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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

HIGHLIGHTS

- Revenue of the Group for the year ended 31 December 2019 amounted to approximately RMB13,169,678,000, representing an increase of approximately 61.9% as compared with that of 2018. The main reasons for the significant growth in revenue were: (i) as benefited from the successful results of the Group's expansion strategy, the sales volume of camera module products for the Year achieved a significant increase of approximately 53.9% as compared with that of last year; (ii) by virtue of the gradual success of the Group's strategy of optimising the product mix of camera modules, the proportion of shipment of camera module products with resolutions of 10 mega pixels and above reached approximately 53.8%, which resulted in a steady increase in average selling price of camera module products by approximately 6.9% year-on-year and hence a year-on-year growth of approximately 65.2% in the sales revenue of camera module products; and (iii) although the sales volume of fingerprint recognition module products of the Group for the Year decreased by approximately 5.2% year-on-year, the average selling price of fingerprint recognition module products increased significantly by approximately 58.2% year-on-year due to the obvious product mix optimisation, so that the sales revenue from fingerprint recognition module products was increased by approximately 50.6% year-on-year.

- Gross profit of the Group for the year ended 31 December 2019 was approximately RMB1,179,872,000, representing a growth of approximately 234.1% as compared with that of 2018, while gross profit margin for the year ended 31 December 2019 was approximately 9.0% (2018: approximately 4.3%). The significant increase in gross profit margin was mainly attributable to: (i) the production capacity of the Group has recorded a substantial increase, whilst the significant increase in sales volume of camera modules maintained a higher utilisation rate of production capacity, resulting in a lower marginal cost; (ii) production automation upgrading and transformation gradually show the effect with the manpower requirements for producing the same output significantly reduced, resulting in a decrease in the proportion of labour costs; and (iii) the significant rise in proportion of high-end products during the Year enhanced the added value.

- Profit of the Group for the year ended 31 December 2019 was approximately RMB542,372,000, representing a growth of approximately 3,666.7% as compared with that of 2018. The main reasons for the significant growth in profit were that: (i) gross profit margin of camera modules and fingerprint recognition modules both increased substantially; (ii) the revenue of the Group in the Year recorded a significant increase as compared with that of 2018; and (iii) Newmax Technology Co., Ltd., an associated company of the Company, recorded a profit for the year ended 31 December 2019 as compared to a loss in 2018.

- Basic and diluted earnings per share for the year ended 31 December 2019 were approximately RMB0.476 and RMB0.472 respectively.

- The Board recommended a payment of final dividend of approximately RMB9.0 cents (equivalent to HKD10.0 cents) per share for the year ended 31 December 2019 to the shareholders whose names appear on the register of members on Wednesday, 10 June 2020.

Looking ahead to 2020, despite the coexistence of opportunities and challenges in the market, uncertainties will remain in global macro-environment. However, it is hoped that the commercialisation of 5G will be further promoted and there will be a continuous increase in the number of installations of camera modules on smart mobile communication devices such as phones and also a substantial upgrade in specifications. Also, it is anticipated that the application in fields including automobile, smart home and industrial smart manufacturing will be further enhanced. The gradually mature under-glass fingerprint recognition modules and 3D module products such as ToF have provided the camera module and fingerprint recognition module industries with promising development opportunities. The Board is cautiously optimistic about the business development of the Group in 2020 and will endeavour to achieve the following objectives:

(i) Shipment of camera modules in 2020 will increase by not less than 20% comparing with that of the previous year, of which the proportion of shipment of camera modules with resolutions of 10 mega pixels and above will account for not less than 60%, whereas the proportion of shipment of camera modules with resolutions of 32 mega pixels and above will account for not less than 25%; and

(ii) Continuously review the demand from customers and the Group's business development, production capacity of camera modules will be gradually expanded to not less than 60 million units per month by the end of 2020, the production capacity statistics of which is based on the historical standard production efficiency of camera modules with resolutions of 13 mega pixels.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Q Technology (Group) Company Limited (the "**Company**") announces the audited consolidated annual results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019 (the "**Year**") together with the relevant comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	2019 *RMB'000*	2018 *RMB'000* *(Note)*
Revenue	*2*	**13,169,678**	8,135,161
Cost of sales		**(11,989,806)**	(7,782,053)
Gross profit		**1,179,872**	353,108
Other revenue	*3*	**43,013**	133,113
Other net loss	*3*	**(63,839)**	(50,223)
Selling and distribution expenses		**(14,946)**	(18,562)
Administrative and other operating expenses		**(128,140)**	(81,201)
Research and development expenses		**(396,244)**	(266,198)
Profit from operations		**619,716**	70,037
Finance costs	*4(a)*	**(52,811)**	(44,146)
Share of profit/(loss) of an associate		**39,996**	(24,561)
Profit before taxation	*4*	**606,901**	1,330
Income tax	*5*	**(64,529)**	13,069
Profit for the year		**542,372**	14,399
Attributable to:			
Equity shareholders of the Company		**542,372**	14,399
Profit for the year		**542,372**	14,399
Earnings per share		***RMB Cents***	*RMB Cents*
Basic	*6(a)*	**47.6**	1.3
Diluted	*6(b)*	**47.2**	1.3

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2019
(Expressed in Renminbi)

	Note	**2019** **RMB'000**	2018 *RMB'000* *(Note)*
Profit for the year		**542,372**	14,399
Other comprehensive income for the year (after tax and reclassification adjustments):			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of the financial statements of subsidiaries outside the Mainland China		**(3,842)**	(23,667)
Other comprehensive income for the year		**(3,842)**	(23,667)
Total comprehensive income for the year		**538,530**	(9,268)
Attributable to:			
Equity shareholders of the Company		**538,530**	(9,268)
Total comprehensive income for the year		**538,530**	(9,268)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019
(Expressed in Renminbi)

	Note	**2019**	2018
		RMB'000	*RMB'000*
			(Note)
Non-current assets			
Property, plant and equipment		**2,703,926**	1,888,524
Interest in an associate		**433,190**	229,407
Lease prepayments		**–**	51,790
Intangible assets		**4,895**	1,427
Deferred tax assets		**43,504**	21,985
Prepayment for acquisition of non-current assets		**64,476**	10,770
Other non-current assets		**21,917**	7,050
		3,271,908	2,210,953
Current assets			
Inventories		**1,913,368**	703,818
Trade and other receivables	*7*	**4,919,289**	3,031,367
Derivative financial assets	*8*	**26,472**	105,251
Pledged bank deposits		**92,647**	288,302
Cash and cash equivalents		**411,517**	99,920
		7,363,293	4,228,658
Current liabilities			
Short-term bank borrowings		**1,269,548**	1,178,241
Trade and other payables	*9*	**5,934,662**	3,061,432
Contract liabilities		**257,072**	28,391
Derivative financial liabilities	*8*	**9,142**	201
Lease liabilities		**23,355**	–
Current tax payable		**49,387**	1,835
		7,543,166	4,270,100
Net current liabilities		**(179,873)**	(41,442)
Total assets less current liabilities		**3,092,035**	2,169,511
Non-current liabilities			
Long-term bank borrowings		**59,237**	–
Lease liabilities		**30,786**	–
Deferred income		**129,655**	65,648
Deferred tax liabilities		**5,402**	428
		225,080	66,076
NET ASSETS		**2,866,955**	2,103,435
CAPITAL AND RESERVES			
Share Capital		**9,248**	9,022
Reserves		**2,857,707**	2,094,413
TOTAL EQUITY		**2,866,955**	2,103,435

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi unless otherwise indicated)

1 Significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation and presentation

The consolidated financial statements for the year ended 31 December 2019 comprise the Company, its subsidiaries (together referred to as the "**Group**") and the Group's interest in an associate.

The financial statements are presented in Renminbi ("**RMB**"), rounded to the nearest thousand unless otherwise indicated as the Group's principal activities were carried out in the PRC. RMB is the functional currency for the Company's subsidiaries established in the Mainland China. The functional currency of the Company and its subsidiaries in Hong Kong and BVI is US dollars. The functional currency of the Company's subsidiary in Taiwan is New Taiwan dollars ("**TWD**"). The functional currency of the Company's subsidiary in India is Indian Rupee ("**INR**").

