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 2023

HIGHLIGHTS

- The unaudited sales revenue of the Group for the period of six months ended 30 June 2023 (the "**Period**") amounted to approximately RMB5,476,543,000, representing a decrease of approximately 22.8% as compared with that of the six months ended 30 June 2022 (the "**Corresponding Period**"). The decrease in revenue was mainly attributable to the decrease in sales volume of smartphones due to macro factors, while the Group focused more on upgrading the product specifications of camera modules, the sales volume of camera modules applied to mobile phones decreased by approximately 21.2% year-on-year.

- Gross profit of the Group for the six months ended 30 June 2023 was approximately RMB188,303,000, while gross profit margin was approximately 3.4%, which represented a decrease of approximately 1.9 percentage points as compared with approximately 5.3% for the Corresponding Period. The decrease in gross profit margin was mainly attributable to: (i) the lower-than-expected demand for camera modules and fingerprint recognition modules applied to smartphone affected by macro factors, the intensified market competition, that resulted in the year-on-year decline in sales volume of camera modules applied to mobile phones, the year-on-year decline in revenue and the decrease in the production capacity utilization rate, which led to an increase in the manufacturing cost of unit product; and (ii) the continued weakness of the exchange rate of RMB against USD, with the central parity rate as at the end of the Period depreciated by approximately 3.8% as compared to that at the beginning of the Period, resulting in an increase in the cost of materials imported and settled in USD, which led to a negative impact on gross profit margin.

- Profit of the Group for the six months ended 30 June 2023 was approximately RMB21,692,000, representing a decrease of approximately 86.9% as compared with that of the Corresponding Period. The decrease in profit was mainly attributable to the decrease in revenue and the year-on-year decline in gross profit margin.

- Basic and diluted earnings per share for the six months ended 30 June 2023 were approximately RMB0.018 and RMB0.018 respectively.

FINANCIAL RESULTS

The board of directors (the "**Director(s)**") (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 2023 together with the relevant comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2023 – unaudited
(Expressed in Renminbi)

		Six months ended 30 June	
		2023	2022
	Note	***RMB'000***	*RMB'000*
Revenue	*3*	**5,476,543**	7,094,787
Cost of sales		**(5,288,240)**	(6,718,957)
Gross profit		**188,303**	375,830
Other income	*4*	**187,833**	147,307
Selling and distribution expenses		**(9,832)**	(8,610)
Administrative and other operating expenses		**(70,174)**	(69,888)
Research and development expenses		**(193,898)**	(260,513)
Reversal of impairment loss on trade and other receivables		**522**	570
Profit from operations		**102,754**	184,696
Finance costs	*5(a)*	**(65,421)**	(24,879)
Share of loss of an associate		**(29,118)**	(18,227)
Profit before taxation	*5*	**8,215**	141,590
Income tax	*6*	**13,477**	23,940
Profit for the period		**21,692**	165,530
Attributable to:			
Equity shareholders of the Company		**20,802**	166,163
Non-controlling interests		**890**	(633)
Profit for the period		**21,692**	165,530
Earnings per share *(RMB Cents)*			
Basic	*7*	**1.8**	14.0
Diluted	*7*	**1.8**	14.0

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

for the six months ended 30 June 2023 – unaudited
(Expressed in Renminbi)

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Profit for the period	**21,692**	165,530
Other comprehensive income/(loss) for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
– Share of other comprehensive income of an associate	**7,186**	–
Items that are or may be reclassified subsequently to profit or loss:		
– Share of other comprehensive income of an associate	**4,294**	–
– Exchange differences on translation of financial statements of operations outside the Mainland China	**(38,035)**	(72,527)
Other comprehensive loss for the period	**(26,555)**	(72,527)
Total comprehensive (loss)/income for the period	**(4,863)**	93,003
Attributable to:		
Equity shareholders of the Company	**(5,753)**	93,636
Non-controlling interests	**890**	(633)
Total comprehensive (loss)/income for the period	**(4,863)**	93,003

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2023 – unaudited
(Expressed in Renminbi)

	Note	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Non-current assets			
Property, plant and equipment		**2,996,838**	3,139,819
Interest in an associate		**307,363**	325,001
Intangible assets		**24,769**	26,302
Equity securities designated at fair value through other comprehensive income (FVOCI)		**5,000**	5,000
Deferred tax assets		**183,013**	165,666
Financial assets measured at amortised cost		**370,262**	–
Prepayment for acquisition of non-current assets		**22,632**	20,000
Other non-current assets		**9,550**	9,550
		3,919,427	3,691,338
Current assets			
Inventories		**1,096,358**	1,184,452
Contract assets		**2,225**	–
Trade and other receivables	*8*	**3,093,772**	3,436,206
Financial assets at fair value through profit or loss		**985,240**	1,172,751
Derivative financial instruments	*9*	**38,850**	11,111
Pledged bank deposits	*10*	**1,281,122**	919,181
Fixed deposits with banks with original maturity over three months		**519,316**	521,553
Cash and cash equivalents		**2,616,261**	1,348,884
		9,633,144	8,594,138
Current liabilities			
Short-term bank borrowings	*11*	**4,321,881**	2,615,977
Trade and other payables	*12*	**3,929,775**	4,584,043
Contract liabilities		**8,966**	16,305
Derivative financial instruments	*9*	**30,605**	8,386
Lease liabilities		**9,616**	13,131
Current tax payable		**13,252**	11,567
		8,314,095	7,249,409
Net current assets		**1,319,049**	1,344,729
Total assets less current liabilities		**5,238,476**	5,036,067

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

at 30 June 2023 – unaudited
(Expressed in Renminbi)

	Note	**At 30 June 2023** *RMB'000*	At 31 December 2022 *RMB'000*
Non-current liabilities			
Long-term bank borrowings	*11*	**230,837**	–
Lease liabilities		**9,037**	14,389
Deferred income		**232,995**	247,649
Deferred tax liabilities		**5,218**	6,624
		478,087	268,662
NET ASSETS		**4,760,389**	4,767,405
CAPITAL AND RESERVES			
Share capital	*13(b)*	**9,486**	9,486
Reserves		**4,745,064**	4,752,970
Total equity attributable to equity shareholders of the Company		**4,754,550**	4,762,456
Non-controlling interests		**5,839**	4,949
TOTAL EQUITY		**4,760,389**	4,767,405

NOTES

(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("**IAS**") 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board ("**IASB**"). It was authorised for issue on 7 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements except for the accounting policy changes that are expected to be reflected in the 2023 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 and its subsidiaries (the "**Group**") since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

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

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2022 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 13 March 2023.

2 Changes in accounting policies

The Group has applied the following new and amended IFRSs issued by the IASB to the interim financial report for the current accounting period:

- IFRS 17, *Insurance contracts*
- Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

2 Changes in accounting policies (Continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new and amended IFRSs are discussed below:

IFRS 17, *Insurance contracts*

IFRS 17, which replaces IFRS 4, sets out the recognition, measurement, presentation and disclosure requirements applicable to issuers of insurance contracts. The standard does not have a material impact on these financial statements as the Group does not have contracts within the scope of IFRS 17.

