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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)

**PROPOSED SPIN-OFF AND SEPARATE LISTING OF
KUNSHAN QTECH MICROELECTRONICS CO., LTD.
ON THE SHENZHEN STOCK EXCHANGE AND
POSSIBLE MAJOR TRANSACTION IN RELATION TO
DEEMED DISPOSAL OF INTEREST IN
KUNSHAN QTECH MICROELECTRONICS CO., LTD.**

Independent Financial Adviser to the Independent Board Committee and the Shareholders



Gram Capital Limited
嘉林資本有限公司

References are made to the Announcements in relation to, among other things, the Proposed Spin-off.

THE PROPOSED SPIN-OFF

In connection with the Proposed Spin-off, Kunshan QT China will issue certain number of new A shares on the ChiNext Market of the Shenzhen Stock Exchange by way of initial public offering to the public in the PRC. Based on the Board's estimate and the funding needs of Kunshan QT China, it is proposed that Kunshan QT China will issue not more than 509,574,400 new A shares, representing approximately 15% of the total number of issued shares of Kunshan QT China as enlarged by the Proposed Spin-off, assuming the Over-allotment Option is not exercised, such that Kunshan QT China will remain as a subsidiary of the Company upon completion of the Proposed Spin-off.

The Company has submitted a proposal in relation to the Proposed Spin-off to the Hong Kong Stock Exchange for approval pursuant to PN15, and the Hong Kong Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15. Kunshan QT China has also submitted an application to the ChiNext Market of Shenzhen Stock Exchange for the Proposed Listing, and has received approval from the listing committee of the ChiNext Market of the Shenzhen Stock Exchange. As at the date of this announcement, Kunshan QT China is pending to receive the official notice of acceptance for the registration application from the CSRC.

IMPLICATIONS UNDER THE LISTING RULES

As the shareholding of the Company in Kunshan QT China is expected to be diluted from 100% to approximately 85% to a maximum extent upon completion of the Proposed Spin-off assuming the Over-allotment Option is not exercised, the Proposed Spin-off, if materializes, will constitute a deemed disposal of the Company's equity interest in Kunshan QT China under Rule 14.29 of the Listing Rules. Based on the latest financial information of the Company and Kunshan QT China, and the expected offering terms for the Offer Shares, one of the applicable percentage ratios in respect of the Proposed Spin-off will be more than 25% but less than 75%. Therefore, the Proposed Spin-off may constitute a major transaction of the Company and will be subject to reporting, announcement, circular and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

As the shareholding of the Company in Kunshan QT China is expected to be diluted from 100% to approximately 82.75% to a maximum extent upon completion of the Proposed Spin-off assuming the Over-allotment Option is fully exercised, the Proposed Spin-off, if materializes, will constitute a deemed disposal of the Company's equity interest in Kunshan QT China under Rule 14.29 of the Listing Rules. Based on the latest financial information of the Company and Kunshan QT China, and the expected offering terms for the Offer Shares, one of the applicable percentage ratios in respect of the Proposed Spin-off will be more than 25% but less than 75%. Therefore, the Proposed Spin-off may constitute a major transaction of the Company and will be subject to reporting, announcement, circular and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

GENERAL

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Proposed Spin-off. As at the date of this announcement, none of the Shareholders and their respective associates has any material interest in the Proposed Spin-off and therefore no Shareholder will be required to abstain from voting on the resolution in respect of the Proposed Spin-off at the EGM.

The Independent Board Committee comprising Mr. Ko Ping Keung, Mr. Chu Chia-Hsiang and Mr. Ng Sui Yin, being all the independent non-executive Directors, has been established to advise the Shareholders in respect of the Proposed Spin-off. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this regard.

A circular containing, among other things, (i) details of the Proposed Spin-off; (ii) the letter of recommendation of the Independent Board Committee to the Shareholders in respect of the Proposed Spin-off; (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off; (iv) financial information of the Group; (v) a notice convening the EGM; and (vi) other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or around 8 December 2022.

References are made to the Announcements in relation to, among other things, the Proposed Spin-off.

The Proposed Spin-off

The Company has submitted a proposal in relation to the Proposed Spin-off to the Hong Kong Stock Exchange for approval pursuant to PN15, and the Hong Kong Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15. Kunshan QT China has also submitted an application to the ChiNext Market of Shenzhen Stock Exchange for the Proposed Listing, and has received approval from the listing committee of the ChiNext Market of the Shenzhen Stock Exchange. As at the date of this announcement, Kunshan QT China is pending to receive the official notice of acceptance for the registration application from the CSRC.

The Proposed Spin-off, if approved and proceeded with, may constitute a possible major transaction of the Company under Chapter 14 of the Listing Rules. The Board therefore convenes the EGM to obtain the Shareholders' approval for the Proposed Spin-off as required under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

THE PROPOSED SPIN-OFF

In connection with the Proposed Spin-off, Kunshan QT China will issue certain number of new A shares on the ChiNext Market of the Shenzhen Stock Exchange by way of the Proposed Offering. Based on the Board's estimate and the funding needs of Kunshan QT China, it is proposed that Kunshan QT China will issue not more than 509,574,400 Offer Shares, representing approximately 15% of the total number of issued shares of Kunshan QT China as enlarged by the Proposed Spin-off, assuming the Over-allotment Option is not exercised, such that Kunshan QT China will remain as a subsidiary of the Company upon completion of the Proposed Spin-off. The actual number of Offer Shares to be issued by Kunshan QT China will be subject to the market conditions and the relevant rules and regulations of the CSRC as amended from time to time.

