii) transitional stage of product specification upgrading: the price reduction range of old products was relatively high, while new products were yet to launch into the market or only small quantities were produced or sold during the Period, thus posing pressure on the average selling price; (iii) the cooperation period with individual customers in camera modules was still not matured and there was a need to sell our camera modules with low pixels to improve their recognition, and thus it affected the improvement of product mix of camera module products; and (iv) the proportion of coating fingerprint recognition modules with relatively lower price to the sales of fingerprint recognition module products further increased, as well as the optical under-glass fingerprint recognition modules had yet to enter into mass production and sales stage during the Period.

During the Period, the gross profit margin of the Group was approximately 1.2%, representing a decrease of approximately 10.9 percentage points as compared with approximately 12.1% of the Corresponding Period. The decrease in gross profit margin was mainly attributable to the following factors: (i) although the sales volumes of camera module products and fingerprint recognition module products remained at stable growth, however, the upgrading of these products was at a transitional stage during the Period and the progress of product mix optimization of the Integrated Products was below expectation, hence the proportion of products with low gross profit margin went up; (ii) under the intensifying industry market competition, the Group periodically adopted aggressive price competitive strategies to establish long-term customer strategic relationship and expand product sales scale as well as increasing market share; (iii) the production capacity of camera modules and fingerprint recognition modules of the Group increased substantially as compared with the Corresponding Period. However, affected by various factors including the cooperation stage with customers, project cycle and periodic shortage of individual major production materials, the capacity utilization was below expectation and the decrease in Integrated Products average selling price had increased the proportion of overall depreciation cost of products, and the weaker-than-expected capacity utilization also led to surplus of human resources recruited in advance and thus direct staff cost increased as a result; and (iv) the central parity rate of RMB against USD depreciated by approximately 1.3% during the Period (from 6.5342 in the beginning of the Period to 6.6166 at the end of the Period), particularly represented a sharp significant decrease in May and June during the peak production period of materials preparation, whereby a fairly amount of raw materials of the Group were denominated in USD in purchase and settlement, and sales revenue was mostly settled in RMB, which made the cost of production materials denominated in USD increased.

Generally speaking, affected by various factors such as increase in concentration of branded mobile industry, cyclical extension of replacing smartphones, and industry reshuffle and integration of camera module and fingerprint recognition modules, the competition in camera module and fingerprint recognition module industries was still very intense. The directors of the Company (the "Directors") believe that only when constantly and deeply promoting intelligent manufacturing, research and development ("R&D") of new technology and vertical integration, firmly propelling the strategies in platform, components as well as system integration, then the Group will be able to maintain its relatively long-term competitiveness and provide high-end and high quality products and quick response services for our general customers.

## PROSPECTS

The Directors believe there is still no change in consumers' pursuits to increasing the phototaking performance of smartphone and safe and convenient biometric recognition as well as their demands for vision imaging development from 2D to 3D. These demands will continue to drive the technology development and market application of high-end products including 3D camera modules, dual camera modules, multiple camera modules, under-glass fingerprint recognition modules, much higher pixel single camera modules and super aperture camera modules. In addition, affected by factors such as the promotion and popularity of infinity display design, tight structural phone space due to increase of camera modules quantity, the demands for miniaturized and integrative modules are becoming more and more urgent, hence the Group has full confidence about the industry prospect of camera module products and fingerprint recognition module products, and hence, thorough preparation of the aforementioned products was conducted. Among which, part of our products had already achieved significant breakthrough during the Period and successfully secured various projects from our core customers, which included optical under-glass fingerprint recognition modules, 3D structured light modules and dual camera modules. These projects were either already under mass production during the Period or are expected to conduct mass production in the second half year of 2018. The above fully demonstrates our superb ability in the design, R&D, production and after-sale service of mid-to-high end camera modules.

