Q TECHNOLOGY (GROUP) COMPANY LIMITED
丘鈦科技（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1478)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

HIGHLIGHTS

The unaudited sales revenue of the Group for the period of six months ended 30 June 2020 (the "**Period**") amounted to approximately RMB8,802,020,000, representing an increase of approximately 73.9% as compared with that of the corresponding period of 2019 (the "**Corresponding Period**"). The main reasons for the growth in revenue were: by virtue of the significant success of the Group's strategy of optimising the product mix of camera modules, the average selling price of camera module products increased significantly by approximately 99.6% during the Period as compared with that of the Corresponding Period, so that the sales revenue from camera module products increased by approximately 97.0% as compared with that of the Corresponding Period.

Gross profit for the six months ended 30 June 2020 was approximately RMB732,007,000, while gross profit margin was approximately 8.3%, representing an increase of approximately 0.1 percentage point as compared with approximately 8.2% for the Corresponding Period.

Profit of the Group for the six months ended 30 June 2020 was approximately RMB335,522,000, representing a significant increase of approximately 85.5% as compared with that of the Corresponding Period. The significant increase in profit was mainly attributable to the significant increase in sales revenue of the Group for the Period as compared with that of the Corresponding Period.

Basic and diluted earnings per share for the six months ended 30 June 2020 were approximately RMB0.288 and approximately RMB0.285 respectively.

FINANCIAL RESULTS

The board of directors (the "**Board**") of Q Technology (Group) Company Limited (the "**Company**") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2020 together with the relevant comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the six months ended 30 June 2020 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**8,802,020**	5,060,945
Cost of sales		**(8,070,013)**	(4,645,740)
Gross profit		**732,007**	415,205
Other revenue	*4*	**76,583**	11,479
Other net loss	*4*	**(17,387)**	(40,767)
Selling and distribution expenses		**(10,362)**	(6,026)
Administrative and other operating expenses		**(70,646)**	(42,053)
Research and development expenses		**(290,751)**	(139,306)
Profit from operations		**419,444**	198,532
Finance costs	*5(a)*	**(29,081)**	(23,481)
Share of (loss)/profit of an associate		**(15,386)**	24,979
Profit before taxation	*5*	**374,977**	200,030
Income tax	*6*	**(39,455)**	(19,197)
Profit for the period		**335,522**	180,833
Attributable to:			
Equity shareholders of the Company		**335,522**	180,833
Profit for the period		**335,522**	180,833
Earnings per share		***RMB Cents***	*RMB Cents*
Basic	*7*	**28.8**	15.9
Diluted	*7*	**28.5**	15.8

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2020 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Profit for the period	**335,522**	180,833
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of the financial statements of operations outside the Mainland China	**12,613**	2,658
Other comprehensive income for the period	**12,613**	2,658
Total comprehensive income for the period	**348,135**	183,491
Attributable to:		
Equity shareholders of the Company	**348,135**	183,491
Total comprehensive income for the period	**348,135**	183,491

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current assets			
Property, plant and equipment		**2,884,834**	2,703,926
Interest in an associate		**428,990**	433,190
Intangible assets		**4,587**	4,895
Deferred tax assets		**51,625**	43,504
Prepayment for acquisition of non-current assets		**22,065**	64,476
Other non-current assets		**29,863**	21,917
		3,421,964	3,271,908
Current assets			
Inventories		**1,381,244**	1,913,368
Trade and other receivables	*8*	**5,713,673**	4,919,289
Derivative financial assets	*9*	**–**	26,472
Pledged bank deposits	*10*	**239,207**	92,647
Cash and cash equivalents		**630,841**	411,517
		7,964,965	7,363,293
Current liabilities			
Short-term bank borrowings	*11*	**1,941,955**	1,269,548
Trade and other payables	*12*	**5,535,914**	5,934,662
Contract liabilities		**314,811**	257,072
Lease liabilities		**25,140**	23,355
Derivative financial liabilities	*9*	**5,001**	9,142
Current tax payable		**53,198**	49,387
		7,876,019	7,543,166
Net current assets/(liabilities)		**88,946**	(179,873)
Total assets less current liabilities		**3,510,910**	3,092,035

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2020 – unaudited (continued)
(Expressed in Renminbi)

	Note	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Non-current liabilities			
Long-term bank borrowings	*11*	**191,302**	59,237
Lease liabilities		**23,335**	30,786
Deferred income		**123,899**	129,655
Deferred tax liabilities		**3,422**	5,402
		341,958	225,080
NET ASSETS		**3,168,952**	2,866,955
CAPITAL AND RESERVES			
Share capital	*13(b)*	**9,383**	9,248
Reserves		**3,159,569**	2,857,707
TOTAL EQUITY		**3,168,952**	2,866,955

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard 34 ("**IAS 34**"), *Interim Financial Reporting*, issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issue on 17 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company, its subsidiaries (together referred to as the "**Group**") and the Group's interest in an associate since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

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

2 Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Revenue and segment reporting

The principal activities of the Group are manufacturing and sales of camera modules and fingerprint recognition modules for mobile phones and other mobile communication terminals. 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.

All of the Group's revenue is from contracts with customers within the scope of IFRS15 and the timing of revenue recognition is point in time.

	Camera modules	**Fingerprint recognition modules**	**Subtotal of reportable segments**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2020					
Revenue	**7,718,732**	**1,047,284**	**8,766,016**	**36,004**	**8,802,020**
Cost of sales	**(7,104,374)**	**(948,048)**	**(8,052,422)**	**(17,591)**	**(8,070,013)**
Gross profit	**614,358**	**99,236**	**713,594**	**18,413**	**732,007**
Six months ended 30 June 2019					
Revenue	3,917,299	1,121,750	5,039,049	21,896	5,060,945
Cost of sales	(3,618,716)	(1,008,751)	(4,627,467)	(18,273)	(4,645,740)
Gross profit	298,583	112,999	411,582	3,623	415,205

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

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

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

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

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Revenue		
PRC (including Hong Kong)	**8,485,373**	4,876,339
Overseas	**316,647**	184,606
	8,802,020	5,060,945

The Group had three (six months ended 30 June 2019: three) customers with whom transactions have exceeded 10% of the Group's revenue for the six months ended 30 June 2020. The amount of sales to these customers amounted to approximately RMB7,720,834,000 (six months ended 30 June 2019: approximately RMB3,988,530,000).