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

Notwithstanding the Group's net current liabilities was approximately RMB179,873,000 as at 31 December 2019, these consolidated financial statements have been prepared on a going concern basis. The Company's board of directors (the "**Director(s)**") considered that the Group has unutilised banking facilities of approximately RMB1,562,788,000 as of 31 December 2019, and that the Group is able to generate adequate cash flow to finance the working capital and capital expenditure requirements for the twelve months ending 31 December 2020 based on the cash flow forecast of the Group for the year 31 December 2020. The Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable and that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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

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

(c) Changes in accounting policies

The IASB has issued a 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 developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

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 *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.

b *Lessee accounting and transitional impact*

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 which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

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 approximately 3.46%.

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.

So far as the impact of the adoption of IFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of IFRS 16, other than changing the captions for the balances. Accordingly, instead of "obligations under finance leases", these amounts are included within "lease liabilities", and the depreciated carrying amount of the corresponding leased assets is identified as right-of-use assets. There is no impact on the opening balance of equity.

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 *RMB'000*	Capitalisation of operating lease contracts *RMB'000*	**Carrying amount at 1 January 2019** ***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	58,182	**1,946,706**
Lease prepayments	51,790	(51,790)	**–**
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	(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**

c *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 year.

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 give an indication of the estimated impact of the adoption of IFRS 16 on the Group's financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under IFRS 16 in these consolidated 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 in 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 year ended 31 December 2019 impacted by the adoption of IFRS 16:					
Profit from operations	**619,716**	**13,659**	**14,340**	**619,035**	70,037
Finance costs	**(52,811)**	**1,230**	**–**	**(51,581)**	(44,146)
Profit before taxation	**606,901**	**14,889**	**14,340**	**607,450**	1,330
Profit for the year	**542,372**	**14,889**	**14,340**	**542,921**	14,399

	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 consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of IFRS 16:				
Net cash generated from/ (used in) operations	**2,432,967**	**(14,340)**	**2,418,627**	(159,754)
Net cash generated from/ (used in) operating activities	**2,399,551**	**(14,340)**	**2,385,211**	(172,505)
Capital element of lease rentals paid	**(13,110)**	**13,110**	**–**	–
Interest element of lease rentals paid	**(1,230)**	**1,230**	**–**	–
Net cash used in financing activities	**(816,739)**	**14,340**	**(802,399)**	(584,005)

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 differences 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.

2 Revenue and segmental reporting

The principal activities of the Group are manufacturing and sales of camera modules and fingerprint recognition modules for mobile phones and other 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*
2019					
Revenue	10,360,228	2,758,860	13,119,088	50,590	13,169,678
Cost of sales	(9,531,731)	(2,423,154)	(11,954,885)	(34,921)	(11,989,806)
Gross profit	828,497	335,706	1,164,203	15,669	1,179,872
2018					
Revenue	6,272,686	1,832,022	8,104,708	30,453	8,135,161
Cost of sales	(5,959,798)	(1,798,026)	(7,757,824)	(24,229)	(7,782,053)
Gross profit	312,888	33,996	346,884	6,224	353,108

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 profit for the year. 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 locations of operations of the contracting parties.

	2019	2018
	RMB'000	*RMB'000*
Revenue		
PRC (including Hong Kong)	**12,725,114**	8,129,902
Overseas	**444,564**	5,259
	13,169,678	8,135,161

The Group had three (2018: three) customers with whom transactions had exceeded 10% of the Group's revenue for the year ended 31 December 2019. The amount of sales to these customers amounted to approximately RMB10,808,346,000 (2018: approximately RMB5,862,835,000) for the year ended 31 December 2019.

3 Other revenue and other net loss

	2019	2018
	RMB'000	*RMB'000*
Other revenue		
Government grants *(note)*	**28,986**	103,908
Interest income	**13,911**	29,058
Others	**116**	147
	43,013	133,113

Note: Government grants were received from several local government authorities as a recognition of the Group's contribution towards the local economic development, of which the entitlement was unconditional and under the discretion of the relevant authorities.

	2019	2018
	RMB'000	*RMB'000*
Other net loss		
Net foreign exchange loss	**(25,373)**	(44,613)
Loss on disposal of property, plant and equipment	**(17,514)**	(15,687)
Loss on impairment of machinery	**(10,587)**	–
Net realised and unrealised loss on foreign exchange option contracts	**(9,864)**	(2,341)
Net realised and unrealised (loss)/gain on foreign currency forward contracts	**(501)**	12,418
	(63,839)	(50,223)

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2019 *RMB'000*	2018 *RMB'000* *(Note)*
(a) Finance costs		
Interest on bank borrowings	**51,581**	44,146
Interest on lease liabilities	**1,230**	–
	52,811	44,146

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

	2019 *RMB'000*	2018 *RMB'000*
(b) Staff costs		
Contributions to defined contribution retirement plans	**18,961**	15,326
Salaries, wages and other benefits	**703,379**	603,600
Equity settled share-based payment expenses	**3,051**	4,075
	725,391	623,001

	2019	2018
	RMB'000	*RMB'000*
(c) Other items		
Amortisation		
– lease prepayments	**–**	1,080
– intangible assets	**558**	175
	558	1,255
Depreciation charge		
– owned property, plant and equipment *(note (i))*	**275,958**	234,486
– right-of-use assets *(note (i))*	**14,799**	–
	290,757	234,486
Total minimum lease payments for leases previously classified as operating leases under IAS 17 *(note(i)* & *(iii))*	**–**	13,528
Impairment losses		
– trade and other receivables	**766**	182
– machinery	**10,587**	–
– inventories	**53,067**	11,374
	64,420	11,556
Auditors' remuneration		
– Audit and review services for the Group	**1,981**	1,934
– Audit services for subsidiaries	**170**	168
Research and development costs *(note (ii))*	**396,244**	266,198
Cost of inventories *(note (iii))*	**12,232,550**	7,909,358

Notes:

(i) The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. The depreciated carrying amount of the finance lease assets which were previously included in property, plant and equipment is also identified as a right-of-use asset. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 1(c).

(ii) Research and development costs include staff costs of employees in the design, research and development department of approximately RMB103,013,000 for the year ended 31 December 2019 (2018: approximately RMB81,472,000), which are included in the staff costs as disclosed in note 4(b).

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

(iii) Cost of inventories includes approximately RMB778,634,000 (2018: approximately RMB696,778,000) for the year ended 31 December 2019 relating to staff costs, depreciation, lease expenses and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in note 4(b) for each of these types of expenses.

5 Income tax in the consolidated statement of profit or loss and other comprehensive income

(a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2019	2018
	RMB'000	*RMB'000*
Current tax		
PRC Corporate Income Tax	**80,968**	2,333
PRC Dividend Withholding Tax	**–**	3,977
	80,968	6,310
Deferred tax		
Origination and reversal of temporary differences	**(16,439)**	(19,379)
	64,529	(13,069)

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

	2019	2018
	RMB'000	*RMB'000*
Profit before taxation	**606,901**	1,330
Notional tax on profit before taxation, calculated at the rates applicable to the tax jurisdictions concerned	**142,988**	10,719
Tax effect of PRC preferential tax treatments *(note (iii))*	**(58,653)**	(7,077)
Tax effect of additional deduction on research and development costs	**(26,344)**	(17,795)
Tax effect of non-deductible expenses	**752**	1,059
Tax effect of non-taxable income	**(129)**	–
Tax effect of unused tax losses not recognised	**941**	–
Under provision in prior years	**–**	25
Withholding tax on profit retained by PRC subsidiaries *(note (iv))*	**4,974**	–
Actual tax expense	**64,529**	(13,069)

Notes:

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("**BVI**"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) Kunshan Q Technology (Hong Kong) Limited ("**Kunshan QT Hong Kong**") is subject to Hong Kong Profits Tax at 16.5% in 2019 and 2018.