Due to seasonal sales practice and time schedule of launching leading new international and domestic branded products, in general, the second half year is the traditional peak season of smartphone industry. In the second half year of 2018, in terms of technology, the Group will continue to strengthen the R&D of new products and new techniques, fully propell the development of miniaturized technology of module packaging, accelerate in developing the abilities in the designing and manufacturing technicism including 3D structured light modules and ToF modules and also the abilities in designing and manufacturing of multiple camera modules and periscopic modules. In terms of client marketing, the Group will continue to endeavour reinforcing the marketing to leading overseas brands and strive to acquire the cooperation qualification with overseas targeted clients as soon as possible. The Group will intensify its strategic cooperation with domestic leading branded customers in full force and strive to gain more market shares on single camera modules with resolutions of 10 mega pixels and above, dual camera modules and triple camera modules, and endeavour to promote the progress of camera module product mix optimization. In the non-phone application sector, the Group will continue to fully accelerate the progress of automotive camera modules and smart home camera modules, in particular the automotive camera modules. On one hand, the Group will endeavour to obtain the Tier 1 supplier qualification of domestic cutting-edge brands to establish direct sales cooperation relationships and also make efforts to achieve batch shipments in the second half year. On the other hand, we will spare no effort to strive for Tier 2 supplier qualification of domestic top tier brands and serve automotive brands indirectly through solutions providers who provide Advanced Driver Assistance System ("ADAS"), Surround View and In-cabin Monitoring. Meanwhile, improving automated and intellectualized production capability has always been our mid-to-long-term goal. The Group increased its investments in automated equipment at the end of last year, and completed its initial process planning and testing stage in the first half year of 2018, which is likely to help promoting production efficiency and lower production costs substantially in the second half year of 2018.

Although the Directors had strong confidence regarding the long-term growth of the Chinese economy, and the long-term prospects of intelligent visual industry and biometric recognition modules, however, the Directors are fully aware that affected by several factors such as Sino-US trade disputes, their respective monetary policy trend, structural deleveraging of Chinese enterprises and supply-side reform in the short run, both China and global economic growth are still facing tremendous challenges and risks. The Directors are fully aware that the development of smartphone industry is also full of challenges. The manufactures of camera modules products and fingerprint recognition modules products are competing against one another to grasp this incremental market among existing customers. On one hand, the quality of smartphones keeps on improving, the proportion of expensive mid-to-high end phones keeps on increasing, which make consumers' mobile phone replacement cycle becomes apparently longer and thus exerted tremendous pressure in smartphone sales volume increase, with even periodic negative growth seen, hence customer demands are uncertain; on the other hand, the increasing concentration of branded smartphone business is evident. The escalation of customer concentration has increased customers' dominance in procurement pricing. At the same time, influenced by the shortage in supply and higher manufacturing technology barrier, the price of core components of camera module products and fingerprint recognition module products remained at high level. Therefore, industrial competition may become more and more intense. In the meantime, the business model of the Group that the Group's domestic sales are mainly settled and denominated in RMB while a fairly large part of key raw materials and equipment need to be imported and settled in USD is difficult to change in the short run. Hence, the uncertainties of macro political and economic situation will aggravate the exchange rate fluctuation of RMB against USD, and hence exchange rate risk is still apparent.

The Group recorded an operating loss during the Period and the Directors wish to express their deepest apology and regret. However, the Directors consider that the business prospects are still optimistic and the Group is already in better preparation in terms of operational scales, customer structure, product mix, new technology, and vertical integration. The Group's core competitiveness is enhancing gradually and the Directors have full confidence in leading the Group to directly encounter challenges, seize new development opportunities and endeavour to create better values for the shareholders (the "Shareholders") of the Company.

## FINANCIAL REVIEW

### Revenue

For the Period, the revenue of the Group was approximately RMB3,206,712,000, representing a decrease of approximately 11.0% as compared with approximately RMB3,604,998,000 of the Corresponding Period. The decrease in revenue was mainly attributable to the drop in the average unit selling price of Integrated Products, which was specifically caused by: (i) fierce market competition and in order to further optimize customer mix and product mix and expand sales size, the Group adopted a periodically aggressive price competitive strategy; (ii) transitional stage of product specification upgrading: the price reduction range of old products was relatively high, while new products were yet to launch into the market or only small quantities were produced and sold during the Period, thus posing pressure on the average selling price; (iii) the cooperation period with individual customers in camera modules was still not matured and there was a need to sell our camera modules with low pixels to improve their recognition, and thus it affected the improvement of product mix of camera module products; and (iv) the proportion of coating fingerprint recognition modules with relatively lower price to the sales of fingerprint recognition module products further increased, as well as the optical under-glass fingerprint recognition modules had yet to enter into mass production and sales stage during the Period.