For the six months ended 30 June 2020 and 2019, certain amounts of revenue are related to sales made to related parties.

The sales volume of the Group's products is normally affected by seasonal factors, the sales volume in the second half of the year is usually higher than that in the first half. As a result, the Group normally reports lower revenues for the first half of the year than the second half.

For the twelve months ended 30 June 2020, the Group reported revenue of approximately RMB16,910,753,000 (twelve months ended 30 June 2019: approximately RMB9,989,394,000).

4 Other revenue and other net loss

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Other revenue		
Government grants	**70,359**	6,489
Interest income	**4,466**	4,987
Others	**1,758**	3
	76,583	11,479
Other net loss		
Net foreign exchange loss	**(25,774)**	(15,516)
Net realised and unrealised gain/(loss) on foreign exchange option contracts	**12,391**	(18,846)
Net realised and unrealised gain/(loss) on foreign currency forward contracts	**4,291**	(2,998)
Impairment losses on property, plant and equipment	**(8,095)**	–
Loss on disposal of property, plant and equipment	**(200)**	(3,407)
	(17,387)	(40,767)

5 Profit before taxation

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank borrowings	**28,119**	23,233
Interest on lease liabilities	**962**	248
	29,081	23,481
(b) Staff costs		
Contributions to defined contribution retirement plans	**8,348**	8,376
Salaries, wages and other benefits	**421,006**	280,578
Equity-settled share based payment expenses	**1,237**	1,448
	430,591	290,402

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
(c) Other items		
Amortisation		
– intangible assets	**308**	261
Depreciation		
– owned assets	**167,654**	131,945
– right-of-use assets	**14,197**	2,666
Auditors' remuneration	**600**	600
Operating lease charges in respect of properties	**7,516**	2,826
Research and development costs *(Note (i))*	**290,751**	139,306
Cost of inventories *(Note (ii))*	**8,228,356**	4,711,220
Impairment losses on trade and other receivables	**1,755**	407

Notes:

(i) Research and development costs include staff costs of employees in the design, research and development department of approximately RMB66,990,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB45,649,000) which are included in the staff costs as disclosed in Note 5(b).

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

(ii) Cost of inventories include carrying amount of inventories sold, carrying amount of inventories recognized as research and development expense, and write down of inventories. Cost of inventories includes approximately RMB497,178,000 for the six months ended 30 June 2020 (six months ended 30 June 2019: approximately RMB329,059,000) relating to staff costs, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above or in Note 5(b) and Note 5(c) for each of these types of expenses.

6 Income tax in the consolidated income statement

Income tax in the consolidated income statement represents:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Current tax – PRC Corporate Income Tax	**45,056**	17,432
PRC dividend withholding tax *(Note(iv))*	**4,500**	–
Deferred taxation	**(10,101)**	1,765
Total	**39,455**	19,197

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

(ii) Kunshan Q Technology (Hong Kong) Limited ("**Kunshan QT Hong Kong**") is subject to Hong Kong Profits Tax at 16.5%. No provision was made for Hong Kong Profits Tax in the six months ended 30 June 2020 (six months ended 30 June 2019: nil) as the Group did not earn any assessable profit subject to Hong Kong Profits Tax during related periods.

(iii) Effective from 1 January 2008, the PRC statutory income tax rate is 25%. Kunshan Q Technology Limited ("**Kunshan QT China**")(昆山丘鈦微電子科技有限公司)was qualified as a High and New Technology Enterprise ("**HNTE**") in 2009, and had successfully renewed the HNTE qualification on 21 May 2012, 6 July 2015 and 24 October 2018 respectively and continued to enjoy a preferential income tax rate of 15% for another three years commenced from 1 January 2018. Shenzhen Q Technology Limited ("**Shenzhen QT Subsidiary**") (深圳市丘鈦微電子科技有限公司)was qualified as a HNTE on 9 December 2019 to enjoy a preferential income tax rate of 15% for three years commenced from 1 January 2019.

(iv) According to the PRC Corporate Income Tax Law and its related regulations, the Group is subject to a withholding tax at 10%, unless reduced by tax treaties or arrangements, for dividends distributed by a PRC enterprise to its immediate holding company outside the PRC for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. According to the China-HK Tax Arrangement and its relevant regulations, a qualified Hong Kong tax resident which is the "beneficial owner" and holds 25% or more of a PRC enterprise is entitled to a reduced withholding rate of 5%.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB335,522,000 (six months ended 30 June 2019: approximately RMB180,833,000) and the weighted average of 1,164,130,000 ordinary shares (six months ended 30 June 2019: weighted average of 1,136,645,000 ordinary shares) in issue during the interim period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2020	2019
	'000	*'000*
Issued ordinary shares at 1 January	**1,157,476**	1,131,722
Effect of share options exercised	**6,654**	4,923
Weighted average number of ordinary shares at 30 June	**1,164,130**	1,136,645

(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 RMB335,522,000 (six months ended 30 June 2019: approximately RMB180,833,000) and the weighted average number of ordinary shares of 1,175,347,000 (six months ended 30 June 2019: weighted average of 1,143,925,000 ordinary shares).

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2020	2019
	'000	*'000*
Weighted average number of ordinary shares at 30 June	**1,164,130**	1,136,645
Effect of deemed issue of shares under the Company's share option scheme	**11,217**	7,280
Weighted average number of ordinary shares (diluted) at 30 June	**1,175,347**	1,143,925

8 Trade and other receivables

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade receivables		
– third parties	**5,604,739**	4,771,573
– related parties	**2,318**	7,479
Bills receivable		
– third parties	**19,694**	57,969
Trade and bills receivables	**5,626,751**	4,837,021
Less: Allowance for doubtful debts	**(3,052)**	(1,297)
	5,623,699	4,835,724
Other deposits, prepayments and receivables	**89,974**	83,565
	5,713,673	4,919,289

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

Bills receivable are due in 3 to 6 months from the date of issue.