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

6 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB542,372,000 (2018: approximately RMB14,399,000) and the weighted average of 1,139,599,000 (2018: 1,127,614,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2019	2018
	'000	*'000*
Issued ordinary share at 1 January	**1,131,722**	1,115,597
Effect of share options exercised	**7,836**	12,017
Effect of shares issued for the Placement	**41**	–
Weighted average number of ordinary shares at 31 December	**1,139,599**	1,127,614

(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 RMB542,372,000 (2018: approximately RMB14,399,000) and the weighted average of ordinary shares of 1,150,230,000 shares (2018: 1,138,491,000) calculated as follows:

Weighted average number of ordinary shares (diluted)

	2019	2018
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**1,139,599**	1,127,614
Effect of deemed issue of shares under the Company's share option schemes	**10,631**	10,877
Weighted average number of ordinary shares (diluted) at 31 December	**1,150,230**	1,138,491

7 Trade and other receivables

	2019	2018
	RMB'000	*RMB'000*
Trade receivables		
– third parties	**4,771,573**	2,829,467
– related parties	**7,479**	4,242
Bills receivable		
– third parties	**57,969**	170,641
Trade and bills receivables	**4,837,021**	3,004,350
Less: loss allowance	**(1,297)**	(531)
	4,835,724	3,003,819
Other deposits, prepayments and receivables	**83,565**	27,548
	4,919,289	3,031,367

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

Bills receivable represented outstanding bank acceptance bills and commercial acceptance bills. As at 31 December 2019, no bills receivable (31 December 2018: approximately RMB26,047,000) were pledged as security for bills payable (see note 9(a)). Bills receivable are due in 3 to 6 months from the date of issue.

As at 31 December 2019, trade receivables amounting approximately RMB278,827,000 (31 December 2018: approximately RMB147,825,000) were pledged as security for short-term bank borrowings.

(a) Ageing analysis

As of the end of the year, the ageing analysis of trade and bills receivables (which are included in trade and other receivables), based on the invoice date and net of allowance for doubtful debts, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 1 month	**3,076,543**	1,695,382
More than 1 month but within 3 months	**1,733,705**	1,249,786
More than 3 months but within 6 months	**25,178**	58,576
More than 6 months but within 1 year	**298**	75
	4,835,724	3,003,819

Trade debtors are generally due within 30 to 90 days from the date of which invoice issued.

(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 during the year is as follows:

	2019	2018
	RMB'000	*RMB'000*
As at 1 January	**531**	349
Impairment losses recognised	**766**	182
As at 31 December	**1,297**	531

8 Derivative financial assets and liabilities

		At 31 December 2019	
	Notional amount	**Assets**	**Liabilities**
	RMB'000	***RMB'000***	***RMB'000***
Foreign currency derivative instruments			
– Forward contracts	**1,112,704**	**–**	**(9,142)**
– Option contracts	**587,396**	**26,472**	**–**
Total	**1,700,100**	**26,472**	**(9,142)**

		At 31 December 2018	
	Notional amount	Assets	Liabilities
	RMB'000	*RMB'000*	*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 31 December 2019, the notional amount of outstanding contracts amounted to about USD243,700,000 (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 forward contracts.

9 Trade and other payables

	2019	2018
	RMB'000	*RMB'000*
Trade payables and accruals		
– third parties	**4,593,637**	2,290,395
– related parties	**24,367**	102,951
Bills payable *(note (a))*		
– third parties	**973,655**	399,892
Trade and bills payables *(note (b))*	**5,591,659**	2,793,238
Accrued payroll	**123,013**	62,134
Foreign currency option premium	**42,003**	110,538
Other payables and accruals	**177,987**	95,522
	5,934,662	3,061,432

All of the trade and other payables as at 31 December 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

	2019	2018
	RMB'000	*RMB'000*
Bills payable secured by		
– Bills receivable *(note 7)*	**–**	21,805
– Pledged bank deposits	**–**	70,445
	–	92,250
Bills payable unsecured	**973,655**	307,642
	973,655	399,892

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

	2019	2018
	RMB'000	*RMB'000*
Within 3 months	**4,932,881**	2,366,602
More than 3 months but within 6 months	**345,546**	308,632
More than 6 months but within 1 year	**5,964**	16,217
More than 1 year	**12,387**	3,379
	5,296,778	2,694,830

As at 31 December 2019, the accrued trade payables which represented the amounts with no invoice received by the end of the year, amounted to approximately RMB294,881,000 (31 December 2018: approximately RMB98,408,000).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the Year, despite the ever-changing and unpredictable global political and economic situations, there were still substantial conflicts over various international issues such as trade protectionism, geopolitics in the Middle East and competitive currency policy, but the governments of various countries seemed to understand the logic of "either work together for mutual benefits or fight each other with collective damage" as they resumed the negotiation with pragmatic actions to reach common ground while reserving differences in order to tackle the risks arising from the gradual decline of global economy.

In such macro-environment, although the Chinese economy remained stable in general, it was inevitably implicated. According to the statistics published by the National Bureau of Statistics of China on 28 February 2020, the gross domestic products (GDP) of the PRC experienced a year-on-year increase of 6.1% in 2019, representing a decrease in growth speed of approximately 0.5 percentage point as compared to that of 2018 and reaching a new low for the past 29 years.

In the challenging operating environment, although there was a negative year-on-year growth in sales volume of mobile phones in China for consecutive quarters, however, according to the data from certain independent research institution, Chinese phone brands achieved a remarkable performance in the second half of 2019 and sales volume in the Chinese market had been stabilised under the trend of dynamic online transaction and commercial application of 5G. Meanwhile, in overseas market, Chinese phone brands reaped an abundant harvest again. In emerging markets such as India and Malaysia, the four top Chinese brands have remained as the top 5 for local sales volume of phones for a long time and in aggregate accounted for more than half of sales volume in certain countries with increasing market share year by year. Chinese phone brands had one third of market share even in some developed markets such as the European market.

Meanwhile, the importance attached by consumers for photo-taking effects and privacy protection of smartphones as well as the demand of Chinese smartphone brands for consistent appearance of products facilitated the innovation of multiple camera modules, 3D modules and optical under-glass fingerprint recognition modules, which further enhanced the significance of relevant products in smartphones and contributed to the relatively outstanding business performance of the Group under a changeable peripheral environment.

Looking back to the Year, the Group successfully implemented three strategic measures: expansion of scale of sales, optimisation of client structure and improvement of product mix, and set a new record of monthly sales volume and monthly income in the fourth quarter. Thanks to the trust and support from core customers and the joint effort of all staff members, the Group has achieved the three major development objectives as specified in the annual results announcement for 2018 and the interim results announcement for the year 2019, i.e.: (i) shipment of camera modules in 2019 will increase by not less than 50% (30% as originally set in the annual results announcement for the year 2018) 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% of 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.

During the Year, the sales volume of camera module products of the Group experienced a rapid growth as the sales volume reached approximately 406.04 million units, representing an increase of approximately 53.9% as compared to approximately 263.89 million units in 2018, in which, the sales volume of camera modules with resolutions of 10 mega pixels and above reached approximately 218.44 million units, representing an increase of approximately 90.4% as compared to approximately 114.72 million units in 2018. For the fingerprint recognition module products business, the Group focused on the product mix optimization and the sales volume of it slightly decreased by approximately 5.2% from approximately 107.55 million units of 2018 to approximately 101.95 million units of the Year. There were three major reasons for the rapid growth in sales volume of camera module products: (i) multiple camera module design continued to be the mainstream choices of smartphones which further expanded the demands for camera modules; (ii) the customer structure of the Group during the Year was further optimised and the Group's positions of suppliers in numerous core customers were promoted, allowing the Group to obtain greater market share; and (iii) the production capacity of camera modules of the Group expanded from approximately 35 million units per month at the end of last year to approximately 50 million units per month at the end of the Year (based on the historical standard of production efficiency of camera modules with resolutions of 13 mega pixels) and the automated production capacity was significantly enhanced, indicating a substantial improvement of production capacity.

