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If you have sold or transferred all your shares in the Company, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Q Tech

Q TECHNOLOGY (GROUP) COMPANY LIMITED

丘鈇科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1478)

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

Independent Financial Adviser

to the Independent Board Committee and the Shareholders



Gram Capital Limited

嘉林資本有限公司

A notice convening the EGM to be held at Room 901, 9/F, Block 4C, Software Industrial Base, Xuefu Road, Nanshan District, Shenzhen, the PRC on 30 December 2022 at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. A form of proxy for use in connection with the EGM is enclosed with this circular.

If you are not able to attend the EGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or its adjournment (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or its adjournment should you so wish. If you attend the EGM in person, the authority of your form of proxy will be revoked.

8 December 2022

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DEFINITIONS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

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

DEFINITIONS

“Independent Financial Adviser” or “Gram Capital”	Gram Capital Limited, a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off
“Kunshan QT China”	Kunshan QTech Microelectronics Co., Ltd., (昆山丘鈇微電子科技股份有限公司)(formerly known as Kunshan Q Technology Limited (昆山丘鈇微電子科技股份有限公司)), a company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Latest Practicable Date”	2 December 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Offer Price”	offer price per each Offer Share
“Offer Shares”	new A Shares to be issued as a result of the Proposed Listing
“Over-allotment Option”	the over-allotment option of a maximum of 15% of the total number of the shares of Kunshan QT China issued under the separate listing of Kunshan QT China on the ChiNext Market of the Shenzhen Stock Exchange that may be exercised pursuant to the Proposed Spin-off
“PN15”	Practice Note 15 of the Listing Rules
“PRC” or “China”	the People’s Republic of China
“Proposed Listing”	the proposed listing in the ChiNext Market of Shenzhen Stock Exchange
“Proposed Offering”	the initial public offering in the PRC
“Proposed Spin-off”	the proposed spin-off and separate listing of Kunshan QT China on the ChiNext Market of the Shenzhen Stock Exchange by way of issuance of new A shares of Kunshan QT China

DEFINITIONS

“QT Ever Capital”	Kunshan QTech Ever Capital Limited (昆山丘鈦致遠投資有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“QT Great China”	Q Technology (Great China) Inc., a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of the Company
“QT Hong Kong”	Kunshan Q Technology (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
“QT Investment”	Q Technology Investment Inc., a company incorporated in the British Virgin Islands with limited liability and a substantial shareholder of the Company
“Remaining Group”	the Group but excluding the Spin-off Group
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Share(s)”	ordinary share(s) of the Company
“Spin-off Group”	Kunshan QT China and its subsidiaries
“%”	per cent.

In this circular, the English names of the PRC entities are transliteration of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

In this circular, unless the context otherwise requires, the terms “associate(s)”, “close associate(s)”, “controlling shareholder(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meanings given to such terms in the Listing Rules, as modified by the Hong Kong Stock Exchange from time to time.

LETTER FROM THE BOARD



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)

Executive Directors:

Mr. He Ningning (*Chairman*)
Mr. Hu Sanmu (*Chief Executive Officer*)
Mr. Fan Fuqiang

Independent non-executive Directors:

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

Registered office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

*Headquarters and principal place
of business in the PRC:*

No. 3 Taihong Road
Hi-tech Industry Park
Kunshan
Jiangsu Province
PRC

*Principal place of business in
Hong Kong:*

Room 828, 8/F
Topsail Plaza, 11 On Sum Street,
Shatin, New Territories,
Hong Kong

8 December 2022

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

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

LETTER FROM THE BOARD

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

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

The purpose of this circular is to provide you with, among others, (i) information on the Proposed Spin-off and the waiver in respect of the assured entitlement requirement under the Proposed Spin-off; (ii) the recommendation of the Independent Board Committee and the advice of Gram Capital regarding the Proposed Spin-off; and (iii) a notice of EGM.

THE PROPOSED SPIN-OFF

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

LETTER FROM THE BOARD

Key milestone dates of the Proposed Spin-off

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

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

LETTER FROM THE BOARD

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

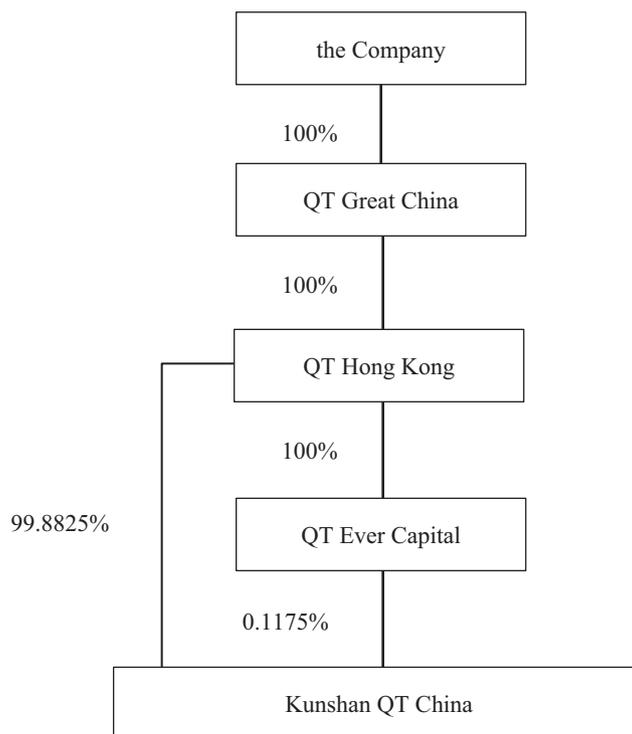
On 23 June 2021, Kunshan QT China submitted an application to the ChiNext Market of Shenzhen Stock Exchange for the Proposed Listing. The Proposed Listing was approved by the Listing Committee of ChiNext Market of the Shenzhen Stock Exchange on 17 August 2022, and the registration application to the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

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

LETTER FROM THE BOARD

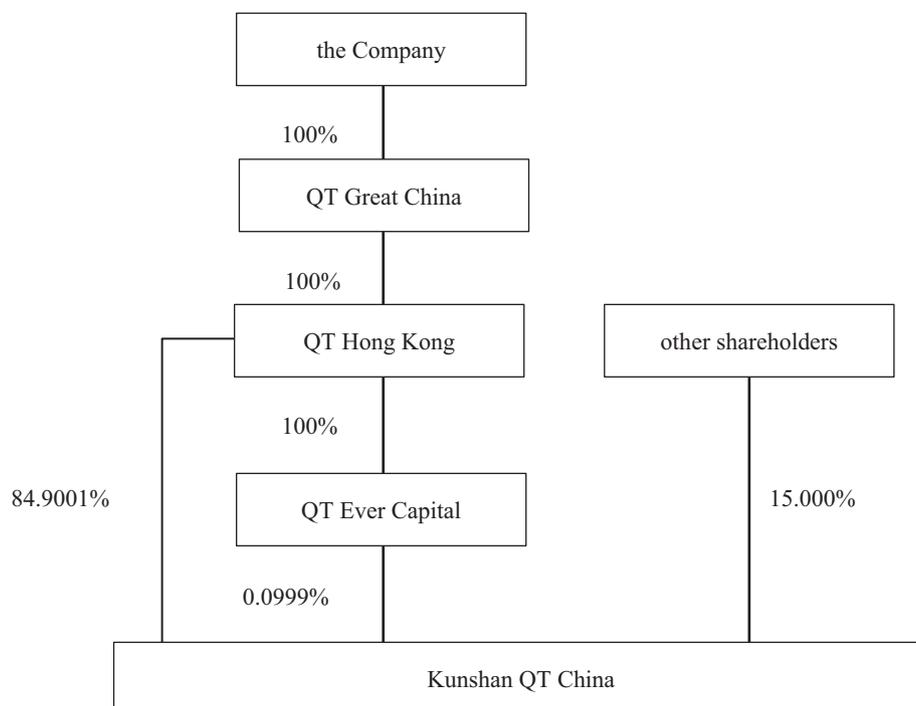
Effects of the Proposed Spin-off on the shareholding structure of Kunshan QT China