(ii) As at 30 June 2020, no trade receivables were pledged as security for bank borrowings (31 December 2019: approximately RMB278,827,000 were pledged as security for short-term bank borrowings) (see Note 11).

(iii) The Group accepts bank acceptance bills from major banks in the PRC for settlement of trade receivables. The management considered that the risk of these bills relates substantially to credit risk. Accordingly, when these bills were transferred by either discounting or endorsement, they were derecognized as financial assets. As at 30 June 2020, the bank acceptance bills which the Group has transferred but not overdue were totally amounted to approximately RMB48,502,000 (31 December 2019: approximately RMB174,703,000). All of these bills are due within 6 months.

(a) Ageing analysis

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 month	**2,813,985**	3,076,543
More than 1 month but within 3 months	**2,746,661**	1,733,705
More than 3 months but within 6 months	**63,053**	25,178
More than 6 months but within 1 year	**–**	298
	5,623,699	4,835,724

(b) Impairment of trade and bills receivables

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that the recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly.

The movement in the allowance for doubtful debts during the period/year is as follows:

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
At 1 January	**1,297**	531
Impairment losses recognised	**1,755**	766
As at 30 June/31 December	**3,052**	1,297

9 Derivative financial assets and liabilities

	At 30 June 2020		
	Notional amount *RMB'000*	**Assets** *RMB'000*	**Liabilities** *RMB'000*
Foreign currency derivative instruments			
– Forward contracts	**551,622**	**–**	**(760)**
– Option contracts	**1,649,524**	**–**	**(4,241)**
Total	**2,201,146**	**–**	**(5,001)**

	At 31 December 2019		
	Notional amount *RMB'000*	Assets *RMB'000*	Liabilities *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)

The Group entered into foreign currency option and foreign currency forward contracts with banks. As at 30 June 2020, the notional amount of outstanding contracts amounted to approximately USD277,000,000 and approximately HKD262,891,000 (31 December 2019: approximately USD243,700,000). All these option and forward contracts are matured within one year.

The fair value of the foreign currency option contracts is measured using the Black-Scholes-Merton Model. Main parameters used in the model include the spot price of the foreign exchange rates as of the valuation date, strike rates, forward foreign exchange rates, implied volatilities of foreign exchange rates and the risk-free rates.

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

10 Pledged bank deposits

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Pledged for		
– short-term bank borrowings *(Note 11)*	**233,579**	90,691
– letter of guarantee	**5,628**	1,956
Pledged bank deposits	**239,207**	92,647

11 Bank borrowings

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Long-term bank borrowings		
– secured *(Note (a))*	**61,302**	59,237
– unsecured	**130,000**	–
	191,302	59,237
Short-term bank borrowings		
– secured *(Note (b))*	**233,270**	332,833
– unsecured	**1,708,685**	936,715
	1,941,955	1,269,548
	2,133,257	1,328,785

(a) As at 30 June 2020, the balance was the long-term bank borrowings with effective interest rate of approximately 1.95% of approximately TWD255,000,000 which was repayable within 3 years. It was secured by 26,160,850 shares (31 December 2019: 16,160,850 shares) of Newmax Technology Co., Ltd. (an associate) held by the Group.

(b) The short-term bank borrowings were secured by assets of the Group and the carrying amounts of these assets are as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Pledged bank deposits *(Note 10)*	**233,579**	90,691
Trade receivables *(Note 8(ii))*	**–**	278,827
	233,579	369,518

(c) As at 30 June 2020, the bank borrowings with effective interest rate of approximately 2.27% (31 December 2019: approximately 3.42%), were repayable as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Within 1 year or on demand	**1,941,955**	1,269,548
After 1 year but within 2 years	**80,000**	–
After 2 years but within 3 years	**111,302**	59,237
	2,133,257	1,328,785

12 Trade and other payables

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Trade payables and accruals		
– third parties	**3,982,094**	4,593,637
– related parties	**34,833**	24,367
Bills payable *(Note (a))*		
– third parties	**1,225,210**	973,655
Trade and bills payables *(Note (b))*	**5,242,137**	5,591,659
Accrued payroll	**113,008**	123,013
Other payables and accruals	**154,002**	177,987
Foreign currency option premium	**26,767**	42,003
	5,535,914	5,934,662

All of the trade and other payables as at 30 June 2020 are expected to be settled or recognised as income within one year or are repayable on demand.

(a) Bills payable analysed by type of security

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Bills payable unsecured	**1,225,210**	973,655

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

	At 30 June 2020 *RMB'000*	At 31 December 2019 *RMB'000*
Within 3 months	**4,552,560**	4,932,881
Over 3 months but within 6 months	**161,443**	345,546
Over 6 months but within 1 year	**98,609**	5,964
Over 1 year	**13,395**	12,387
	4,826,007	5,296,778

As at 30 June 2020, the accrued trade payables which represented the amounts with no invoice received by the end of the reporting period date, were amounted to approximately RMB416,130,000 (31 December 2019: approximately RMB294,881,000).

13 Capital, reserves and dividends

(a) Dividends

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

	At 30 June 2020 *RMB'000*	At 30 June 2019 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period of approximately RMB9.0 cents (equivalent to HKD10.0 cents) (six months ended 30 June 2019: nil)	**107,152**	–

The Company did not propose any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

(b) Share capital

Authorised and issued share capital

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

	Number of shares	Nominal value of ordinary shares	
	'000	*HK$'000*	*RMB'000*
Issued and fully paid:			
At 1 January 2020	1,157,476	11,575	9,248
Shares issued under 2016 Share Option Scheme	9,495	95	87
Shares issued under 2017 Share Option Scheme	946	9	8
Shares issued under 2018 Share Option Scheme	4,334	43	40
At 30 June 2020	1,172,251	11,722	9,383

During the Period, pursuant to the Company's share option schemes (Note 13(c)), options were exercised to subscribe for 14,774,680 ordinary shares (six months ended 30 June 2019: 10,183,200 shares) in the Company at a consideration of approximately RMB59,777,000 (six months ended 30 June 2019: approximately RMB36,659,000) of which approximately RMB135,000 (six months ended 30 June 2019: approximately RMB87,000) was credited to share capital and the balance of approximately RMB59,642,000 (six months ended 30 June 2019: approximately RMB36,572,000) was credited to the share premium account and share-based payment reserve. Approximately RMB3,778,000 (six months ended 30 June 2019: approximately RMB3,108,000) has been transferred from the share-based payment reserve to the share premium account. 677,520 options were lapsed during the period (six months ended 30 June 2019: 2,941,300). As at 30 June 2020, the total number of shares which may be issued upon the exercise of all options outstanding from the Company's share option schemes is 12,979,600 (31 December 2019: 28,431,800), of which 6,285,600 options are exercisable at an exercise price of HK$4.65 per share and 6,694,000 options are exercisable at an exercise price of HK$6.02 per share.