Amendments to IAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*

The amendments provide further guidance on the distinction between changes in accounting policies and changes in accounting estimates. The amendments do not have a material impact on these financial statements as the Group's approach in distinguishing changes in accounting policies and changes in accounting estimates is consistent with the amendments.

Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented.

Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in the annual financial statements, but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under IAS 12.

Amendments to IAS 12, *Income taxes: International tax reform – Pillar Two model rules*

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development ("**OECD**") (income tax arising from such tax laws is hereafter referred to as "**Pillar Two income taxes**"), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax. The amendments are immediately effective upon issuance and require retrospective application. The Group is still in the process of assessing the impact to the financial statements of the Group.

3 Revenue and segment reporting

(a) Revenue

The principal activities of the Group are manufacturing and sales of camera modules and fingerprint recognition modules for mobile phones, automobiles, Internet of Things (IoT) and other intelligent mobile terminals. Further details regarding the Group's principal activities are disclosed in note 3(b).

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products is as follows:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Revenue from contracts with customers within the scope of IFRS 15:		
Disaggregated by major products or service lines		
– Revenue from sales of camera modules	**4,992,280**	6,502,418
– Revenue from sales of fingerprint recognition modules	**394,653**	550,701
– Others*	**89,610**	41,668
	5,476,543	7,094,787

* Others mainly represent revenue from sales of other products and waste materials.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 3(b)(i) and 3(b)(iii), respectively.

The Group's customer base is diversified and includes two (six months ended 30 June 2022: three) customers with whom transactions have exceeded 10% of the Group's revenues. For the six months ended 30 June 2023 and 2022, revenues from each of these customers, including sales to entities which are known to the Group to be under common control with these customers is set out below, and arose in all geographical regions as set out in note 3(b)(iii).

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Customer A	**1,517,569**	1,669,209
Customer B	**1,987,608**	2,144,922
Customer C	**N/A***	788,757

* Less than 10% of the Group's revenue in the respective period.

The Group has applied the practical expedient in paragraph 121(a) of IFRS 15 to its sales contracts for camera modules and fingerprint recognition modules for mobile phones and other intelligent mobile terminals that had an original expected duration of one year or less and does not disclose the information related to the aggregated amount of the transaction price allocated to the remaining performance obligations.

3 Revenue and segment reporting (Continued)

(b) Segment reporting

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 presented the following two reportable segments. No operating segments have been aggregated to form the reportable segments.

– Camera modules: this segment engaged in design, manufacture and sales of camera modules

– Fingerprint recognition modules: this segment engaged in design, manufacture and sales of fingerprint recognition modules

(i) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and direct expenses incurred by those segments respectively. The measure used for reporting segment result is gross profit which is calculated based on revenue less cost of sales for the relevant segment.

The Group's other operating income and expenses, such as other income, selling and distribution expenses, administrative and other operating expenses, research and development expenses, reversal of impairment loss on trade and other receivables, finance costs, share of loss of an associate, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, other operating income and expenses is presented.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2023 and 2022 is set out below.

	Camera modules *RMB'000*		**Fingerprint recognition modules** *RMB'000*		**Total** *RMB'000*	
	Six months ended 30 June 2023	Six months ended 30 June 2022	**Six months ended 30 June 2023**	Six months ended 30 June 2022	**Six months ended 30 June 2023**	Six months ended 30 June 2022
Disaggregated by timing of revenue recognition – Point in time						
Revenue from external customers	**4,992,280**	6,502,418	**394,653**	550,701	**5,386,933**	7,053,119
Inter-segment revenue	**3,094**	–	**–**	–	**3,094**	–
Reportable segment revenue	**4,995,374**	6,502,418	**394,653**	550,701	**5,390,027**	7,053,119
Reportable segment profit	**179,447**	370,163	**(17,683)**	(8,463)	**161,764**	361,700

3 **Revenue and segment reporting (Continued)**

(b) Segment reporting (Continued)

(ii) Reconciliation of reportable segment revenue and profit or loss

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Revenue		
Reportable segment revenue	**5,390,027**	7,053,119
Elimination of inter-segment revenue	**(3,094)**	–
Other revenue	**89,610**	41,668
Consolidated revenue *(note 3(a))*	**5,476,543**	7,094,787
Profit		
Reportable segment profit	**161,764**	361,700
Elimination of inter-segment loss	**611**	–
Reportable segment profit derived from Group's external customers	**162,375**	361,700
Gross profit of other revenue	**25,928**	14,130
Other income	**187,833**	147,307
Selling and distribution expenses	**(9,832)**	(8,610)
Administrative and other operating expenses	**(70,174)**	(69,888)
Research and development expenses	**(193,898)**	(260,513)
Reversal of impairment loss on trade and other receivables	**522**	570
Finance costs	**(65,421)**	(24,879)
Share of loss of an associate	**(29,118)**	(18,227)
Consolidated profit before taxation	**8,215**	141,590

(iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and interest in an associate ("**specified non-current assets**"). The geographical location of customers is based on the location of operations of the contracting parties. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interest in an associate.

	Revenue from external customers		**Specified non-current assets**	
	Six months ended 30 June		**At 30 June**	At 31 December
	2023	2022	**2023**	2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Mainland China	**4,307,348**	6,211,256	**2,496,725**	2,662,071
Hong Kong	**3,336**	3,993	**279,794**	280,466
India	**805,963**	593,196	**395,954**	391,804
Others	**359,896**	286,342	**156,497**	156,781
	5,476,543	7,094,787	**3,328,970**	3,491,122

4 Other income

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Government grants*	**64,360**	96,395
Interest income	**58,462**	18,143
Net foreign exchange gain/(loss)	**33,196**	(10,302)
Net fair value changes on financial instruments at fair value through profit or loss		
– foreign exchange option contracts	**36,006**	18,691
– forward foreign exchange contracts	**(27,262)**	25,072
– wealth management products and structured deposits	**24,492**	4,001
Net loss on disposal of property, plant and equipment	**(2,300)**	(5,633)
Others	**879**	940
	187,833	147,307

* Government grants were received from several local government authorities as a recognition of the Group's contribution towards the local economic development.

5 Profit before taxation

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
(a) Finance costs		
Interest on bank borrowings	**64,911**	24,406
Interest on lease liabilities	**510**	473
	65,421	24,879

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
(b) Staff costs		
Contributions to defined contribution retirement plans	**21,150**	26,244
Salaries, wages and other benefits	**349,347**	423,030
Equity settled share-based payment expenses	**–**	7,035
	370,497	456,309
(c) Other items		
Amortisation of intangible assets	**2,051**	1,702
Depreciation charge		
– owned property, plant and equipment	**194,390**	218,773
– right-of-use assets	**6,438**	10,902
Cost of inventories*	**5,361,874**	6,838,041

* Cost of inventories includes RMB435,449,000 (six months ended 30 June 2022: RMB548,619,000) relating to staff costs and depreciation expenses, which amounts are also included in the respective total amounts disclosed separately above or in note 5(b) for each of these types of expenses.