**Cost of sales**

For the Period, the cost of sales of the Group was approximately RMB3,167,656,000, representing a decrease of approximately 0.1% as compared with approximately RMB3,170,570,000 of the Corresponding Period. The change in cost of sales was primarily attributable to: (i) labour cost increased by approximately 75.7% to approximately RMB240,621,000 as compared with the Corresponding Period due to an increase in salaries arising from an increase in the total number of employees, staff under labour service agreements and internship agreements of the Group; (ii) depreciation cost from production base and equipment, which were invested for expanding the production capacity, increased by approximately 86.8% to approximately RMB86,670,000 as compared with the Corresponding Period; (iii) sub-contracting charges increased by approximately 16.9% to approximately RMB73,906,000 as compared with the Corresponding Period due to the increase in production quantity of the Group; and (iv) total cost in raw materials decreased by approximately RMB226,998,000 as compared with the Corresponding Period.

## GROSS PROFIT AND MARGIN

For the Period, the gross profit of the Group was approximately RMB39,056,000 (the Corresponding Period: approximately RMB434,428,000), representing a decrease of approximately 91.0% as compared with the Corresponding Period, while the gross profit margin was approximately 1.2% (the Corresponding Period: approximately 12.1%). The decrease in gross profit margin was mainly attributable to the following factors: (i) although the sales volumes of camera module products and fingerprint recognition module products remained at stable growth, however, the upgrading of these products was at a transitional stage during the Period and the progress of product mix optimization of the Integrated Products was below expectation, hence the proportion of products with low gross profit margin went up; (ii) under the intensifying industry market competition, the Group periodically adopted aggressive price competitive strategies to establish long-term customer strategic relationship and expand product sales scale as well as increasing market share; (iii) the production capacity of camera modules and fingerprint recognition modules of the Group increased substantially as compared with the Corresponding Period. However, affected by various factors including the cooperation stage with customers, project cycle and periodic shortage of individual major production materials, the capacity utilization was below expectation and the decrease in Integrated Products average selling price had increased the proportion of overall depreciation cost of products, and the weaker-than-expected capacity utilization also led to surplus of human resources recruited in advance and thus direct staff cost increased as a result; and (iv) the central parity rate of RMB against USD depreciated by approximately 1.3% during the Period (from 6.5342 in the beginning of the Period to 6.6166 at the end of the Period), particularly represented a sharp significant decrease in May and June during the peak production period of materials preparation, whereby a fairly amount of raw materials of the Group were denominated in USD in purchase and settlement, and sales revenue was mostly settled in RMB, which made the cost of production materials denominated in USD increased.

**Other income**

For the Period, other income of the Group was approximately RMB100,019,000, representing an increase of approximately 1,182.8% as compared with approximately RMB7,797,000 of the Corresponding Period. The increase in other income was primarily due to: (i) unrealised gain on other financial assets of approximately RMB13,929,000, while there was no such item for the Corresponding Period; and (ii) subsidies or incentives received by the Group that were granted by local governments at different levels was approximately RMB82,711,000, representing an increase of approximately 2,633.3% as compared with approximately RMB3,026,000 of the Corresponding Period.

### Other net loss

For the Period, the Group recorded other net loss of approximately RMB6,021,000, representing a decrease of approximately 67.9% as compared with approximately RMB18,769,000 of the Corresponding Period. Such other net loss was primarily attributable to: (i) a net foreign exchange loss of approximately RMB6,117,000 was recorded, while there was a gain of approximately RMB14,847,000 for the Corresponding Period; (ii) a net realised and unrealised gain on foreign currency option contracts of approximately RMB968,000 was recorded, while there was a loss of approximately RMB16,069,000 for the Corresponding Period; and (iii) a net realised and unrealised loss on foreign currency forward contracts of approximately RMB600,000 was recorded, while there was a loss of approximately RMB17,185,000 for the Corresponding Period.