(c) Equity settled share-based transactions

(i) 2016 Share Option Scheme

On 26 October 2016, the Company granted a total of 39,425,000 share options (the "**2016 Share Option Scheme**") to 165 eligible participants ("**Grantees**") to subscribe for a total of 39,425,000 ordinary shares of HK$0.01 each in the capital of the Company, subject to performance conditions related to certain revenue growth target of the Company's 2017, 2018 and 2019 financial years.

(ii) 2017 Share Option Scheme

On 9 June 2017, the Company granted a total of 8,083,000 share options (the "**2017 Share Option Scheme**") to 48 Grantees to subscribe for a total of 8,083,000 ordinary share of HK$0.01 each in the capital of the Company, subject to performance conditions related to certain revenue growth target of the Company's 2017, 2018, 2019 and 2020 financial years.

(iii) 2018 Share Option Scheme

On 7 December 2018, the Company granted a total of 12,720,000 share options (the "**2018 Share Option Scheme**") to 83 Grantees to subscribe for a total of 12,720,000 ordinary share of HK$0.01 each in the capital of the Company, subject to performance conditions related to certain revenue growth target of the Company's 2019, 2020 and 2021 financial years.

(iv) 2019 Share Option Scheme

On 21 June 2019, the Company granted a total of 11,454,000 share options (the "**2019 Share Option Scheme**") to 68 Grantees to subscribe for a total of 11,454,000 ordinary share of HK$0.01 each in the capital of the Company, subject to performance conditions related to certain revenue growth target of the Company's 2020, 2021 and 2022 financial years.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back to the period of six months ended 30 June 2020 (the "**Period**"), the raging COVID-19 pandemic, the continuing international trade disputes and the heating up of the geopolitical situation have posed severe challenges to the global economic development.

The global economic fluctuation had brought a negative impact on the sales of smartphones, but was benefited from the importance attached to photo-taking qualities and privacy protection of smartphones by consumers and smartphone brands, the penetration rate of products such as multiple camera modules, 3D modules, side-mounted fingerprint recognition modules and optical under-glass fingerprint recognition modules continued to increase during the Period, while the importance attached to camera modules with better photo-taking qualities by smart homes, automobiles and IoT fields is increasing, thereby laying a solid foundation for the business development of the Group.

Thanks to the trust and support from core customers and the joint effort of all staff members, the Group rose up to the challenge and successfully continued the growth momentum of last year. With continuous optimisation of customer structure and product mix, our revenue has reached a new height over corresponding periods. During the Period under review, despite the sales volume of the camera modules of the Group was lower than the forecast as set out in the annual results announcement of 2019 due to the impact of the decrease in the shipments of smartphones, however, benefited from the significant progress made by the product mix optimization strategy implemented by the Group for many years, the average selling price of camera modules increased significantly, which drove the sales revenue of the Group to approximately RMB8,802,020,000, representing a growth of approximately 73.9% from approximately RMB5,060,945,000 in the Corresponding Period. During the Period, the proportion of sales volume of camera module products with resolutions of 10 mega pixels and above to the sales volume of camera module products of the Group increased by approximately 26.7 percentage points to approximately 73.5%, of which the proportion of sales volume of camera module products with resolutions of 32 mega pixels and above to the sales volume of camera module products increased by approximately 21.7 percentage points to approximately 28.2%, which pushed up the average selling price of camera modules by approximately 99.6% from approximately RMB21.5 in the Corresponding Period to approximately RMB42.8, fully demonstrated the significant improvement of ranking of the Group for high-end products within the supply chain of our core customers, and the continuous enhancement in customer recognition.

During the Period, the sales volume of camera module products of the Group was stable, reached approximately 180.21 million units, representing a slight decrease of approximately 1.3% from approximately 182.51 million units in the Corresponding Period and was lower than the full year growth target set in the annual results announcement of 2019, the three main reasons were: (i) affected by the outbreak of the COVID-19 pandemic, major global economies have imposed long-term stringent restrictions on social activities, resulted in a weaker than expected sales performance for smartphones; (ii) in the early stage of the outbreak, the production of the Group was temporarily affected; and (iii) continuous trade disputes of major global economies. Therefore, the Company revised its target to "endeavor to achieve that the shipment of camera modules in 2020 will decrease by not more than 5% to increase by approximately 5% comparing with that of the previous year" in the positive profit alert and revision of the objective of shipment of camera modules announcement of the Company dated 13 July 2020.

During the Period, the sales volume of fingerprint recognition module products of the Group increased steadily and reached approximately 39.93 million units, representing an increase of approximately 5.8% as compared with approximately 37.75 million units in the Corresponding Period, of which under-glass fingerprint recognition modules accounted for approximately 55.7%, representing an increase of approximately 4.7 percentage points as compared with approximately 51.0% in the Corresponding Period. The average selling price of fingerprint recognition module products was approximately RMB26.2, representing a decrease of approximately 11.7% as compared with approximately RMB29.7 in the Corresponding Period. The decrease of average selling price of fingerprint recognition module products was mainly attributable to the penetration rate of high-end under-glass fingerprint recognition modules such as large-size and ultra-thin was lower than expected during the Period, and the selling prices of under-glass fingerprint recognition modules with the same or similar specifications decreased.