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

Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Current tax		
– PRC Corporate Income Tax and income taxes of other tax jurisdictions	**930**	10,749
– Over-provision in respect of prior years	**–**	(14,853)
	930	(4,104)
Deferred taxation	**(14,407)**	(19,836)
Total	**(13,477)**	(23,940)

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

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

(iii) Kunshan Q Tech Microelectronics (India) Private Limited ("**India Q Tech**"), Q Technology Korea Limited ("**Korea Q Tech**") and Q Technology (Singapore) Private Limited ("**Singapore Q Tech**") are subject to the local income tax at 25%, 10% and 17% respectively.

(iv) The PRC statutory income tax rate is 25%.

Kunshan Q Tech Microelectronics Co., Ltd. ("**Kunshan QT China**") was qualified as a High and New Technology Enterprise ("**HNTE**") in 2009, which entitled to a preferential income tax rate of 15% according to relevant regulations in the PRC Corporate Income Tax Law. Kunshan QT China successfully renewed the HNTE qualification in May 2012, July 2015, October 2018 and November 2021 respectively and continued to enjoy a preferential income tax rate of 15% for another three years commenced from 1 January 2021.

Shenzhen Q Technology Limited ("**Shenzhen QT Subsidiary**") was qualified as a HNTE in 2019 and renewed the HNTE qualification in December 2022 to enjoy a preferential income tax rate of 15% for three years commenced from 1 January 2022.

Kunshan QTech Biological Recognition Limited ("**Kunshan BR Subsidiary**") was qualified as a HNTE in 2022 to enjoy a preferential income tax rate of 15% for three years commenced from 1 January 2022.

Kunshan QTech Optoelectronic Technology Limited ("**QT Optoelectronic Subsidiary**") was qualified as a HNTE in 2022 to enjoy a preferential income tax rate of 15% for three years commenced from 1 January 2022.

(v) According to the two-tiered profits tax rate regime introduced under the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the "**Ordinance**"), the first HK$2 million of assessable profits earned by a company will be taxed at 8.25% whilst the remaining assessable profits will continue to be taxed at 16.5%. There is an anti-fragmentation measure where each group will have to nominate only one company in the group to benefit from the progressive rates. The Ordinance was first effective from the year of assessment 2018/2019.

Accordingly, the provision for Kunshan Q Technology International Limited ("**QT International**") Hong Kong Profits Tax for the six months ended 30 June 2023 is calculated in accordance with the two-tiered profits tax rate regime, under which Profits Tax for the first HK$2 million of assessable profits is calculated at 8.25% while the remaining is calculated at 16.5%. Such tax treatment is consistent with the basis adopted for the year of assessment 2021/22 (i.e. for the six months ended 30 June 2022).

6 Income tax in the consolidated statement of profit or loss and other comprehensive income (Continued)

(vi) According to the PRC Corporate Income Tax Law and its implementation regulations, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding tax at a rate of 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. In addition, under the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and its relevant regulations, a qualified Hong Kong tax resident will be liable for withholding tax at the rate of 5% for dividend income derived from the PRC if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interests of the PRC company.

The provision of the related deferred tax liabilities, if any, are based on the expected dividends to be distributed from these subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008. Deferred tax liabilities have not been recognised in respect of the tax that would be payable on the distribution of the retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

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 RMB20,802,000 (six months ended 30 June 2022: RMB166,163,000) and the weighted average of 1,184,538,000 ordinary shares (six months ended 30 June 2022: weighted average of 1,183,203,000 ordinary shares) in issue during the interim period, calculated as follows:

Weighted average number of ordinary shares

	Six months ended 30 June	
	2023	2022
	'000	*'000*
Issued ordinary shares at 1 January	**1,184,538**	1,181,986
Effect of share options exercised	**–**	1,217
Weighted average number of ordinary shares at 30 June	**1,184,538**	1,183,203

(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 RMB20,802,000 (six months ended 30 June 2022: RMB166,163,000) and the weighted average number of ordinary shares of 1,184,538,000 (six months ended 30 June 2022: weighted average of 1,183,713,000 ordinary shares), calculated as follows:

Weighted average number of ordinary shares (diluted)

	Six months ended 30 June	
	2023	2022
	'000	*'000*
Weighted average number of ordinary shares at 30 June	**1,184,538**	1,183,203
Effect of deemed issue of shares under the Company's share option scheme	**–**	510
Weighted average number of ordinary shares (diluted) at 30 June	**1,184,538**	1,183,713

8 Trade and other receivables

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Trade receivables		
– third parties	**2,900,095**	3,295,149
– related parties	**2,692**	2,692
Bills receivable		
– third parties	**53,867**	11,226
Trade and bills receivables	**2,956,654**	3,309,067
Less: loss allowance	**(1,350)**	(1,837)
	2,955,304	3,307,230
Other deposits, prepayments and receivables	**138,468**	128,976
	3,093,772	3,436,206

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

(a) Ageing analysis

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 month	**2,081,793**	2,307,905
Over 1 month but within 3 months	**816,299**	868,151
Over 3 months but within 6 months	**7,027**	129,553
Over 6 months but within 1 year	**50,185**	1,621
	2,955,304	3,307,230

Trade and bills receivable are due within 30 days to 90 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted.

9 Derivative financial instruments

	At 30 June 2023	
	Assets	**Liabilities**
	RMB'000	***RMB'000***
Foreign currency derivative instruments		
– Forward contracts	**–**	**(30,605)**
– Option contracts	**38,850**	**–**
Total	**38,850**	**(30,605)**

	At 31 December 2022	
	Assets	Liabilities
	RMB'000	*RMB'000*
Foreign currency derivative instruments		
– Forward contracts	11,111	(7,656)
– Option contracts	–	(730)
Total	11,111	(8,386)

10 Pledged bank deposits

	At 30 June 2023	At 31 December 2022
	RMB'000	*RMB'000*
Pledged for		
– short-term bank borrowings *(Note 11)*	**1,256,724**	904,742
– letters of guarantee	**24,398**	14,439
Pledged bank deposits	**1,281,122**	919,181

11 Bank borrowings

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Long-term bank borrowings		
– unsecured	**230,837**	–
Short-term bank borrowings		
– secured *(Note (a))*	**1,262,097**	926,185
– unsecured	**3,059,784**	1,689,792
	4,321,881	2,615,977
	4,552,718	2,615,977

(a) The bank borrowings were secured as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Pledged by shares of an associate*	**123,080**	130,143
Pledged bank deposits *(Note 10)*	**1,256,724**	904,742
	1,379,804	1,034,885

* The balance includes the bank borrowings of TWD255,000,000 with effective interest rate of 2.36% which was repayable before August 2023. It was secured by 26,160,850 shares (31 December 2022: 26,160,850 shares) of Newmax Technology Co., Ltd. (an associate) held by the Group.