Key milestone dates of the Proposed Spin-off

Below sets out the progress of the Proposed Spin-off since December 2020:

| Date | Key milestone event |
|-------------------------------------|--|
| 15 December 2020 | The Company submitted an application in relation to the Proposed Spin-off to the Hong Kong Stock Exchange for approval pursuant to Practice Note 15 of the Listing Rules |
| 23 April 2021 | The Company received the confirmation from the Hong Kong Stock Exchange for the Proposed Spin-off |
| 23 June 2021 | Kunshan QT China submitted an application to the ChiNext Market of Shenzhen Stock Exchange for the Proposed Listing |
| 30 June 2021 | Kunshan QT China received the notice of acceptance of the Listing Application from the Shenzhen Stock Exchange |
| 1 July 2021-16 August 2022 | Kunshan QT China prepared and replied to three rounds of comments from the Shenzhen Stock Exchange |
| 17 August 2022 | Kunshan QT China received the approval of the Proposed Listing from the Listing Committee of the ChiNext Market of the Shenzhen Stock Exchange |
| 22 August 2022 | Kunshan QT China submitted the registration application to the CSRC for the Proposed Listing for further approval |
| As at the date of this announcement | Kunshan QT China is pending to receive the official notice of acceptance for the registration application from the CSRC |

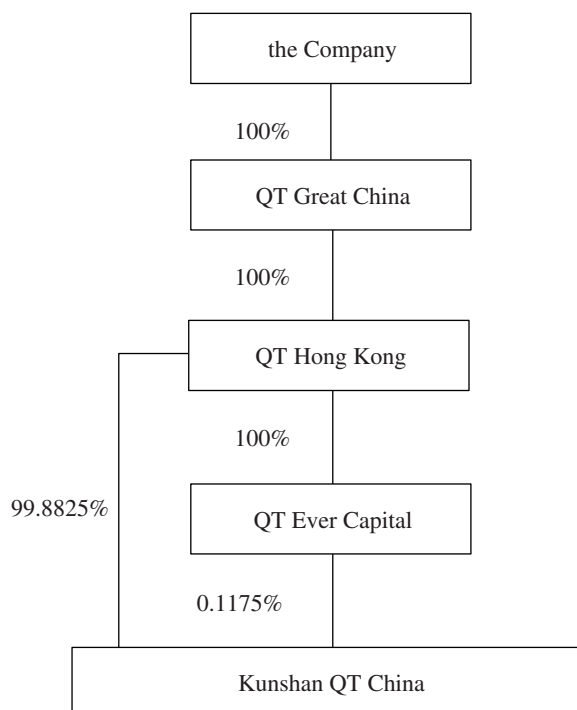
According to public information, since the year 2021, more IPO applications have been made to the ChiNext Market of the Shenzhen Stock Exchange, and the duration of review of such applications has been significantly extended. The maximum total review time on IPO applications of the ChiNext Market has been extended from approximately 543 days in the year 2021 to approximately 788 days in the year 2022. Therefore, the application of the Proposed Listing of Kunshan QT China took a longer time as well.

On 23 June 2021, Kunshan QT China submitted an application to the ChiNext Market of Shenzhen Stock Exchange for the Proposed Listing. The Proposed Listing was approved by the Listing Committee of ChiNext Market of the Shenzhen Stock Exchange on 17 August 2022, and the registration application to the CSRC for the Proposed Listing for further approval was submitted on 22 August 2022. Based on the review time required for the CSRC's approval, Kunshan QT China is expected to obtain the approval from the CSRC in January 2023 and further complete the Proposed Offering by late March 2023 (the actual approval date will be affected by a variety of factors, and the actual time of receiving the approval and offering may be advanced or delayed). Considering that the price of the Company's share has been volatile because of the recent market sentiment, the consideration ratio in respect of the Proposed Spin-off will be more than 25% but less than 75% based on the current expected amount of proceeds raised and the present market value of the Company. Therefore, the Proposed Spin-off may constitute a major transaction of the Company. If the Company seeks the Shareholder's approval in accordance with the requirements of the Listing Rules after the Offer Price is determined, it may affect the progress of the Proposed Offering. The Company intends to convene the EGM in accordance with the Listing Rules, so as to obtain the requisite approval of Shareholders and allow sufficient time for the preparation of the subsequent offering of Kunshan QT China.

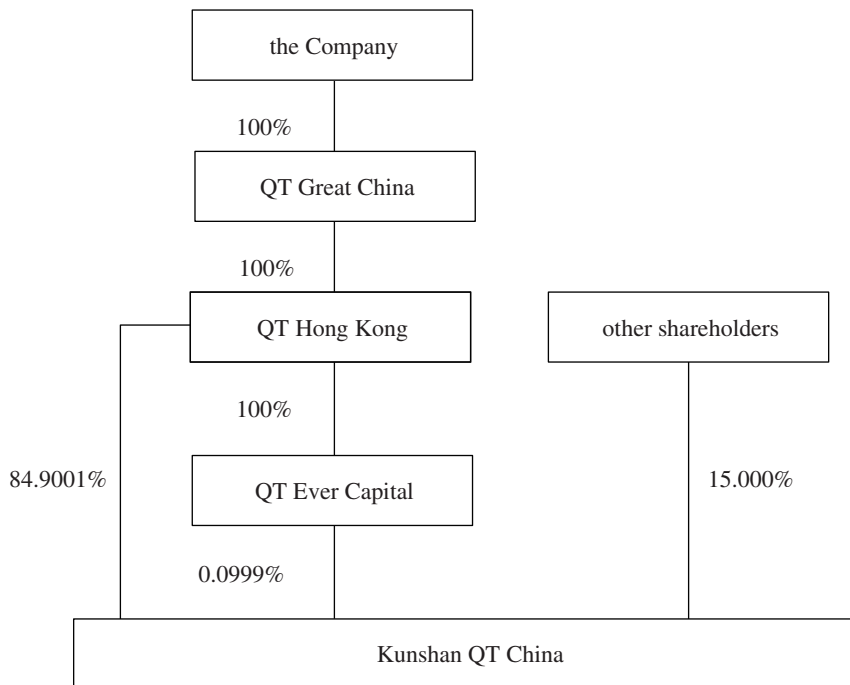
It is expected that the Proposed Offering may be completed in late March 2023. The approval timing from the CSRC is affected by a variety of factors, and the actual completion time of the Proposed Spin-off may be advanced or delayed.

