Q Tech

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 2019

HIGHLIGHTS

- The unaudited sales revenue of the Group for the six months ended 30 June 2019 amounted to approximately RMB5,060,945,000, representing an increase of approximately 57.8% as compared with that of the corresponding period of 2018 (the "Corresponding Period"). The main reasons for the growth in revenue were: (i) by benefiting from the results of the Group's expansion strategy, the sales volume of camera module products for the Period achieved a significant increase of approximately 77.5% as compared with that of the Corresponding Period; and (ii) although the sales volume of fingerprint recognition module products of the Group for the Period was decreased by approximately 16.6% as compared with that of the Corresponding Period, however, due to the obvious product mix optimisation, the average selling price of fingerprint recognition module products increased significantly by approximately 116.7% as compared with that of the Corresponding Period, so that the sales revenue from fingerprint recognition module products was still increased by approximately 80.7% as compared with that of the Corresponding Period.

- Gross profit for the six months ended 30 June 2019 was approximately RMB415,205,000, while gross profit margin was approximately 8.2%, representing a significant increase of approximately 7.0 percentage points as compared with approximately 1.2% for the Corresponding Period.

- Profit of the Group for the six months ended 30 June 2019 was approximately RMB180,833,000, while the loss for the Corresponding Period was approximately RMB51,288,000.

- Basic and diluted earnings per share for the six months ended 30 June 2019 were approximately RMB0.159 and RMB0.158 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 2019 together with the relevant comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2019	2018
	Note	***RMB'000***	*RMB'000*
			(Note)
Revenue	*3*	**5,060,945**	3,206,712
Cost of sales		**(4,645,740)**	(3,167,656)
Gross profit		**415,205**	39,056
Other revenue	*4*	**11,479**	100,019
Other net loss	*4*	**(40,767)**	(6,021)
Selling and distribution expenses		**(6,026)**	(9,261)
Administrative and other operating expenses		**(42,053)**	(39,051)
Research and development expenses		**(139,306)**	(99,199)
Profit/(loss) from operations		**198,532**	(14,457)
Finance costs	*5(a)*	**(23,481)**	(21,400)
Share of profit/(loss) of an associate		**24,979**	(24,814)
Profit/(loss) before taxation	*5*	**200,030**	(60,671)
Income tax	*6*	**(19,197)**	9,383
Profit/(loss) for the period		**180,833**	(51,288)
Attributable to:			
Equity shareholders of the Company		**180,833**	(51,288)
Profit/(loss) for the period		**180,833**	(51,288)
Earnings per share		***RMB Cents***	*RMB Cents*
Basic	*7*	**15.9**	(4.6)
Diluted	*7*	**15.8**	(4.6)

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

Details of dividends payable to equity shareholders of the Company are set out in Note 13.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Note)
Profit/(loss) for the period	**180,833**	(51,288)
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of the financial statements of subsidiaries outside the Mainland China	**2,658**	(17,574)
Other comprehensive income for the period	**2,658**	(17,574)
Total comprehensive income for the period	**183,491**	(68,862)
Attributable to:		
Equity shareholders of the Company	**183,491**	(68,862)
Total comprehensive income for the period	**183,491**	(68,862)

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000 (Note)
Non-current assets			
Property, plant and equipment	*2*	**1,956,717**	1,888,524
Interests in an associate		**253,550**	229,407
Lease prepayments		**51,220**	51,790
Intangible assets		**4,837**	1,427
Deferred tax assets		**22,024**	21,985
Prepayment for acquisition of non-current assets		**39,458**	10,770
Deposits		**8,848**	7,050
		2,336,654	2,210,953
Current assets			
Inventories		**918,041**	703,818
Trade and other receivables	*8*	**3,456,597**	3,031,367
Derivative financial assets	*9*	**101,098**	105,251
Pledged bank deposits	*10*	**305,465**	288,302
Cash and cash equivalents		**642,184**	99,920
		5,423,385	4,228,658
Current liabilities			
Bank borrowings	*11*	**1,741,187**	1,178,241
Trade and other payables	*12*	**3,565,067**	3,061,432
Contract liabilities		**31,786**	28,391
Lease liabilities	*2(c)*	**5,730**	–
Derivative financial liabilities	*9*	**2,975**	201
Current tax payable		**4,989**	1,835
		5,351,734	4,270,100
Net current assets/(liabilities)		**71,651**	(41,442)
Total assets less current liabilities		**2,408,305**	2,169,511

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2019 – unaudited (continued)
(Expressed in Renminbi)

	Note	**At 30 June 2019** **RMB'000**	At 31 December 2018 *RMB'000* *(Note)*
Non-current liabilities			
Lease liabilities	*2(c)*	**10,020**	–
Deferred income		**71,012**	65,648
Deferred tax liabilities		**2,240**	428
		83,272	66,076
NET ASSETS		**2,325,033**	2,103,435
CAPITAL AND RESERVES			
Share capital	*13(b)*	**9,109**	9,022
Reserves		**2,315,924**	2,094,413
TOTAL EQUITY		**2,325,033**	2,103,435

Note: The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, 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 12 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2019 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 (together referred to as the "Group") and the Group's interests in an associate since the 2018 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 (the "HKICPA").

2 Changes in accounting policies

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the amendments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, Leases

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right of-use asset has been reduced to zero.

(b) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.75%.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019;

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(iii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
	RMB'000
Operating lease commitments at 31 December 2018	8,506
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(1,657)
	6,849
Less: total future interest expenses	(457)
Present value of remaining lease payments, discounted using the incremental borrowing rate and total lease liabilities recognised at 1 January 2019	6,392

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets in "property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

The following table summarises the impacts of the adoption of IFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018	Capitalisation of operating lease contracts	Carrying amount at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Line items in the consolidated statement of financial position impacted by the adoption of IFRS 16:			
Property, plant and equipment	1,888,524	6,392	1,894,916
Total non-current assets	**2,210,953**	**6,392**	**2,217,345**
Lease liabilities (current)	–	(3,319)	(3,319)
Current liabilities	**4,270,100**	**(3,319)**	**4,266,781**
Net current (liabilities)/assets	**(41,442)**	**(3,319)**	**(44,761)**
Total assets less current liabilities	**2,169,511**	**3,073**	**2,172,584**
Lease liabilities (non-current)	–	(3,073)	(3,073)
Total non-current liabilities	**66,076**	**(3,073)**	**63,003**
Net assets	**2,103,435**	**–**	**2,103,435**