During the Year, the product mix of the Group's camera module products and fingerprint recognition module products was significantly optimised, in which: (i) the sales volume of camera modules with resolutions of 10 mega pixels and above accounted for approximately 53.8% of the total sales (of which camera module products with resolutions of 32 mega pixels and above accounted for approximately 9.6%), representing a growth of approximately 10.3 percentage points as compared to approximately 43.5% in 2018, in which, the sales volume accounted for approximately 59.5% in the second half of 2019, representing a half-on-half increase of approximately 12.7 percentage points as compared to approximately 46.8% in the first half of 2019 and a year-on-year increase of approximately 13.6 percentage points as compared to approximately 45.9% in the second half of 2018; and (ii) the sales volume of under-glass fingerprint recognition modules accounted for approximately 49.3% of the sales volume of fingerprint recognition modules, representing an increase of approximately 37.5 percentage points as compared to approximately 11.8% in 2018. The product mix of the Group's camera module products and fingerprint recognition module products experienced a significant optimisation, which was mainly due to the following reasons: (i) the upgrade of application and function of camera modules and fingerprint recognition modules have always been one of the highly concerned functions of smartphones of consumer, and core customers continue to promote the upgrade of the specifications of camera modules and fingerprint recognition modules; and (ii) the Group's capability of providing high-end camera modules and under-glass fingerprint recognition modules have constantly received recognitions and acquired absolute trust from the customers, which enhanced the supply share of mid-to-high end products.

During the Year, the core strategy of the Group's vertical integration has continued to deepen and has made good progress. The Group's investment in Newmax Technology Co., Ltd. ("**Newmax Technology**") (a company listed on the Taipei Exchange in Taiwan, stock code: 3630) has initially demonstrated results. After more than two years of sharing and consolidation of resources and technologies, Newmax Technology made a turnaround to profit in 2019 and the net loss attributable to the shareholders of approximately NT$310,677,000 in 2018 was substantially improved to the net profit of approximately NT$506,592,000 in 2019, contributing a net profit of approximately RMB39,996,000 to the Group. In addition, to support the further expansion of operating scale of Newmax Technology and its effort to improve operating results, the Group actively participated in the action of capital injection and shareholding expansion of Newmax Technology during the Year which successfully raised a fund of approximately NT$2.07 billion for Newmax Technology, providing capital reserve for the expansion of production base of Newmax Technology and enhancement of its research and development capability and thereby laying a solid foundation for the continuous and sound development of Newmax Technology.

In terms of technology, the Group and Newmax Technology have realized comprehensive technical cooperation and resource integration in optical under-glass fingerprint recognition modules and 3D structured light modules, and thereby accelerated introduction of projects from a number of customers. In the future, we will focus on exploration of new projects, such as cooperation on time of flight (ToF) module lens and other high resolution RGB lens. In terms of cost control and customer resources, we will further enhance customer loyalty by serving customers with more cost-effective solutions by increasing procurement ratios and sharing resources. In the future, both the Group and Newmax Technology will display their respective advantages and complement each other to jointly promote customer development, capacity improvement, technical progress and services enhancement, and strive to achieve win-win results for customers, the Group and Newmax Technology.

Looking back to the Year, the sales revenue of the Group was approximately RMB13,169,678,000, representing an increase of approximately 61.9% as compared to approximately RMB8,135,161,000 of last year. The growth in sales revenue exceeded the growth in sales volume, mainly because the product mix optimisation strategy which has been implementing by the Group for years has gradually achieved results and the camera modules and fingerprint recognition modules both achieved increase in average selling price. The average selling price of camera modules during the Year was approximately RMB25.52, representing an increase of approximately 6.9% as compared to approximately RMB23.86 of last year, mainly because: (i) the capabilities of research and development, production, sales and delivery of the Group were significantly enhanced in general which led to a promotion of the positioning in the supply chain of multiple core customers and a further increase in the proportion of high-end products; (ii) the proportion of sales volume of the Group's camera modules with resolutions of 10 mega pixels and above to the sales volume of camera module products increased by approximately 10.3 percentage points to approximately 53.8%; and (iii) the specifications of camera modules for smartphone were substantially improved in general and the average selling price of certain high-end projects surged by multi-folds. The average selling price of fingerprint recognition module products was approximately RMB27.06, representing an increase of approximately 58.2% as compared to approximately RMB17.10 of last year, primarily because the proportion of optical under-glass fingerprint recognition modules with higher prices was greatly increased and certain traditional capacitive fingerprint recognition modules adopted a new design of side buttons, which enhanced the difficulties in production and selling price.

During the Year, the Group's gross profit margin was approximately 9.0%, representing an increase of approximately 4.7 percentage points from approximately 4.3% of last year. The increase in gross profit margin was mainly attributable to: (i) the production capacity of the Group has recorded a substantial increase, whilst the significant increase in sales volume of camera modules maintained a higher utilisation rate of production capacity, resulting in a lower marginal cost; (ii) production automation upgrading and transformation gradually shows the effect with the manpower requirements for producing the same output significantly reduced, resulting in a decrease in the proportion of labour costs; and (iii) the significant rise in proportion of high-end products during the Year enhanced the added value. However, the exchange rate of RMB against US dollar fluctuated violently during the Year due to trade disputes and other factors, which affected the gross profit margin of the Group.

During the Year, the Group continued to strengthen its research and development ("**R&D**") on camera module products, and unswervingly devoted its effort in three directions, namely new materials, new processes and new products. The specifications of the camera modules in terms of functions, performance and miniaturization have been greatly improved. In respect of functions, the ultra-high pixel single camera modules of 40 mega pixels, 48 mega pixels and 64 mega pixels, and the integrated triple camera modules have been successively put into mass production, which fully reflects that the Group's technology precision in the production of high-end modules has reached the leading level in the industry. Meanwhile, the R&D team has completed the pre-research and has a grasp of new technologies such as periscope five-fold optical zoom modules, and ultra-macro imaging modules, in order to make preparation for mass production in a short term. With regard to performance, during the Year, the Group made breakthroughs in the module assembling technology such as motor driven by shape memory alloys (SMA), new optical image stabiliser (OIS) and variable aperture, which marked a progress towards mass production. As for miniaturization, a number of self-developed and innovative miniaturized front and rear camera module solutions have passed the inspections of customers, and have been successively put into mass production, which are used by customers in their flagship models with higher requirements of product appearance and performance.

The Group strived to seize the development opportunities arising from the transformation of 2D to 3D in optical imaging. After becoming the first module manufacturer in the PRC to put 3D structured light modules into mass production in 2018, mass production of time of flight (ToF) 3D modules was officially commenced in the Year, which not only consummated the Group's technological reserve of 3D modules, but also consolidated the Group's leading position in terms of 3D modules technology. Other than the increase in phone applications for virtual reality (VR), augmented reality (AR) and mixed reality (MR), we also catered for the demand of relevant products in internet of things (IoT) applications such as sweeping robots, unmanned supermarkets, drones, security surveillance and so on. In the future, the Group will enhance the technological development of time of flight (ToF) 3D modules, including the R&D of new projects such as long-wave iToF and dToF.

During the Year, under-glass fingerprint recognition modules are considered to be a major biometric verification device of high-end smartphones, in which optical under-glass fingerprint recognition modules were predominant and became the mainstream technology development direction. The Group was one of the leading manufacturers of optical under-glass fingerprint recognition modules. The Group was qualified to be the main supplier for some important models of numerous major phone brands in the PRC and its business achieved lasting and satisfying development. Looking ahead, the Group will strive to develop new generation of products such as TFT-LCD optical under-glass fingerprint recognition modules and large-area optical fingerprint recognition modules, in order to prolong the leading position of the Group in this field.