Effects of the Proposed Spin-off on the shareholding structure of Kunshan QT China

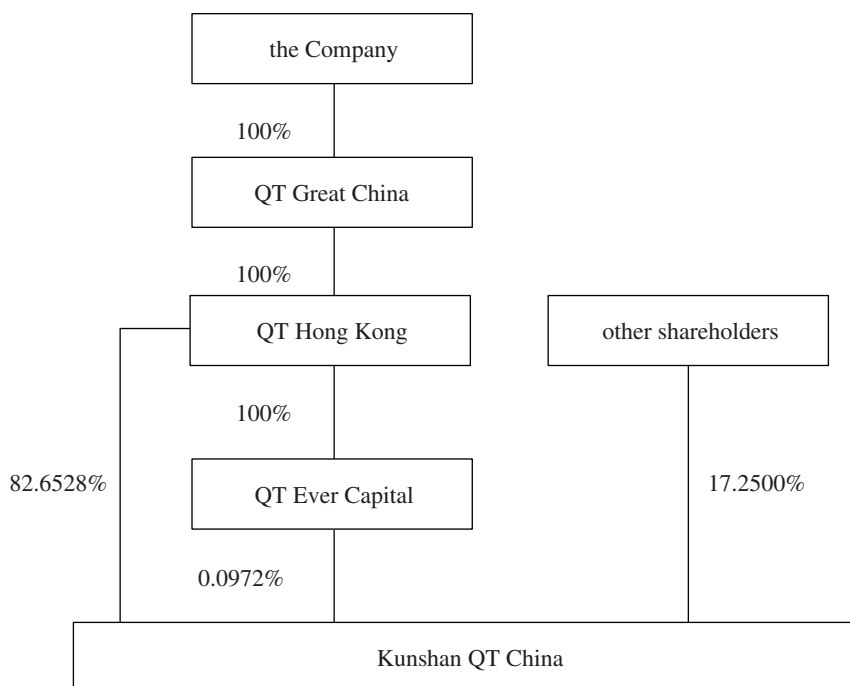
As at the date of this announcement, Kunshan QT China had an aggregate of 2,887,588,000 shares in issue, and is an indirect wholly-owned subsidiary of the Company. Set out below is a simplified shareholding structure of Kunshan QT China as at the date of this announcement:



It is expected that immediately upon completion of the Proposed Spin-off, the Company will indirectly own not less than approximately 85% interest in Kunshan QT China, and therefore Kunshan QT China will remain as a subsidiary of the Company. Set out below is a simplified shareholding structure of Kunshan QT China immediately upon completion of the Proposed Spin-off (assuming that the Offer Shares to be issued will represent 15% of the enlarged share capital of Kunshan QT China and the Over-allotment Option is not exercised):



Set out below is a simplified shareholding structure of Kunshan QT China immediately upon completion of the Proposed Spin-off (assuming that the Offer Shares to be issued will represent 15% of the enlarged share capital of Kunshan QT China and the Over-allotment Option is fully exercised):



In any event, Kunshan QT China shall not cease to be a subsidiary of the Company as a result of the Proposed Spin-off.

Proceeds to be raised from the Proposed Spin-off

The Offer Price will be subject to market conditions close to the launch of the proposed A share issuance and determined by a book-building process organised by the lead underwriter of the Proposed Spin-off and to be agreed by Kunshan QT China. In determination of the Offer Price, Kunshan QT China shall take in account of (including but not limited to) (i) the operating results and performance of Kunshan QT China, including the net profit of Kunshan QT China in the financial year preceding the launch of the A share issuance; (ii) the net asset value per share of Kunshan QT China at the time of the launch; (iii) the expansion plan and the capital need of Kunshan QT China; (iv) the then responses to price consultation to the A share issuance in the book-building process; and (v) an appropriate price to earnings ratio to be determined by Kunshan QT China and the lead underwriter having considered the CSRC guidelines governing A share issuance in the PRC, as well as other comparable companies listed in the PRC in the same industry as Kunshan QT China.

Notwithstanding the above, the Directors consider that it is in the best interests of the Company and its Shareholders as a whole that the Offer Price may be not less than the unaudited net asset value per share of Kunshan QT China at the time of the launch of the A share issuance, which represents the minimum value per share of Kunshan QT China with reference to its assets and liabilities.

Based on the above factors, the Board estimates that the gross proceeds to be raised from the Proposed Spin-off will be within the range of approximately RMB0.58 billion to RMB1.5 billion (assuming the Over-allotment Option is not exercised) or RMB1.725 billion (assuming the Over-allotment Option is fully exercised). Such estimated amount of gross proceeds is arrived at based on the current expansion plan and financial performance of the Spin-off Group. However, investors should be aware that the expected offering size, the indicative P/E ratio and the estimated gross proceeds referred to above is for illustration purposes only and the actual amount raised, if the Proposed Spin-off is completed, will depend on the PRC domestic market conditions at the time of the launch of the A share offering and may vary substantially from the amount estimated above. In the event that within a period of 12 months from the date of CSRC's approval of the Proposed Spin-off, the indicative Offer Price is less than the unaudited net asset value per share of Kunshan QT China at the time of the launch of the A share issuance, the Board shall review the appropriate timing and offering size of the A share issuance taking into consideration of the then prevailing market conditions and the terms of the A share issuance.