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to IFRS 16 is as follows:

	At 30 June 2019	At 1 January 2019
	RMB'000	*RMB'000*
Properties leased for own use, carried at depreciated cost	**15,630**	6,392

(c) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to IFRS 16 are as follows:

	At 30 June 2019		At 1 January 2019	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Within 1 year	**5,730**	**5,948**	3,319	3,477
After 1 year but within 2 years	**3,950**	**4,281**	3,073	3,372
After 2 year but within 5 years	**6,070**	**7,156**	–	–
	10,020	**11,437**	3,073	3,372
	15,750	**17,385**	6,392	6,849
Less: total future interest expenses		**(1,635)**		(457)
Present value of lease liabilities		**15,750**		6,392

(d) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a positive impact on the reported profit from operations in the Group's consolidated statement of profit or loss, as compared to the results if IAS 17 had been applied during the period.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under IAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under IAS 17. Although total cash flows are unaffected, the adoption of IFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement.

The following tables may give an indication of the estimated impact of adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the six months ended 30 June 2019, by adjusting the amounts reported under IFRS 16 in these interim financial statements to compute estimates of the hypothetical amounts that would have been recognised under IAS 17 if this superseded standard had continued to apply to 2019 instead of IFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under IAS 17.

	2019				2018
	Amounts reported under IFRS 16 (A)	**Add back: IFRS 16 depreciation and interest expense (B)**	**Deduct: Estimated amounts related to operating lease as if under IAS 17 (note 1) (C)**	**Hypothetical amounts for 2019 as if under IAS 17 (D=A+B-C)**	Compared to amounts reported for 2018 under IAS 17
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*
Financial result for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:					
Profit/(loss) from operations	**198,532**	**2,096**	**2,227**	**198,401**	**(14,457)**
Finance costs	(23,481)	248	–	(23,233)	(21,400)
Profit/(loss) before taxation	**200,030**	**2,344**	**2,227**	**200,147**	**(60,671)**
Profit/(loss) for the period	**180,833**	**2,344**	**2,227**	**180,950**	**(51,288)**

	2019			2018
	Amounts reported under IFRS 16 (A)	**Estimated amounts related to operating leases as if under IAS 17 (notes 1 & 2) (B)**	**Hypothetical amounts for 2019 as if under IAS 17 (C=A+B)**	Compared to amounts reported under IAS 17
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Line items in the condensed consolidated cash flow statement for the six months ended 30 June 2019 impacted by the adoption of IFRS 16:				
Cash generated from operations	969,035	(2,227)	966,808	(268,708)
Net cash generated from operating activities	**954,764**	**(2,227)**	**952,537**	**(278,107)**
Capital element of lease rentals paid	(1,979)	1,979	–	–
Interest element of lease rentals paid	(248)	248	–	–
Net cash used in financing activities	**(180,308)**	**2,227**	**(178,081)**	**(33,953)**

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if IAS 17 had still applied in 2019. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under IAS 17, if IAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if IAS 17 still applied.

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 *RMB'000*	**Fingerprint recognition modules** *RMB'000*	**Subtotal of reportable segments** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Six months ended 30 June 2019					
Revenue	3,917,299	1,121,750	5,039,049	21,896	5,060,945
Cost of sales	(3,618,716)	(1,008,751)	(4,627,467)	(18,273)	(4,645,740)
Gross profit	298,583	112,999	411,582	3,623	415,205
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

Others mainly represent revenue from sales of waste materials and the service of technical support.

Segment profit represents the gross profit earned by each segment without allocation of expenses and other income and profit/(loss) for the period. This is the measure reported to the most senior executive management of the Group 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	
	2019	2018
	RMB'000	*RMB'000*
Revenue		
PRC (including Hong Kong)	**4,876,339**	3,076,957
Overseas	**184,606**	129,755
	5,060,945	3,206,712

The Group had three (six months ended 30 June 2018: four) customers with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2019. The amount of sales to these customers amounted to approximately RMB3,988,530,000 (six months ended 30 June 2018: approximately RMB2,550,409,000).

For the six months ended 30 June 2019 and 2018, 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 the 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 2019, the Group reported revenue of approximately RMB9,989,394,000 (twelve months ended 30 June 2018: approximately RMB7,540,672,000).

4 Other revenue and other net loss

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Other revenue		
Government grants	**6,489**	82,711
Unrealised gain on other financial assets	**–**	13,929
Interest income	**4,987**	3,007
Others	**3**	372
	11,479	100,019
Other net loss		
Net foreign exchange loss	**(15,516)**	(6,117)
Net realised and unrealised (loss)/gain on foreign exchange option contracts	**(18,846)**	968
Net realised and unrealised loss on foreign currency forward contracts	**(2,998)**	(600)
Loss on disposal of property, plant and equipment	**(3,407)**	(272)
	(40,767)	(6,021)

5 Profit/(loss) before taxation

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

(a) Finance costs

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Note)
Interest on bank borrowings	**23,233**	21,400
Interest on lease liabilities	**248**	–
	23,481	21,400

Note:

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

(b) Staff costs

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Contributions to defined contribution retirement plans	**8,376**	6,829
Salaries, wages and other benefits	**280,578**	286,993
Equity-settled share based payment expenses	**1,448**	3,399
	290,402	297,221

(c) Other items

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
		(Note (i))
Amortisation		
– lease prepayments	**570**	510
– intangible assets	**261**	81
Depreciation		
– owned assets	**131,945**	109,435
– right-of-use assets	**2,096**	–
Auditors' remuneration	**600**	600
Operating lease charges in respect of properties	**2,826**	7,667
Research and development costs *(Note (ii))*	**139,306**	99,199
Cost of inventories *(Note (iii))*	**4,711,220**	3,196,284
Impairment losses on trade and other receivables	**407**	–

Notes:

(i) The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See Note 2.

(ii) Research and development costs include staff costs of employees in the design, research and development department of approximately RMB45,649,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately RMB40,463,000) respectively which are included in the staff costs as disclosed in Note 5(b).