The other secured short-term bank borrowings of RMB607,000,000 and USD79,500,000 with interest rate from 2.80% to 5.51% were secured by pledged bank deposits with interest rate from 5.35% to 6.35%.

(b) The analysis of the repayment schedule of bank borrowings as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 1 year or on demand	**4,321,881**	2,615,977
Over 1 year but within 2 years	**230,837**	–
	4,552,718	2,615,977

Bank borrowings bear interest ranging from 2.36% to 5.62% per annum as at 30 June 2023 (31 December 2022: 1.44% to 5.62%).

Several of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. As at 30 June 2023 and 31 December 2022, none of the covenants relating to drawn down facilities had been breached.

12 Trade and other payables

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Trade payables and accruals		
– third parties	**3,032,527**	3,438,861
– related parties	**62,116**	43,573
Bills payable		
– third parties	**553,926**	704,691
Trade and bills payables	**3,648,569**	4,187,125
Accrued payroll	**48,557**	77,775
Other payables and accruals	**232,649**	319,143
	3,929,775	4,584,043

All of the trade and other payables as at 30 June 2023 are expected to be settled or recognised as income within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of the trade and bills payables (which are included in trade and other payables), based on the invoice date, is as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Within 3 months	**3,076,958**	3,329,777
Over 3 months but within 6 months	**321,306**	378,834
Over 6 months but within 1 year	**8,690**	4,259
Over 1 year	**3,140**	1,499
	3,410,094	3,714,369

As at 30 June 2023, the accrued trade payables which represented the amounts with no invoice received by the end of the reporting period amounted to RMB238,475,000 (31 December 2022: RMB472,756,000).

13 Capital, reserves and dividends

(a) Dividends

(i) Dividends payable to equity shareholders of the Company attributable to the interim period

The directors of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2023 and 2022.

(ii) Dividends payable to equity shareholders of the Company attributable to the previous financial year

The directors of the Company did not recommend the payment of a final dividend for the financial year ended 31 December 2022 and 2021.

13 Capital, reserves and dividends (Continued)

(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 *'000*	Nominal value of ordinary shares *HK$'000*	*RMB'000*
Issued and fully paid:			
At 1 January 2023 and 30 June 2023	1,184,538	11,844	9,486

	Number of shares *'000*	Nominal value of ordinary shares *HK$'000*	*RMB'000*
Issued and fully paid:			
At 1 January 2022	1,181,986	11,819	9,466
Shares issued under 2018 Share Option Scheme	2,543	25	20
Shares issued under 2019 Share Option Scheme	9	*(i)	*(ii)
At 30 June 2022	1,184,538	11,844	9,486

(i) The amount is less than HK$1,000.

(ii) The amount is less than RMB1,000.

(c) Equity settled share-based transactions

On 16 September 2020, 17,879,600 share options were granted to employees of the company under the Company's employee share option scheme. Each option gives the holder the right to subscribe for one ordinary share of the company. These share options vested on 16 September 2020, and then be exercisable until 2024. The exercise price is HKD9.22.

No options were exercised during the six months ended 30 June 2023 (2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back on the Period, with the reduced impact of the spread of COVID-19, social restrictions against the spread of the pandemic in various countries have been gradually withdrawn, and the social and economic activities of residents have gradually become normal, which have brought a positive effect on consumption. However, the impact of the COVID-19 pandemic still has a long tail effect, and it still needs time for residents' purchasing power to be fully restored. At the same time, due to a series of challenges facing the global macro economy, such as the implementation of monetary tightening policies by developed countries, the escalation of military conflict between Russia and Ukraine, a still-high inflation rate for necessities of life and the continuous rise of international trade protectionism, the consumption confidence of consumers for consumer discretionary products still needs to be restored. The International Monetary Fund (IMF) also stated in its World Economic Outlook report on 11 April 2023 that due to concerns about the global banking system and the trend of rising interest rates, the risk of a serious downturn in the world economy is increasing. It has lowered its growth forecast for 2023 from approximately 2.9% proposed in January 2023 to approximately 2.8%, which is far lower than its forecast of approximately 3.4% a year ago and also far below the average level of approximately 3.8% in the past two decades.

The unstable macro situation and pessimistic forecasts for the economic outlook have adversely affected the demand for consumer discretionary products, including smartphones, smart homes and AR/VR. According to the research report from International Data Corporation (IDC), an independent third-party research institute, in the second quarter of 2023, the smartphone market experienced a decline for eight consecutive quarters, with a global shipment volume of 265 million units, representing a decline of 7.8% as compared with that in the second quarter of 2022. However, the report also pointed out that the inventory issue of smartphones has significantly improved, and the market demand is expected to gradually recover. Data released by China's domestic market supported the aforementioned view of potential recovery of smartphone market. According to the report released by the China Academy of Information and Communications Technology at the end of June this year, the shipment volume of mobile phones in the Chinese market in May 2023 was 26.037 million units, representing a year-on-year increase of 25.2%, which shows that the mobile phone shipments are gradually recovering as compared with the year-on-year decline of 0.7% in the accumulated mobile phone shipments in the Chinese market from January to May 2023. In addition, according to media reports, leading China-renowned brands have also raised their annual forecast for mobile phone shipments. The management believes that the demand for camera modules and fingerprint recognition modules applied to smartphone is expected to gradually recover.

On the other hand, smartphone brands are restarting the optical device specification upgrades that have been delayed due to the pandemic and other reasons, and models equipped with high-end camera modules such as periscope camera, high-power optical image stabilization, variable aperture and large-size and ultra-high pixel continue to increase, and the specification upgrades of smartphone optical devices are expected to return to the right track, which will gradually bring positive help to the market size expansion of camera modules applied to smartphones, but it's still expected to take some time.

In terms of smart vehicles, according to the China Passenger Car Association ("**CPCA**"), in the first half of 2023, China's accumulated sales of passenger cars reached 9.524 million units, representing a year-on-year increase of 2.7%. In particular, the accumulated sales of new energy vehicles in the first half of the year were 3.086 million units, representing a year-on-year increase of 37.3%, but it was lower than expected, and did not reach half of the annual sales target of 8.5 million units from time dimension. New energy vehicles are the main carrier of intelligent driving systems, and the failure to meet their sales expectations has also affected the growth of sensors for vehicles such as camera modules.

Adverse factors such as the complex macro situation, the long tail effect of the pandemic and the continued weakness of the exchange rate of RMB against USD continued to have an impact on the consumer electronics industry. Although China's smartphone growth began to pick up in May, the recovery took time, and the overall demand in the first half of the year was still poor, resulting in a year-on-year decrease in the sales volume of the Group's camera modules applied to mobile phones of approximately 21.2%, and therefore an unfortunate decline in results as compared with that of the Corresponding Period. Revenue for the Period was approximately RMB5,476,543,000, representing a decrease of approximately 22.8% as compared with that of the Corresponding Period.