Relevant PRC regulations on the use of proceeds

The rules that regulate the use of proceeds are generally stipulated in the Securities Law of the PRC (《中華人民共和國證券法》), the Listing Rule of the ChiNext Market of the Shenzhen Stock Exchange (《深圳證券交易所創業板股票上市規則》), and the Guidance Note on the Supervision of Listed Companies No. 2 – Regulatory Requirements for the Management and Use of Proceeds by Listed Companies (Revised 2022) (《上市公司監管指引第2號——上市公司募集資金管理和使用的監管要求》(2022年修訂)) promulgated by the CSRC. Pursuant to these rules, the proceeds shall be used for the purposes disclosed in the prospectus and other general purposes (i.e., replenishing working capital, repaying debts, and other purposes in relation to the main business of the listed company) approved by the shareholders meetings of the issuer. The proceeds shall not be used for financial investments such as buying tradable financial assets, financial assets available for sale, trust financing, etc. Kunshan QT China will strictly abide by the regulations and use the proceeds in accordance with applicable rules.

Relevant rules and regulations of the CSRC in relation to the determination of the offer size and Offer Price, when and how the Over-allotment Option will be triggered and exercised

The rules that regulate the offer size and offer price are generally stipulated in the Securities Law of the PRC (《中華人民共和國證券法》), the Administrative Measures for Securities Issuance and Underwriting (《證券發行與承銷管理辦法》), and the Administrative Measures for the Registration of Initial Public Offering of Shares on ChiNext Market (《創業板首次公開發行股票註冊管理辦法》). Pursuant to these rules, the offer size shall not be less than 10% of the issued share capital of an issuer, and the offer price is determined by the result of the road show and book building conducted by the issuer and the underwriter(s). Before the issuance, the underwriter(s) shall submit the issuance plan to the Shenzhen Stock Exchange and seek the opinion of the Shenzhen Stock Exchange to determine whether the issuer can adopt the Over-allotment Option. Generally speaking, it takes approximate 2 weeks for the Shenzhen Stock Exchange to review the issuance plan. Once the Shenzhen Stock Exchange approves the issuance plan, the issuer shall disclose the over-allotment option arrangements in the prospectus on the 6th trading day before the offering date. An underwriter is allowed to exercise the over-allotment option within 30 calendar days since the listing date, and the over-allotment option does not have to be exercised on the same day.

Proposed use of proceeds

It is expected that the proceeds from the Proposed Offering will be used for the development of the Spin-off Business (as defined below). Assuming that the amount of proceeds from the Proposed Offering is approximately RMB1.5 billion, of which (i) approximately RMB745.8807 million (accounting for approximately 49.73% of the proceeds) will be used for the development and production project of high-end camera module for smartphone located in Kunshan City, Jiangsu Province, PRC, which is expected to be completed by second half of the year 2024; (ii) approximately RMB344.2933 million (accounting for approximately 22.95% of the proceeds) will be used for the IoT camera module development and production project located in Kunshan City, Jiangsu Province, PRC, which is expected to be completed by second half of the year 2024; (iii) approximately RMB159.9321 million (accounting for approximately 10.66% of the proceeds) will be used for the automotive camera module production project located in Kunshan City, Jiangsu Province, PRC, which is expected to be completed by second half of 2024; and (iv) the remaining amount of approximately RMB249.8939 million (accounting for approximately 16.66% of the proceeds) will be used to supplement the working capital. The above timetable is based on current estimates of the management of the Spin-off Group and is subject to change depending on the actual project progress. In the actual use of proceeds, Kunshan QT China will allocate and use the proceeds in accordance with the priorities of the aforementioned purposes within the legal limits. If the final proceeds from the Proposed Offering are less than RMB1.5 billion, the respective amount of proceeds allocated for the above purposes will be reduced on a pro-rata basis.

Lock-up and non-competition undertakings

In connection with the listing of Kunshan QT China's shares on the ChiNext Market of the Shenzhen Stock Exchange, as required by the Rules Governing the Listing of Shares on the ChiNext Market of Shenzhen Stock Exchange, among others:

- (i) each of QT Hong Kong and QT Ever Capital, each being a wholly-owned subsidiary of the Company, and Mr. He Ningning, the controlling shareholder of the Company, undertakes that it/he will not, within 36 months from the date of the Proposed Offering, reduce its/his shareholding in Kunshan QT China directly or indirectly held by it/him before the Proposed Offering, and if it/he reduces the shareholding in Kunshan QT China within two years from the expiry of the aforesaid lock-up period, the selling price of such shares shall not be lower than the Offer Price (the "**Lock-up Requirement**");
- (ii) each of the directors (excluding Mr. He Ningning), supervisors and senior managers of Kunshan QT China undertakes that he/she will not, within 12 months from the date of the Proposed Offering, reduce his/her shareholding in Kunshan QT China directly or indirectly held by him/her before the Proposed Offering, and if he/she reduces the shareholding in Kunshan QT China within two years from the expiry of the aforesaid lock-up period, the selling price of such shares shall not be lower than the Offer Price;
- (iii) within 6 months after the Proposed Offering, if the closing price of the A share of Kunshan QT China falls below the Offer Price for 20 consecutive trading days, or if the closing price of the A share of Kunshan QT China falls below the Offer Price on the date that is 6 months after the Proposed Offering, the lock-up period of the A shares held by QT Hong Kong and the directors and senior managers of Kunshan QT China shall be automatically extended for another 6 months;

- (iv) each of the directors, supervisors and senior managers of Kunshan QT China undertakes that, if he/she still acts as a director, supervisor or senior manager after the expiry of the lock-up period, he/she shall not transfer more than 25% of his/her shareholding in the A shares of Kunshan QT China each year, and shall not transfer all his/her shareholding in Kunshan QT China within 6 months after he/she ceases to be employed as a director, supervisor or senior manager of Kunshan QT China. If he/she leaves office before the expiry of his/her term of office, he/she undertakes to comply with the above provisions for the duration of the term determined at the time of taking office and 6 months after the expiry of his/her term of office; and
- (v) each of Mr. He Ningning, the Company and QT Hong Kong undertakes that he/it will not, directly or indirectly, engage in any business or activity that constitutes or may constitute competition with the business of Kunshan QT China which will materially and adversely affect the business of Kunshan QT China.