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



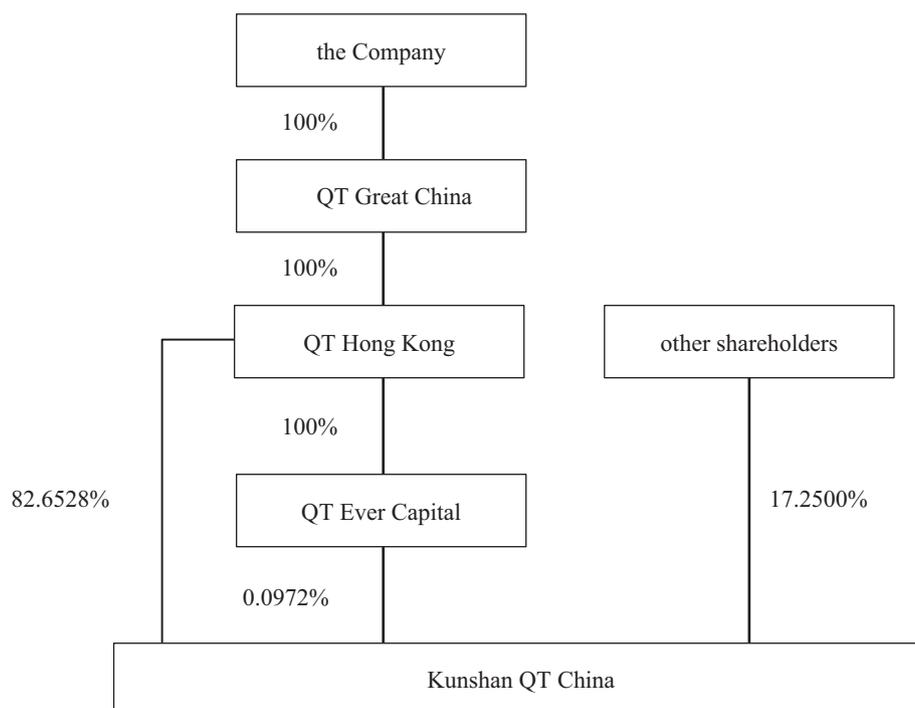
LETTER FROM THE BOARD

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



LETTER FROM THE BOARD

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



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

Proceeds to be raised from the Proposed Spin-off

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

LETTER FROM THE BOARD

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

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

Relevant PRC regulations on the use of proceeds

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

LETTER FROM THE BOARD

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

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

Proposed use of proceeds

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

LETTER FROM THE BOARD

Lock-up and non-competition undertakings

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

- (i) each of QT Hong Kong and QT Ever Capital, each being a wholly-owned subsidiary of the Company, and Mr. He Ningning, the controlling shareholder of the Company, undertakes that it/he will not, within 36 months from the date of the Proposed Offering, reduce its/his shareholding in Kunshan QT China directly or indirectly held by it/him before the Proposed Offering, and if it/he reduces the shareholding in Kunshan QT China within two years from the expiry of the aforesaid lock-up period, the selling price of such shares shall not be lower than the Offer Price;
- (ii) each of the directors (excluding Mr. He Ningning), supervisors and senior managers of Kunshan QT China undertakes that he/she will not, within 12 months from the date of the Proposed Offering, reduce his/her shareholding in Kunshan QT China directly or indirectly held by him/her before the Proposed Offering, and if he/she reduces the shareholding in Kunshan QT China within two years from the expiry of the aforesaid lock-up period, the selling price of such shares shall not be lower than the Offer Price;
- (iii) within 6 months after the Proposed Offering, if the closing price of the A share of Kunshan QT China falls below the Offer Price for 20 consecutive trading days, or if the closing price of the A share of Kunshan QT China falls below the Offer Price on the date that is 6 months after the Proposed Offering, the lock-up period of the A shares held by QT Hong Kong and the directors and senior managers of Kunshan QT China shall be automatically extended for another 6 months;
- (iv) each of the directors, supervisors and senior managers of Kunshan QT China undertakes that, if he/she still acts as a director, supervisor or senior manager after the expiry of the lock-up period, he/she shall not transfer more than 25% of his/her shareholding in the A shares of Kunshan QT China each year, and shall not transfer all his/her shareholding in Kunshan QT China within 6 months after he/she ceases to be employed as a director, supervisor or senior manager of Kunshan QT China. If he/she leaves office before the expiry of his/her term of office, he/she undertakes to comply with the above provisions for the duration of the term determined at the time of taking office and 6 months after the expiry of his/her term of office; and
- (v) each of Mr. He Ningning, the Company and QT Hong Kong undertakes that he/it will not, directly or indirectly, engage in any business or activity that constitutes or may constitute competition with the business of Kunshan QT China which will materially and adversely affect the business of Kunshan QT China.

LETTER FROM THE BOARD

Proposed management shareholdings in Kunshan QT China upon the Proposed Listing

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

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

LETTER FROM THE BOARD

Validity of the non-competition undertakings

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

FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF ON THE GROUP

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

Earnings

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

Assets and liabilities

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

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE PROPOSED SPIN-OFF

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

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

LETTER FROM THE BOARD

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

INFORMATION ON THE GROUP

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

INFORMATION ON KUNSHAN QT CHINA AND THE SPIN-OFF GROUP

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

Key financial information of the Spin-off Group

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

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

LETTER FROM THE BOARD

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

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

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

Net asset value per share of Kunshan QT China

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

LETTER FROM THE BOARD

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

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

The current expansion plan of Kunshan QT China

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

LETTER FROM THE BOARD

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

The current capital need of Kunshan QT China

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

The latest indicative P/E ratio of Kunshan QT China

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

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

INFORMATION ON THE REMAINING GROUP

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

LETTER FROM THE BOARD

CONDITIONS OF THE PROPOSED SPIN-OFF

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

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

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

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

APPLICATION TO THE HONG KONG STOCK EXCHANGE

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

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

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

LETTER FROM THE BOARD

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

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

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

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

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

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

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

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

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

EGM

The Company will seek Shareholders' approval at the EGM for the Proposed Spin-off. As far as the Directors are aware, no Shareholder has a material interest in the Proposed Spin-off which is different from those of the other Shareholders. As such, no Shareholder is required to abstain from voting on the proposed resolution(s) to approve the Proposed Spin-off at the EGM.