As for large-scale high-end manufacturing, the Group achieved a significant progress in production automation upgrading and transformation during the Year, the existing production lines of the Kunshan production bases have undergone large-scale transformation into InLine intelligent production lines, which greatly reduced the manpower demand for production and significantly improved the production efficiency and the first pass yield. The new production lines adopted the construction standard of fully-automated digital intelligent factory with extensive use of automatic optical inspection equipment (AOI) to promote lean production and significantly reduced the manpower demand to industry-leading levels. Moreover, the Group continued to optimise the customer service standard by directly connecting with the delivery system of customers to promote the development of "one-click delivery" system, which significantly enhanced the overall experience of customers in terms of delivery efficiency and quality. Meanwhile, the Group firmly advanced its customer-centric service strategy and its key strategy of global resources allocation. Construction of the first phase of the production base located in Greater Noida in the capital circle of Uttar Pradesh, India, was preliminary completed in the fourth quarter of the Year, and has been put into mass production. In the future, the Group will be committed to building the production base in India into a second manufacturing centre outside of the Kunshan production base, thereby to provide high-end quality products and fast-responding quality services to our overseas customers.

In overall, the development opportunities and challenges coexist in the camera module and fingerprint recognition module industry. On the one hand, the market competition was still fierce in the process of increasing the industry concentration of the camera module industry. On the other hand, the demand for camera modules and fingerprint recognition modules is still expected to grow steadily and product specifications are also expected to constantly improve with the increasingly broadening application areas, which brings good development opportunities for the Group. The directors of the Company (the "**Directors**") believe that only when constantly and deeply promoting large-scale intelligent manufacturing, R&D of new technology and vertical integration, firmly propelling the strategies in platform, components as well as system integration, adhering to a customer-centric service strategy, firmly promoting lean management, 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, and ultimately strive to achieve the vision of the Group as "to illuminate machines".

PROSPECTS

The eventful year of 2019 finally came to an end after a series of major events, including the celebration of the 70th anniversary of the founding of the People's Republic of China, Sino-US trade dispute, and Brexit negotiations. The year of 2020 began in a political atmosphere where China and the United States were seeking common ground while shelving differences with ongoing negotiations. The Directors believe that the macroeconomic situation remains challenging in 2020. On the one hand, the growing prevalence of trade protectionism and geopolitical relations may cause great uncertainties in global economic growth; on the other hand, the novel coronavirus pneumonia raging round the globe in early 2020 would pose greater challenges to the growth of global economy. However, the Directors still believe that 5G is one of the definite directions for global technological and economic development, and the intelligent mobile communication terminal is an important carrier for further commercialisation of 5G and popularisation of IoT, thereby there are still favourable opportunities and broad prospects for the development of the intelligent mobile communication terminal industry. The demand of consumers for purchasing or replacing their mobile phones may be delayed but will not be vanished. Intelligent vision systematic products are still one of the highlights that consumers are most concerned about when purchasing the intelligent mobile communication terminal. Accordingly, the Directors remain confident in the long-term development prospects of the intelligent visual industry, and will build technological edges by continuously advancing the R&D of new materials, new processes and new products; to further improve profitability by optimising customer structure and product mix; to strive to improve production efficiency and reduce manufacturing costs by further strengthening production automation and endeavouring to move towards intelligent production; to step up risk-aversion capability by enhancing internal control management; and to strengthen the systematisation capability of intelligent vision products by further promoting the vertical integration of key components. Altogether, it would dedicate to enhancing the core competitiveness of the Group, better cope with potential fluctuations and seize opportunities for the industry development in 2020.

The Directors remain unswerving in continuously promoting the development of intelligent visual system products, and cautiously optimistic about the business development of the camera modules and fingerprint recognition modules in the coming year, and believe that:

(i) Camera modules is one of the end-consumers' most concerned smartphone components, which shows a continuous rising trend in the proportion of material cost of smart terminals. The triple-camera or multiple camera module design has become the standard configuration of high-end smart terminals, and the specifications and functions implemented are even more innovative, which greatly enriches the user experience. Looking forward to 2020, with the backdrop of the popularity of 5G networks and the expansion of broadband, multiple breakthroughs in camera functions and performance are likely to occur, which will enhance the technical threshold of camera modules. The Group expects that the market demand for camera modules will continue to grow steadily. The pixel specifications of camera modules have continued to improve, and at the same time, the technical requirements for optical image stabilisation, large aperture, ultra wide angle and others have continued to rise, which will bring favourable conditions for the development of the Group.

(ii) The customer mix of the Group has been significantly optimised compared with the past. The Group has established comprehensive cooperative relations with leading Chinese mobile phone brands and has gained more market share. Meanwhile, the Group vigorously promotes the entry of overseas customers using the Android system to effectively reduce the risk of excessive customer concentration. The Group will be committed to improving the penetration of related customer and optimising the product mix supplied to such customer. The future business growth can be more stably based on the explicit long-term trend of the pursuit for upgrade on image effects by the mobile terminal, which will facilitate the Group in giving a better play through its accumulated reserves of capacity, technology, talents and capital.

(iii) The popularity of the under-glass fingerprint recognition modules in mobile phones is constantly increasing, and it gradually develops a complementary rather than exclusive relationship with the face recognition system, bringing positive effects on the development of the fingerprint recognition industry. At the same time, the cost of organic light-emitting diode (OLED) screens is expected to decrease and the production capacity is expected to further expand; the technology of using optical under-glass fingerprint recognition modules under TFT-LCD screens is expected to be more mature; and the technology of the ultra-thin and large-size optical under-glass fingerprint recognition modules is also more mature, all of them are expected to be favorable for the accelerated penetration of optical under-glass fingerprint modules.

(iv) Camera modules are one of the most important human-machinery interactive interfaces during the IoT era. With the popularity of 5G networks, the popularisation of AR/VR is expected to accelerate significantly, and it will bring more application scenarios to 3D modules and systems and accelerate the progress of 3D modules becoming the standard configuration of high-end mobile phones. As the first 3D structured light modules manufacturer with mass production in China, the Group has accumulated abundant technical reserves and the ToF plans has been officially mass-produced in the Year. With this technical foundation and preparation, the Group is expected to seize this new opportunity.

(v) It has become the common development goal of domestic and overseas vehicle brands to improve driving safety and the operation experience of users through Advanced Driver Assistance System (ADAS), Surround View, In-cabin Monitoring and other intelligent driving systems, which will promote application increase and specification improvement of vehicle camera modules. In 2019, the Group successfully obtained the Tier 2 supplier qualification of various well-known domestic automobile brands. It expects to obtain specific project cooperations in 2020 and continue to move forward in the vehicle vision system.

The Group will adhere to the vision of “to illuminate machines” and strengthen its capacity development in three aspects, namely optical design, computing vision and system integration, continue to enhance the R&D of new materials, new processes and new products and improve its large-scale automated precision manufacturing capability, and push forward the construction and production expansion of the production base in India, proactively promoting lean management, and proactively carry out marketing activities to enhance its customer relationship, aggressively expand overseas renowned smartphone branded customers and continuously enhance the core competitiveness of the Group. The Group will focus on developing high pixels camera modules, multiple camera modules, optical image stabilisation modules, ToF modules, periscopic camera modules, optical under-glass fingerprint recognition modules in multiple forms and other high-end products, provide assistance to Newmax Technology, our associate, in the development of smartphone camera module lens, 3D module lens and under-glass fingerprint recognition module lens, with an effort to strengthen the technical cooperation and resource integration between camera modules and key components such as lens, at the same time striving to achieve a further breakthrough in the application of camera modules in non-mobile-phone sector.

The Group will endeavour to achieve the following objectives in 2020: (i) the shipment of camera modules in 2020 will increase by not less than 20% year-on-year comparing with that of the previous year, of which the proportion of shipment of camera modules with resolutions of 10 mega pixels and above will account for not less than 60%, whereas the proportion of shipment of camera modules with resolutions of 32 mega pixels and above will account for not less than 25%; and (ii) continuously review the demand from customers and the Group's business development, production capacity of camera modules will be gradually expanded to not less than 60 million units per month by the end of 2020, the production capacity statistics of which is statistically based on the historical standard production efficiency of products with resolutions of 13 mega pixels.

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**").

