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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)

INSIDE INFORMATION:

UPDATE ON THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF KUNSHAN QTECH MICROELECTRONICS CO., LTD. ON A STOCK EXCHANGE IN THE PRC

References are made to the announcements of the Q Technology (Group) Company Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 15 December 2020, 23 April 2021, 23 June 2021, 30 June 2021, 16 December 2021 and 23 February 2022 (the “**Announcements**”). Unless otherwise defined, capitalized terms used in this announcement shall have the same meanings as used in the Announcements. This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong).

FINANCIAL DATA

In accordance with the relevant provisions of the Shenzhen Stock Exchange’s “Guidelines for the Content and Format of Information Disclosure by Companies preparing Public Offering of Securities No. 28” (公開發行證券的公司資訊披露內容與格式準則第28號) and the further requirements of the Shenzhen Stock Exchange, Kunshan QT China is required to further update and disclose its three key financial information (the “**Three Key Financial Information**”): (i) key financial information for the period from January to March 2022 (reviewed by auditors) and reasons for changes in results; (ii) key financial information for January to May 2022 (not audited or reviewed by auditors); (iii) expected results, extent of changes and reason analysis for the period from January to June 2022 (not audited or reviewed by auditors). In order to meet the requirements of the Shenzhen Stock Exchange, Kunshan QT China has submitted a reply to the third round of comments (the “**Third Comments**”) from the Shenzhen Stock Exchange on 27 June 2022 and updated the draft prospectus for the Listing Application of Kunshan QT China, and the updated disclosure of the above Three Key Financial Information are as follows:

I. KEY FINANCIAL INFORMATION FOR THE PERIOD FROM JANUARY TO MARCH 2022 AND REASONS FOR CHANGES IN RESULTS:

1. Key data of consolidated balance sheet

Unit: RMB0'000

Items	31 March 2022	31 December 2021	Changes
Total assets	1,202,316.04	1,191,728.64	0.89%
Total liabilities	733,913.19	734,224.22	-0.04%
Owners' equity	468,402.86	457,504.41	2.38%
Equity attributable to the owners of the parent company (<i>note</i>)	467,841.53	456,917.40	2.39%

Note: The parent company means Kunshan Q Technology (Hong Kong) Limited (“**Kunshan QT Hong Kong**”), which is an indirect wholly-owned subsidiary of the Company.

As of 31 March 2022, the total assets of Kunshan QT China increased by approximately 0.89% compared with the end of 2021, which was mainly attributable to: (1) at the end of March 2022, monetary funds increased from approximately RMB2,396,611,800 to approximately RMB3,633,536,200, representing an increase of approximately 51.61%, mainly due to operation accumulation, and no cash dividends were distributed in 2021; (2) construction in progress at the end of March 2022 increased from approximately RMB217,673,800 to approximately RMB242,768,100, which was mainly due to the newly added investment in the second-phase factory in India and the No. 1 dormitory at Gucheng Road. The total liabilities of Kunshan QT China decreased by approximately 0.04% compared with the end of 2021, which was mainly attributable to: (1) accounts payable at the end of March 2022 decreased by approximately 21.60%, mainly due to the decrease in the purchase amount of Kunshan QT China; (2) at the end of March 2022, other payables decreased by approximately 40.05%, which was mainly attributable to the decrease in customer payables for material preparation due to the decrease in customer demand for material preparation. Shareholders' equity of Kunshan QT China increased by approximately 2.38%, mainly due to the increase in undistributed profits.

2. Key data of consolidated income statement

Unit: RMB0'000

Items	January to March 2022	January to March 2021	Changes year-on-year
Revenue	343,603.06	379,318.99	-9.42%
Operating profit	12,881.65	26,153.36	-50.75%
Total profit	12,896.74	26,155.17	-50.69%
Net profit	12,100.94	23,288.03	-48.04%
Net profit attributable to the owners of the parent company (<i>note</i>)	12,126.63	23,288.03	-47.93%
Net profit attributable to the owners of the parent company after deducting non-recurring gains or losses	5,223.41	21,807.93	-76.05%

Note: The parent company means Kunshan QT Hong Kong.