During the Period, the gross profit margin of the Group was approximately 8.3%, representing an steady increase of approximately 0.1 percentage point as compared with approximately 8.2% in the Corresponding Period. The steady increase in gross profit margin was mainly attributable to: (i) the significant optimisation of the product mix of camera modules which enhanced the added value of camera module business and contributed to the decrease of marginal costs such as labor cost and depreciation; and (ii) the exchange rate of RMB against the US dollar fluctuated fiercely during the Period due to trade disputes and other factors, and the lower-than-expected utilisation rate of production capacity of the Group during the Period as affected by the decrease in sales volume of smartphones due to factors such as the COVID-19 epidemic, which affected the gross profit margin of the Group.

During the Period under review, the Group vigorously promoted its core strategy of vertical integration for intelligent vision products. The Group commenced in-depth technological cooperation in area of lens with its associate, Newmax Technology Co., Ltd. ("**Newmax Technology**") (a company listed on the Taipei Exchange in Taiwan, stock code: 3630), and strengthened communication and resources integration with Newmax Technology for time of flight (ToF) module lens and other high resolution RGB lens, endeavored in obtaining supplier qualifications from various customers for Newmax Technology, and promoted Newmax Technology to reach higher level in terms of customer base, technical capabilities and production scale. Despite being affected by factors such as the impact of the COVID-19 epidemic and the time required to expand the business of high-resolution RGB lens, the revenue of Newmax Technology during the Period was approximately NT$1.12 billion, representing a decrease of approximately 34.1% as compared with that of the Corresponding Period and recorded a net loss attributable to the shareholders of approximately NT$0.19 billion (a net profit attributable to the shareholders of approximately NT$0.32 billion was recorded in the Corresponding Period), but there were improvements in the core competitiveness of Newmax Technology in terms of customer base, technological capabilities and production scale. The Group has always emphasised that the investment in Newmax Technology is a long-term strategic investment, and short-term fluctuations in financial performance will not affect its overall strategy. The Group will continue to focus on helping Newmax Technology to rapidly enhance its core competitiveness, demonstrate respective advantages and complement each other to jointly promote customer marketing, expansion of scale, technological advancement and services enhancement. In addition, the Group will continue to keep abreast of the market development of components such as voice coil motors and flexible printed circuit boards and rigid-flex printed circuit boards, to strive to lay a stronger foundation for the future development of the Group.

During the Period, the Group therefore continued to promote the research and development (the "**R&D**") of camera module products, and continued to strengthen the R&D of new materials, new processes and new products. The functions, performance and miniaturization of camera module products have been greatly improved. In respect of functions, the Group has become one of the top three Chinese camera module manufacturers of high-pixel single-camera modules with resolutions of 32 mega pixels and above. The Group has not only successfully achieved mass production of products with resolutions of 64 mega pixels and 108 mega pixels, but also fully master the production processes of different solutions such as large chips design and large and small pixel size design, which fully reflected that the technical precision of the Group in the production of high-end modules has reached the top level within the industry. At the same time, the R&D team has completed the pre-research and mastered new technologies such as the periscope five-fold optical zoom modules and ultra-macro imaging module in order to make preparation for mass production in the short term. With regard to performance, the Group successfully introduced micro gimble stabilizer, which doubles the stabilizing angle of the traditional optical image stabilizer (OIS), into mobile phones during the Period, redefining the realm of mobile phone cameras in video shooting stabilizing and low-light photography. In addition, the Group also closely followed new stabilizing technologies such as motor driven by shape memory alloys (SMA), variable aperture and strong closed-loop AF, to meet the differentiated needs of various customers in terms of technology paths. As for miniaturization, apart from mainstream solutions such as MOC and MOB, the Group self-developed front and rear miniaturized module solutions with new design (such as FAMIH), which have passed the qualification of customers, and have been successively put into mass production. In order to achieve the concept of 100% full screen, the innovative idea of hidden the camera under the screen emerged. The Group has been working with its partners to conduct pre-research and sample delivery, with an aim to make technological breakthroughs in the near term.

As a leading manufacturer of high-end camera modules in the industry, the Group has long established a technical layout in the 3D sensing field. The Group successfully launched the first front 3D structured light module in China as early as 2018 and officially commenced the mass production of 3D time of flight (ToF) modules in the second half of last year, which consummated the Group's technological reserve of 3D modules and also consolidated the Group's leading position in terms of 3D modules technology. With extensive technical experience accumulated in the design, development and production of 3D modules, the Group will closely follow the development of 3D ToF modules in the future, specializing in new projects including long-wave iToF and dToF to meet the additional application scenarios of mobile phones in virtual reality (VR), augmented reality (AR) and mixed reality (MR), as well as the demand for internet of things (IoT) applications such as sweeping robots, unmanned supermarkets, drones, security surveillance and other related products.

During the Period, the Group continued to promote the industrial 4.0 mass production infrastructure and carried out large-scale production automation upgrading and transformation. The production lines of the Kunshan production base has basically completed the automatic connection of the front, middle and back end production processes, from the COB packaging process, dispensing, welding to testing, all processes were interconnected and intercommunicable, fully adopted the construction standard of fully-automated digital intelligent factory to achieve more efficient error-proof, anti-mixing and leak-proof standards, thereby optimizing production yield and first pass rate. In addition, the Group made extensive use of automatic optical inspection equipment (AOI), set up automatic warehousing system, strengthened logistics control on bulk delivery to promote lean production. Moreover, the Group continued to optimise its 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. Although the COVID-19 pandemic has created certain obstacles to personnel exchanges and interaction, it will not alter the Group's commitment in building the Indian production base as an important overseas manufacturing centre. The second phase of the plant with a larger designed capacity is progressing actively, with an aim to provide high-end quality products and fast-responding quality services to our overseas customers.