The notice convening the EGM to be held at Room 901, 9/F, Block 4C, Software Industrial Base, Xuefu Road, Nanshan District, Shenzhen, the PRC on 30 December 2022 at 10:30 a.m. is set out on pages EGM-1 to EGM-2 of this circular. In view of the impacts brought by the COVID-19 pandemic, the chairman of the Board and the management of the Company will be subject to compulsory quarantine for at least 8 days if they return to Mainland China after heading to Hong Kong, which will have an impact on the operation and management of the Company. Therefore, the EGM will be held in Shenzhen.

LETTER FROM THE BOARD

A form of proxy for use in connection with the EGM is enclosed with this circular and can be downloaded from the respective websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.qtechsmartvision.com). If you are not able to attend the EGM, you are requested to complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return the completed form of proxy to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited located at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or its adjournment (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or its adjournment (as the case may be) should you so wish. If you attend the EGM in person, the authority of your proxy will be revoked.

VOTING BY POLL

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at a general meeting must be taken by poll except where the chairman of the general meeting, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, the relevant resolution as set out in the notice convening the EGM will be voted by poll and, after being verified by the scrutineer, the results of the poll will be published in the manner prescribed under Rule 13.39(5) of the Listing Rules.

RECOMMENDATION

The Directors (including the independent non-executive Directors having taken into account of the advice of Gram Capital) consider that the Proposed Spin-off is fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM as set out in the notice of EGM on pages EGM-1 to EGM-2 of this circular.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee, (ii) the letter from Gram Capital and (iii) the additional information set out in the appendices to this circular and the notice of EGM.

Yours faithfully,
By order of the Board
Q Technology (Group) Company Limited
He Ningning
Chairman and Executive Director

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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)

8 December 2022

To the Shareholders

Dear Sir or Madam,

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

We refer to the circular of the Company dated 8 December 2022 (the “Circular”) of which this letter forms part. Capitalised terms used herein have the same meanings as defined in the Circular unless otherwise specified.

We have been appointed as members of the Independent Board Committee to advise the Shareholders as to whether the Proposed Spin-off is fair and reasonable and in the interests of the Company and its Shareholders as a whole and to the voting action that should be taken.

We wish to draw your attention to the letter from the Board and the letter of advice from Gram Capital as set out in the Circular.

Having considered the advice given by Gram Capital, we are of the opinion that the Proposed Spin-off is fair and reasonable and in the interests of the Company and its Shareholders as a whole.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We therefore recommend the Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Proposed Spin-off.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Mr. Chu Chia-Hsiang
*Independent non-executive
Director*

Mr. Ko Ping Keung
*Independent non-executive
Director*

Mr. Ng Sui Yin
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the text of a letter received from Gram Capital, the Independent Financial Adviser to the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off for the purpose of inclusion in this circular.



Room 1209, 12/F.
Nan Fung Tower
88 Connaught Road Central/
173 Des Voeux Road Central
Hong Kong

8 December 2022

*To: The independent board committee and the shareholders
of Q Technology (Group) Company Limited*

Dear Sirs,

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

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in respect of the Proposed Spin-off, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 8 December 2022 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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

With reference to the Board Letter, the Proposed Spin-off may constitute a major transaction of the Company and will be subject to reporting, announcement, circular and Shareholders' approval requirements under paragraph 3(e)(1) of PN15 and Chapter 14 of the Listing Rules. In addition, the Company has applied for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirement of paragraph 3(f) of PN15.

The Independent Board Committee comprising Mr. Chu Chia-Hsiang, Mr. Ko Ping Keung and Mr. Ng Sui Yin (all being independent non-executive Directors) has been established to advise the Shareholders on (i) whether the terms of the Proposed Spin-off are fair and reasonable; (ii) whether the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole; and (iii) how the Shareholders should vote in respect of the resolution(s) to approve the Proposed Spin-off at the EGM. We, Gram Capital Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Shareholders in this respect.

INDEPENDENCE

We were not aware of (i) any relationships or interests between Gram Capital and the Company; or (ii) any services provided by Gram Capital to the Company, during the past two years immediately preceding the Latest Practicable Date, or any other parties that could be reasonably regarded as hindrance to Gram Capital's independence to act as the Independent Financial Adviser to the Independent Board Committee and the Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the Directors' representation and confirmation that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the Proposed Spin-off. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, Kunshan QT China or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Proposed Spin-off. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, it is the responsibility of Gram Capital to ensure that such information has been correctly extracted from the relevant sources while we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion in respect of the Proposed Spin-off, we have taken into consideration the following principal factors and reasons:

Background of the Proposed Spin-off

1. Information on the Group

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

Set out below are the consolidated financial results of the Group for the two years ended 31 December 2021 as extracted from the Company's annual report for the year ended 31 December 2021 (the "2021 Annual Report") and for the six months ended 30 June 2022 as extracted from the Company's interim report for the six months ended 30 June 2022 (the "2022 Interim Report"):

	For the six months ended 30 June 2022 ("1H2022") RMB'000 (unaudited)	For the six months ended 30 June 2021 ("1H2021") RMB'000 (unaudited)	Year-on-year change %	For the year ended 31 December 2021 ("FY2021") RMB'000 (audited)	For the year ended 31 December 2020 ("FY2020") RMB'000 (audited)	Change from 2020 to 2021 %
Revenue	7,094,787	9,335,841	(24.0)	18,662,626	17,400,369	7.3
– Camera modules	6,502,418	8,397,994	(22.6)	16,874,936	15,202,259	11.0
– Fingerprint recognition modules	550,701	917,761	(40.0)	1,675,400	2,101,351	(20.3)
– Others	41,668	20,086	107.4	112,290	96,759	16.1
Gross profit	375,830	1,082,765	(65.3)	1,761,982	1,770,585	(0.5)
Profit for the period/year attributable to the equity shareholders of the Company	166,163	570,741	(70.9)	862,976	840,108	2.7

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial performance for FY2021

As depicted in the above table, the Group's revenue for FY2021 increased by approximately 7.3% as compared to that for FY2020. With reference to the 2021 Annual Report, the growth in revenue was mainly attributable to a year-on-year increase of approximately 22.1% in the sales volume of camera modules.

For FY2021, the Group's gross profit was approximately RMB1,761,982,000 (2020: approximately RMB1,770,585,000), representing a slight decrease of approximately 0.5% as compared with that in 2020, while gross profit margin was approximately 9.4% (2020: approximately 10.2%). The slight decrease in gross profit margin was mainly because: (i) the pandemic of COVID-19 continued in the second half of the year 2021 and the negative impact to consumption sentiment persisted, which caused a worse-than-expected sale of high-end Android system smartphone. As an indirect consequence, the adoption and sales of high-end camera modules declined accordingly, affecting the average unit sales price and the added value; (ii) the slowdown in fingerprint recognition module specification upgrades and the significant decrease in raw material prices of conventional capacitive fingerprint recognition modules and optical under-glass fingerprint recognition modules led to a significant decline in the average unit sales price, coupled with intensified competition causing a great impact to the gross profit margin of fingerprint recognition module products; and (iii) the Group continued to strategically intensify its efforts in expanding IoT and automotive.

The Group recorded a slight increase of approximately 2.7% in profit attributable to the equity shareholders of the Company for FY2021 as compared to that for FY2020.