From January to March 2022, Kunshan QT China's revenue decreased by approximately 9.42% compared with the corresponding period of last year, operating profit decreased by approximately 50.75% compared with the corresponding period of last year, total profit decreased by approximately 50.69% compared with the corresponding period of last year, net profit decreased by approximately 48.04% compared with the corresponding period of last year, and net profit attributable to the owners of the parent company after deducting non-recurring gains or losses decreased by approximately 76.05% compared with the corresponding period of last year.

The main reasons for the above changes are:

- (1) Intensified competition in the smartphone camera module market due to factors such as the resurgence of the pandemic, slowdown in global economic growth, declining demand for smartphones, especially high-end models, and slowdown in the pace of innovation by smartphone brands; Kunshan QT China's sales revenue to Samsung increased significantly. Generally speaking, for the purpose of acquire new business in specific strategic customers such as Samsung, the products offering is started from low-end in initial stage and selling at more competitive prices; the price transmission of upstream key raw materials had not yet been in place, and the purchase costs had not yet decreased year-on-year; affected by the decline in downstream demand and multiple outbreaks of the COVID-19 epidemic, the capacity utilization rate of Kunshan QT China has decreased while the unit product manufacturing cost has increased; the gross profit level of Kunshan QT China has a downward pressure and declined for a certain degree.

- (2) Kunshan QT China strategically increased customer development efforts for businesses such as IoT and automotive camera module, but the loss was continued since the product was in the initial stage of development and had not yet formed economy of scale;
- (3) In the first quarter of 2022, the labor shortage before and after the Lunar New Year, and the increase in local minimum wage standards and the minimum social security payment ratio in Suzhou, led to an increase in the labor costs of Kunshan QT China.

3. Key data of consolidated cash flow statement

Unit: RMB0'000

Items	January to March 2022	January to March 2021	Changes year-on-year
Net cash flow generated from operating activities	34,446.59	28,515.62	20.80%
Net cash flow used in investing activities	-1,223.11	-26,328.19	-95.35%
Net cash flow generated from financing activities	72,909.11	-59,399.72	-222.74%

From January to March 2022, the net cash flow generated from operating activities of Kunshan QT China increased by approximately 20.80% compared with the same period of last year, mainly due to the slightly early payment by some customers by 31 December 2020. The above reason led to the early return of working capital of Kunshan QT China in 2020, resulting in a relatively lower base of net cash flow generated from operating activities in the first quarter of 2021; and the net cash flow from operating activities increased in the first quarter of 2022 as customers paid in accordance with the regular cycle and there was no early payment by the end of 2021.

From January to March 2022, the net cash outflow used in investment activities of Kunshan QT China decreased compared with the same period of last year, mainly due to the larger amount of cash outflow used in the investment for the construction of No. 1 dormitory building of the Gucheng plant, and the payment for acquisition of fixed assets, intangible assets and other long-term assets by Kunshan QT China from January to March 2021.

From January to March 2022, the net cash inflow generated from financing activities of Kunshan QT China increased compared with the same period of last year, mainly due to the increase in bank borrowings of Kunshan QT China.

4. Key data of non-recurring profit or loss statement

Unit: RMB0'000

Items	January to March 2022	January to March 2021	Changes year-on-year
Loss on disposal of non-current assets	-139.52	—	—
Loss on retirement of non-current assets	-15.60	—	—
Government grants included in the current profit or loss (except for the government grants that are closely related to the business of the enterprise, and are fixed or quantified according to the unified national standards)	7,868.58	1,391.31	465.55%
Net loss for the current period of subsidiaries from the beginning of the period to the consolidation date arising from business combination under common control	—	—	—
Except for the effective hedging business related to the normal operation of the company, profit or loss from changes in fair value arising from the holding of trading financial assets and trading financial liabilities, and investment profit or loss from the disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets	377.30	348.18	8.36%
Other profit or loss items that meet the definitions of non-recurring profit or loss	—	—	—