Proposed management shareholdings in Kunshan QT China upon the Proposed Listing

To the best knowledge, information and belief of the Directors as at the date of this announcement, Mr. He Ningning, other directors and supervisors of Kunshan QT China will not directly hold any shares of Kunshan QT China upon the Proposed Listing. As at the date of this announcement, the shareholding of Mr. He Ningning, other directors and supervisors of Kunshan QT China in the Company are as follows:

| Name | Position in Kunshan QT China | Approximate shareholdings in the Company |
|----------------|-------------------------------------|---|
| He Ningning | Chairman of board of directors | Mr. He Ningning directly holds 0.10% of the issued shares of the Company and indirectly holds 63.53% of the issued shares of the Company through Q Technology Investment Inc. |
| Wang Jianqiang | Director and general manager | Mr. Wang Jianqiang directly holds 1.01% of the issued shares of the Company |
| Liu Tongquan | Director and vice general manager | Mr. Liu Tongquan and his associates directly holds 0.23% of the issued shares of the Company in aggregate |
| Yang Wenbin | Independent director | Mr. Yang Wenbin directly holds 0.01% of the issued shares of the Company |
| Liang Bo | Independent director | Mr. Liang Bo and his associates directly holds 0.03% of the issued shares of the Company in aggregate |
| Le Yanfang | Chairlady of board of supervisors | Ms. Le Yanfang directly holds 0.01% of the issued shares of the Company |
| Li Cheng | Supervisor | Mr. Li Cheng directly holds 0.07% of the issued shares of the Company |
| Jin Yuanbin | Supervisor | Mr. Jin Yuanbin directly holds 0.03% of the issued shares of the Company |

Validity of the non-competition undertakings

According to the letters of undertaking on avoiding horizontal competition executed by the Company and QT Hong Kong dated 22 June 2021, the non-competition undertakings executed by the Company and QT Hong Kong dated 22 June 2021 will remain valid until either of the following occurs: (i) that the Company or QT Hong Kong ceases to be a material shareholder (shareholder that directly or indirectly holds 5% or more voting rights) of Kunshan QT China; or (ii) that Kunshan QT China ceases to list on the Shenzhen Stock Exchange.

FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP

As disclosed above, Kunshan QT China will continue to be a subsidiary of the Company upon the completion of the Proposed Spin-off. Accordingly, the operating results of Kunshan QT China will continue to be consolidated into the financial statements of the Company. The following is the expected financial impact of the Proposed Spin-off on the Group:

Earnings

As the Proposed Spin-off will not result in the Company's loss of control over Kunshan QT China, the Proposed Spin-off will be accounted for as an equity transaction and will not result in the recognition of gain or loss on the deemed disposal credited to the Company's consolidated statement of profit or loss and other comprehensive income. The difference between the amount of non-controlling interest as introduced by the Proposed Spin-off and the fair value of the consideration received will be recorded in equity attributed to the Shareholders. In addition, as the proportion of the Company's shareholding in Kunshan QT China will be diluted to a maximum extent of 85% (assuming the Over-allotment Option is not exercised) immediately after the completion of the Proposed Spin-off, it is expected that the earnings attributable to owners of the Company contributed by Kunshan QT China may decrease while the earnings attributable to non-controlling interests may increase. However, it is expected that the proceeds from the Proposed Offering will accelerate the design, research and development, production and sales of camera modules in the field of vehicle, IoT and other applications of the Spin-off Group, which will be beneficial to business development of the Spin-off Group in the long term and further benefit the Company's long-term interests.

Assets and liabilities

The Proposed Spin-off will increase the number of shares of Kunshan QT China and raise corresponding funds. The proceeds of the Proposed Spin-off will increase the cash recorded in the consolidated statement of financial position of the Group and increase the total assets of the Group correspondingly, thereby improving the structure of the Group's assets and liabilities.

REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

The Board believes that it is commercially beneficial to the Group and in the interests of the Shareholders to effect the Proposed Spin-off for the following reasons:

- (i) the Proposed Spin-off will unlock value of the Spin-off Group and provide the Company and its Shareholders an opportunity to realise the value of their investment in the Spin-off Group under a separate standalone platform for the business of design, research and development, manufacture and sales of camera modules used for intelligent mobile terminals, such as mobile phone, vehicle, Internet of Things (IoT), etc engaged by the Spin-off Group (the “**Spin-off Business**”);
- (ii) the Proposed Spin-off will separate the Spin-off Business from the business of the design, research and development, manufacture and sales of biological recognition modules (including but not limited to, fingerprint recognition module) (the “**Remaining Business**”). Such separation will enable Shareholders and investors to appraise the strategies, success factors, functional exposure, risks and returns of the Spin-off Group and the Remaining Group separately and to make or refine their investment decisions accordingly. Investors will have the choice to invest in either one or all of the business of the Group;
- (iii) the Proposed Spin-off will enable the Spin-off Group to build its identity as a separately listed group, to have a separate fund-raising platform and to broaden its investor base; It is expected that the Proposed Spin-off may help Kunshan QT China to raise proceeds of approximately RMB0.58 billion to RMB1.5 billion (assuming the Over-allotment Option is not exercised) or RMB1.725 billion (assuming the Over-allotment Option is fully exercised);
- (iv) the Spin-off Group will be able to use the proceeds from the Proposed Spin-off for the purposes of facilitating the production capacity expansion and the research and development of camera modules used in intelligent mobile terminals, such vehicle, mobile communication terminals and IoT;
- (v) the Proposed Spin-off will enable the Spin-off Group to enhance its corporate profile, thereby increasing its ability to attract investors for making investments in the Spin-off Group, which could provide synergy for the Spin-off Group, and the Remaining Group will also benefit from such investments without further capital commitment; and
- (vi) the Proposed Spin-off will increase the operational and financial transparency of and improve the corporate governance of the Spin-off Group and provide Shareholders and investors with greater clarity on the businesses and financial status of the Spin-off Group on a standalone basis, and such improvements will help to build investor confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of the Spin-off Group.