With reference to the 2021 Annual Report, as at 31 December 2021, the Group recorded net assets of approximately RMB4,705.23 million.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Financial performance for 1H2022

As depicted in the above table, the Group's revenue for 1H2022 decreased by approximately 24.0% as compared to that for 1H2021. With reference to the 2022 Interim Report, the decrease in the Group's revenue was mainly due to (i) the demand for smartphones, especially high-end models, declined, and the sales volume of camera modules and fingerprint recognition modules of the Group for 1H2022 decreased by approximately 4.8% and 8.6% as compared to those for 1H2021, respectively; and (ii) the short-term slowdown in smartphone innovation has intensified competition in the smartphone camera module market, and there were large downward pressures on the unit sales price of products (the average unit sales price of camera modules decreased by approximately 18.7% year-on-year during 1H2022; the average unit sales price of fingerprint recognition modules also decreased by approximately 34.3% year-on-year during 1H2022).

During the 1H2022, the Group's gross profit margin was approximately 5.3%, decreasing by approximately 6.3 percentage points from approximately 11.6% for 1H2021. Such decrease was mainly because: (i) as affected by customer structure adjustment, the cooperation with some new customers was still in the development stage and the proportion of the Group's sales volume of high-end camera module products with resolutions of 32 megapixels and above in the total sales volume of camera module products applied to mobile phones decreased by approximately 4.4 percentage points from approximately 32.0% of 1H2021 to approximately 27.6% (due to the fact that at the beginning of 2022, the Group separately counted camera modules used in mobile phones and camera modules used in other fields, and that the high-end camera module products with resolutions of 32 megapixels and above only included single camera module, dual/multiple camera module and 3D module of 32 megapixels and above for mobile phone. As such, the comparative figures for 1H2021 have been adjusted accordingly); (ii) the decline in downstream demand and the disruption in logistics and delivery as a result of the outbreak of COVID-19 in a number of cities, during 1H2022, the production capacity utilization rate of the Group dropped significantly; (iii) the active response of the Group to the government's call and implemented pandemic prevention and control measures, and effectively prevented the spread of the COVID-19 pandemic through efficient and strict pandemic control, which also increased production costs; (iv) the shortage in upstream chip production, the price transmission of key raw materials CMOS image sensor chips has not yet been in place, and the procurement cost has not decreased in the same proportion; (v) in the first quarter of 2022, the labor shortage around the Spring Festival and the increases in local minimum wage standards and minimum social security payment ratio in Suzhou have resulted in an increase in unit labor costs; and (vi) the Group has strategically increased customer development efforts for businesses such as IoT and automotive camera modules, but the gross profit margin was low because the product was in the early stage of development and has not yet formed economies of scale.

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The Group recorded a substantial decrease of approximately 70.9% in profit attributable to the equity shareholders of the Company for 1H2022 as compared to that for 1H2021, which was mainly due to the decline in revenue, and the decline in operating costs was less than that of revenue.

With reference to the 2022 Interim Report, as at 30 June 2022, the Group recorded net assets of approximately RMB4,814.9 million.

2. Information of the Spin-off Group

The Spin-off Group comprised Kunshan QT China and its subsidiaries.

With reference to the Board Letter, Kunshan QT China is a company limited by shares incorporated in the PRC and is an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date. The Spin-off Group are primarily engaged in the business of design, research and development, manufacture and sales of camera modules used for intelligent mobile terminals, such as mobile phone, vehicle, Internet of Things (IoT), etc. (the “**Spin-off Business**”).

Set out below is the consolidated audited financial information of Kunshan QT China prepared in accordance with PRC Generally Accepted Accounting Principles (GAAP) for the three years ended 31 December 2021:

	For the year ended 31 December 2021 RMB'000	For the year ended 31 December 2020 RMB'000	For the year ended 31 December 2019 ("FY2019") RMB'000	Change from 2020 to 2021 %	Change from 2019 to 2020 %
Operating income	17,078,353	17,060,112	13,152,625	0.11	29.71
– Camera modules	16,875,565	15,180,538	10,383,027	11.17	46.21
– Fingerprint recognition modules	81,324 <i>(Note)</i>	1,790,224 <i>(Note)</i>	2,725,609	(95.46)	(34.32)
– Others	121,464	89,350	43,989	35.94	103.12
Profit attributable to shareholder of the parent company	905,573	885,747	509,039	2.24	74.00

Note: On 25 November 2020, Kunshan QT China and 昆山丘鈦生物識別科技有限公司 (Kunshan QTech Biological Recognition Technology Limited) (“**QT Biological Recognition**”), an indirect wholly-owned subsidiary of the Company and a member of the Remaining Group, entered into a transfer agreement to transfer fingerprint recognition modules business and relevant asset from Kunshan QT China to QT Biological Recognition.

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As advised by the Directors, the change in the operating income of the Spin-off Group for the three years ended 31 December 2021 was mainly due to the increase in camera modules during each of the three years ended 31 December 2021. However, due to (i) the stagnant shipment of smartphones had a relatively bigger impact on the sales volume of the Group's fingerprint recognition module products and the impact of the pandemic on the shipment volume of high-end mobile phones had a more severe impact on the average selling price of fingerprint recognition modules for FY2020; and (ii) the transfer of fingerprint recognition modules business by Kunshan QT China to QT Biological Recognition in accordance to a transfer agreement between Kunshan QT China and QT Biological Recognition dated 25 November 2020, revenue generated from fingerprint recognition modules moved in a downward decreasing trend.

The Spin-off Group also recorded increases in profit attributable to shareholder of the parent company for the three years ended 31 December 2021.

As at 31 December 2021, the Spin-off Group recorded net asset value attributable to shareholders of approximately RMB4,569.17 million.

Please also refer to the section headed "INFORMATION ON KUNSHAN QT CHINA AND THE SPIN-OFF GROUP" of the Board Letter for more details.

3. Information of the Remaining Group

With reference to the Board Letter, the Remaining Group will continue to be primarily engaged in the design, research and development, manufacture and sales of biological recognition modules (including but not limited to, fingerprint recognition module) (the "Remaining Business").

Reasons for and benefits of the Proposed Spin-off

With reference to the Board Letter, the Board believes that the Proposed Spin-off is commercially beneficial to the Group and in the interests of the Shareholders to effect the Proposed Spin-off for the following reasons:

- (1) the Proposed Spin-off will unlock value of the Spin-off Group and provide the Company and its Shareholders an opportunity to realise the value of their investment in the Spin-off Group under a separate standalone platform for the Spin-off Business;
- (2) the Proposed Spin-off will separate the Spin-off Business from the Remaining Business. Such separation will enable Shareholders and investors to appraise the strategies, success factors, functional exposure, risks and returns of the Spin-off Group and the Remaining Group separately and to make or refine their investment decisions accordingly. Investors will have the choice to invest in either one or all of the business of the Group;

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- (3) the Proposed Spin-off will enable the Spin-off Group to build its identity as a separately listed group, to have a separate fund-raising platform and to broaden its investor base; It is expected that the Proposed Spin-off may help Kunshan QT China to raise proceeds of approximately RMB0.58 billion to RMB1.5 billion (assuming the Over-allotment Option is not exercised) or RMB1.725 billion (assuming the Over-allotment Option is fully exercised);
- (4) the Spin-off Group will be able to use the proceeds from the Proposed Spin-off for the purposes of facilitating the production capacity expansion and the research and development of camera modules used in intelligent mobile terminals, such vehicle, mobile communication terminals and IoT;
- (5) the Proposed Spin-off will enable the Spin-off Group to enhance its corporate profile, thereby increasing its ability to attract investors for making investments in the Spin-off Group, which could provide synergy for the Spin-off Group, and the Remaining Group will also benefit from such investments without further capital commitment; and
- (6) the Proposed Spin-off will increase the operational and financial transparency of and improve the corporate governance of the Spin-off Group and provide Shareholders and investors with greater clarity on the businesses and financial status of the Spin-off Group on a standalone basis, and such improvements will help to build investor confidence in forming investment decisions based on their assessment of the performance, management, strategy, risks and returns of the Spin-off Group.