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

(iii) Cost of inventories includes approximately RMB329,059,000 for the six months ended 30 June 2019 (six months ended 30 June 2018: approximately RMB327,291,000) 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) and Note 5(c) 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	
	2019	2018
	RMB'000	*RMB'000*
Current tax – PRC Corporate Income Tax	**17,432**	4,617
Deferred taxation	**1,765**	(14,000)
Total	**19,197**	(9,383)

(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) Limited ("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 2019 (six months ended 30 June 2018: 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 (the "HNTE") in 2009, and had successfully renewed the HNTE qualification on 21 May 2012, 6 July 2015 and 24 October 2018 respectively and continued to enjoy a preferential income tax rate of 15% for another three years commenced from 1 January 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 profit attributable to ordinary equity shareholders of the Company of approximately RMB180,833,000 (six months ended 30 June 2018: loss of approximately RMB51,288,000) and the weighted average of 1,136,645,000 ordinary shares (six months ended 30 June 2018: weighted average of 1,123,372,000 ordinary shares) in issue during the interim period, calculated as follows:

(i) Weighted average number of ordinary shares

	Six months ended 30 June	
	2019	2018
	’000	*’000*
Issued ordinary shares at 1 January	**1,131,722**	1,115,597
Effect of share options exercised	**4,923**	7,775
Weighted average number of ordinary shares at 30 June	**1,136,645**	1,123,372

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB180,833,000 (six months ended 30 June 2018: loss of approximately RMB51,288,000) and the weighted average number of ordinary shares of 1,143,925,000 (six months ended 30 June 2018: weighted average of 1,123,372,000 ordinary shares).

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

	Six months ended 30 June	
	2019	2018
	’000	*’000*
Weighted average number of ordinary shares at 30 June	**1,136,645**	1,123,372
Effect of deemed issue of shares under the Company’s share option scheme	**7,280**	–
Weighted average number of ordinary shares (diluted) at 30 June	**1,143,925**	1,123,372

8 Trade and other receivables

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Trade receivables		
– third parties	**3,326,992**	2,829,467
– related parties	**725**	4,242
Bills receivable		
– third parties	**89,598**	170,641
Trade and bills receivables	**3,417,315**	3,004,350
Less: Allowance for doubtful debts	**(938)**	(531)
	3,416,377	3,003,819
Other deposits, prepayments and receivables	**40,220**	27,548
	3,456,597	3,031,367

(i) All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(ii) As at 30 June 2019, trade receivables of approximately RMB298,889,000 were pledged as security for bank borrowings (31 December 2018: approximately RMB147,825,000 were pledged as security for bills payable and bank borrowings respectively) (see Note 11).

As at 30 June 2019, no bills receivable (31 December 2018: approximately RMB26,047,000) were pledged as security for bills payable (see Note 12(a)). Bills receivable are due in 3 to 6 months from the date of issue.

(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 2019, the outstanding balance of bills endorsed with recourse totaled approximately RMB91,059,000 (31 December 2018: approximately RMB166,409,000), 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 2019 RMB'000	At 31 December 2018 RMB'000
Within 1 month	**1,751,844**	1,695,382
More than 1 month but within 3 months	**1,635,344**	1,249,786
More than 3 months but within 6 months	**25,508**	58,576
More than 6 months but within 1 year	**3,681**	75
	3,416,377	3,003,819

(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 2019 *RMB'000*	At 31 December 2018 *RMB'000*
At 1 January	**531**	349
Impairment losses recognised	**407**	182
As at 30 June/31 December	**938**	531

9 Derivative financial assets and liabilities

	At 30 June 2019		
	Notional amount *RMB'000*	**Assets** *RMB'000*	**Liabilities** *RMB'000*
Foreign currency derivative instruments			
– Forward contracts	**1,381,918**	**–**	**(2,975)**
– Option contracts	**855,900**	**101,098**	**–**
Total	**2,237,818**	**101,098**	**(2,975)**

	At 31 December 2018		
	Notional amount *RMB'000*	Assets *RMB'000*	Liabilities *RMB'000*
Foreign currency derivative instruments			
– Forward contracts	452,045	–	(201)
– Option contracts	1,153,361	105,251	–
Total	1,605,406	105,251	(201)

The Group entered into foreign currency option and foreign currency forward contracts with banks. As at 30 June 2019, the notional amount of outstanding contracts amounted to approximately USD325,515,000 (31 December 2018: approximately USD233,915,000). 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.

10 Pledged bank deposits

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Pledged for		
– bank borrowings *(Note 11)*	**295,071**	205,700
– bills payable *(Note 12)*	**10,394**	82,522
– letter of guarantee	**–**	80
Pledged bank deposits	**305,465**	288,302

11 Bank borrowings

As at 30 June 2019, the bank borrowings with effective interest rate of approximately 3.43% (31 December 2018: approximately 3.67%), were repayable within one year or on demand as follows:

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Bank borrowings		
– secured *(Note)*	**524,205**	342,986
– unsecured	**1,216,982**	835,255
	1,741,187	1,178,241

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

	At 30 June 2019 RMB'000	At 31 December 2018 RMB'000
Pledged bank deposits *(Note 10)*	**295,071**	205,700
Trade receivables *(Note 8(ii))*	**298,889**	147,825
	593,960	353,525

12 Trade and other payables

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Trade payables and accruals		
– third parties	**2,550,589**	2,290,395
– related parties	**87,628**	102,951
Bills payable *(Note (a))*		
– third parties	**650,243**	399,892
Trade and bills payables *(Note (b))*	**3,288,460**	2,793,238
Accrued payroll	**60,931**	62,134
Other payables and accruals	**109,485**	95,522
Foreign currency option premium	**106,191**	110,538
	3,565,067	3,061,432

All of the trade and other payables as at 30 June 2019 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 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Bills payable secured by		
– Bills receivable *(Note 8(ii))*	**–**	21,805
– Pledged bank deposits *(Note 10)*	**103,939**	70,445
	103,939	92,250
Bills payable unsecured	**546,304**	307,642
	650,243	399,892

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

	At 30 June 2019 *RMB'000*	At 31 December 2018 *RMB'000*
Within 3 months	**2,915,198**	2,366,602
Over 3 months but within 6 months	**194,596**	308,632
Over 6 months but within 1 year	**34,322**	16,217
Over 1 year	**8,564**	3,379
	3,152,680	2,694,830

As at 30 June 2019, the accrued trade payables which represented the amounts with no invoice received by the end of the reporting period, were amounted to approximately RMB135,780,000 (31 December 2018: approximately RMB98,408,000).