During the Period, the gross profit margin of the Group was approximately 3.4%, representing a decrease of approximately 1.9 percentage points as compared to approximately 5.3% of the Corresponding Period, which was mainly because: (i) the lower-than-expected demand for camera modules and fingerprint recognition modules applied to smartphone affected by macro factors, intensified market competition, that resulted in a year-on-year decline in the sales volume of camera modules applied to mobile phones, a year-on-year decline in the revenue of the Group and a decrease in its production capacity utilization rate, which led to an increase in the manufacturing cost of unit product; and (ii) the continued weakness of the exchange rate of RMB against USD, with the central parity rate as of the end of the Period depreciated by approximately 3.8% as compared to that at the beginning of the Period, resulting in an increase in the cost of materials imported and settled in USD, which led to a negative impact on the gross profit margin. During the Period, the Group's net profit was approximately RMB21,692,000, representing a year-on-year decrease of approximately 86.9%, which was mainly due to the decline in revenue and the year-on-year drop in gross profit margin.

Although the Group's net profit decreased during the Period, the Group has achieved significant development results in the business of camera modules applied to fields other than smartphones, and the customer structure and the product structure of camera module products used in smart vehicles and Internet of Things (IoT) terminals have been significantly improved, leading a year-on-year increase in sales volume of approximately 64.3%.

The Group had published the Strategic Planning for the Five-Year (2021-2025) Operation and Development of Q Technology (Group) Company Limited (《丘鈦科技(集團)有限公司五年(2021-2025年)經營發展戰略規劃》) (the "**Five-year Strategic Planning**") for the first time in the 2021 interim results announcement of the Company, setting out a development blueprint for the next five years. Entering the third year, although the external environment is full of thorns, all the employees of the Group had faith in the future and followed this strategic deployment to make great progress, actively seeking changes, and making progress and reinforcing strengths while seeking changes. During the Period, the management recognized the impact of weak consumption on China's mobile phone market, endeavoured to improve the income structure to reverse the disadvantage. On the one hand, the Group vigorously expanded overseas markets, and the share of camera modules in Korean mobile phone brands continued to rise. At the same time, the Group has fully implemented its product structure improvement strategy and strengthened its research and development (the "**R&D**") investment in innovative products such as periscope optical zoom and new optical image stabilization products. The proportion of camera modules with 32 mega pixels and above applied to mobile phones and camera modules applied to other fields in the number of camera module shipments has increased from approximately 28.2% in the Corresponding Period to approximately 37.1%, exceeding the business target of reaching the proportion of 35% as disclosed in the 2022 annual results announcement of the Company. Meanwhile, the proportion of optical underscreen fingerprint recognition modules in the number of fingerprint recognition module shipments has also increased from approximately 44.2% in the Corresponding Period to approximately 58.5%. On the other hand, the Group grew significantly in the IoT and automotive markets, and made efforts in the field of AR/VR headsets, to successively secure a number of projects of major domestic brands. On this solid foundation, the Group will unswervingly achieve its strategic objectives, face the challenges ahead, and achieve another golden five-year period of rapid business growth.

PROSPECTS

In the post-pandemic era, China's economy rebounded slightly slower than expected. Yet, entering the second quarter, multiple macroeconomic indicators have gradually reflected signs of economic improvement. Xing Ziqiang (邢自強), Chief Economist of Morgan Stanley China, stated in the latest research report published in June that the Chinese economy slowed down in the second quarter, mainly due to the gap period after the release of backlog orders and the fading of the pandemic easing effect. With the subsequent introduction of new stimulus measures by the government, coupled with the gradual growth of services and consumption brought about by the recovery of the job market, this round of economic recovery will continue until the end of 2024, and it is expected that economic growth rate of China will rebound to 6% in the second half of this year, maintaining an average growth rate of around 5.7% for the whole year. In June this year, the National Development and Reform Commission of the PRC made a strong response for the economic data of the second quarter, pointing out that the overall economic operation has maintained a recovery trend, the service industry has continued to recover, and the Non-Manufacturing Business Activity Index has always operated above the critical point of prosperity this year, and maintained at the high level of 54.5% in May; the national service industry production index increased by 9.1% year-on-year in the first five months, and the improving economic trend remains stable in the long run. Despite the fact that the current market demand is insufficient and the endogenous motivation needs to be strengthened, these pressures and challenges will not change the overall trend of long-term economic growth.

Therefore, smartphones, IoT and new energy vehicles are all expected to embrace good development opportunities in the second half of 2023. For smartphones, the first half of 2023 may be a turning point before dawn based on data trend analysis. Ryan Reith, vice president of IDC Global Research, publicly stated at the end of April that on the optimistic side, based on recent discussions with original equipment manufacturers (OEMs) and supply chains, there is a consensus in the smartphone industry that growth will resume from the end of 2023 throughout 2024. The latest report from the China Academy of Information and Communications Technology seems to have cited this that shipment of smartphones in China showed strong year-on-year growth in May. In terms of the IoT, IDC predicted that AR and VR headsets will continue to grow by over 30% in the next few years with shipments reach 35.1 million units by 2026. In terms of new energy vehicles, Sigmaintell, an independent research institute, predicted that global sales volume of vehicles is expected to reach 82.7 million units in 2023, representing a year-on-year increase of 3.8%, with sales volume of new energy vehicles in Mainland China expected to reach 8.5 million units, representing a year-on-year increase of 23%. The recovery and growth of industries such as smartphones, intelligent driving, Metaverse and IoT smart terminals will drive the growth of camera modules and fingerprint recognition modules. At the same time, the recovered consumers' purchasing power and consumer confidence will be conducive to the sales of high-end mobile phones, thus positively facilitating the specification upgrading of the camera modules and fingerprint recognition modules. The business development of the Group is expected to capture favorable opportunity, particularly the years of accumulation in non-handset field is exposed to a new development opportunity brought about with the sound macroeconomic growth.

In summary, the Directors believe that development opportunities and challenges coexist in the intelligent vision industry in the future. In the long run, with the continuous specification upgrading of optical products in the fields of handset terminals, automotive and IoT, together with the increasingly complex optical design and structural design of camera modules, the integration requirements for product functions, performance and size will continue to increase. Intelligent vision product manufacturers with capabilities of integrating upstream component design and large-scale automated production are expected to stand out in fierce competition and become the leaders in providing integrated intelligent vision solutions. At the same time, with the continuous improvement of demand on pixel of camera modules for Advanced Driver Assistance Systems (ADAS), the proportion of application of chip on board (COB) process in automotive camera modules will continue to increase, and companies with large-scale and reliable packaging and testing history for handset camera modules will obtain more market opportunities. The Directors believe that with its continuous effort in promoting large-scale intelligent manufacturing and R&D of new technology and vertical integration, in firmly propelling the strategies in platform, components and system integration, in adhering to a customer-centric service strategy, and in rapidly and significantly improving the effectiveness of business development in the automotive and IoT sectors, the Group will be able to maintain its long-term competitiveness, and provide high-end and high-quality products and quick-response services to our general customers, and ultimately strive to achieve the vision of the Group "to illuminate machines".