Having considered the following factors:

- (i) the reasons for and benefits of the Proposed Spin-off, in particular, the Proposed Spin-off will allow both the Spin-off Group and the Remaining Group to release their values and ultimately benefit the Shareholders;
- (ii) as mentioned above, in any event, Kunshan QT China shall not cease to be a subsidiary of the Company as a result of the Proposed Spin-off (regardless of the exercise of the Over-allotment Option). Therefore, the Shareholders and the Group would continuously enjoy the benefits arising from the future business development and potential growth of the Spin-off Group;
- (iii) the Proposed Spin-off provide additional funding source for the future development of the Spin-off Group;
- (iv) upon the completion of the Proposed Spin-off, Kunshan QT China will become a listed company with shares listed on the ChiNext Market of the Shenzhen Stock Exchange with fund-raising capacity as a listed company on its own;

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- (v) although the Remaining Business was in a decreasing trend for 2020 and 2021, the Spin-off Group was/is, before and after the Proposed Spin-off, remained as a subsidiary of the Company, and therefore the Group (on a consolidated basis) will continuously enjoy the benefits arising from the future business development and potential growth of the Spin-off Group as mentioned above;
- (vi) although there may be uncertainty on the timetable of the Proposed Spin-off, as confirmed by the Directors, in order to ensure a smooth implementation of the fund-raising investment, before the receipt of the proceeds from the Proposed Offering, Kunshan QT China will firstly use its own funds or (if any) self-raised funds by other means as required based on the actual progress of the projects to be invested and then replace such funds according to relevant prescribed procedures upon receiving the proceeds; and
- (vii) Kunshan QT China is expected to proceed the projects regardless of the proceeding of the Proposed Spin-off. Under such circumstance, the source of fund for the abovementioned projects will be a combination of Kunshan QT China's self-owned fund and debt financing, which may cause an increase in the Group's gearing level and financing costs such as interest expense,

we are of the view that the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

The Proposed Spin-off

Percentage of A shares to be issued

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

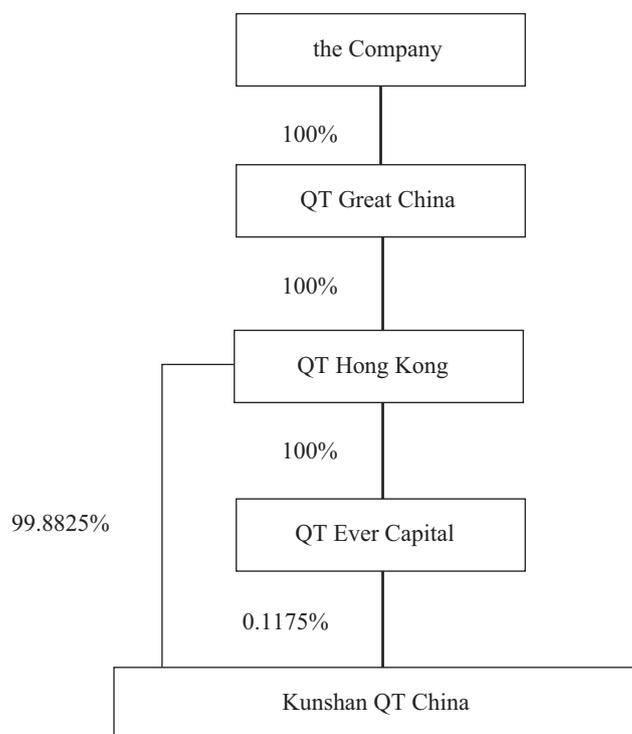
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Structure of the Group, the Spin-off Group and the Remaining Group

As at the Latest Practicable Date, Kunshan QT China had an aggregate of 2,887,588,000 shares in issue, and is an indirect wholly-owned subsidiary of the Company. It is expected that immediately upon completion of the Proposed Spin-off, the Company will indirectly own not less than approximately 85% interest in Kunshan QT China, and therefore Kunshan QT China will remain as a subsidiary of the Company.

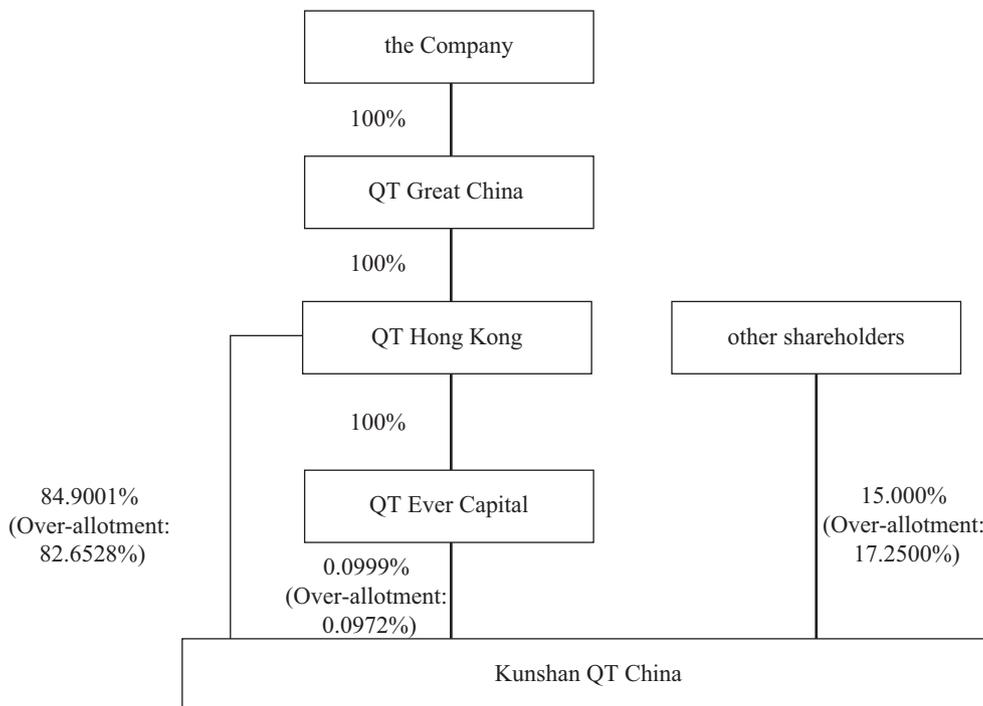
Set out below is a simplified shareholding structure of Kunshan QT China (i) as at the Latest Practicable Date; and (ii) immediately upon completion of the Proposed Spin-off (assuming that the Offer Shares to be issued will represent 15% of the enlarged share capital of Kunshan QT China and the Over-allotment Option is not exercised):

a. as at the Latest Practicable Date



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b. immediately upon completion of the Proposed Spin-off



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

Proposed use of proceeds

It is expected that the proceeds from the Proposed Offering will be used for the development of the Spin-off Business. Assuming that the amount of proceeds from the Proposed Offering is approximately RMB1.5 billion, of which:

- (i) approximately RMB745.8807 million (accounting for approximately 49.73% of the proceeds) will be used for the development and production project of high-end camera module for smartphone located in Kunshan City, Jiangsu Province, PRC, which is expected to be completed by second half of the year 2024;
- (ii) approximately RMB344.2933 million (accounting for approximately 22.95% of the proceeds) will be used for the IoT camera module development and production project located in Kunshan City, Jiangsu Province, PRC, which is expected to be completed by second half of the year 2024;

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- (iii) approximately RMB159.9321 million (accounting for approximately 10.66% of the proceeds) will be used for the automotive camera module production project located in Kunshan City, Jiangsu Province, PRC, which is expected to be completed by second half of 2024; and
- (iv) the remaining amount of approximately RMB249.8939 million (accounting for approximately 16.66% of the proceeds) will be used to supplement the working capital.