AWARDS AND HONOURS

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

In January 2019, Kunshan Q Technology Limited ("**Kunshan QT China**"), a wholly-owned subsidiary of the Company, was awarded the "Top Ten Intelligence Production Transformation Enterprise and Top Economies of Scale Production Enterprise in Kunshan City for the Year 2018" granted by the People's Government of Kunshan City;

In April 2019, Kunshan QT China won the "Annual Strategic Cooperation Award" of 2018 granted by Chino-E Communication (中諾通訊), a world-renowned smartphone manufacturer;

In September 2019, Mr. He Ningning, the Chairman of the Company, was awarded the "Outstanding Contribution Award" in recognition of his outstanding contribution towards the 30 years development of Kunshan City since its evacuation from a county to a city, and he is one of the forty representatives who won such honour;

In November 2019, Kunshan QT China won the "Outstanding Partner Award" of 2019 granted by Xiaomi Communication Co., Ltd. (小米通訊技術有限公司), a world-renowned smartphone brand;

In November 2019, Kunshan QT China won the "Global Best Partner Award" of 2019 granted by ZTE Corporation, a world-renowned smartphone brand;

In December 2019, Kunshan QT China was awarded the "Excellent Quality Award" of 2019 granted by Huaqin Telecom Technology Limited Company (華勤通訊技術有限公司), a world-renowned smartphone manufacturer;

In December 2019, Kunshan QT China received the "Outstanding Supplier Award" of 2019 granted by Lenovo, a world-renowned smartphone brand;

In December 2019, Kunshan QT China won the "Best Quality Supplier Award" and "Best Technical Support Award" of 2019 granted by Nubia Technology Limited (努比亞技術有限公司), a world-renowned smartphone brand; and

In January 2020, Mr. Fan Fuqiang (the chief financial officer of the Company) and Mr. So Yung Pang (the director of investor relations) won the "Best CFO Award" and the "Best IR Award", respectively, at the 4th Session of Golden Hong Kong Stock Annual Award Ceremony.

FINANCIAL REVIEW

Revenue

For the Year, the revenue of the Group was approximately RMB13,169,678,000, representing an increase of approximately 61.9% as compared with approximately RMB8,135,161,000 in 2018. The increase in revenue was mainly attributable to: (i) as benefited from the successful results of the Group's expansion strategy, the sales volume of camera module products for the Year achieved a significant increase of approximately 53.9% as compared with that of last year; (ii) by virtue of the gradual success of the Group's strategy of optimising the product mix of camera modules, the proportion of shipment of camera module products with resolutions of 10 mega pixels and above reached approximately 53.8%, which resulted in a steady increase in average selling price of camera module products by approximately 6.9% year-on-year and hence a year-on-year growth of approximately 65.2% in the sales revenue of camera module products; and (iii) although the sales volume of fingerprint recognition module products of the Group for the Year decreased by approximately 5.2% year-on-year, the average selling price of fingerprint recognition module products increased significantly by approximately 58.2% year-on-year due to the obvious product mix optimisation, so that the sales revenue from fingerprint recognition module products still increased by approximately 50.6% to approximately RMB2,758,860,000 from approximately RMB1,832,022,000 of last year.

Cost of sales

For the Year, the cost of sales of the Group was approximately RMB11,989,806,000, representing an increase of approximately 54.1% as compared with approximately RMB7,782,053,000 of 2018. The increase in the cost of sales was mainly attributable to: (i) the increase in raw material cost by approximately 63.5% as compared with that of last year due to sales scale expansion; and (ii) the depreciation expenses arisen from the production plants and equipment as a result of the investment in capacity expansion increased by approximately 32.0% to approximately RMB244,549,000 as compared with approximately RMB185,264,000 of 2018.

Gross profit and gross profit margin

For the Year, the gross profit of the Group was approximately RMB1,179,872,000 (2018: approximately RMB353,108,000), representing an increase of approximately 234.1% as compared with that of the year 2018, while the gross profit margin was approximately 9.0% (2018: approximately 4.3%). The significant increase in gross profit margin was mainly attributable to: (i) the production capacity of the Group has recorded a substantial increase, whilst the significant increase in sales volume of camera modules maintained a higher utilisation rate of production capacity, resulting in a lower marginal cost; the proportion of depreciation of production plants and equipment to sales revenue for the Year was approximately 1.9%, representing a decrease of approximately 0.4 percentage point as compared with approximately 2.3% in 2018; (ii) production automation upgrading and transformation gradually shows the effect with the manpower requirements for producing the same output significantly reduced, resulting in a decrease in the proportion of labour costs; the proportion of direct labour costs to sales revenue of the Group for the Year was approximately 3.4%, representing a decrease of approximately 2.1 percentage points as compared with approximately 5.5% in 2018; and (iii) the significant rise in proportion of high-end products during the Year enhanced the added value. However, the exchange rate of RMB against US dollar fluctuated violently during the Year due to trade disputes and other factors, which affected the gross profit margin of the Group.

Other revenue

For the Year, other revenue of the Group was approximately RMB43,013,000, representing a decrease of approximately 67.7% as compared with approximately RMB133,113,000 of 2018. The decrease in other revenue was mainly attributable to: (i) subsidies or incentives received by the Group that were granted by local governments at different levels during the Year were approximately RMB28,986,000, representing a decrease of approximately 72.1% as compared with approximately RMB103,908,000 of 2018; and (ii) the interest income during the Year was approximately RMB13,911,000, representing a decrease of approximately 52.1% as compared with approximately RMB29,058,000 of 2018.

Other net loss

For the Year, the Group recorded other net loss of approximately RMB63,839,000, representing an increase of approximately 27.1% as compared with other net loss of approximately RMB50,223,000 in 2018. Such other net loss was mainly attributable to: (i) loss on disposal of assets was approximately RMB17,514,000 (2018: approximately RMB15,687,000); (ii) net exchange loss of approximately RMB25,373,000 (2018: approximately RMB44,613,000) due to the depreciation in exchange rates of RMB against US dollar during the Year; (iii) loss on impairment of machinery was approximately RMB10,587,000 (2018: Nil); and (iv) a net realised and unrealised loss on foreign currency forward contracts was approximately RMB501,000 (2018: a net gain of approximately RMB12,418,000).

Selling and distribution expenses

For the Year, the selling and distribution expenses of the Group amounted to approximately RMB14,946,000, representing a decrease of approximately 19.5% as compared with approximately RMB18,562,000 of 2018. The proportion of selling and distribution expenses to turnover was approximately 0.1%, representing a decrease of approximately 0.1 percentage point as compared with approximately 0.2% of 2018. The decrease in selling and distribution expenses was mainly attributable to the stable customer relationships and the Group's endeavour on cost saving, thus the express costs in relation to the sales activities were effectively reduced.

Administrative and other operating expenses

For the Year, the total administrative and other operating expenses of the Group amounted to approximately RMB128,140,000, representing an increase of approximately 57.8% as compared with approximately RMB81,201,000 in 2018. The increase in administrative and other operating expenses was mainly attributable to: (i) an increase of approximately 80.1% in staff salaries and labour expenses from approximately RMB28,219,000 of last year to approximately RMB50,828,000 resulting from increase in number of staff and average salary; and (ii) increase in other expense such as bank charges, tax surcharge and maintenance expense due to the business expansion during the Year.

R&D expenses

For the Year, the total R&D expenses of the Group amounted to approximately RMB396,244,000, representing an increase of approximately 48.9% as compared with approximately RMB266,198,000 in 2018. The R&D expenses for the Year were mainly utilised in the Group's continuous R&D investments in new products and new processes, so as to allow the Group to develop camera module products with higher pixels, multiple camera module products with different application functions, camera module products with smaller size, 3D module products, camera module products applied in automotive and IoT areas, side-mounted fingerprint recognition module products and optical under-glass fingerprint recognition module products, as well as optimise and enhance the standards of production automation.

Finance costs

For the Year, the finance costs of the Group was approximately RMB52,811,000, representing an increase of approximately 19.6% as compared with approximately RMB44,146,000 of 2018. The increase in finance costs was mainly attributable to the increase in bank borrowing balance of the Group in the Year in order to fulfill the requirements for production and operation expansion.