13 Capital, reserves and dividends

(a) Dividends

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

	At 30 June 2019	At 30 June 2018
	RMB'000	*RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period of RMB Nil cents (six months ended 30 June 2018: RMB7.8 cents equivalent to HK9.6 cents)	**–**	91,622

The Company did not propose any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

(b) Share capital

Authorised and issued share capital

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

	Number of shares	**Nominal value of ordinary shares**	
	'000	*HK$'000*	*RMB'000*
Issued and fully paid:			
At 1 January 2018	1,115,597	11,155	8,895
Shares issued under Share Option Scheme	16,125	161	127
At 31 December 2018 and 1 January 2019	1,131,722	11,316	9,022
Shares issued under 2016 Share Option Scheme	9,808	98	84
Shares issued under 2017 Share Option Scheme	375	4	3
At 30 June 2019	1,141,905	11,418	9,109

During the period, pursuant to the Company's share option schemes, options were exercised to subscribe for 10,183,200 ordinary shares (six months ended 30 June 2018: 16,125,200 shares) in the Company at a consideration of approximately RMB36,659,000 (six months ended 30 June 2018: approximately RMB54,592,000) of which approximately RMB87,000 (six months ended 30 June 2018: approximately RMB127,000) was credited to share capital and the balance of approximately RMB39,680,000 (six months ended 30 June 2018: approximately RMB61,384,000) was credited to the share premium account. Approximately RMB3,108,000 (six months ended 30 June 2018: approximately RMB6,919,000) has been transferred from the share-based payment reserve to the share premium account. Approximately 2,941,000 options were lapsed during the period (six months ended 30 June 2018: approximately 679,000). As at 30 June 2019, 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 33,832,000 (31 December 2018: approximately 35,502,000), of which approximately 9,696,000 options are exercisable at an exercise price of HK$4.13, approximately 1,516,000 options are exercisable at an exercise price of HK$6.22, 11,366,000 options are exercisable at an exercise price of HK$4.65 and 11,254,000 options are exercisable at an exercise price of HK$6.02.

(c) Equity settled share-based transactions

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

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

(ii) 2016 Share Option Scheme

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

(iii) 2017 Share Option Scheme

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

(iv) 2018 Share Option Scheme

On 7 December 2018, the Company granted a total of 12,720,000 share options (the "2018 Share Option Scheme") to 83 eligible participants to subscribe for a total of 12,720,000 ordinary share 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 2019, 2020 and 2021 financial years.

(v) 2019 Share Option Scheme

On 21 June 2019, the Company granted a total of 11,454,000 share options (the "2019 Share Option Scheme") to 68 eligible participants to subscribe for a total of 11,454,000 ordinary share 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 2020, 2021 and 2022 financial years.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back to the six months ended 30 June 2019 (the "**Period**"), the global economic development was still facing various challenges, and the intensifying international trade disputes have affected the growth rate of major economies including the European Union, India and China. According to the data released by National Bureau of Statistics of China on 15 July 2019, China's gross domestic products (GDP) recorded a year-on-year increase of 6.3% in the first half of 2019, the growth of which slowed 0.5 percentage point from 6.8% for the Corresponding Period. Although various countries came into some consensus and work direction in the international economic and trade cooperation organizations meetings, considerable diversities still exist, and whether the global economy is able to resume rapid recovery still encounters great uncertainties. The uncertainties in macroeconomy also posed an impact on the consumer electronics industry. Based on the data released by an independent market research institute, in the first half of 2019, global smartphones shipments were estimated to drop by 5.5%, while statistics released by the China Academy of Information and Communications Technology showed that domestic smartphones shipments totaled 186 million units in the first half of 2019, representing a decrease of 5.1% as compared with that of the Corresponding Period. However, according to the data released by the same independent market research institute, the market share for smartphone with Android operating system had a slight increase from 85.1% in the first half of 2018 to 86.7% in the first half of 2019, for which the main driving force was the sales growth of the top four China smartphone brands. The pursuit of China smartphone brands for photo-shooting effects, appearance, privacy protection and mobile payment security has facilitated the camera modules development to higher pixels, triple camera modules and multiple camera modules. At the same time, it also propelled the rapid development of products such as periscope camera modules with multi-fold optical zoom, 3D camera modules and under-glass fingerprint recognition modules, which led to a rapid increase in camera module shipments volume despite a decline in smartphone shipments and thus helped the Group to further achieve good business performance despite a tough external economic environment.

During the Period under review, with the trust and support of our core customers and the relentless efforts of all our employees, the Group's strategy of expanding the sales scale of camera modules and enhancing market position has well been realised. The sales volume of camera modules reached approximately 182.51 million units, representing an increase of approximately 77.5% as compared with approximately 102.85 million units of the Corresponding Period. The proportion of sales volume of camera modules with resolutions of 10 mega pixels and above to the sales volume of camera modules was approximately 46.8%, increased by approximately 7.1 percentage points as compared with 39.7% of the Corresponding Period. At the same time, the sales volume of fingerprint recognition modules was approximately 37.75 million units, decreased by approximately 16.6% as compared with that of the Corresponding Period, resulting from the Group's partially abandoning the traditional capacitive fingerprint recognition module project with low gross profit margin. The rapid growth in sales volume of camera modules was mainly due to the following three reasons: (i) the Group's customer structure has become more and more sophisticated, and its position as the vendor of the leading smartphone branded customers in China has improved and the Group has captured more market share successfully; (ii) configuring a multi-camera module for smartphones has become a trend, which further promotes the steady expansion of market demand; and (iii) during the Period, the production capacity of camera modules of the Group increased from approximately 35 million units per month as at the end of 2018 to approximately 42 million units per month at the end of the Period. The automation upgrade was also highly effective and improved our delivery capacity.