The above timetable is based on current estimates of the management of the Spin-off Group and is subject to change depending on the actual project progress. In the actual use of proceeds, Kunshan QT China will allocate and use the proceeds in accordance with the priorities of the aforementioned purposes within the legal limits. If the final proceeds from the Proposed Offering are less than RMB1.5 billion, the respective amount of proceeds allocated for the above purposes will be reduced on a pro-rata basis.

As mentioned above, Kunshan QT China is expected to proceed the projects regardless of the proceeding of the Proposed Spin-off. Under such circumstance, the source of fund for the abovementioned projects will be a combination of Kunshan QT China's self-owned fund and debt financing, which may cause an increase in the Group's gearing level and financing costs such as interest expense.

Based on the above, we consider that the proceeds from the Proposed Offering can support the Spin-off Group's business development and may enhance the value of the Group's interest in Kunshan QT China without incur additional interest expense.

Conditions of the Proposed Spin-off

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

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

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Lock-up and non-competition undertakings

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

- (i) each of QT Hong Kong and QT Ever Capital, each being a wholly-owned subsidiary of the Company, and Mr. He Ningning, the controlling shareholder of the Company, undertakes that it/he will not, within 36 months from the date of the Proposed Offering, reduce its/his shareholding in Kunshan QT China directly or indirectly held by it/him before the Proposed Offering, and if it/he reduces the shareholding in Kunshan QT China within two years from the expiry of the aforesaid lock-up period, the selling price of such shares shall not be lower than the Offer Price (the "**Lock-up Requirement**");
- (ii) each of the directors (excluding Mr. He Ningning), supervisors and senior managers of Kunshan QT China undertakes that he/she will not, within 12 months from the date of the Proposed Offering, reduce his/her shareholding in Kunshan QT China directly or indirectly held by him/her before the Proposed Offering, and if he/she reduces the shareholding in Kunshan QT China within two years from the expiry of the aforesaid lock-up period, the selling price of such shares shall not be lower than the Offer Price;
- (iii) within 6 months after the Proposed Offering, if the closing price of the A share of Kunshan QT China falls below the Offer Price for 20 consecutive trading days, or if the closing price of the A share of Kunshan QT China falls below the Offer Price on the date that is 6 months after the Proposed Offering, the lock-up period of the A shares held by QT Hong Kong and the directors and senior managers of Kunshan QT China shall be automatically extended for another 6 months;
- (iv) each of the directors, supervisors and senior managers of Kunshan QT China undertakes that, if he/she still acts as a director, supervisor or senior manager after the expiry of the lock-up period, he/she shall not transfer more than 25% of his/her shareholding in the A shares of Kunshan QT China each year, and shall not transfer all his/her shareholding in Kunshan QT China within 6 months after he/she ceases to be employed as a director, supervisor or senior manager of Kunshan QT China. If he/she leaves office before the expiry of his/her term of office, he/she undertakes to comply with the above provisions for the duration of the term determined at the time of taking office and 6 months after the expiry of his/her term of office; and

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- (v) each of Mr. He Ningning, the Company and QT Hong Kong undertakes that he/it will not, directly or indirectly, engage in any business or activity that constitutes or may constitute competition with the business of Kunshan QT China which will materially and adversely affect the business of Kunshan QT China. According to the letters of undertaking on avoiding horizontal competition executed by the Company and QT Hong Kong dated 22 June 2021, the non-competition undertakings executed by the Company and QT Hong Kong dated 22 June 2021 will remain valid until either of the following occurs: (i) that the Company or QT Hong Kong ceases to be a material shareholder (shareholder that directly or indirectly holds 5% or more voting rights) of Kunshan QT China; or (ii) that Kunshan QT China ceases to list on the Shenzhen Stock Exchange.

We understand from the Directors that the Company has no present intention to dispose of the shares in Kunshan QT China upon and immediately after the Proposed Offering. As such, notwithstanding the Lock-up Requirement as mentioned above, the Proposed Spin-off will be beneficial to the Company and Shareholders in the long run as the Proposed Offering will render the Group's investment in Kunshan QT China a publicly tradable asset, as a result of which the Group will be able to trade the shares of Kunshan QT China through an open trading platform as it sees fit in the future.

We noted from 《深圳證券交易所創業板股票上市規則》(the Listing Rule of the ChiNext Market of the Shenzhen Stock Exchange*) that there is requirement (i) for the controlling shareholder, de facto controller (and their controlled enterprises) of listed applicant (i.e. Kunshan QT China in this case) to avoid business competition with listed applicant (i.e. Kunshan QT China in this case); and (ii) to regulate and reduce related party transaction with listed applicant (i.e. Kunshan QT China in this case) and to maintain independence of listed applicant (i.e. Kunshan QT China in this case).

As also advised by the Directors, (i) the Spin-off Group and Remaining Group are expected to be able to function independently of each other; and (ii) there is sufficient delineation in terms of business, sales and marketing, sales and purchase procedures, production plants and facilities, etc. between the Spin-off Group and the Remaining Group. Therefore, we consider that the non-competition undertaking are not expected to have any material adverse impact on the operations and business of the Remaining Group following completion of the Proposed Offering.

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Proceeds to be raised from the Proposed Spin-off

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

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

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

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We noted that the trading multiples analysis, such as price to earnings ratio (“**PER**”) and price to book ratio (“**PBR**”), are commonly adopted valuation methods in the market. We searched for other companies listed on the Hong Kong Stock Exchange, Shanghai Stock Exchange and the Shenzhen Stock Exchange which have similar lines of business as Kunshan QT China (i.e. engaged in the design, research and development, manufacture and sales of camera modules with more than 50% of revenue derived from this principal business) and the trading of shares of such listed companies were not halted or suspended for more than three months as at the Latest Practicable Date (the “**Comparable Company(ies)**”). To the best of our knowledge and as far as we are aware of, we found 5 companies which met the said criteria and they are exhaustive.