However, the Directors are also fully aware that the second half of the year is still full of opportunities and challenges, and social and economic development is still facing various uncertainties. On the one hand, the geopolitical situation is complicated and fickle, and the lasting outbreak of wars in some regions has caused a never-easing impact on international politics and economy, resulting high prices of food, fuel and various of resources. On the other hand, as there is a risk that international trade barriers will continue to intensify, major countries and economies are still striving to explore a suitable way of coexistence. Management of the Group must be cautious, keep vigilant, seek changes in stability and follow the trend, so as to properly respond to various unexpected changes, ensure the steady and healthy development of business, and focus on the faster and better development of camera module business in non-handset field, high-end camera module and fingerprint recognition module business. IDC predicts that with the gradual recovery of global economy, smartphones will achieve a five-year compound annual growth rate of 1.9% from 2023 to 2026. Besides, the improvement of mobile phone imaging experience remains the focus of all manufacturers: (i) against the backdrop of the rapid development of the short video and live broadcast industry, consumers are more inclined to have the demand for further improving the video shooting experience; (ii) the main camera pixel enhancement, configuration of 100 to 200 megapixels applications and wide application of one-inch outsole will further promote the upgrade of smartphone imaging experience; (iii) periscope optical zoom, new optical image stabilization and high-powered thrust motor technology will further subvert the user experience of professional smartphone photography.

In fact, feedbacks received from the daily communication with customers indicated that the photography function of current mobile phones is still far from expectations of end customers. For instance, images delivered by mobile phones are quite inferior to those by traditional single-lens reflex camera in respect of high-definition shooting, night scene shooting, telephoto shooting, etc. On the sensing level, the adoption of rear 3D modules and multi-spectral modules is still in the initial stage. The Group firmly believes that there is still a broad space for the long-term development of smartphone optics, the specifications upgrades of smartphone camera modules will definitely further accelerate as long as consumer confidence recovers, and the penetration rate of high-end products such as variable aperture, high magnification optical image stabilization, periscope optical zoom, and large size chip ultra-high pixels is expected to increase significantly in the short term. Therefore, the Group will continue to build up its R&D efforts, and continue to promote the development of high-end camera module products and strengthen the R&D of new materials, new processes and new products, and timely seize the opportunities brought forth from the resumption to norm of optical device specification upgrading.

The intelligent vision module market in the non-handset field is proceeding very well. According to the Quarterly Tracking Report on China Passenger Car Market Data (《中國季度乘用車市場資料追蹤報告》) published by IDC in June this year, the proportion of new energy vehicles in China passenger car market will exceed 30% in 2023. At the same time, the automobile market has launched a new round of industrial chain adjustment and upgrading on new energy vehicles, and Internet of Vehicles, intelligence, etc. will become the new focus of suppliers and automobile enterprises. According to the forecast of CPCA's expert team, domestic new energy vehicles will further penetrate into the second and third tier cities in 2023, the upgrading of the entire auto industry will accelerate. Certain key intelligent technologies will become standard. For example, Intelligent Cabin (In-Cabin) System, assisted driving, and autonomous parking will become the basic requirements for consumers and an important basis for their choice, which will be very beneficial to the development of camera module, the "eye of autonomous driving".

According to the latest report published at the end of 2022 by ICV Tank (ICV), an authoritative research institute in the industry, the global market of automotive cameras in the first half of 2022 amounted to US$6.55 billion aggregately, with pre-factory cameras (completed assembly by original equipment manufacturers (OEMs)) accounting for approximately 77% and after-factory cameras accounting for 23%. According to estimates of ICV analysts, the global market of automotive cameras will amount to $15.2 billion in 2023, and the Chinese market will still maintain its position as a "market leader" globally, with an expected market scale exceeding US$5 billion. The global market of automotive cameras will amount to $25.6 billion by 2027, with the majority being pre-factory cameras.

The Group has obtained certification from six of the top 15 automobile enterprises in terms of sales volume of new energy vehicles announced by the CPCA in 2022, and most of the projects have achieved mass production. On the one hand, the Group will deepen its direct partnership with automobile brands customers to provide quality and quick-response services, upgrade product specifications and assist customers in developing customized and differentiated intelligent driving systems, and on the other hand, it will strengthen hardware partnerships with domestic and overseas Tier 1 system providers to tap into the supply chains of top-tier overseas brands, traditional domestic brands and joint venture brands that tend to use platform-based products, so as to accelerate the acquisition of customers and expand our market share. At the same time, the Group will actively monitor market developments and enter other segments of the automotive intelligent vision industry chain, such as automotive lenses, laser radar (LiDAR) and millimeter wave radar by recruiting core teams or mergers and acquisitions.

In recent years, the Group has made good progress in the field of IoT intelligent vision products which it has taken the lead in entering into, and the market share of the Group in the leading enterprise clients who engage in drones, sweeping robots and smart wearable devices, such as DJI and Little Genius（小天才）, has continually increased. In this regard, the immersive experience devices are of utmost importance to the medium-development of IoT, according to the prediction of the China Academy of Information and Communications Technology, the global virtual (augmented) reality industry scale will grow at an average annual rate of approximately 54% in the five years from 2020 to 2024, with VR growing at a rate of approximately 45% and AR at a rate of approximately 66%, with both market scales neck and neck, reaching RMB240 billion in 2024.

In terms of vertical integration, the Group, on the one hand, has kept promoting the development of the smartphone camera module lens, IoT camera module lens and 3D module lens of Newmax Technology Co., Ltd. ("**Newmax Technology**", an associate of the Company listed on the Taipei Exchange in Taiwan, stock code: 3630). The Group, on the other hand, will seek other merger projects regarding critical optical parts and components and promote the development of technology in critical devices like motors, automotive lens, laser radar and 4D digital millimeter wave radar. The Group will also strive to achieve further breakthrough in the application of camera modules and other optical related modules in non-handset fields.

At the beginning of 2023, the Group set a full year operating targets: (i) the combined sales volume of camera modules with resolutions of 32 megapixels and above applied to mobile phones and camera modules applied to other fields accounting for more than 35% of the total sales volume of camera modules; and (ii) a year-on-year increase of not less than 50% in the sales volume of camera modules applied to the non-handset fields. During the Period, the combined sales volume of camera modules with resolutions of 32 megapixels applied to mobile phones and camera modules applied to other fields accounted for approximately 37.1% of the total sales volume of camera modules, while the sales volume of camera modules applied to the non-handset fields increased by approximately 64.3% year-on-year, both slightly exceeding the target values. Based on the actual status of business development during the Period and in conjunction with the development plan for the second half of 2023, the Group would like to revise the item (i) of the full-year operating target to "the combined sales volume of camera modules with resolutions of 32 megapixels and above applied to mobile phones and camera modules applied to other fields accounting for more than 40% of the total sales volume of camera modules" to reflect the Group's determination and confidence in improving the specifications of camera module products.

Taking into account the market conditions and the Group's actual development and comprehensive capabilities, despite the complicated and changing macro environment, the Directors are confident in leading the Group to embrace the challenges, make further efforts to achieve good development, endeavor to advance the five-year strategic planning, uphold the vision of the Group as "to illuminate machines" and strive to create greater value for the shareholders of the Company (the "**Shareholders**").