During the Period under review, the core strategy of the Group to promote the vertical integration for intelligent vision products continued to deepen and had achieved healthy progress. The Group's associate, Newmax Technology Co., Ltd. ("**Newmax Technology**") (a company listed on the Taipei Exchange in Taiwan, stock code: 3630) recorded profit attributable to shareholders of approximately NT$321 million during the Period, representing a significant improvement as compared with a net loss attributable to shareholders of approximately NT$319 million in the Corresponding Period. At the same time, the Group continued to strengthen the technical cooperation and resources integration on optical under-glass fingerprint recognition module lens and smartphone camera module lens with Newmax Technology and helped the latter to speed up in obtaining the supplier qualifications of multiple customers, and pushed forward Newmax Technology to make further improvement in customer base, technological capacity and cost control. In the future, both the Group and Newmax Technology will demonstrate their respective advantages and complement each other to jointly promote customer marketing, capacity improvement, technical improvement and services enhancement, and strive to achieve win-win results for customers, the Group and Newmax Technology.

During the Period under review, the sales revenue of the Group reached approximately RMB5,060,945,000, representing a substantial increase of approximately 57.8% as compared with approximately RMB3,206,712,000 of the Corresponding Period. The year-on-year increase in sales revenue was mainly attributable to the substantial increase in sales volume of camera modules and the significant improvement in product mix of the fingerprint recognition modules. During the Period, the sales volume of camera modules reached approximately 182.51 million units, representing an increase of approximately 77.5% as compared with approximately 102.85 million units of the Corresponding Period, and sales revenue was approximately RMB3,917,299,000, representing an increase of approximately 51.8% as compared with approximately RMB2,580,461,000 of the Corresponding Period. The average selling price of camera modules was approximately RMB21.5, representing a decrease of approximately 14.5% as compared with approximately RMB25.1 of the Corresponding Period. The decrease in average selling price of camera module products was mainly due to the following reasons: (i) a considerable part of the dual camera modules and triple camera modules adopt the separable procurement mode, which increased the sales volume but affected the average selling price of camera modules; and (ii) although the cooperation in mid-to-high end projects with various core customers has been launched, however, the product mix improvement of camera module products still takes time. The sales volume of fingerprint recognition modules was approximately 37.75 million units, representing a decrease of approximately 16.6% as compared with approximately 45.27 million units of the Corresponding Period, and sales revenue was approximately RMB1,121,750,000, representing an increase of approximately 80.7% as compared with approximately RMB620,921,000 of the Corresponding Period. The main reasons for the decline in sales volume of fingerprint recognition modules and the significant increase in sales revenue were: (i) the Group reduced the coating fingerprint recognition module projects with unreasonable profitability; and (ii) the effective business expansion of the optical under-glass fingerprint recognition modules with higher average selling price, with the sales volume of under-glass fingerprint recognition modules accounting for approximately 51.0% of the sales volume of the fingerprint recognition modules of the Group during the Period, which helped the fingerprint recognition module to achieve significant increase in average selling price to approximately RMB29.7 from approximately RMB13.7 of the Corresponding Period.

During the Period, the Group's gross profit margin was approximately 8.2%, representing an increase of approximately 7.0 percentage points from approximately 1.2% of the Corresponding Period. The main reasons for the increase in gross profit margin were: (i) the Group's strategy of actively expanding its sales scale has gradually demonstrated its effectiveness, the sales volume of camera modules increased significantly by approximately 77.5% year-on-year, and the utilization rate of camera modules capacity improved, thereby facilitating marginal cost reduction; (ii) although the sales volume of fingerprint recognition modules decreased by approximately 16.6%, however, with its product mix improved significantly, the proportion of under-glass fingerprint recognition modules reached about 51.0% to the total sales volume of fingerprint recognition modules, which helped to improve the gross profit margin of fingerprint recognition modules; and (iii) a good result of the long-term promotion of production automation upgrading of the Group has been gradually achieved, and labour costs were optimised as compared with the Corresponding Period.

During the Period, the Group continued to promote the research and development (the "**R&D**") of camera modules in the three aspects of new materials, new processes and new products: for miniaturization technology, camera modules using advanced technologies such as Molding on Chips (MOC), Molding on Board (MOB) and Filter and Metal in Holder (FAMIH) were under mass production to meet customers' needs in new designs such as ultra-high screen ratio, water drop screen and perforated screen. In terms of ultra-high-end pixel camera modules, the Group's products adopted 48 mega pixels have been shipped in bulk volume, and the Group continued to propel the R&D of ultra-high-end pixel camera modules such as 64 mega pixels and 108 mega pixels in full force, to meet the consumer demand for ultra-high definition imaging and optical zoom imaging. Moreover, the Group has achieved substantial progress in the development of super wide-angle, periscope multi-fold optical zoom, large-size optical under-glass fingerprint recognition modules and optical under-screen fingerprint modules that are compatible with liquid crystal display (LCD), to meet customers' further product needs. The side-spraying fingerprint recognition modules were in bulk shipments, which is beneficial to the Group's efforts to improve the market share and profitability of traditional capacitive fingerprint recognition modules in the future.

The Group also continued to strengthen the R&D of 3D camera modules. After its mass sales of the front 3D structured light modules to customers in the third quarter of the previous year, the Group also accelerated the R&D of the time of flight (ToF) 3D modules in full force, to cater for the needs of 3D module products to the industries such as internet of things (IoT), virtual reality (VR), augmented reality (AR), mixed reality (MR), intelligent manufacturing, and thereby consolidate the Group's leading position in 3D module technology and endeavour to provide the highest quality products and experiences for customers.

In general, both the development opportunities and challenges of camera modules and fingerprint recognition modules industry coexist. On one hand, market competition is still fierce during the process of increasing industry concentration of camera modules industry, on the other hand, the demand for the number of camera modules and fingerprint recognition modules is expected to grow steadily; product specifications are expected to constantly improve, and application ranges are increasingly broadening, bringing the Group good development opportunities. The directors of the Company (the "**Directors**") believe that the only way for the Group to 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 is to keep constantly and deeply promoting intelligent manufacturing, R&D of new technology and vertical integration, firmly propelling the strategies in platform, components as well as system integration, and steadfastly implementing the customer-first service strategy, and then strive to achieve the vision of "to illuminate machines" of the Group eventually.