In summary, development opportunities and challenges coexist in the camera module and fingerprint recognition module industry in the future. In the long run, the optical specifications of mobile phones and other IoT devices will continue to upgrade, providing ample room for growth for market players focusing on intelligent visual solutions. The slowdown of the growth of the camera module industry during the Period was mainly attributable to the impact of the COVID-19 pandemic. 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

Since the beginning of 2020, the sudden outbreak of the COVID-19 epidemic has had an unprecedented impact to the global macroeconomic and political situation. Although epidemic prevention and control has achieved major successes in China, which has resumed economic growth in the second quarter, the future is still full of challenges and restrictions on social activities will remain to a certain extent. It is believed that the economic development of other countries and regions will also face severe challenges and it is difficult for purchasing power of consumers to restore to its consumption level before the outbreak of the COVID-19 epidemic within a short period. The future economic growth will still be full of uncertainties for a certain period. According to the latest global economic outlook published by the International Monetary Fund (IMF) on 24 June 2020, it was forecasted that the global economy will fall by 4.9% this year. Relatively, countries that have controlled the epidemic and restarted their economies earlier are expected to achieve economic recovery earlier. On 29 July 2020, the World Bank anticipated in its report titled "China Economic Bulletin: Moving Forward: Addressing the Impact of Health Incidents and Advancing the Reform Agenda in China (《中國經濟簡報：砥礪前行：應對衛生事件影響，推進中國改革議程》)" that the economic growth rate of the PRC in 2020 will be 1.6%, being the only country expected to maintain a positive growth in 2020 among the major economies in the world. According to the statistics published by the National Bureau of Statistics of China on 16 July 2020, the gross domestic products (GDP) of the PRC recorded a year-on-year decrease of 1.6% in the first half of the year, while it recorded a year-on-year increase of approximately 3.2% in the second quarter, turned around from the year-on-year decrease of approximately 6.8% in the first quarter, indicating that the national economy was gradually recovered in the first half of the year, the market is expected to be positive in general, and the overall social development will be stable.

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 and are also one of the important interfaces for information interaction in new IoT fields such as automobiles and smart homes. 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 systematization 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 future, and believe that:

(i) Consumers' demand for better quality intelligent visual system products remains unchanged. Camera modules is one of the consumers' most concerned smartphone components, which shows a continuous rising trend in the proportion of material cost of smart mobile communication terminals. The triple-camera or multiple camera module design has become the standard configuration of high-end smart mobile communication terminals. In addition to the increasing requirements for image quality and pixels, the requirements in terms of performance is similar to sports-grade image stabilization and multi-fold optical zoom, which were previously equipped by professional cameras. Looking forward to the second half of the year, with the backdrop of the popularity of 5G networks and the continuous improvement of application softwares in the industry, more breakthroughs in camera functions and performance are likely to occur, which will bring better visual experience to the consumers. 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, large chips and others have continued to rise, which will bring favourable conditions for the development of the Group.

(ii) The Group's strategy of optimising its customer mix remains unchanged. After years of continuous efforts, the customer structure of the Group has been significantly optimised compared with the past. Following the comprehensive cooperation with leading Chinese smartphone and smart home brands, the Group has also successively established cooperation with leading overseas mobile phone brands using the Android system, and the market share is expected to continue to increase steadily. The Group will be committed to improving the penetration of related customer and optimising the product mix supplied to such customer in the future.

(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 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 into the market.

(iv) Camera module is 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 last 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. Currently, the Group successfully obtained the Tier 2 supplier qualification of various well-known domestic automobile brands. It expects to obtain specific project cooperations in the near term 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 striving to increase its share in customer cooperation and continuously enhancing 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 technological 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 Directors are confident in leading the Group to embrace the challenges, and make further efforts to achieve good development and strive to create greater value for the shareholders of the Company (the "**Shareholders**").

FINANCIAL REVIEW

Revenue

For the Period, the revenue of the Group was approximately RMB8,802,020,000, representing an increase of approximately 73.9% as compared with approximately RMB5,060,945,000 of the Corresponding Period. The increase in revenue was mainly attributable to the gradual success of Group's strategy of optimising the product mix of camera module products, the sales volume of camera modules with resolutions of 10 mega pixels and above and camera modules with resolutions of 32 mega pixels and above accounted for approximately 73.5% and approximately 28.2% of the total sales volume of camera modules respectively, which resulted in a significant increase in average selling price of camera module products by approximately 99.6% year-on-year, and hence a year-on-year growth of approximately 97.0% in the sales revenue of camera module products.

Cost of sales

As a result of the significant increase in revenue for the Period, cost of sales of the Group increased by approximately 73.7% to approximately RMB8,070,013,000 as compared with approximately RMB4,645,740,000 of the Corresponding Period. The increase in cost of sales was primarily attributable to: (i) the increase in raw material cost by approximately 74.9% as compared with that of the Corresponding Period due to the expansion of sales scale; and (ii) the increase in depreciation cost of production base and equipment, which were invested for expanding production capacity, by approximately 38.0% from approximately RMB108,600,000 in the Corresponding Period to approximately RMB149,871,000.

Gross profit and gross profit margin

For the Period, gross profit of the Group was approximately RMB732,007,000 (the Corresponding Period: approximately RMB415,205,000), representing a year-on-year increase of approximately 76.3%, while gross profit margin was approximately 8.3% (the Corresponding Period: approximately 8.2%). The steady increase in gross profit margin was mainly attributable to: (i) the substantial optimisation of the product mix of camera modules which enhanced the added value of camera module business and contributed to the decrease of marginal costs such as labor cost and depreciation; and (ii) the exchange rate of RMB against the US dollar fluctuated fiercely during the Period due to trade disputes and other factors, and the lower-than-expected utilisation rate of production capacity of the Group during the Period as affected by the decrease in sales volume of smartphones due to factors such as the COVID-19 epidemic, which affected the gross profit margin of the Group.

Other revenue

For the Period, other revenue of the Group was approximately RMB76,583,000, representing an increase of approximately 567.2% as compared with approximately RMB11,479,000 of the Corresponding Period. The increase in other revenue was primarily due to subsidies or incentives received by the Group granted by local governments at different levels in the amount of approximately RMB70,359,000 during the Period, representing an increase of approximately 984.3% as compared with approximately RMB6,489,000 of the Corresponding Period.

Other net loss

For the Period, the Group recorded other net loss of approximately RMB17,387,000, representing a decrease of approximately 57.4% as compared with net loss of approximately RMB40,767,000 in the Corresponding Period. Such other net loss was mainly attributable to: (i) net exchange loss of approximately RMB25,774,000 (the Corresponding Period: approximately RMB15,516,000) due to the depreciation in exchange rates of RMB against US dollar during the Period; (ii) loss on disposal of assets of approximately RMB200,000 (the Corresponding Period: approximately RMB3,407,000); (iii) impairment loss of machinery of approximately RMB8,095,000 (the Corresponding Period: nil); (iv) net realised and unrealised gain on foreign exchange option contracts of approximately RMB12,391,000 (the Corresponding Period: net loss of approximately RMB18,846,000); and (v) net realised and unrealised gain on foreign currency forward contracts of approximately RMB4,291,000 (the Corresponding Period: net loss of approximately RMB2,998,000).