FINANCIAL REVIEW

Revenue

During the Period, the revenue of the Group was approximately RMB5,476,543,000, representing a year-on-year decrease of approximately 22.8% as compared with approximately RMB7,094,787,000 of the Corresponding Period. The decrease in revenue was mainly attributable to the decrease in sales volume of smartphones due to macro factors, while the Group focused more on upgrading the product specifications of camera modules, the sales volume of camera modules applied to mobile phones decreased by approximately 21.2% year-on-year.

Cost of sales

During the Period, cost of sales of the Group decreased by approximately 21.3% to approximately RMB5,288,240,000 as compared with approximately RMB6,718,957,000 of the Corresponding Period. The decrease in cost of sales was primarily attributable to a decrease in material and other costs resulting from the decrease of approximately 22.8% in revenue as compared with that of the Corresponding Period.

Gross profit and gross profit margin

During the Period, gross profit of the Group was approximately RMB188,303,000 (Corresponding Period: approximately RMB375,830,000), representing a year-on-year decrease of approximately 49.9%, while gross profit margin was approximately 3.4% (Corresponding Period: approximately 5.3%). The decrease in gross profit margin was mainly because: (i) the lower-than-expected demand for camera modules and fingerprint recognition modules applied to smartphone affected by macro factors, the intensified market competition, that resulted in the year-on-year decline in sales volume of camera modules applied to mobile phones, the year-on-year decline in revenue and the decrease in the production capacity utilization rate, which led to an increase in the manufacturing cost of unit product; and (ii) the continued weakness of the exchange rate of RMB against USD, with the central parity rate as of the end of the Period depreciated by approximately 3.8% as compared to that at the beginning of the Period, resulting in an increase in the cost of materials imported and settled in USD, which led to a negative impact on gross profit margin.

Other income

During the Period, the Group recorded other income of approximately RMB187,833,000, while other income of approximately RMB147,307,000 was recorded in the Corresponding Period. Such other income was mainly: (i) a net changes in fair value on foreign exchange option contracts of approximately RMB36,006,000 recorded during the Period, while a net changes in fair value of approximately RMB18,691,000 was only recorded in the Corresponding Period; (ii) a net foreign exchange gain of approximately RMB33,196,000 recorded during the Period, while a net loss of approximately RMB10,302,000 was recorded in the Corresponding Period; (iii) a net changes in fair value of wealth management products and structure deposits of approximately RMB24,492,000 recorded during the Period, while a humble net changes of approximately RMB4,001,000 was recorded in the Corresponding Period; (iv) a loss from net changes in fair value on foreign currency forward contracts of approximately RMB27,262,000 recorded during the Period, while a net changes in fair value of approximately RMB25,072,000 was recorded in the Corresponding Period; (v) government grants of approximately RMB64,360,000 recorded during the Period, while approximately RMB96,395,000 was recorded in the Corresponding Period; and (vi) interest income of approximately RMB58,462,000 recorded during the Period, while approximately RMB18,143,000 was recorded in the Corresponding Period.

Selling and distribution expenses

During the Period, selling and distribution expenses of the Group amounted to approximately RMB9,832,000, representing an increase of approximately 14.2% as compared with approximately RMB8,610,000 of the Corresponding Period. The ratio of selling and distribution expenses to revenue was approximately 0.2%, which represented an increase of approximately 0.1 percentage point as compared with that of the Corresponding Period. Such increase was mainly attributable to the increase in remuneration of sales staff during the Period as a result of the increase in business travel and customer communication activities of the Group in order to strengthen the expansion of the overseas market and automotive business.

Administrative and other operating expenses

During the Period, total administrative and other operating expenses of the Group amounted to approximately RMB70,174,000, representing a slight increase of approximately 0.4% as compared with approximately RMB69,888,000 of the Corresponding Period.

R&D expenses

During the Period, the total R&D expenses of the Group amounted to approximately RMB193,898,000, representing a decrease of approximately 25.6% as compared with approximately RMB260,513,000 of the Corresponding Period. The decrease in R&D expenses was mainly attributable to the Group's improvement of R&D efficiency, optimisation of the R&D team and reduction of investment in R&D, such as material requisition.

Finance costs

During the Period, the finance costs of the Group were approximately RMB65,421,000, representing an increase of approximately 163.0% as compared with approximately RMB24,879,000 of the Corresponding Period. The increase in finance costs was mainly attributable to: (i) the increase in the use of bank borrowings during the Period as compared to the Corresponding Period in order to maintain good cash reserves, with the balance of bank borrowings as at 30 June 2023 increased by approximately RMB1,936,741,000 as compared to that as at 31 December 2022; and (ii) the increase in interest on bank borrowings in USD as compared to the Corresponding Period due to the increase in interest rates on bank borrowings in USD during the Period.

Share of loss of an associate

During 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 RMB29,118,000, representing an increase of approximately 59.8% as compared with the attributable loss of approximately RMB18,227,000 of the Corresponding Period.

Income tax expenses

During the Period, the Group recorded income tax income of approximately RMB13,477,000, while income tax income of approximately RMB23,940,000 was recorded in the Corresponding Period, which was mainly because the filing differences of approximately RMB14,853,000 arising from prudent estimates of accelerated deductions of R&D expenses in previous years were reversed in the Corresponding Period, and there was no such reversal during the Period.

Profit for the Period

Based on the foregoing, the Group recorded a profit of approximately RMB21,692,000 for the Period, representing a decrease of approximately 86.9% as compared to approximately RMB165,530,000 of the Corresponding Period. The decrease in profit was mainly attributable to the decrease of approximately 22.8% in revenue for the Period as compared with that of the Corresponding Period and the year-on-year decrease in gross profit margin.

LIQUIDITY AND FINANCIAL RESOURCES

Bank Borrowings

As at 30 June 2023, the Group's bank borrowings amounted to approximately RMB4,552,718,000, representing an increase of approximately 77.6% from approximately RMB2,563,560,000 as at 30 June 2022 and an increase of approximately 74.0% from approximately RMB2,615,977,000 as at 31 December 2022. Among the bank borrowings, short-term borrowings repayable within one year or on demand were approximately RMB4,321,881,000 whereas long-term borrowings were approximately RMB230,837,000.

As at 30 June 2023, the Group's bank borrowings were mainly denominated in Renminbi and/or USD. The cash flow overview of the Group for the six months ended 30 June 2023 and 2022, is set out as follows:

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
Net cash (used in)/generated from operating activities	**(89,714)**	400,413
Net cash used in investing activities	**(163,471)**	(1,101,008)
Net cash generated from financing activities	**1,505,620**	540,045

As at 30 June 2023, the cash and cash equivalents of the Group amounted to approximately RMB2,616,261,000, representing an increase of approximately RMB987,799,000 from approximately RMB1,628,462,000 as at 30 June 2022, and an increase of approximately RMB1,267,377,000 from approximately RMB1,348,884,000 as at 31 December 2022. The increase in cash and cash equivalents as compared with that of the end of last year was mainly attributable to an increase in bank borrowings during the Period as compared with that of the end of last year, and some of the bank borrowings drawn were not yet utilized as of 30 June 2023.