Share of profit of an associate

For the Year, Newmax Technology, an associate of the Company, recorded a profit. The share of profit of an associate attributable to the Company was approximately RMB39,996,000, while the share of loss of an associate for the year 2018 was approximately RMB24,561,000.

Income tax expenses

For the Year, the income tax expenses of the Group was approximately RMB64,529,000, while the income tax expenses for 2018 was approximately RMB-13,069,000, which was mainly attributable to the profit before taxation of approximately RMB606,901,000 recorded by the Group in the Year.

Profit for the Year

Based on the foregoing, the profit of the Group for the Year was approximately RMB542,372,000 (2018: approximately RMB14,399,000), representing an increase of approximately 3,666.7% as compared with that of the year 2018.

LIQUIDITY AND FINANCIAL RESOURCES

Bank borrowings

As at 31 December 2019, the Group's bank borrowings amounted to approximately RMB1,328,785,000. It represents an increase of approximately 12.8% from approximately RMB1,178,241,000 as at 31 December 2018. Among the borrowings, short-term borrowings were approximately RMB1,269,548,000 whereas long-term borrowings were approximately RMB59,237,000.

As at 31 December 2019, the Group's bank borrowings were denominated in RMB and/or USD. The cash flow overview of the Group in the Year and 2018 was set out as follows:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net cash generated from/(used in) operating activities	**2,399,551**	(172,505)
Net cash (used in)/generated from investing activities	**(1,271,487)**	386,521
Net cash used in financing activities	**(816,739)**	(584,005)

As of 31 December 2019, the cash and cash equivalents of the Group amounted to approximately RMB411,517,000, representing an increase of approximately RMB311,597,000 from approximately RMB99,920,000 as at 31 December 2018. The increase in cash and cash equivalents was mainly attributable to the significant profit growth of the Group for the Year as compared with that of last year and the record of a net cash inflow.

Operating activities

The Group's net cash inflow from operating activities amounted to approximately RMB2,399,551,000 in the Year, while the net cash outflow of operating activities amounted to approximately RMB172,505,000 in 2018. The Group's cash flow from its operating activities recorded a net inflow, which was mainly attributable to: (i) the gross profit margin of the Group for the Year significantly increased from approximately 4.3% in 2018 to approximately 9.0%; (ii) the operation scale of the Group has continued to expand, and with the strong support from the suppliers, both the amount and the proportion of the bill settlement of the payments due from the suppliers increased substantially, resulting in the significant increase of trade and other payables of approximately RMB2,873,230,000 from approximately RMB3,061,432,000 in the end of 2018 to approximately RMB5,934,662,000 in the end of the Year; meanwhile, with the good cooperation maintained with its customers, the turnover days of accounts receivable in the Year was approximately 109 days, representing a decrease of approximately 4 days as compared with approximately 113 days of 2018; as of 31 December 2019, trade and other receivables was approximately RMB4,919,289,000, representing an increase of approximately RMB1,887,922,000 as compared with approximately RMB3,031,367,000 as of 31 December 2018, in which the increase amount is less than that of trade and other payables; and (iii) amount due to suppliers of RMB1,221,331,000 (2018: approximately RMB436,411,000) of the Group was directly settled by the bank through import trade loan financing during the Year, which was excluded from the cash outflow from operating activities and will be included in the cash outflow from financing activities upon the trade loan is due and repaid.

Investment activities

The net cash outflow arising from the investment activities of the Group in the Year amounted to approximately RMB1,271,487,000, which was mainly attributable to: (i) the expenses for plant expansion and purchasing equipment amounted to approximately RMB1,156,255,000; and (ii) the payment for the investment in Newmax Technology of approximately RMB155,799,000.

Financing activities

The net cash outflow used in the financing activities of the Group in the Year amounted to approximately RMB816,739,000, which was mainly attributable to the cash outflow for repaying bank borrowings of approximately RMB3,008,131,000 deducted by: (i) the inflow of bank borrowings of approximately RMB1,921,727,000; (ii) the subscription amount of approximately RMB39,784,000 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; and (iii) net proceeds amounting to approximately RMB182,155,000 from the completion of placing of 15 million existing ordinary shares on 30 December 2019.

Gearing ratio

The gearing ratio of the Group as at 31 December 2019, as defined by the balance of bank borrowings and lease liabilities divided by total equity at the end of the Year, was approximately 48.2%, representing a decrease of approximately 7.8 percentage points from approximately 56.0% as at 31 December 2018, which was mainly attributable to: the recorded profit of the Group for the Year of approximately RMB542,372,000 and the net proceed from the completion of the placing of 15 million existing ordinary shares amounted to approximately RMB182,155,000, resulting in the increase of net assets for the end of the Year of approximately RMB763,520,000 as compared with that of the end of the year 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 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 year ended 31 December 2019.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment for the year ended 31 December 2019.

OTHER INVESTMENTS

On 20 August 2019, Taiwan Q Technology Limited ("**Taiwan QT**"), a wholly-owned subsidiary of the Company, completed the participation in the capital injection of the associated company, Newmax Technology. A total of 8,321,701 new shares, representing approximately 4.5% of the total number of issued ordinary shares of Newmax Technology as enlarged after the completion of the capital injection, has been allotted and issued to Taiwan QT at the price of NT$82.8 per share. For details, please refer to the announcements of the Company dated 1 April 2019, 12 July 2019 and 20 August 2019 respectively.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2019, the assets pledged by the Group included bank deposits, shares of an associate, trade receivables and bills receivables of approximately RMB478,632,000 (31 December 2018: approximately RMB462,174,000), which were used as guarantee for bank borrowings and bank guarantee letters.

EMPLOYEE POLICIES AND REMUNERATION

As at 31 December 2019, the Group had a total of employees 3,745 (excluding staff under labour service agreements and internship agreements) (as at 31 December 2018: 2,874). The Group is committed to providing all staff with fair working environment, providing newly recruited staff with induction training and job technical counseling to help them to adapt to job requirements quickly, providing all staff with clear job responsibilities guidelines and for employees at different positions with on-the-job training together with other training programmes to help improving their skills and knowledge, and strived to provide all staff with competitive remuneration packages. For the Year, the remuneration of the employees (including staff under labour service agreements and internship agreements) of the Group was approximately RMB725,391,000 (2018: approximately RMB623,001,000). 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 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 Year, 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 1,066,800 options granted on 26 October 2016 was lapsed as a result of the resignations of 8 staff during the Year, and a total of 9,616,200 share options were outstanding as at 31 December 2019.

(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 Year, the Company has accepted the applications from 21 staff and issued a total of 945,600 ordinary shares at the exercise price of HK$6.22 per share and total consideration received was approximately HK$5,882,000. A total of 400,000 options granted on 9 June 2017 was lapsed as a result of the resignations of 2 staff during the Year, and a total of 945,600 share options were outstanding as at 31 December 2019.

(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 Year; and a total of 1,624,000 options granted on 7 December 2018 was lapsed as a result of the resignations of 13 staff during the Year. A total of 11,096,000 share options were outstanding as at 31 December 2019.

(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 Year; and a total of 4,680,000 options granted on 21 June 2019 was lapsed as a result of the resignations of 13 staff during the Year. A total of 6,774,000 share options were outstanding as at 31 December 2019.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily due to certain receivables, payables, cash balances and loans that are denominated in foreign currencies other than RMB arising from the operating activities such as bank borrowings, product sales and purchase of raw materials. The Group is also exposed to currency risk from the exchange or translation of USD and Hong Kong Dollars into RMB. During the Year, the Group recorded an exchange loss of approximately RMB25,373,000 as the sales income of the Group was still mainly settled in RMB but various raw materials for production and some equipment for production were purchased from overseas and settled in USD, while there was a considerable fluctuation in the exchange rate of RMB against USD during the Year with the central parity dropping from 6.8632 at the beginning of the Year to 6.9762 at the end of the Year, representing a depreciation of approximately 1.6%. As affected by multiple factors such as politics, economic, and supply and demand, the trend of RMB against USD in the future is subject to great uncertainties. It is difficult to adjust the business mode of the Group in the short run. Therefore, the profit or loss of the Group may still be affected by exchange rate fluctuation in the future. The Group will, on one hand, strive to strengthen the expansion of overseas business continuously to increase USD income; on the other hand, the Group will coordinate actively with suppliers receiving settlement in USD to seek the consent of certain suppliers to purchase domestically or arrange settlement in RMB, so as to reduce the demand for USD. Meanwhile, the Group will enhance monitoring of the exchange rate fluctuation on a daily basis, adjust the proportion of USD deposits to total deposits balance and the proportion of USD loans to total loans balance from time to time with reference to the analysis of exchange rates fluctuation trend, and fix the future foreign exchange costs by properly 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. However, 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 by global offering. The net proceeds from the above global offering was approximately HK$658,000,000 (after deducting relevant listing expenses). As at 31 December 2019, the fund raised was fully utilised in accordance with the intended use of the global offering.