Company name (Stock code)	Principal business	PER (Note 1)	PBR (Note 2)
Cowell e Holdings Inc. (1415)	Design, development, manufacture and sales of camera modules for mobile devices and home appliances as well as optical components for optical disk drivers	27.75	4.33
Sunny Optical Technology (Group) Company Limited (2382)	Design, research and development, manufacture and sales of optical and optical- related products	18.80	4.51
Sky Light Holdings Limited (3882)	Manufacture and distribution of home surveillance cameras, digital imaging products, other electronic products	N/A (Note 3)	6.72
Zhejiang Crystal-Optech Co., Limited (SZ002273)	Research and development, manufacture of optical component, biometrics, thin film optical panels, new displays and reflective materials	38.68	2.10
Shenzhen O-Film Tech Co. Ltd (SZ002456)	Design and production of camera modules, optical lenses and fingerprint recognition modules for smartphone and automobile	N/A (Note 3)	3.28
	Maximum	38.68	6.72
	Minimum	18.80	2.10
	Average	28.41	4.19
Kunshan QT China	Based on gross proceeds of RMB0.58 billion	5.82 (Note 4)	1.15 (Note 4)
	Based on gross proceeds of RMB1.5 billion	11.04 (Note 4 & 5)	2.19 (Note 4 & 5)
The Company		5.27	0.94

Source: the Hong Kong Stock Exchange’s website, the cninfo website and Wind Financial Terminal

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Notes:

1. The PERs of the Comparable Companies were calculated based on their respective then latest published profit attributable to shareholders of the company for the latest financial year, their respective closing prices as quoted on the Hong Kong Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange (as the case may be) and the total issued shares as at the Latest Practicable Date.
2. The PBRs of the Comparable Companies were calculated based on their respective then latest published net assets value attributable to the shareholders, their respective closing prices as quoted on the Hong Kong Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange (as the case may be) and the total issued shares as at the Latest Practicable Date.
3. The company was loss making for the latest financial year.
4. The implied PER of Kunshan QT China is based on the gross proceeds to be raised from the Proposed Spin-off and Kunshan QT China's profit attributable to shareholder of the parent company for the year ended 31 December 2021; and the implied PBR of Kunshan QT China is based on the gross proceeds to be raised from the Proposed Spin-off and Kunshan QT China's net asset value attributable to shareholders as at 31 December 2021.
5. The Company expected that the exercise of Over-allotment Option will not affect the PER and PBR of Kunshan QT China as both gross proceeds from the Proposed Spin-off and number of issued shares of Kunshan QT China will increase in proportion.

As depicted from the above table, the Company's PER and PBR are lower than both the Comparable Companies' and the Spin-off Group's PERs and PBRs (in particular, significantly below the implied PER and PBR of the Spin-off Group based on gross proceeds of RMB1.5 billion). Accordingly, the Proposed Spin-off is likely to unlock the value of the Spin-off Group and attain higher market value, evidenced by (i) higher PER and PBR as compared to the Group's existing PER and PBR; and (ii) enhanced liquidity of publicly trading of Kunshan QT China's shares upon the completion of the Proposed Offering.

Taking into account the principal factors as discussed above, we consider that the terms of the Proposed Spin-off are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Possible financial effects

With reference to the Board Letter, it is expected that upon the completion of the Proposed Spin-off, Kunshan QT China will continue to be a subsidiary of the Company. Accordingly, the operating results of Kunshan QT China will continue to be consolidated into the financial statements of the Company.

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The Proposed Offering will increase the number of shares of Kunshan QT China and raise corresponding funds. The net proceeds of the Proposed Offering will increase the Group's cash and cash equivalents and total assets. The Proposed Spin-off will not affect the Group's liabilities.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Proposed Spin-off.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we are of the opinion that (i) the terms of the Proposed Spin-off are fair and reasonable; and (ii) the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Proposed Spin-off and we recommend the Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Gram Capital Limited
Graham Lam
Managing Director

Note: Mr. Graham Lam is a licensed person registered with the Securities and Futures Commission and a responsible officer of Gram Capital Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in investment banking industry.

* *For identification purpose only*

1. INDEBTEDNESS STATEMENT

At the close of business on 31 October 2022, being the latest practicable date prior to the printing of this circular for ascertaining certain information relating to the indebtedness statement, the Group had aggregate indebtedness of approximately RMB2,885,456,000 comprising:

(i) Bank and other borrowings

The Group had outstanding unsecured bank borrowings of approximately RMB1,903,632,000 and secured bank borrowings of approximately RMB969,989,000. The secured bank borrowings were secured by the Group's pledged stock rights of Newmax Technology Co., Ltd. (an associate of the Company) and pledged bank deposits with an aggregate carrying amount of approximately RMB1,150,800,000. All of the bank borrowings are repayable within one year.

(ii) Lease Liabilities

The Group had outstanding unsecured lease liabilities of approximately RMB11,835,000.

Save as aforesaid and apart from intra-group liabilities and normal trade payables in the ordinary course of business, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of the borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding as at 31 October 2022.

Save as aforementioned in this indebtedness statement, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 June 2022, up to and including the Latest Practicable Date.

2. STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

The Directors are of the opinions that, having regard to the financial resources available to the Group, including internally generated funds and the effect of the Proposed Spin-off, the Group will have sufficient working capital for its present requirements for at least the next twelve months from the date of this circular.

3. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

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

Despite significant uncertainties and challenges in the macro environment, the demand for biological recognition modules continues and is widespread. The Company adheres to the five-year development plan as set out in the Company's 2021 interim report, among which the objective is to rank top two in terms of sales scale of fingerprint recognition module business in the PRC and to remain on par with its major competitors. The Company further puts forward the following three goals:

- (i) focus on the design, development and business development of biological recognition module products besides capacitive fingerprint recognition module and optical fingerprint recognition module to meet the differentiated product needs of different customers;
- (ii) focus on the international layout of biological recognition module business, actively develop as qualified suppliers of overseas smartphone, notebook and smart home brands on the basis of establishing cooperative relationships with major mobile phone and notebook brands in China as well as gain more market share, and gradually set up independent overseas center of design, research and development and manufacturing to provide high quality and close service to overseas customers; and
- (iii) focus on internal management and cost optimization, firmly adhere to the Company's ESG concept of "treating environmental protection as our key responsibilities", continue to establish a sound management structure and internal monitoring process according to good corporate governance requirements, and improve management and control efficiency as well as risk prevention ability.

The Company will continue to strive for business growth and seize opportunities for enhancing the returns to the Shareholders.

4. MATERIAL ADVERSE CHANGE

Save as disclosed in the interim report for the six months ended 30 June 2022, the Directors are of the opinion that there was no material adverse change in the financial or trading position of the Group since 31 December 2021, being the date to which the latest published audited accounts of the Group have been made up, and up to the Latest Practicable Date.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Directors

(a) *Directors' and chief executives' interests and short positions in the Shares, underlying Shares and debentures*

As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executives of the Company and their respective associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) to be notified to the Company and the Hong Kong Stock Exchange were as follows:

(1) *Interests in the Shares of the Company*

Name of Director	Nature of interest	Number of Shares (Note 3)	Approximate % of issued share capital (Note 2)
He Ningning (Note 1)	Interest of a controlled corporation	752,491,000 (L)	63.53%
He Ningning	Beneficial owner	1,180,000 (L)	0.10%
Hu Sanmu	Beneficial owner	2,995,000 (L)	0.25%
Ko Ping Keung	Beneficial owner	200,000 (L)	0.02%
Fan Fuqiang	Beneficial owner	2,635,000 (L)	0.22%

Notes:

1. Mr. He Ningning, an executive Director and the chairman of the Board, is the sole beneficial owner of QT Investment which owned approximately 63.53% of the issued Shares of the Company as at the Latest Practicable Date. Under Part XV of the SFO, Mr. He Ningning is deemed to be interested in the Shares held by QT Investment.
2. The percentage represents the number of Shares divided by 1,184,538,475 issued Shares of the Company in total as at the Latest Practicable Date.
3. The letter “L” denotes a long position in such securities.