Operating activities

During the Period, the Group recorded a net cash used in operating activities of approximately RMB89,714,000, while a net cash inflow of approximately RMB400,413,000 was recorded in the Corresponding Period, which was mainly because of the decrease of approximately 22.8% in revenue for the Period as compared with that of the Corresponding Period and the decrease in government grants received as compared with that of the Corresponding Period.

Investing activities

The net cash used in investing activities of the Group during the Period amounted to approximately RMB163,471,000, while the net cash used in investing activities amounted to approximately RMB1,101,008,000 in the Corresponding Period. The net cash used in investing activities of the Group during the Period was mainly the cash of approximately RMB370,000,000 being used to purchase financial assets measured at amortised cost.

Financing activities

The net cash inflow generated from the financing activities of the Group during the Period amounted to approximately RMB1,505,620,000 (the Corresponding Period: net cash inflow of approximately RMB540,045,000), which was mainly attributable to: (i) a cash inflow of bank borrowings of approximately RMB3,839,816,000 during the Period and a cash expenditure of bank borrowing repayment of approximately RMB2,011,151,000; and (ii) the cash expenditure of approximately RMB274,880,000 was the net amounts of pledged bank deposits used as security for bank borrowings and the redemption of pledged bank deposits used as security for bank borrowings.

Gearing ratio

The gearing ratio of the Group as at 30 June 2023, as defined by the balance of bank borrowings and lease liabilities less cash and cash equivalents divided by total equity at the end of the Period, was approximately 41.1%, representing an increase of approximately 21.4 percentage points from approximately 19.7% as at 30 June 2022, and an increase of approximately 13.9 percentage points from approximately 27.2% as at 31 December 2022, which was mainly attributable to an increase of approximately RMB1,936,741,000 in the balance of bank borrowings as of the end of the Period compared to that as of 31 December 2022. However, the total amount of cash assets (including cash and cash equivalents, fixed deposits with banks with original maturity over three months, pledged bank deposits, financial assets at fair value through profit or loss and financial assets measured at amortised cost) of the Group reached approximately RMB5,772,201,000 as at the end of the Period, representing an increase of approximately RMB1,809,832,000 as compared with approximately RMB3,962,369,000 at the end of last year.

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 and 6 December 2022, the details of which were disclosed under the "Management Discussion and Analysis" section of the 2016 to 2022 annual report. The Board, the Risk Management Committee and the staff at the relevant positions of the Company 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

On 15 December 2020, the Company submitted an application in relation to a possible spin-off and separate listing of Kunshan QT China on the Shenzhen Stock Exchange or Shanghai Stock Exchange in the PRC (the "**Proposed Spin-off**") to the Stock Exchange for approval pursuant to Practice Note 15 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), and received the approval from the Stock Exchange on 23 April 2021. 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**"), and has received approval from the listing committee of the ChiNext Market of the Shenzhen Stock Exchange on 17 August 2022. Kunshan QT China has also submitted the registration application to the China Securities Regulatory Commission (the "**CSRC**") for the Proposed Listing, and has received the official notice of acceptance from the CSRC on 30 December 2022, and is still undergoing the relevant approval process. As the equity interest of the Company in Kunshan QT China is expected to decrease upon completion of the proposed initial public offering of Kunshan QT China's ordinary shares, the Proposed Spin-off constituted a deemed disposal of the Company under Chapter 14 of the Listing Rules and a major transaction of the Company. The Company convened an extraordinary general meeting (the "**EGM**") on 30 December 2022 to obtain Shareholder's approval for the Proposed Spin-off, and the relevant proposed resolution was duly passed as an ordinary resolution of the Company at the EGM. For details, please refer to the inside information 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, 29 September 2022, 2 December 2022 and 30 December 2022, and the poll result announcement of the EGM dated 30 December 2022.

Save as disclosed above, the Group did not have any material acquisitions or disposals of its subsidiaries, associates and joint ventures for the Period.

SIGNIFICANT INVESTMENT

The Group did not hold any significant investment for the six months ended 30 June 2023.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no any plan authorized by the Board for other material investments or additions of capital assets as at 30 June 2023.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2023, the assets pledged by the Group included bank deposits and shares of an associate of approximately RMB1,404,202,000, representing an increase of approximately 33.8% as compared with approximately RMB1,049,324,000 as at 31 December 2022. These pledged assets were used as guarantee for bank borrowings and bank guarantee letters.

EMPLOYEE POLICIES AND REMUNERATION

As at 30 June 2023, the number of staff of the Group was 7,212 (the "**Staff**", including contractual staff and non-contractual staff such as staff under internship agreements and labour service agreements) (as at 30 June 2022: 9,119). The significant decrease in the number of Staff compared to the Corresponding Period was mainly due to the reduction in the employment demand per unit capacity resulting from the further effective results of the Group's production automation and digital upgrading. Meanwhile, the decline in the sales volume of camera modules in the Period also led to the decrease in demand for Staff. The Group is committed to providing all Staff with fair working environment, providing newly recruited staff with induction training and job technical counseling to help them to adapt to job requirements quickly, providing all staff with clear job responsibilities guidelines and for employees at different positions with on-the-job training together with other training programmes to help improving their skills and knowledge, and strived to provide all Staff with competitive remuneration packages. For the Period, the remuneration of the employees (including staff under labour service agreements and internship agreements) of the Group was approximately RMB370,497,000 (the Corresponding Period: approximately RMB456,309,000). Apart from basic salary, the package also includes performance bonus, medical insurance, share options and provident fund (staff under labour service agreements and internship agreements are treated according to the laws and regulations of the PRC).

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, 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 the central parity rate of RMB against USD recorded a downward adjustment of approximately 3.8% from 6.9646 at the beginning of the Period to 7.2258 at the end of the Period, with a fluctuation range of approximately 7.6% during the Period, which made the exchange risk management more difficult. However, the foreign exchange option contracts and foreign currency forward contracts adopted by the Group effectively solidified part of the exchange rate cost of RMB against USD, and recorded a net exchange gain of approximately RMB41,940,000 in aggregate from foreign exchange options contracts, foreign exchange forward contracts and foreign exchange gains in the Period (the Corresponding Period: recorded a net exchange gain of approximately RMB33,461,000 in aggregate). 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.

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 Listing Rules. The Company has made specific enquiries with the Directors and all of them confirmed that they had complied with the required standard set out in the Model Code during the Period.

CORPORATE GOVERNANCE PRACTICES

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

The Company has fully complied with the applicable code provisions as set out in the Corporate Governance Code as contained in Part 2 of 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 D.3 of the Part 2 of Appendix 14 of the Listing Rules. 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 2023 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 2023 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.qtechsmartvision.com). The 2023 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, 7 August 2023

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. Chu Chia-Hsiang, Mr. Ko Ping Keung and Mr. Ng Sui Yin.