Items	January to March 2022	January to March 2021	Changes year-on-year
Other non-operating income and expenses other than the above	30.69	1.81	1597.79%
Subtotal	8,121.44	1,741.30	366.40%
Effect of income tax	-1,218.22	-261.19	366.40%
Impact on minority interests (after tax)	—	—	—
Total	6,903.23	1,480.10	366.40%

II. KEY FINANCIAL INFORMATION FOR THE PERIOD FROM JANUARY TO MAY 2022 (NOT AUDITED OR REVIEWED)

1. Revenue of Kunshan QT China for the period from January to May 2022

According to the management statement of Kunshan QT China, the revenue from main businesses of Kunshan QT China for the period from January to May 2022 was approximately RMB5,599,134,700, representing a year-on-year decrease of approximately 20.28%, and the trend of changes in the revenue from main businesses in the first half of 2022 is expected to be in line with that of the period from January to May.

2. Orders on hand

As at 8 June 2022, the orders on hand (tax exclusive) of Kunshan QT China by product were as follows:

Unit: RMB0'000		
Name of categories	Amount of orders on hand	Percentage
Smartphone camera modules	203,290.39	90.66%
Among which: Above 32M	132,358.17	65.11%
10M-32M	37,424.61	18.41%
Below 10M	33,507.60	16.48%
IoT camera modules	18,977.48	8.46%
Automotive camera modules	1,977.35	0.88%
Total	224,245.22	100.00%

Note: The above financial data have not been audited or reviewed by auditors.

As at 8 June 2022, the amount of orders on hand of Kunshan QT China was approximately RMB2,242,452,200, which was relatively abundant. For smartphone camera modules, the main products were mid-to-high-end products above 32M, accounting for approximately 65.11%.

The revenue and percentage of IoT and automotive products of Kunshan QT China for the years of 2019, 2020 and 2021 (the “**Reporting Period**”) were as follows:

Unit: RMB0’000

Items	2021		2020		2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
IoT	38,387.64	2.26%	6,391.96	0.38%	2,630.75	0.20%
Automotive	2,526.94	0.15%	1,017.58	0.06%	7.64	0.00%
Total	40,914.57	2.41%	7,409.54	0.44%	2,638.39	0.20%

As at 8 June 2022, the amount of orders on hand for IoT and automotive camera modules of Kunshan QT China was approximately RMB209,548,400, accounting for approximately 9.34%. The amount of orders on hand for these two categories of products in emerging applications has significantly exceeded the revenue of these two categories of products in 2019 and 2020, and has reached approximately 50% of the revenue of these two categories of products in 2021. The percentage of orders on hand also significantly exceeded the percentage of these products for each Reporting Period, indicating that Kunshan QT China has made a sound progress in its expansion in the IoT and automotive fields.

III. EXPECTED RESULTS FOR THE PERIOD FROM JANUARY TO JUNE 2022 (NOT AUDITED OR REVIEWED)

Unit: RMB0'000

Items	January to June 2022 (Note 2)	January to June 2021	Changes year-on-year
Revenue	668,720.10	848,330.28	-21.17%
Operating costs	623,035.59	739,414.26	-15.74%
Selling expenses	621.29	625.69	-0.70%
Administrative expenses	6,127.32	8,957.77	-31.60%
Research and development expenses	23,889.72	30,223.82	-20.96%
Finance costs	1,406.27	521.83	169.49%
Net profit attributable to owners of the parent company (Note 1)	17,718.75	56,876.40	-68.85%
Net profit attributable to owners of the parent company after deducting non-recurring gains or losses	9,782.28	54,777.48	-82.14%

Note 1: The parent company means Kunshan QT Hong Kong.