PROSPECTS

The Directors are fully aware that under the influence of the emergence of global trade protectionism, the direction of major economies' monetary policy, structural de-leveraging of PRC enterprises and supply-side reform and other factors, China's and even global economic growth are still encountering challenges and risks. In such objective environment, the development of the smartphone industry is also full of challenges. On one hand, the smartphones replacement cycle is extended apparently; few countries have imposed irrational restrictions on the supply of raw materials for a Chinese leading smartphones brand, and uncertainties exist in the pace of adoption of 5G communication technology used in mobile phones, both have exerted tremendous pressure on the growth of sales of smartphones, and even continuous negative growth in the past period of time. Therefore, uncertainty in customer demand and competition in camera modules and fingerprint recognition modules industries may be more intense. On the other hand, the Group mainly sells in China and the settlement is in Renminbi, while certain portion of key raw materials and equipment need to be imported and settled in US dollars. It is difficult to change such business mode in the short run. The uncertain macro political and economic situation intensifies the Renminbi versus US dollar exchange rate fluctuation and the risk is still outstanding.

Nevertheless, the Directors believe there is still no change in consumer's pursuit of improving the photo shooting performance of smartphone, the demand for vision imaging development from 2D to 3D, and the privacy protection for smart mobile terminals as well as the continuous development of Internet of Things and its direction of using camera modules as human-computer information interaction interface. These demands will continue to drive the technology development and market applications of high-end products including ultra-high pixel single camera modules, super aperture camera modules, super wide-angle camera modules, multiple camera modules, 3D camera modules, and optical under-glass fingerprint recognition modules. The development and application of new generation communication technologies such as 5G also provide a good ecological environment for faster video content interaction, helping these high-end products to explore better development and applications. Hence, the Group still has full confidence in the industry prospect of camera modules and fingerprint recognition modules, and thorough preparation of the aforementioned products was conducted, whereby these projects were either already under mass production during the Period or are expected to conduct mass production in the second half year of 2019. The above has fully demonstrated our superb ability in the design, R&D, production and after-sale service of mid-to-high end camera modules.

In the future, the Group will uphold the vision of "to illuminate machines", and adhere to the mission of "providing intelligent vision systematic products for intelligent mobile terminals" and enhance its capability development in three aspects, namely optical design, precision manufacturing and system integration to improve our core competitiveness, continue to enhance the R&D of new products and new processes to meet customers' continuous product mix optimization demand, improve our precision manufacturing and automation capabilities to optimize production costs, continue to strengthen customer relationship marketing to balance the sales proportion of major customers, and aggressively expand overseas renowned smartphone branded customers in hedging exchange rate risk. The Group will focus on developing ultrahigh pixel camera modules, multiple camera modules, 3D modules, periscopic camera modules, under-glass fingerprint recognition modules and other high-end products, providing good service experience for our core customers. At the same time, the Group will assist Newmax Technology, our associate, to develop high-end camera module lens, 3D module lens and under-glass fingerprint recognition module lens, striving to achieve a greater breakthrough in the application of camera modules in non-mobile-phone sector, endeavour to help Newmax Technology to further expand its sales scale and improve its business performance. The Group will endeavour to achieve the following objectives in 2019 with the support of core customers and the relentless efforts of all employees: (i) shipment of camera modules in 2019 will increase by not less than 50% year-on-year, of which the proportion of shipment of camera modules with resolutions of 10 mega pixels and above will account for not less than 50%; (ii) shipment of under-glass fingerprint recognition modules in 2019 will account for not less than 40% in the shipment of fingerprint recognition modules; and (iii) with a constant demand from customers and the Group's business development, production capacity of camera modules will be gradually expanded to not more than 50 million units per month by the end of 2019.

The Directors are confident in leading the Group to embrace the challenges, and make further efforts to achieve good development and strive to create greater value for the shareholders of the Company (the "**Shareholders**").

FINANCIAL REVIEW

Revenue

For the Period, the revenue of the Group was approximately RMB5,060,945,000, representing an increase of approximately 57.8% as compared with approximately RMB3,206,712,000 of the Corresponding Period. The increase in revenue was mainly attributable to: (i) the effective results due to the Group's expansion strategy, whereby the sales volume of camera module products for the Period achieved a significant increase of approximately 77.5% as compared with that of the Corresponding Period; and (ii) although the sales volume of fingerprint recognition module products of the Group for the Period decreased by approximately 16.6% as compared with that of the Corresponding Period, however, owing to the obvious product mix optimisation, the average selling price of fingerprint recognition module products increased significantly by approximately 116.7% as compared with that of the Corresponding Period, so that the sales revenue from fingerprint recognition module products still increased by approximately 80.7% to approximately RMB1,121,750,000 from approximately RMB620,921,000 of the Corresponding Period.

Cost of sales

As a result of the significant increase in revenue for the Period, cost of sales of the Group increased by approximately 46.7% to approximately RMB4,645,740,000 as compared with approximately RMB3,167,656,000 of the Corresponding Period. The increase in cost of sales was primarily attributable to: (i) the increase in raw material cost by approximately 58.1% as compared with that of the Corresponding Period due to the sales scale expansion; and (ii) the increase in depreciation cost from production base and equipment, which were invested for expanding production capacity, by approximately 25.3% in the amount of approximately RMB108,600,000 as compared with that of the Corresponding Period.

Gross profit and gross profit margin

For the Period, gross profit of the Group was approximately RMB415,205,000 (the Corresponding Period: approximately RMB39,056,000), representing an increase of approximately 963.1% as compared with that of the Corresponding Period, while gross profit margin was approximately 8.2% (the Corresponding Period: approximately 1.2%). The substantial increase in gross profit margin was mainly attributable to the following factors: (i) the Group's strategy of actively expanding its sales scale has gradually demonstrated its effectiveness, the sales volume of camera modules increased significantly by approximately 77.5% year-on-year, and the utilization rate of camera modules capacity improved, thereby facilitating marginal cost reduction; (ii) although the sales volume of fingerprint recognition modules decreased by approximately 16.6%, however, with its product mix improved significantly, the proportion of under-glass fingerprint recognition modules reached about 51.0% to the total sales volume of fingerprint recognition modules, which helped to improve the gross profit margin of fingerprint recognition modules; and (iii) a good result of the long-term promotion of production automation upgrade of the Group has been gradually achieved, and labour costs were optimised as compared with the Corresponding Period.