Having considered the above, the Directors (including the independent non-executive Directors) are of the view that the Proposed Spin-off is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

INFORMATION ON THE GROUP

The Group is primarily engaged in the design, research and development, manufacture and sales of camera modules and fingerprint recognition modules, and centred on mid-to-high end camera and fingerprint recognition module market for intelligent mobile terminals such as global smart phone and tablet PC brands, Internet of Things (IoT), smart vehicles, etc.

INFORMATION ON KUNSHAN QT CHINA AND THE SPIN-OFF GROUP

Kunshan QT China is a company limited by shares established in the PRC and is an indirect wholly-owned subsidiary of the Company. Kunshan QT China and the Spin-off Group are primarily engaged in the Spin-off Business.

Key financial information of the Spin-off Group

Set out below is the financial information of the Spin-off Group prepared in accordance with the PRC generally accepted accounting principles for the two years ended 31 December 2021:

| | For the year ended 31 December 2020 RMB'000 | For the year ended 31 December 2021 RMB'000 |
|----------------------------|--|--|
| Net profit before taxation | 988,781 | 994,046 |
| Net profit after taxation | 885,747 | 905,444 |
| | | As at 31 December 2021 RMB'000 |
| Net asset value | | 4,575,044 |

Key operating results and performance of Kunshan QT China and the Spin-off Group

Set out below are the key operating results and performance of the Spin-off Group for the period from 1 January 2022 to 30 September 2022:

| Items | January to September 2022 RMB0'000 |
|---|---|
| Revenue | 976,354.61 |
| Operating profit | 27,868.66 |
| Total profit | 27,920.96 |
| Net profit | 29,060.06 |
| Net profit attributable to the shareholders of the parent company | 29,113.84 |
| Net profit attributable to the shareholders of the parent company after deducting non-recurring gains or losses | 14,161.71 |

Net asset value per share of Kunshan QT China

As at 30 September 2022, the net asset value of Kunshan QT China was approximately RMB4,748,035,000. As at the date of this announcement, Kunshan QT China had an aggregate of 2,887,588,000 shares in issue. The net asset value per share based on the aforementioned latest financial results as of 30 September 2022 was approximately RMB1.64.

The current business operation of Kunshan QT China and the Spin-off Group

Given the backdrop of the unresolved international trade barriers, prolonged Russian-Ukrainian War, intensified Sino-US disputes and unpredictable outbreak of COVID-19, the macro economy was further weakened and it unfavorably affected the sales of smartphone and Internet of Things (IoT) smart terminals. Nevertheless, the directors of Kunshan QT China strongly believe that system integrated intelligent visual functionalities are still the focal points of customers in purchasing smart terminals, and they are also one of the important interfaces for information interaction in new IoT areas such as smart vehicle and smart home applications. Kunshan QT China is principally engaged in the design, research and development, manufacture and sales of camera modules. It is one of the top three smartphone camera module suppliers in the world. Its products offering ranging from camera modules with optical image stabilizer (OIS), 3D sensing camera modules, innovative mid-to-high-end camera modules such as automotive camera modules, drone camera modules, and smart home camera modules. In addition, Kunshan QT China has been widely recognized by domestic and overseas major smartphone, IoT terminal and automobile manufactures by virtue of continuous innovation and stable order execution of camera modules. Renowned smartphone and IoT products customers include Huawei, Honor, Xiaomi, OPPO, vivo, Samsung, Lenovo, DJI, ECOVACS and etc. On the other hand, Kunshan QT China constantly invests in the research and development of camera module products for intelligent driving and reaping benefits. The Company's smart vehicle camera module has been adopted in the product of SAIC-GM-Wuling, Geely Automobile, XPeng Automobile, VOYAH and Foton Daimler, etc. The Company has also been officially qualified as vendor of Continental Automotive (one of the world's top three car camera module manufacturers), BYD, NIO, BAIC New Energy, Dongfeng Commercial Vehicles, etc. The current operation of Kunshan QT China is organized and satisfactory.

The current expansion plan of Kunshan QT China

Kunshan QT China has disclosed in the IPO prospectus its expansion plan for production capacity of camera modules used in smartphones, automobiles and IoT terminals so as to further acquire market shares and strengthen market position. The proposed plan includes: (i) capacity expansion project for the manufacturing of front camera modules, rear camera modules and 3D sensing modules applicable for high-end smartphones. The additional target production capacity is around 30 million pieces per month (based on 13 megapixels production standard measurement); (ii) capacity expansion project for the manufacturing of camera modules for IoT terminals such as drones, service robots, smart payment devices, smart home systems, etc. The additional target production capacity is around 72 million pieces per annum; and (iii) capacity expansion project for the manufacturing of ADAS modules, DMS modules, surround view camera modules, etc. for intelligent driving. The additional target production capacity is around 15 million pieces per annum.