(2) Interest in underlying Shares

Name of Director	Nature of interest	Number of underlying Shares in respect of the share options granted <i>(Note 3)</i>	Approximate %
			of issued share capital (assuming that the share options are exercised in full) <i>(Note 2)</i>
Hu Sanmu <i>(Note 1)</i>	Beneficial owner	189,000 (L)	0.02%
Fan Fuqiang <i>(Note 1)</i>	Beneficial owner	189,000 (L)	0.02%

Notes:

1. The share option scheme of the Company as adopted on 13 November 2014, details of which are set out in the Company’s annual report for the year ended 31 December 2021 (the “**Share Option Scheme**”).
2. The percentage represents the number of underlying Shares divided by 1,184,538,475 issued Shares of the Company in total as at the Latest Practicable Date.
3. The letter “L” denotes a long position in such securities.

(3) Interest in associated corporation

Name of Director	Name of associated corporation	Nature of interest	Number of Shares	Approximate % of issued share capital of associated corporation
He Ningning	QT Investment	Beneficial owner	2	100%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

(b) Directors' interests in assets and contracts of the Company

As at the Latest Practicable Date, save as disclosed in the Company's announcements dated 27 November 2020, 31 May 2021 and 8 November 2022, (i) none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by, or leased to, any member of the Group since 31 December 2021, being the date to which the latest published audited financial statements of the Group were made up; and (ii) none of the Director was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

(c) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or may not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

(d) Directors' interests in competing businesses

As at the Latest Practicable Date, none of the Directors or any of their respective close associates was interested in any business, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

(ii) Substantial shareholders' and other person's interests and short positions in the Shares, underlying Shares and debentures

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, the following persons (not being a Director or chief executive of the Company) has an interest or short position in the Shares or underlying Shares of the Company as recorded in the register required to be kept under section 336 of the SFO or which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of interest	Number of Shares or underlying Shares <i>(Note 3)</i>	Approximate % of issued share capital <i>(Note 1)</i>
QT Investment	Beneficial owner	752,491,000 (L)	63.53% <i>(Note 2)</i>

Notes:

- The percentage represents the number of underlying Shares divided by 1,184,538,475 issued Shares of the Company in total as at the Latest Practicable Date.
- Mr. He Ningning is directly interested in the entire interest of QT Investment, which owned approximately 63.53% of the issued Shares of the Company in total as at the Latest Practicable Date.
- The letter "L" denotes a long position in such securities.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, no other persons (not being a Director or chief executive of the Company) had, or were deemed to have, an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO.

3. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

4. MATERIAL CONTRACTS

The Group has not entered into any contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this circular and which are material to the Group.

5. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinions, letter or advices contained in this circular:

Name	Qualification
Gram Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO

As at the Latest Practicable Date, Gram Capital does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did it have any direct or indirect interests in any assets which have been, since 31 December 2021 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Gram Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and references to its name in the form and context in which they are included.

The letter and recommendation given by Gram Capital as of the date of this circular for incorporation herein.

6. MISCELLANEOUS

- (i) The company secretary of the Company is Mr. Cheng Zhihua, a member of the Hong Kong Institute of Certified Public Accountants.
- (ii) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (iii) The headquarters and principal place of business in the PRC of the Company is at No. 3 Taihong Road, Hi-tech Industry Park, Kunshan, Jiangsu Province, PRC.
- (iv) The principal place of business in Hong Kong of the Company is at Room 828, 8/F Topsail Plaza, 11 On Sum Street, Shatin, New Territories, Hong Kong.
- (v) The Company's branch share registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (vi) The English text of this circular shall prevail over the Chinese text.

7. DOCUMENTS ON DISPLAY

The following documents are available on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.qtechsmartvision.com) for a period from the date of this circular up to and including the date of the EGM:

- (i) memorandum and articles of association of the Company;
- (ii) the letter from the Independent Board Committee, the text of which is set out on pages 25 to 26 of this circular;
- (iii) the letter from the Independent Financial Adviser, the text of which is set out on pages 27 to 45 of this circular;
- (iv) the written consent as referred to in the paragraph headed “Expert and Consent” in this appendix;
- (v) the annual reports of the Company for the two years ended 31 December 2020 and 31 December 2021; and
- (vi) this circular.

NOTICE OF EGM



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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

Q Technology (Group) Company Limited (the “**Company**”) hereby announces that the Extraordinary General Meeting (the “**EGM**”) will be held at Room 901, 9/F, Block 4C, Software Industrial Base, Xuefu Road, Nanshan District, Shenzhen, the PRC on 30 December 2022 at 10:30 a.m. for the purpose of considering and, if thought fit, passing with or without modification of the following ordinary resolution:

ORDINARY RESOLUTION

“**THAT**

- (a) the proposed spin-off of Kunshan QTech Microelectronics Co., Ltd., (昆山丘鈦微電子科技股份有限公司)(“**Kunshan QT China**”), a wholly-owned subsidiary of the Company, and a separate listing of the shares of Kunshan QT China on the ChiNext Market of the Shenzhen Stock Exchange by way of the issuance and offering of new shares of Kunshan QT China (the “**Proposed Spin-off**”) be and is hereby approved; and
- (b) any one director of the Company be and is hereby authorized on behalf of the Company to do all such acts and sign all such documents and to enter into all such transactions and arrangements as may be necessary or expedient in order to ensure smooth implementation of and to give effect to the Proposed Spin-off.”

By Order of the Board

Q Technology (Group) Company Limited

He Ningning

Chairman and Executive Director

Hong Kong, 8 December 2022

NOTICE OF EGM

Registered office:

Cricket Square, Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Principal place of business in Hong Kong:

Room 828, 8/F, Topsail Plaza, 11 On Sum Street,
Shatin, New Territories,
Hong Kong

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

Notes:

- (1) Any member of the Company (the “**Member**” or the “**Shareholder**”) entitled to attend and vote at the EGM of the Company convened by the above notice or its adjourned meeting (as the case may be) is entitled to appoint one or more proxies to attend and vote on his/her/its behalf. A proxy need not be a Member but must be present in person at the EGM to represent the Member. If more than one proxy is so appointed, the appointment shall specify the number of Shares in respect of which such proxy is so appointed.
- (2) In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 48 hours before the time for holding the EGM or its adjourned meeting. Completion and return of a form of proxy will not preclude a Member from attending and voting in person at the EGM or its adjourned meeting should he/she so wish.
- (3) For determining the entitlement of the Shareholders to attend and vote at the EGM, the register of members of the Company will be closed from 23 December 2022 (Friday) to 30 December 2022 (Friday) (both days inclusive), during which period no transfer of shares will be registered. In order to qualify to attend and vote at the EGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 22 December 2022 (Thursday).
- (4) Where there are joint holders of any share, any one of such joint holders may vote at the EGM, either in person or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which names stand in the register of members of the Company in respect of the joint holdings.