Note 2: The financial data for the period from January to June 2022 are the preliminary estimates of the management of Kunshan QT China, which are not audited or reviewed by auditors and do not constitute profit forecasts or performance commitments made by the Kunshan QT China.

From January to June 2022, the revenue of Kunshan QT China is expected to decline by approximately 21.17% year-on-year, net profit attributable to owners of the parent company is expected to decline by approximately 68.85% year-on-year and net profit attributable to owners of the parent company after deducting non-recurring gains or losses is expected to decline by approximately 82.14% year-on-year. The decline in results of Kunshan QT China was mainly due to:

1. Weak demand in the global handset market and intensified competition in the smartphone camera module market due to factors such as the resurgence of the pandemic, slowdown in global economic growth, declining demand for smartphones, especially high-end models, and slowdown in the pace of innovation by smartphone brands.

According to IDC, the global research agency, global smartphone shipments fell by approximately 8.9% in the first quarter of 2022, in which the shipments of vivo, OPPO and Xiaomi, being the major customers of Kunshan QT China, decreased by approximately 27.7%, approximately 26.8% and approximately 17.8% year-on-year, respectively. According to the statistics of the China Academy of Information and Communications Technology, in March 2022, the shipments of domestic branded mobile phones decreased by approximately 42.4% year-on-year.

In addition, the unit price of consumer electronic products of the same specification gradually declined over time. Against the backdrop of the slow upgrade of product specifications by smartphone brands in the first half of 2022, Kunshan QT China has prolonged the launch cycle of new products, resulting in a lack of new high-end products to drive up the average unit sales price of the products of Kunshan QT China for the time being.

Affected by the above factors, the sales volume of camera module of Kunshan QT China in the first half of 2022 is expected to decline by approximately 5% year-on-year and the unit price by approximately 20% year-on-year, resulting in a decline in the revenue of Kunshan QT China.

2. Affected by the decline in downstream demand and multiple outbreaks of the COVID-19 epidemic, the capacity utilization rate of Kunshan QT China has decreased while the unit product manufacturing cost has increased.

Kunshan QT China's main customers are located in Dongguan City and Shenzhen City, Guangdong Province and other places, and were affected successively by the below in the first quarter of 2022: (1) the outbreak of the epidemic in February in Suzhou City, where Kunshan QT China's main factory is located; (2) the outbreak of the epidemic from February to March in Shenzhen City and Dongguan City, whereby the roads in Dongguan City, where its main customers are located, were closed and controlled, and customers had difficulties in receiving goods; (3) the outbreak of the epidemic in March in Shanghai, whereby Kunshan City implemented strict control measures including quiescent management due to its proximity to Shanghai, which had a adverse impact on transportation, product delivery and procurement arrival efficiencies of Kunshan QT China. In addition, Kunshan QT China actively responded to the government's call to implement epidemic prevention and control measures by carrying out off-peak season production for each production line, reducing personnel density, and arranging employees orderly to conduct nucleic acid testing at different times and regions. Such efficient and strict epidemic controls have effectively prevented the spread of the COVID-19 epidemic, which however, also had a significant adverse impact on the production and operation of Kunshan QT China. The capacity utilization rate of camera module of Kunshan QT China is expected to drop from approximately 72.86% in January to June 2021 to approximately 54.06%, and the production volume will drop by more than 15%, leading to an increase in the unit product manufacturing cost.

The capacity, output and capacity utilization rate of Kunshan QT China's major products from January to June 2021 and 2022 are shown in the table below:

Items	Product category	January to June 2022	January to June 2021
Capacity (10,000 pieces)	Camera modules	36,620.16	32,450.04
Output (10,000 pieces)	Camera modules	19,798.26	23,642.11
Capacity utilization rate	Camera modules	54.06%	72.86%

Note 1: In order to make the capacity comparable with the output, the capacity and output of camera modules in the above table are converted equivalently based on 13-megapixel modules, that is, converted and added up according to the conversion coefficient of capacity consumed for the production of camera modules with different pixels or specifications as compared to that of 13-megapixel camera modules.