USE OF PROCEEDS FROM PLACING OF SHARES

On 12 December 2016, the Company completed the placing of 40,000,000 new ordinary shares of HK$0.01 each 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 31 December 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 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 31 December 2019, the fund raised was fully utilised. The capital utilisation was consistent with the intended use of the net proceeds of the placing.

On 23 December 2019, the Company completed the placing of 15,000,000 existing shares (the "**Placing Shares**") at the placing price of HK$13.68 per each placing share (the "**Placing**") to not less than six placees (who were professional investors and whose respective ultimate beneficial owners were (a) independent of, and not connected with, the Company and its connected person; and (b) independent of, and are not acting in concert with, Q Technology Investment Inc.（丘鈦投資有限公司）("**QT Investment**") and persons acting in concert with QT Investment. The aggregate nominal value of the Placing Shares was HK$150,000 based on the par value of HK$0.01 per share and the market value was HK$211,500,000 based on the closing price of HK$14.10 per share as quoted on the Stock Exchange on the signing date of the placing agreement (i.e. 18 December 2019). On 30 December 2019, the Company allotted and issued 15,000,000 new shares to QT Investment, the controlling shareholder of the Company (the "**Subscription**"). Upon the completion of the Placing and Subscription, the net proceeds obtained by the Company was approximately HK$203,300,000, after deducting all costs and expenses incurred by QT Investment in connection with the Placing and Subscription and to be borne by the Company, and other expenses incurred by the Company which included the placing agent's commission, the stamp duty, the Stock Exchange trading fee and the SFC transaction levy. In view of the Group's intensified capital requirement for the R&D expenditure on multiple camera and other high-end camera modules products, the cost for production capacity expansion and the need of working capital, the Directors consider that the Placing can help to raise additional funds to strengthen the financial position. The Directors are of the view that the Placing and Subscription will also broaden the shareholder base and the capital base of the Company and is helpful to the continuous growth and sustainable development of the Group. As of 31 December 2019, none of the funds raised has been utilised. The remaining funds raised will be utilised in the first half of 2020, and the capital utilisation will be consistent with the intended use of net proceeds from the Placing. It is expected that: (i) approximately HK$162.6 million, representing approximately 80% of the net proceeds from the Subscription, will be used as capital expenditure required for production capacity expansion for camera modules by the first half of 2020; and (ii) approximately HK$40.7 million, representing approximately 20% of the net proceeds from the Subscription, will be used for R&D by the first half of 2020.

DIVIDEND

The Board recommended the payment of a final dividend for the year ended 31 December 2019 of approximately RMB9.0 cents (equivalent to HKD10.0 cents) per share (final dividend for the year ended 31 December 2018: Nil) to the Shareholders whose names appear on the register of members of the Company on Wednesday, 10 June 2020. Subject to the approval by the Shareholders at the forthcoming annual general meeting (the "**AGM**") of the Company to be held on 22 May 2020, the proposed final dividend is expected to be paid on or around Monday, 22 June 2020.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the eligibility to attend the AGM to be held on 22 May 2020, the register of members of the Company will be closed from 19 May 2020 to 22 May 2020. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 18 May 2020.

For the purpose of determining the eligibility to receive the final dividend, the register of members of the Company will be closed from 8 June 2020 to 10 June 2020, during which period no transfer of shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on 5 June 2020.

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

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

ENVIRONMENTAL PROTECTION MANAGEMENT

The Group has strictly complied with the applicable environmental protection laws and policies in the jurisdictions where the respective members of the Group are located. During the Year, the Group had continued to revise, improve and implement a number of internal rules and regulations in relation to environmental protection management such as the implementation of Wastewater Management Regulations, Waste Gas Management Regulations and Greenhouse Gas Management Measures, and to further perfect the wastewater, waste gas and greenhouse gas treatment system in order to strengthen its management and control in production and domestic sewage so as to ensure that the wastewater discharge is in compliance with statutory requirements, and clarified the ranges, procedure and instrument of collecting the data of greenhouse gas for the effective management of greenhouse gas of the Group in the long run and prepared for reducing carbon emissions. As the same time, the Group had also amended and implemented certain regulations and measures including improving the Fire Safety Management Regulations and Emergency Plan, held fire drills with particular focus on strengthening of self-check of the fire control facilities and improving the fire prevention and control capability, and Kunshan QT China successfully obtained the compliance certificate in terms of work safety granted by Administration of Work Safety and Environmental Protection of Kunshan Hi-tech Industrial Development Park.

Particulars of the environmental protection management of the Company are disclosed in the Environmental, Social and Governance Report set out in the 2019 annual report of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Directors have been aware and have confirmed that they had complied with the required standard for securities transactions by Directors set out in the Model Code during the Year.

CORPORATE GOVERNANCE PRACTICES

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

The Board is primarily responsible for overseeing and supervising the management of the business affairs and the overall performance of the Group, setting the Group's values and standards, formulating the business plans and strategies, deciding all significant financial and operational issues, developing, monitoring and reviewing the Group's corporate governance. The Board has established the audit committee (the "**Audit Committee**"), the nomination committee, the remuneration committee and the risk management committee, and all or the majority of members of the committees consist of independent non-executive directors. The respective terms of reference for such committees have been published on the respective websites of the Stock Exchange and the Company. Particulars of the principal corporate governance practices adopted by the Company will be disclosed in the Corporate Governance Report set out in the 2019 annual report of the Company.

Particulars of the principal corporate governance practices adopted by the Company will be disclosed in the Corporate Governance Report set out in the 2019 annual report of the Company.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The Audit Committee comprises three members, namely Mr. Ng Sui Yin (chairman of Audit Committee), Mr. Ko Ping Keung and Mr. Chu Chia-Hsiang, all being independent non-executive directors. The Audit Committee had reviewed the annual results of the Company for the year ended 31 December 2019 with the Company's management.

EVENTS AFTER THE REPORTING YEAR

The COVID-19 outbreak since early 2020 has brought additional uncertainties in the global macroeconomic situation. The Directors will continue to pay attention to the development of COVID-19 and timely assess the impact on the operation of the Group. So far, the impact from the outbreak of COVID-19 to the Group's operation in 2020 was immaterial.

Save as disclosed in this announcement and/or other announcements of the Company, there were no other important events affecting the Group that had occurred after 31 December 2019 and up to the date of this announcement.

ANNUAL REPORT

The annual results announcement of the Company is published on the respective websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.qtechglobal.com). The annual report for the year 2019 will be available on the above websites and despatched to Shareholders in due course.

APPRECIATION

The Company would like to take this opportunity to express its sincere thanks and gratitude to the Shareholders, and various parties for their continuous support as well as the Directors and its staff for their dedication and hard work.

By Order of the Board
Q Technology (Group) Company Limited
He Ningning
Chairman and Executive Director

Hong Kong, 9 March 2020

As at the date of this announcement, the Executive Directors are Mr. He Ningning (Chairman), Mr. Wang Jianqiang (Chief Executive Officer) and Mr. Hu Sanmu; and the Independent Non-executive Directors are Mr. Chu Chia-Hsiang, Mr. Ko Ping Keung and Mr. Ng Sui Yin.