### Selling and distribution expenses

For the Period, the selling and distribution expenses of the Group amounted to approximately RMB9,261,000, representing an increase of approximately RMB2,753,000 or approximately 42.3% as compared with approximately RMB6,508,000 of the Corresponding Period. The ratio of selling and distribution expenses in turnover was approximately 0.3%, representing an increase of approximately 0.1 percentage points as compared with approximately 0.2% of the Corresponding Period. The increase in selling and distribution expenses was mainly attributable to the increase of sales staff's total salaries as a result of the increase in staff headcount, and the increase in entertainment expenses due to the selling activities during the Period.

### Administrative and other operating expenses

For the Period, total administrative and other operating expenses of the Group decreased from approximately RMB50,552,000 of the Corresponding Period to approximately RMB39,051,000, representing a decrease of approximately 22.8%. The change in administrative and other operating expenses was mainly attributable to: (i) the replenishment of management team and recruitment of production staff led to the increasing recruitment and labor charges amounted to approximately RMB11,741,000, representing a significant increase of approximately RMB7,636,000 or approximately 186.0% as compared with approximately RMB4,105,000 for the Corresponding Period; and (ii) an impairment loss of approximately RMB26,913,000 was recognised for the Corresponding Period, which was related to certain customers whose balances were overdue and were individually determined to be impaired, while there was no such provision being made during the Period.

### R&D expenses

For the Period, total R&D expenses of the Group amounted to approximately RMB99,199,000, representing a decrease of approximately 19.1% as compared with approximately RMB122,555,000 of the Corresponding Period. The R&D expenses for the Period were mainly used for 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 module products with different functions and applications, camera module products with smaller size, 3D structured light module products, camera module products applied in automotive and smart home areas, more miniature fingerprint recognition module products with higher definition, optical under-glass fingerprint recognition module products, as well as to optimise and enhance the standards of production automation.

### Finance costs

For the Period, finance costs of the Group was approximately RMB21,400,000, increased by approximately 395.0% from approximately RMB4,323,000 of the Corresponding Period, which was primarily due to the combined effect of the year-on-year increase in the Group's bank borrowings as compared with the Corresponding Period and the increase in interest rate of USD borrowings.

### Share of loss of an associate

For the Period, the associate of the Company, Newmax Technology, recorded a loss, and the share of loss of the associate attributable to the Company was approximately RMB24,814,000, while there was no associate of the Company and no such loss for the Corresponding Period.

### Income tax expenses

For the Period, income tax expenses of the Group was approximately RMB-9,383,000 while the income tax expenses was approximately RMB37,734,000 of the Corresponding Period, which was mainly attributable to the loss before taxation of approximately RMB60,671,000 of the Group during the Period.

### Profit/(loss) for the Period

Based on the foregoing, the Group recorded a loss of approximately RMB51,288,000 for the Period as compared to a profit of approximately RMB201,784,000 for the Corresponding Period.

## LIQUIDITY AND FINANCIAL RESOURCES

### Bank borrowings

As at 30 June 2018, the Group's bank borrowings amounted to approximately RMB1,298,402,000, representing an increase of approximately 20.4% from approximately RMB1,078,119,000 as at 31 December 2017. The maturities of all of those bank borrowings are less than 1 year.

As at 30 June 2018, the Group's bank borrowings were denominated in RMB and USD.

For the six months ended 30 June 2018 and 2017, the overview of the Group's cash flow was set out as follows:

| | **For the six months ended 30 June** | |
|---|---|---|
| | **2018** | 2017 |
| | ***RMB'000*** | *RMB'000* |
| Net cash (used in)/generated from operating activities | **(278,107)** | 1,226,683 |
| Net cash generated from/(used in) investing activities | **69,988** | (606,246) |
| Net cash used in financing activities | **(33,953)** | (459,024) |

As of 30 June 2018, cash and cash equivalents of the Group amounted to approximately RMB223,813,000, representing a decrease of approximately RMB1,692,000 from approximately RMB225,505,000 as at 30 June 2017, and representing a decrease of approximately RMB241,169,000 from approximately RMB464,982,000 as at 31 December 2017. The decrease in cash and cash equivalents was mainly due to the net cash outflow in operating activities and financing activities.