Other revenue

For the Period, other revenue of the Group was approximately RMB11,479,000, representing a decrease of approximately 88.5% as compared with approximately RMB100,019,000 of the Corresponding Period. The decrease in other revenue was primarily due to the: (i) no unrealised gain of other financial assets was recorded during the Period as compared with an unrealised gain of other financial assets of approximately RMB13,929,000 for the Corresponding Period; and (ii) subsidies or incentives received by the Group granted by local governments at different levels were approximately RMB6,489,000, representing a decrease of approximately 92.2% as compared with approximately RMB82,711,000 of the Corresponding Period.

Other net loss

For the Period, the Group recorded other net loss of approximately RMB40,767,000, representing an increase of approximately 577.1% as compared with approximately RMB6,021,000 of the Corresponding Period. Such other net loss was primarily attributable to: (i) a net foreign exchange loss of approximately RMB15,516,000 was recorded as compared with a net foreign exchange loss of approximately RMB6,117,000 for the Corresponding Period; (ii) a net realised and unrealised loss on foreign currency option contracts of approximately RMB18,846,000 was recorded as compared with a net realised and unrealised gain of approximately RMB968,000 for the Corresponding Period; and (iii) a net realised and unrealised loss on foreign currency forward contracts of approximately RMB2,998,000 was recorded as compared with a net realised and unrealised loss on foreign currency forward contracts of approximately RMB600,000 for the Corresponding Period.

Selling and distribution expenses

For the Period, selling and distribution expenses of the Group amounted to approximately RMB6,026,000, representing a decrease of approximately 34.9% as compared with approximately RMB9,261,000 of the Corresponding Period. The ratio of selling and distribution expenses to turnover was approximately 0.1%, representing a decrease of approximately 0.2 percentage points as compared with approximately 0.3% of the Corresponding Period. The decrease in selling and distribution expenses was mainly attributable to the stable customer relationships and the Group's endeavor on cost saving, thus the entertainment expenses in relation to the sales activities were effectively reduced.

Administrative and other operating expenses

For the Period, total administrative and other operating expenses of the Group increased from approximately RMB39,051,000 of the Corresponding Period to approximately RMB42,053,000, representing an increase of approximately 7.7%. The change in administrative and other operating expenses was mainly attributable to an increase in staff salaries and labour expenses due to business expansion during the Period.

R&D expenses

For the Period, total R&D expenses of the Group amounted to approximately RMB139,306,000, representing an increase of approximately 40.4% as compared with approximately RMB99,199,000 of the Corresponding Period. The R&D expenses for the Period was mainly utilised in the Group's continuous R&D investments in new products, new functions and new processes, so as to allow the Group to develop products such as camera modules products with higher pixels, multiple camera modules products with different application functions, camera modules products with smaller size, 3D module products, camera modules products applied in automotive and IoT areas, side-spraying fingerprint recognition module products and optical under-glass fingerprint recognition module products, as well as to optimise and enhance the standards of production automation.

Finance cost

For the Period, finance costs of the Group was approximately RMB23,481,000, representing an increase of approximately 9.7% from approximately RMB21,400,000 of the Corresponding Period, which was primarily due to the year-on-year increase in the Group's balance of bank borrowings as compared with the Corresponding Period.

Share of profit of an associate

For the Period, the associate of the Company, Newmax Technology, recorded profitability and the share of profit of the associate attributable to the Company was approximately RMB24,979,000, while the share of loss of the associate for the Corresponding Period was approximately RMB24,814,000.

Income tax expenses

For the Period, income tax expenses of the Group was approximately RMB19,197,000 while income tax expenses for the Corresponding Period was approximately RMB-9,383,000, which was mainly attributable to profit before taxation of approximately RMB200,030,000 of the Group during the Period.

Profit for the Period

Based on the foregoing, the Group recorded a profit of approximately RMB180,833,000 for the Period as compared to a loss of approximately RMB51,288,000 for the Corresponding Period.

LIQUIDITY AND FINANCIAL RESOURCES

Bank Borrowings

As at 30 June 2019, the Group's bank borrowings amounted to approximately RMB1,741,187,000 (among which bank borrowings of approximately RMB524,205,000 were secured by bank deposits of approximately RMB295,071,000 and trade receivables of approximately RMB298,889,000), representing an increase of approximately 34.1% from approximately RMB1,298,402,000 as at 30 June 2018 and an increase of approximately 47.8% from approximately RMB1,178,241,000 as at 31 December 2018. The maturities of all bank borrowings are less than one year.

As at 30 June 2019, the Group's bank borrowings were mainly denominated in RMB and USD. For the six months ended 30 June 2019 and 2018, the cash flow overview of the Group was set out as follows:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Net cash generated/(used in) from operating activities	**954,764**	(278,107)
Net cash (used in)/generated from investing activities	**(232,482)**	69,988
Net cash used in financing activities	**(180,308)**	(33,953)

As of 30 June 2019, cash and cash equivalents of the Group amounted to approximately RMB642,184,000, representing an increase of approximately RMB418,371,000 from approximately RMB223,813,000 as at 30 June 2018, and representing an increase of approximately RMB542,264,000 from approximately RMB99,920,000 as at 31 December 2018. The increase in cash and cash equivalents was mainly due to net cash inflow from operating activities and the subscription amount of approximately RMB36,659,000 paid by employees was received for subscription of the ordinary shares of the Company upon their exercise of share options in accordance with the share option scheme of the Company.

Operating activities

For the Period, the Group's net cash inflow from operating activities amounted to approximately RMB954,764,000. The Group's cash flow recorded a net inflow from its operating activities, which was primarily attributable to: (i) gross profit margin of the Group during the Period increased to 8.2% as compared with approximately 1.2% of the Corresponding Period; and (ii) trade payables with an aggregate amount of approximately RMB657,949,000 (the Corresponding Period: approximately RMB260,820,000) were settled with banking import trade financing directly paid by the bank, without including in the cash outflow from operating activities.

Investing activities

The net cash outflow generated from investing activities of the Group during the Period amounted to approximately RMB232,482,000, which was mainly due to: (i) the expenditure for purchasing equipment and plant expansion of approximately RMB222,970,000; (ii) the net payment for derivative financial instruments of approximately RMB19,265,000.