Note 2: The capacity and output data for the period from January to June 2022 are preliminary estimates of the management of Kunshan QT China, and do not constitute a profit forecast or performance commitment made by Kunshan QT China.

The COVID-19 outbreak in Suzhou and Shenzhen in the first quarter of 2022 had a certain adverse impact on the production and operation of Kunshan QT China, including a decrease in production efficiency and a slowdown in the transportation of raw materials and products. There was an outbreak of the COVID-19 in Shanghai from March to May 2022, when Kunshan implemented strict epidemic control measures due to its proximity to Shanghai, resulting in the capacity utilization rate of Kunshan QT China still maintained at a low level.

3. The capacity of upstream chips is tight, the pricing of CMOS image sensor chips, Kunshan QT China's key raw material, has not yet been transmitted and the procurement cost has not decreased by the same proportion.

CMOS image sensor chips, Kunshan QT China's key raw material, need to be produced by chip companies by entrusting wafer foundries such as TSMC, and the capacity of wafer foundries directly affects the price of chips.

According to the capacity guidance of TSMC, the world's leading wafer foundry, the shortage supply from wafer manufacturers has led to a spread of the shortage of chip capacity from automotive chips to consumer electronic chips, driving up prices in the entire semiconductor industry. At present, the capacity of fabs is still tight, which is spread from the shortage of advanced process wafers to that of mature process wafers. According to the capacity guidance of TSMC, the supply chain will maintain a higher level of inventories in 2022, with capacity being tight.

4. In the first quarter of 2022, the labor shortage before and after the Spring Festival, both increases in the local minimum wage standard and the minimum social security payment ratio in Suzhou, led to an increase of labor costs of Kunshan QT China.
5. Kunshan QT China has strategically increased its efforts to develop customers for businesses such as IoT and automotive camera modules, but continued to make losses due to the fact that the product has not brought economies of scale as is in the early stage of development.

To sum up, the decrease in Kunshan QT China's net profit after deducting non-recurring gains and losses is mainly due to the decline in revenue, and the decline in operating costs is smaller than the decline in revenue, resulting in a decrease in gross profit margin of Kunshan QT China.

The Proposed Listing is conditional upon, among other things, the approvals of the CSRC and the Shenzhen Stock Exchange. The terms of the Offering, including the final size and price range of the Offering, and the timetable of the Proposed Listing have not yet been fixed as at the date of this announcement. The Company will make further announcement in relation to the Proposed Spin-off as and when appropriate pursuant to the relevant requirements of the Listing Rules.

Shareholders of the Company and potential investors should note that, except for the financial data for the period from January to March 2022 which has been reviewed but not audited by the auditors of Kunshan QT China, the financial data for the period from January to May 2022 of Kunshan QT China is the preliminary version of the management account financial statement for the period reviewed by the management of Kunshan QT China, and the results estimation for the period from January to June 2022 was based on the preliminary assessment by the management of Kunshan QT China on the available information of Kunshan QT China and has not been reviewed or audited by independent auditors. The Three Key Financial Information have not been reviewed or audited by the Audit Committee of the Company, and do not constitute profit forecasts or performance commitments made by Kunshan QT China, nor constitute profit forecasts or performance commitments made by the Company. The actual performance of Kunshan QT China may be different from the above data and the above data does not represent the final actual performance of the Group from January to March 2022, January to May 2022 and January to June 2022 either due to the difference between the accounting standards applicable to Kunshan QT China and those applicable to the Company.

The Proposed Listing is subject to, inter alia, the prevailing market conditions and approvals from relevant authorities, including the CSRC and the Shenzhen Stock Exchange. Accordingly, there is no assurance as to whether and when the Proposed Listing will proceed. Shareholders and potential investors are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 27 June 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. Chu Chia-Hsiang, Mr. Ko Ping Keung and Mr. Ng Sui Yin.