**Operating activities**

For the Period, the Group's net cash outflow of operating activities amounted to approximately RMB278,107,000. The Group's cash flow recorded a net outflow from its operating activities, which was primarily attributable to: (i) the increase by approximately 9 days to approximately 120 days in turnover days of receivables during the Period from approximately 111 days of the Corresponding Period; and (ii) the decrease in gross profit margin of the Group during the Period.

**Investing activities**

The net cash inflow generated from the investing activities of the Group during the Period amounted to approximately RMB69,988,000, which was mainly due to the cash proceeds from the matured other financial assets of approximately RMB296,745,000 less: (i) the expenditure for purchasing equipment and plant expansion of approximately RMB182,083,000; (ii) the payment for derivative financial instruments of approximately RMB33,298,000; and (iii) the payment for land use right of approximately RMB29,188,000.

**Financing activities**

The net cash outflow used in the financing activities of the Group during the Period amounted to approximately RMB33,953,000, which was mainly due to: (i) payment of dividends of approximately RMB91,622,000; and (ii) consideration received of approximately RMB54,592,000 for exercising the rights by staff under the share option scheme of the Company to subscribe for ordinary shares of the Company.

**Gearing ratio**

The gearing ratio as at 30 June 2018, as defined by the balance of bank borrowings divided by total equity at the end of the Period, was approximately 63.5%, representing an increase of approximately 57.0 percentage points from approximately 6.5% as at 30 June 2017, and representing an increase of approximately 13.3 percentage points from approximately 50.2% as at 31 December 2017, which was mainly attributable to the significant increase in bank borrowings.

## 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 (the "Risk Management Committee") of the Company 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

The Group did not have any material acquisitions or disposals of its subsidiaries, associates and joint ventures for the six months ended 30 June 2018.

## Significant investment

The Group did not hold any significant investment during the six months ended 30 June 2018.

## Other investments

Other investments of the Group for the six months ended 30 June 2018 mainly comprised other financial assets not yet due as referred in Note 9 to the financial statements. Such other financial assets were short-term wealth management products issued by commercial banks in Mainland China, which principal and returns are not guaranteed, the detailed breakdown of which is as follows:

| Number | Amount *(RMB'000)* | Company Involved | Bank Involved | Transaction Date | Due date | Period (Day) | Expected Interest Rate | Present Value as of 30 June 2018 *(RMB'000)* |
|---|---|---|---|---|---|---|---|---|
| 1 | 70,000.00 | Kunshan QT China | ICBC Heyuan Branch | 2017/8/11 | 2018/8/8 | 362 | 4.8000% | 72,994 |
| 2 | 100,000.00 | Kunshan QT China | ICBC Heyuan Branch | 2017/8/25 | 2018/8/22 | 362 | 4.9500% | 104,216 |
| 3 | 136,000.00 | Kunshan QT China | ICBC Heyuan Branch | 2017/9/20 | 2018/9/18 | 363 | 4.9500% | 141,229 |
| 4 | 83,500.00 | Kunshan QT China | ICBC Heyuan Branch | 2017/9/25 | 2018/9/20 | 360 | 4.9500% | 86,687 |
| 5 | 31,500.00 | Kunshan QT China | ICBC Heyuan Branch | 2017/9/25 | 2018/9/18 | 358 | 4.9500% | 32,707 |
| 6 | 148,000.00 | Kunshan QT China | ICBC Heyuan Branch | 2017/11/1 | 2018/10/30 | 363 | 4.9500% | 152,838 |
| Total Amount | 569,000.00 | | | | | | | 590,671 |

## Contingent liabilities

As at 30 June 2018, the Group did not have any contingent liabilities.

**Pledge of assets**

As at 30 June 2018, the assets pledged by the Group included bills receivable of approximately RMB58,034,000 and other financial assets of approximately RMB569,000,000, which were pledged as security for bank borrowings.