According to the relevant disclosure in the IPO prospectus of Kunshan QT China, its revenue from vehicle and IoT camera modules in the year 2021 was approximately RMB409,146,000, an increase of approximately 452.2% from that of the year 2020, and for the six months ended 30 June 2022, the revenue in vehicle and IoT camera modules of the Kunshan QT China was around RMB231,144,000. It is expected that the development prospects of these businesses are sound. Kunshan QT China has also begun to establish business relations with more target customers. Therefore, the production capacity investment plan is in line with the industry trend and creating value for the Company's long-term shareholders. At the same time, the board of directors of Kunshan QT China will continue to scrutinize the implementation of the aforementioned expansion plan from time to time and review if there is any need of alternation according to the latest development of the macro economy, market demand, and industry competition, etc.

The current capital need of Kunshan QT China

For the three projects involved in the above-mentioned expansion plan, Kunshan QT China is expected to invest a total of RMB2.5 billion. The final investment amount will be reviewed and may be revised from time to time according to the latest development of the macro economy, market demand and industry competition, etc.

The latest indicative P/E ratio of Kunshan QT China

The indicative P/E ratio of Kunshan QT China will be within the range of approximately 5.82 to 11.04, which is calculated based on the gross proceeds to be raised from the Proposed Spin-off and Kunshan QT China's profit attributable to shareholder of the parent company for the year ended 31 December 2021 (i.e. RMB905,573,000), subject to the proposed number of Offer Shares.

However, investors should be aware that the above indicative P/E ratio is for illustration purposes only and the actual P/E ratio of the Proposed Offering, if the Proposed Spin-off is completed, will depend upon the PRC domestic market conditions at the time of the launch of the Proposed Offering and may vary substantially from the data estimated above.

INFORMATION ON THE REMAINING GROUP

Upon completion of the Proposed Spin-off, the Remaining Group will continue to be primarily engaged in the Remaining Business.

CONDITIONS OF THE PROPOSED SPIN-OFF

The Proposed Spin-off will be conditional upon, among other things, the following:

- (i) approval by the Shareholders in relation to the Proposed Spin-off at the EGM;
- (ii) approval by the CSRC and the Shenzhen Stock Exchange in relation to the Proposed Spin-off; and
- (iii) any other PRC regulatory approvals for the listing of and permission to deal in the Offer Shares to be issued by Kunshan QT China (if required).

If any of the above conditions is not fulfilled, the Proposed Spin-off will not proceed and an announcement will be published by the Company as soon as practicable.

Shareholders and potential investors of the Company should note that the Proposed Spin-off is subject to, among other things, the prevailing market conditions and approvals from relevant authorities, including the CSRC and the Shenzhen Stock Exchange, and therefore may or may not proceed. Accordingly, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

APPLICATION TO THE HONG KONG STOCK EXCHANGE

The Company has submitted a proposal in relation to the Proposed Spin-off to the Hong Kong Stock Exchange for approval pursuant to PN15, and the Hong Kong Stock Exchange has confirmed that the Company may proceed with the Proposed Spin-off and has also granted a waiver from strict compliance with the applicable requirements in relation to assured entitlement under paragraph 3(f) of PN15. Please refer to the paragraph headed “Waiver from strict compliance with paragraph 3(f) of PN15” below for further details.

WAIVER FROM STRICT COMPLIANCE WITH PARAGRAPH 3(F) OF PN15

PN15 requires the Company to have due regard to the interests of its existing Shareholders by providing them with an assured entitlement to the shares in Kunshan QT China, either by way of a distribution in specie of existing shares in Kunshan QT China or by way of preferred application in any offering of existing or new shares in Kunshan QT China when contemplating the Proposed Spin-off (the “**Assured Entitlement**”).

As advised by the PRC legal counsel of Kunshan QT China, Jingtian & Gongcheng, according to the relevant laws and regulations of the PRC, only the following categories of investors (the “**PRC Qualified Investors**”) may open securities account and invest in shares listed on the Shenzhen Stock Exchange:

- (a) Domestic investors: PRC citizens who are 18 years of age or older (including PRC citizens who are 16 years of age or older but under 18 years of age and use their own labour as their main source of income for living), foreigners who have obtained permanent residence status in the PRC, and ordinary institutional investments (refers to special institutions and corporate legal persons other than products established according to law, including corporate societies, legal persons such as institutional entities, and non-corporate institutions such as partnerships and unincorporated venture capital enterprises); and
- (b) Foreign investors: residents of Hong Kong, the Macao Special Administrative Region and Taiwan and foreigners, who work and live on the mainland, provided that the securities regulator of his or her home country (region) has already formed the collaborative regulation mechanism with the CSRC, and foreign strategic investors, qualified foreign institutional investors (QFII), RMB qualified foreign institutional investors (RQFII), and foreigners.

Save for the above, other foreign investors, natural persons in Hong Kong, Macao Special Administrative Region and Taiwan, foreign institutions and institutions in Hong Kong, Macao Special Administrative Region and Taiwan are restricted from opening A-share securities accounts.

Given the majority of the Company's shareholders are not PRC Qualified Investors, the Company is not expected to be able to provide the majority of its shareholders with any assured entitlement to the shares of Kunshan QT China upon completion of the Proposed Spin-off, other than through the continuing shareholding in the Company.

Given the above PRC legal impediments, it is not feasible for the Company to comply with paragraph 3(f) of PN15 in connection with the Proposed Spin-off. Accordingly, the Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirement of paragraph 3(f) of PN15.