Selling and distribution expenses

For the Period, selling and distribution expenses of the Group amounted to approximately RMB10,362,000, representing an increase of approximately 72.0% as compared with approximately RMB6,026,000 of the Corresponding Period. The ratio of selling and distribution expenses to revenue was approximately 0.1%, which was at similar level of that of the Corresponding Period. The increase in selling and distribution expenses was mainly attributable to the increase in sales staff for new customer marketing, resulting in an increase in sales staff salaries.

Administrative and other operating expenses

For the Period, total administrative and other operating expenses of the Group amounted to approximately RMB70,646,000, representing an increase of approximately 68.0% as compared with approximately RMB42,053,000 of the Corresponding Period. The change in administrative and other operating expenses was mainly attributable to the increase of staff salaries and labour expenses by approximately 92.5% from approximately RMB16,330,000 of the Corresponding Period to approximately RMB31,430,000 resulting from the increase in number of staff and average salary.

R&D expenses

For the Period, the total R&D expenses of the Group amounted to approximately RMB290,751,000, representing an increase of approximately 108.7% as compared with approximately RMB139,306,000 of the Corresponding Period. The R&D expenses for the Period were mainly utilised in the Group's continuous R&D investments in new products, new processes and automation upgrading and transformation.

Finance costs

For the Period, the finance costs of the Group was approximately RMB29,081,000, representing an increase of approximately 23.8% as compared with approximately RMB23,481,000 of the Corresponding Period. The increase in finance costs was mainly attributable to the year-on-year increase in bank borrowing balance of the Group in the Period in order to fulfill the requirements for production and operation scale expansion.

Share of loss of an associate

For the Period, Newmax Technology, an associate of the Company, recorded a loss. The share of loss of an associate attributable to the Company was approximately RMB15,386,000, while the share of profit of an associate for the Corresponding Period was approximately RMB24,979,000.

Income tax expenses

For the Period, income tax expenses of the Group was approximately RMB39,455,000, representing an increase of approximately RMB20,258,000 as compared with approximately RMB19,197,000 of the Corresponding Period. The increase in income tax expenses was mainly attributable to profit before taxation of approximately RMB374,977,000 of the Group during the Period, representing an increase of approximately 87.5% as compared with approximately RMB200,030,000 of the Corresponding Period.

Profit for the Period

Based on the foregoing, the Group recorded a profit of approximately RMB335,522,000 for the Period, representing a significant increase of approximately 85.5% as compared to approximately RMB180,833,000 of the Corresponding Period.

LIQUIDITY AND FINANCIAL RESOURCES

Bank Borrowings

As at 30 June 2020, the Group's bank borrowings amounted to approximately RMB2,133,257,000, representing an increase of approximately 22.5% from approximately RMB1,741,187,000 as at 30 June 2019 and representing an increase of approximately 60.5% from approximately RMB1,328,785,000 as at 31 December 2019. Among the borrowings, short-term borrowings repayable within one year or on demand were approximately RMB1,941,955,000 whereas long-term borrowings were approximately RMB191,302,000.

As at 30 June 2020, the Group's bank borrowings were mainly denominated in RMB and/or USD. The cash flow overview of the Group for the six months ended 30 June 2020 and 2019, was set out as follows:

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
Net cash generated from operating activities	**659,372**	954,764
Net cash used in investing activities	**(319,297)**	(232,482)
Net cash used in financing activities	**(119,870)**	(180,308)

As at 30 June 2020, the cash and cash equivalents of the Group amounted to approximately RMB630,841,000, representing a decrease of approximately RMB11,343,000 from approximately RMB642,184,000 as at 30 June 2019, and representing an increase of approximately RMB219,324,000 from approximately RMB411,517,000 as at 31 December 2019. The increase in cash and cash equivalents as compared with that of the end of last year was mainly attributable to net cash inflow from operating activities.

Operating activities

For the Period, the Group recorded a net cash inflow from operating activities, but the net cash inflow amount decreased by approximately RMB295,392,000 from approximately RMB954,764,000 in the Corresponding Period to approximately RMB659,372,000, which was mainly attributable to the decrease of due account payables settled by the endorsement of bank acceptance bills from approximately RMB318,116,000 in the Corresponding Period to approximately RMB28,240,000 in the Period.

Investing activities

The net cash outflow used in investing activities of the Group during the Period amounted to approximately RMB319,297,000, while the net cash outflow used in investing activities amounted to approximately RMB232,482,000 in the Corresponding Period. The net cash outflow used in investing activities of the Group during the Period was mainly due to the expenses for plant expansion and purchasing equipments amounted to approximately RMB328,507,000.

Financing activities

The net cash outflow used in the financing activities of the Group during the Period amounted to approximately RMB119,870,000, which was mainly attributable to: (i) the inflow of bank borrowings of approximately RMB2,080,748,000, with cash outflow for repaying bank borrowings of approximately RMB1,966,301,000 during the same period; (ii) the subscription amount of approximately RMB59,777,000 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) the completion of the payment of the 2019 final dividend of approximately RMB107,152,000 by the Company during the Period.

Gearing ratio

The gearing ratio of the Group as at 30 June 2020, as defined by the balance of bank borrowings and lease liabilities divided by total equity at the end of the Period, was approximately 68.8%, representing a decrease of approximately 6.8 percentage points from approximately 75.6% as at 30 June 2019, and representing an increase of approximately 20.6 percentage points from approximately 48.2% as at 31 December 2019, which was mainly attributable to: in order to satisfy the production capacity investment and working capital requirements, the balance of bank borrowings of the Group as at 30 June 2020 increased significantly by approximately RMB804,472,000 as compared with that as at 31 December 2019, at the same time, the Company completed the payment of the 2019 final dividend of approximately RMB107,152,000 during the Period.