**Employee policies and remuneration**

As at 30 June 2018, the Group had a total of 3,048 employees (as at 30 June 2017: 2,682) (excluding staff under labour service agreements and internship agreements). The Group is always 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 six months ended 30 June 2018, the remuneration of the employees of the Group was approximately RMB297,221,000 (as at 30 June 2017: approximately RMB178,626,000). 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 Company has granted share options to its staff on 26 October 2016 and 9 June 2017 respectively pursuant to a share option scheme (the "Share Option Scheme") adopted on 13 November 2014 (details of the Share Option Scheme are disclosed in sections D1 headed "Share Option Scheme" of Appendix IV "Statutory and General Information" of the Prospectus respectively. The Company granted 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, and 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 26 October 2016 for details), and the Company has accepted the applications from 151 staff (including two executive Directors, Mr. Wang Jianqiang and Mr. Hu Sanmu) to issue a total of 14,706,000 ordinary shares during the Period, at the exercise price of HK$4.13 per share and total consideration received was approximately HK$60,735,780; a total of 267,600 options granted on 26 October 2016 were waived as a result of the resignations of 3 staff during the Period. In addition, on 9 June 2017, the Company 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) in accordance with the Share Option Scheme, 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 for details), and the Company has accepted the applications from 25 staff to issue a total of 1,419,200 ordinary shares during the Period, at the exercise price of HK$6.22 per share and total consideration received was approximately HK$8,827,424; a total of 411,600 options granted on 9 June 2017 were waived as a result of the resignations of 3 staff during the Period.

### 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 loss of approximately RMB6,117,000 as the sales income of the Group was still mainly settled in RMB but various raw materials for production were purchased from overseas and settled in USD, and depreciated approximately 1.3% in the RMB against USD exchange rate for the Period, particularly represented a sharp significant decrease in May and June during the peak production period of materials preparation. 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 currency 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 2018, the fund raised was fully utilised. Among the net proceeds used: (i) approximately HK$256,620,000 was utilized to purchase production and testing equipment; (ii) approximately HK$164,500,000 was utilized 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 sales expenses of product and business development; and (vi) approximately HK$65,800,000 was utilised for general corporate purposes. The capital utilisation was consistent with the intended use of the Global Offering.

## USE OF PROCEEDS FROM SHARES PLACING

On 12 December 2016, the Company completed the placing of 40,000,000 new ordinary shares of HK$0.01 each under a general mandate granted to the Directors by the Shareholders to not less than two placees, being Value Partners Hong Kong Limited and The People's Insurance Company (Group) of China Limited, who and whose ultimate beneficial owners are not connected persons of the Company, and are third parties independent of the Company and its connected persons, at the placing price of HK$3.90 per placing share. Based on the closing price of HK$4.12 per share on 1 December 2016, being the date of the placing agreement, the placing shares had a market value of HK$164.80 million and an aggregate nominal value of HK$400,000. The Directors considered that the placing offered a good opportunity to raise additional funds to strengthen the financial position. 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 2018, 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 capital utilisation was 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 of HK$0.01 each under a general mandate granted to the Directors by the Shareholders to not less than six placees, being professional, institutional and/or other investors, who and whose ultimate beneficial owners are not connected persons of the Company, and are third parties independent of the Company and its connected persons, at the placing price of HK$10.80 per placing share. Based on the closing price of HK$11.22 per share on 29 December 2017, being the date of the placing agreement, the placing shares had a market value of HK$224.40 million and an aggregate nominal value of HK$200,000. The Directors considered that the placing offered a good opportunity to raise additional funds to strengthen the financial position. 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 30 June 2018, the fund raised was fully utilised. Among the net proceeds used: (i) approximately HK$171,374,000 was utilised for capital expenditure; and (ii) approximately HK$42,844,000 was utilised for R&D activities. The capital utilisation was consistent with the intended use of the net proceeds of the placing.

## DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (six months ended 30 June 2017: Nil).

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

During the six months ended 30 June 2018, 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 as contained in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company has made specific enquiries with the Directors and all of them confirmed that they had complied with the required standard set out in the Model Code during the Period.

## CORPORATE GOVERNANCE PRACTICES

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

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

## REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has established an audit committee (the "Audit Committee") in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The Audit Committee comprises three 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 for the six months ended 30 June 2018 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 2018 and up to the date of this report.

## 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 2018 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, 27 August 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. Ko Ping Keung, Mr. Chu Chia-Hsiang and Mr. Ng Sui Yin.*