Having taken into account the above reasons, the Directors (including the independent non-executive Directors) are of the view that the Proposed Spin-off and the non-provision of the Assured Entitlement in relation to the Proposed Spin-off are fair and reasonable, and in the interests of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As the shareholding of the Company in Kunshan QT China is expected to be diluted from 100% to approximately 85% to a maximum extent upon completion of the Proposed Spin-off assuming the Over-allotment Option is not exercised, the Proposed Spin-off, if materializes, will constitute a deemed disposal of the Company's equity interest in Kunshan QT China under Rule 14.29 of the Listing Rules. Based on the latest financial information of the Company and Kunshan QT China, and the expected offering terms for the Offer Shares, one of the applicable percentage ratios in respect of the Proposed Spin-off will be more than 25% but less than 75%. Therefore, the Proposed Spin-off may constitute a major transaction of the Company and will be subject to reporting, announcement, circular and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

As the shareholding of the Company in Kunshan QT China is expected to be diluted from 100% to approximately 82.75% to a maximum extent upon completion of the Proposed Spin-off assuming the Over-allotment Option is fully exercised, the Proposed Spin-off, if materializes, will constitute a deemed disposal of the Company's equity interest in Kunshan QT China under Rule 14.29 of the Listing Rules. Based on the latest financial information of the Company and Kunshan QT China, and the expected offering terms for the Offer Shares, one of the applicable percentage ratios in respect of the Proposed Spin-off will be more than 25% but less than 75%. Therefore, the Proposed Spin-off may constitute a major transaction of the Company and will be subject to reporting, announcement, circular and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules.

GENERAL

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Proposed Spin-off. As at the date of this announcement, none of the Shareholders and their respective associates has any material interest in the Proposed Spin-off and therefore no Shareholder will be required to abstain from voting on the resolution in respect of the Proposed Spin-off at the EGM.

The Independent Board Committee comprising Mr. Ko Ping Keung, Mr. Chu Chia-Hsiang and Mr. Ng Sui Yin, being all the independent non-executive Directors, has been established to advise the Shareholders in respect of the Proposed Spin-off. Gram Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this regard.

A circular containing, among other things, (i) details of the Proposed Spin-off; (ii) the letter of recommendation of the Independent Board Committee to the Shareholders in respect of the Proposed Spin-off; (iii) the letter of advice from Gram Capital to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off; (iv) financial information of the Group; (v) a notice convening the EGM; and (vi) other information as required under the Listing Rules, is expected to be despatched to the Shareholders on or around 8 December 2022.

DEFINITION

In this announcement, the following expressions shall have the following meanings unless the context otherwise requires:

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| “A share(s)” | domestic share(s) issued by companies and listed on a stock exchange in the PRC |
| “Announcements” | the announcements of the Company dated 15 December 2020, 23 April 2021, 23 June 2021, 30 June 2021, 16 December 2021, 23 February 2022, 27 June 2022, 4 August 2022, 17 August 2022 and 29 September 2022 in relation to, among other things, the Proposed Spin-off |
| “Board” | the board of Directors |
| “Company” | Q Technology (Group) Company Limited, a company incorporated in the Cayman Islands with limited liability, whose issued Shares are listed and traded on the Main Board of the Stock Exchange (Stock Code: 1478) |
| “CSRC” | China Securities Regulatory Commission (中國證券監督管理委員會) |
| “Director(s)” | the director(s) of the Company |
| “EGM” or “Extraordinary General Meeting” | the extraordinary general meeting of the Company to be convened and held on 30 December 2022 for the purpose of considering and, if thought fit, approving the Proposed Spin-off |
| “Group” | the Company and its subsidiaries |
| “HK\$” | Hong Kong dollar, the lawful currency of Hong Kong |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |

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| “Hong Kong Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Independent Board Committee” | an independent board committee of the Board, comprising all the independent non-executive Directors, established to advise the Shareholders on the Proposed Spin-off |
| “Independent Financial Adviser” or “Gram Capital” | Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off |
| “Kunshan QT China” | Kunshan QTech Microelectronics Co., Ltd., (昆山丘鈦微電子科技股份有限公司)(formerly known as Kunshan Q Technology Limited (昆山丘鈦微電子科技有限公司)), a company established in the PRC and an indirect wholly-owned subsidiary of the Company |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| “Offer Price” | offer price per each Offer Share |
| “Offer Shares” | new A Shares to be issued as a result of the Proposed Listing |
| “Over-allotment Option” | the over-allotment option of a maximum of 15% of the total number of the shares of Kunshan QT China issued under the separate listing of Kunshan QT China on the ChiNext Market of the Shenzhen Stock Exchange that may be exercised pursuant to the Proposed Spin-off |
| “PN15” | Practice Note 15 of the Listing Rules |
| “PRC” or “China” | the People’s Republic of China |
| “Proposed Listing” | the proposed listing in the ChiNext Market of Shenzhen Stock Exchange |
| “Proposed Offering” | the initial public offering in the PRC |
| “Proposed Spin-off” | the proposed spin-off and separate listing of Kunshan QT China on the ChiNext Market of the Shenzhen Stock Exchange by way of issuance of new A shares of Kunshan QT China |
| “QT Ever Capital” | Kunshan QTech Ever Capital Limited (昆山丘鈦致遠投資有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company |

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| “QT Great China” | Q Technology (Great China) Inc., a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company |
| “QT Hong Kong” | Kunshan Q Technology (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company |
| “Remaining Group” | the Group but excluding the Spin-off Group |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Shareholder(s)” | holder(s) of the Share(s) |
| “Share(s)” | ordinary share(s) of the Company |
| “Spin-off Group” | Kunshan QT China and its subsidiaries |
| “%” | per cent. |

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

Hong Kong, 2 December 2022

As at the date of this announcement, the executive Directors are Mr. He Ningning (chairman), Mr. Hu Sanmu (chief executive officer) and Mr. Fan Fuqiang; and the independent non-executive Directors are Mr. Ko Ping Keung, Mr. Chu Chia-Hsiang and Mr. Ng Sui Yin.