Financing activities

The net cash outflow used in the financing activities of the Group during the Period amounted to approximately RMB180,308,000, which was mainly due to: (i) the inflow of bank borrowings of approximately RMB751,206,000 and the cash outflow for repaying bank borrowings of approximately RMB856,227,000; and (ii) the subscription amount of approximately RMB36,659,000 received from employees for the subscription of ordinary shares of the Company upon exercising their share options in accordance with the share option scheme of the Company.

Gearing ratio

The gearing ratio as at 30 June 2019, as defined by the balance of bank borrowings and lease liabilities divided by total equity at the end of the Period, was approximately 75.6%, representing an increase of approximately 12.1 percentage points from approximately 63.5% as at 30 June 2018, and representing an increase of approximately 19.6 percentage points from approximately 56.0% as at 31 December 2018, which was mainly attributable to the significant increase in balance of bank borrowings during the Period to meet production capacity investments and working capital needs, meanwhile, cash and cash equivalents of the Group as at 30 June 2019 amounted to approximately RMB642,184,000, representing a substantial increase as compared with that as at 30 June 2018 and 31 December 2018.

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 and staff at the relevant positions of the Company 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 any 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 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 2019.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment during the six months ended 30 June 2019.

OTHER INVESTMENTS

The Group issued an announcement on 1 April 2019 and 12 July 2019 respectively that the Company or the wholly-owned subsidiary of the Company, Taiwan Q Technology Limited, proposed to participate in the proposed capital injection of the associated company, Newmax Technology, a company listed on the Taipei Exchange (stock code: 3630), at the price of NT$82.8 per share. For details, please refer to the announcements of the Company dated 1 April 2019 and 12 July 2019 respectively.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2019, the assets pledged by the Group included bank deposits of approximately RMB305,465,000 and trade receivables of approximately RMB298,889,000, which were used as guarantee for bank borrowings and bills payable.

EMPLOYEE POLICIES AND REMUNERATION

As at 30 June 2019, the Group had a total of 6,844 employees (excluding staff under labour service agreements and internship agreements) (as at 30 June 2018: 3,048). 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 adapting 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 Period, the remuneration of the employees (including staff under labour service agreements and internship agreements) of the Group was approximately RMB290,402,000 (the Corresponding Period: approximately RMB297,221,000). Apart from basic salary, the package also includes performance bonus, medical insurance and provident fund (staff under labour service agreements and internship agreements are handled according to the laws and regulations of the PRC).

Meanwhile, the Company has granted a total of 71,682,000 share options to its staff on 26 October 2016, 9 June 2017, 7 December 2018 and 21 June 2019 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), with specific details as follows:

(i) On 26 October 2016, the Company granted a total of 39,425,000 share options to 165 staff (including two executive Directors, Mr. Wang Jianqiang and Mr. Hu Sanmu) in accordance with the Share Option Scheme, and grantees may apply to exercise the share options by phases from 1 April 2018 onwards upon fulfilling certain conditions (please refer to the announcement of the Company dated 26 October 2016 for details). During the Period, the Company has accepted the applications from 131 staff (including two executive Directors, Mr. Wang Jianqiang and Mr. Hu Sanmu) and issued a total of 9,808,200 ordinary shares at the exercise price of HK$4.13 per share and total consideration received was approximately HK$40,508,000. A total of 987,300 options granted on 26 October 2016 was lapsed as a result of the resignations of 6 staff during the Period.

(ii) On 9 June 2017, the Company granted a total of 8,083,000 share options 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 from 1 April 2018 onwards upon fulfilling certain conditions (please refer to the announcement of the Company dated 9 June 2017 for details). During the Period, the Company has accepted the applications from 12 staff and issued a total of 375,000 ordinary shares at the exercise price of HK$6.22 per share and total consideration received was approximately HK$2,333,000. A total of 400,000 options granted on 9 June 2017 was lapsed as a result of the resignations of 2 staff during the Period.

(iii) On 7 December 2018, the Company granted a total of 12,720,000 share options to 83 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 from 1 April 2020 onwards upon fulfilling certain conditions (please refer to the announcement of the Company dated 7 December 2018 for details). None of such options were exercised during the Period; and a total of 1,354,000 options granted on 7 December 2018 was lapsed as a result of the resignations of 11 staff during the Period.

(iv) In addition, on 21 June 2019, the Company granted a total of 11,454,000 share options to 68 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 from 1 April 2021 onwards upon fulfilling certain conditions (please refer to the announcement of the Company dated 21 June 2019 for details). None of such options were exercised during the Period; and a total of 200,000 options granted on 21 June 2019 was lapsed as a result of the resignation of 1 staff during the Period.

USE OF PROCEEDS FROM GLOBAL OFFERING

On 2 December 2014, the Shares of the Company (the "**Share**") were initially listed on the Main Board of the Stock Exchange by way of global offering. The net proceeds from the above global offering were approximately HK$658,000,000 (after deducting the relevant listing expenses). As at 30 June 2019, the fund raised was fully utilised. The capital utilisation was consistent with the intended use of the net proceeds 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 under a general mandate granted to the Directors by the Shareholder to two placees, namely Value Partners Hong Kong Limited and The People's Insurance Company (Group) of China Limited, who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons, at the placing price of HK$3.90 per placing share. The net proceeds from the above placing was approximately HK$154,428,000, after deducting the related placing commission, professional fees and all related expenses. As at 30 June 2019, the fund raised was fully utilised. 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 third parties independent of the Company and its connected persons, at the placing price of HK$10.80 per placing share. 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 2019, the fund raised was fully utilised. 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 (the six months ended 30 June 2018: Nil).

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

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had 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 Listing Rules (the "**Listing Rules**"). The Company has made specific enquiries with the Directors and all of them confirmed that they had complied with the required standard set out in the Model Code during the Period.

CORPORATE GOVERNANCE PRACTICES

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

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

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has established an audit committee (the "**Audit Committee**") in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The Audit Committee comprises of three independent non-executive Directors, namely Mr. Ng Sui Yin (the chairman), Mr. Ko Ping Keung and Mr. Chu Chia-Hsiang. The Audit Committee has reviewed the interim results and the interim report of the Company for the Period with the Company's management. The Company's independent auditor, KPMG, has also reviewed the interim financial report for the six months ended 30 June 2019 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 2019 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 2019 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, 12 August 2019

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.