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 to 2019 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. At the same time, the Company also pays close attention to the liquidity and debt asset position of the Group in order to ensure the sufficiency of its working capital and maintain the debt asset ratio at a reasonable level.

MATERIAL ACQUISITION AND DISPOSAL

The Group did not have any material acquisitions or disposals of its subsidiaries, associates and joint ventures for the six months ended 30 June 2020.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment for the six months ended 30 June 2020.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2020, the assets pledged by the Group included bank deposits and shares of an associate of approximately RMB410,991,000 , which were used as guarantee for bank borrowings and bank guarantee letters (30 June 2019: bank deposits and trade receivables of approximately RMB604,354,000 were used as guarantee for bank borrowings and bills payable).

EMPLOYEE POLICIES AND REMUNERATION

As at 30 June 2020, the Group had a total of 4,149 employees (excluding staff under labour service agreements and internship agreements) (as at 30 June 2019: 6,844). The Group is always committed to providing all staff with fair working environment, providing newly recruited staff with induction training and job technical counseling to help them to adopt 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 to improve their skills and knowledge, and strived to provide all staff with competitive remuneration packages. For the Period, the remuneration of the employees (including staff under labour service agreements and internship agreements) of the Group was approximately RMB430,591,000 (the Corresponding Period: approximately RMB290,402,000). Apart from basic salary, the package also includes performance bonus, medical insurance and provident fund (staff under labour service agreements and internship agreements are handled according to the laws and regulations of the PRC).

Meanwhile, the Company has granted a total of 71,682,000 share options to its staff on 26 October 2016, 9 June 2017, 7 December 2018 and 21 June 2019 respectively pursuant to a share option scheme (the "**Share Option Scheme**") adopted on 13 November 2014, 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 (the "**Share Options 2016**"), and grantees may apply to exercise the share options by phases from 1 April 2018 onwards upon fulfilling certain conditions (please refer to the announcement of the Company dated 26 October 2016 for details). During the Period, the Company has accepted the applications from 127 staff (including two executive Directors, Mr. Wang Jianqiang and Mr. Hu Sanmu) and issued a total of 9,495,480 ordinary shares at the exercise price of HK$4.13 per share and total consideration received was approximately HK$39,216,000. A total of 120,720 options granted on 26 October 2016 were lapsed or cancelled as a result of the personal performance of 8 staff during the Period. As at 30 June 2020, none of the Share Options 2016 were outstanding.

(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 (the "**Share Options 2017**"), and the grantees may apply to exercise the share options by phases from 1 April 2018 onwards upon fulfilling certain conditions (please refer to the announcement of the Company dated 9 June 2017 for details). During the Period, the Company has accepted the applications from 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. As at 30 June 2020, none of the Share Options 2017 were outstanding.

(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 (the "**Share Options 2018**"), 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). During the Period, the Company has accepted the applications from 70 staff and issued a total of 4,333,600 ordinary shares at the exercise price of HK$4.65 per share and total consideration received was approximately HK$20,151,000. A total of 432,000 and 44,800 options granted on 7 December 2018 were lapsed or cancelled respectively as a result of the resignations of 3 staff and the personal performance of 3 staff during the Period. As at 30 June 2020, a total of 6,285,600 Share Options 2018 were outstanding.

(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 (the "**Share Options 2019**"), 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). Such options were not exercisable during the Period; and a total of 80,000 options granted on 21 June 2019 were lapsed as a result of the resignation of 1 staff during the Period. As at 30 June 2020, a total of 6,694,000 Share Options 2019 were outstanding.

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 Period, the Group recorded an exchange loss of approximately RMB25,774,000 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 Period with the central parity dropping from 6.9762 at the beginning of the Period to 7.0795 at the end of the Period, representing a depreciation of approximately 1.5%. 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 model 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, continuously strive to strengthen the expansion of overseas business and strive to reduce the proportion of USD expense; on the other hand, the Group will continuously enhance daily monitoring of the exchange rate, and fix the future foreign exchange costs by properly using financial instruments, 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 30 June 2020, 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 under a general mandate granted to the Directors by the Shareholders to two placees, being Value Partners Hong Kong Limited and The People's Insurance Company (Group) of China Limited, who and whose ultimate beneficial owners are third parties independent of the Company and its connected persons, at the placing price of HK$3.90 per placing Share. The net proceeds of the aforesaid placing were approximately HK$154,428,000, after deducting relevant placing commission, professional fees and all related expenses. As at 30 June 2020, 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 30 June 2020, 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, QT Investment, the controlling shareholder of the Company, and persons acting in concert with QT Investment. On 30 December 2019, the Company allotted and issued 15,000,000 new shares to QT Investment (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. As at 30 June 2020, the net proceeds was fully utilised. Among the net proceeds used: (i) approximately HK$162.6 million, representing approximately 80% of the net proceeds from the Subscription, was used as capital expenditure required for production capacity expansion for camera modules; and (ii) approximately HK$40.7 million, representing approximately 20% of the net proceeds from the Subscription, was used for R&D. The capital utilisation was consistent with the intended use of the net proceeds of the Placing.

DIVIDEND

The Board has resolved not to declare any interim dividend for the Period (the Corresponding Period: Nil).

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

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

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as 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 Period.

CORPORATE GOVERNANCE PRACTICES

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

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

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Company has established an audit committee (the "**Audit Committee**") in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the CG Code. The Audit Committee comprises of three independent non-executive Directors, namely Mr. Ng Sui Yin (the chairman), Mr. Ko Ping Keung and Mr. Chu Chia-Hsiang. The Audit Committee has reviewed the interim results and the interim report of the Company for the Period with the Company's management. The Company's independent auditor, KPMG, has also reviewed the interim financial report for the six months ended 30 June 2020 in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by HKICPA.

EVENTS AFTER THE REPORTING PERIOD

Saved as disclosed in the section headed "Business Review" and above, there was no other important event affecting the Group that occurred after 30 June 2020 and up to the date of this announcement.

INTERIM REPORT

This results announcement is available on the respective websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.qtechglobal.com). The 2020 interim report will be despatched to the Shareholders and will be published on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 17 August 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. Ko Ping Keung, Mr. Chu Chia-Hsiang and Mr. Ng Sui Yin.