

Company Stock Code: 603236.SS
Short Name of the Company: Quectel



Quectel Wireless Solutions Co., Ltd.
2020 Semi-Annual Financial Report



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1 Important Reminder

- (1) This Semi-Annual Report Abstract is from the full text of the Semi-Annual Report. Investors are advised to read the full text of the Semi-Annual Report published on the media designated by China Securities Regulatory Commission, such as the official website of Shanghai Stock Exchange, to have a comprehensive understanding of the Company's performance, financial status and future development plan.
- (2) The Board of Directors, Board of Supervisors as well as the Directors, Supervisors and Senior Executives of the Company hereby guarantee the authenticity, accuracy and completeness of the contents, without any misrepresentation, misleading statement or material omission, of this Report, and shall bear joint and several legal liabilities.
- (3) All Directors of the Company attended the Board meeting to review this Semi-Annual Report.
- (4) This Semi-Annual Report has not been audited.

2 Basic Information of the Company

2.1 Company Profile

Stock Profile				
Class of Stock	Stock Exchange for Listing	Stock Name	Stock Code	Previous Stock Name
A Share	Shanghai Stock Exchange	Quectel	603236	—

Contact Information	Board Secretary	Securities Affairs Representative
Name	Lei ZHENG	Fan WANG
Office Address	Building 5, Shanghai Business Park Phase III (Area B), No.1016 Tianlin Road, Minhang District, Shanghai 200233, China	Building 5, Shanghai Business Park Phase III (Area B), No.1016 Tianlin Road, Minhang District, Shanghai 200233, China
Tel.	021-51086236	021-51086236
E-mail Address	yiyuan@quectel.com	yiyuan@quectel.com

2.2 Key Financial Indicators

Unit: Yuan Currency: RMB

	End of Reporting Period	End of last year	Fluctuation (%)
Total assets	3,989,309,233.77	2,931,973,545.61	36.06
Net assets attributable to shareholders of the Company	1,744,643,869.44	1,714,723,122.18	1.74
	Reporting Period (January – June)	Same period of last year	Fluctuation (%)
Net cash flow from operating activities	-324,358,042.90	-58,585,944.28	
Revenues	2,497,180,222.72	1,707,873,425.72	46.22
Net profits attributable to shareholders of the Company	69,657,284.89	78,216,135.86	-10.94
Net profits attributable to shareholders of the Company excluding non-recurring profit or loss	44,809,697.56	75,552,559.83	-40.69
Weighted average ROE (%)	4.03	11.23	-7.20
Basic earnings per share (Yuan/share)	0.65	0.73	-10.96

Diluted earnings per share (Yuan/share)	0.65	0.73	-10.96
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3 Business Overview

3.1 Main Business, Business Model and Industry Context in the Reporting Period

3.1.1 Main Business

Since its establishment, the Company has been valuing development as the only way forward and incessantly improving its competitiveness. Taking on the mission of "building a smarter world", it specializes in the design, production, R&D and sales of wireless communication modules and solutions in the field of IoT, providing one-stop services including wireless communication modules, IoT solutions and cloud platform management. The Company is committed to producing high-quality modules and enabling better connection between things and between things and people, thus unleashing infinite potential in industrial innovation.

Its main products include GSM/GPRS modules (2G modules), WCDMA/HSPA modules (3G modules), LTE modules (4G modules), LPWA modules, 5G modules, GNSS positioning modules, Wi-Fi modules, antenna services and so forth.

3.1.2 Business Model

3.1.2.1 Procurement Model

The Company has established a strict controlling system to regulate and standardize the procurement process, including selection and evaluation of suppliers, quality control of raw materials, etc., so as to ensure efficient and organized procurement. The Procurement Department organizes purchases based on order status, safety stock, R&D requirements and future market expectations.

3.1.2.2 Production Model

Production is partly outsourced and partly undertaken by the Company itself. The Company selects for its outsourced production factories that strictly meet industrial standards and have excellent production qualifications. Meanwhile, it has built and put into use an intelligent manufacturing center. With a combination of self-manufacturing and outsourcing, the Company has significantly increased its production efficiency, ensured production capacity and supply, and improved its ability for accelerated delivery.

3.1.2.3 Sales Model

In the Reporting Period, the product sales market was divided into overseas and domestic markets; the sales model included distribution and direct sales. To facilitate market development and improve sales management, the Company divided the sales area into China, Europe, Asia-Africa-Latin America and North America. Sales and technical service teams in multiple countries and regions around the world can provide customers with timely and efficient localized services.

3.1.3 Industry Context

The IoT wireless communication module industry is the first industry in the IoT field to have developed a complete industrial chain and an internally driven application market. With the rapid development of wireless communication technologies, the market of wireless communication modules is promising.

According to the survey results released by Berg Insight in 2020, global cellular IoT module shipments increased by 22% in 2019, reaching 265 million pieces. The top five suppliers together accounted for 71% of the market share. In 2019, Quectel surpassed the Canadian company Sierra Wireless to become the world's largest supplier of cellular IoT modules.

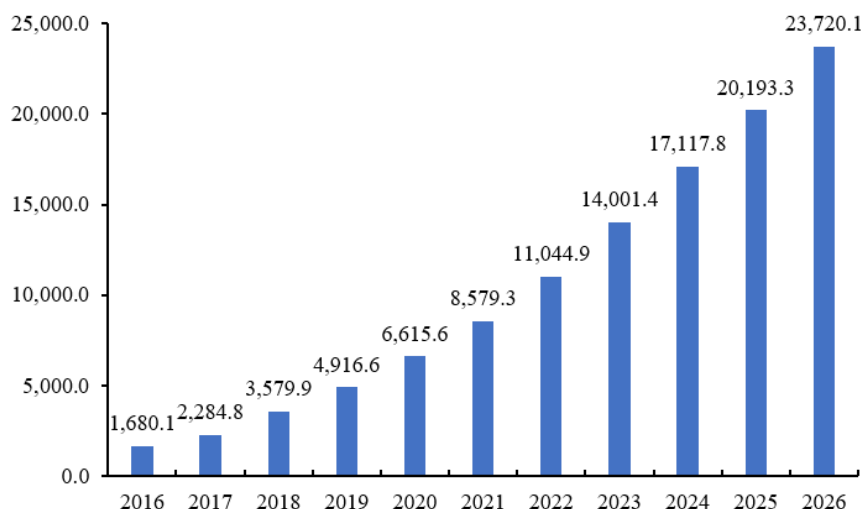
Figure 2.5: Top cellular IoT module vendors, by revenues and shipments (World 2019)

Company	Sales (US\$ m)	Change	Market share	Shipments (m)
Quectel	574	52 %	18 %	72
Sierra Wireless	477	- 17 %	15 %	16
Thales	440	10 %	14 %	22
Sunsea AIoT	395	- 1 %	13 %	58
Telit ¹	339	- 11 %	11 %	22

1Figures include sales of disposed automotive product line in January–February

Source: Berg Insight

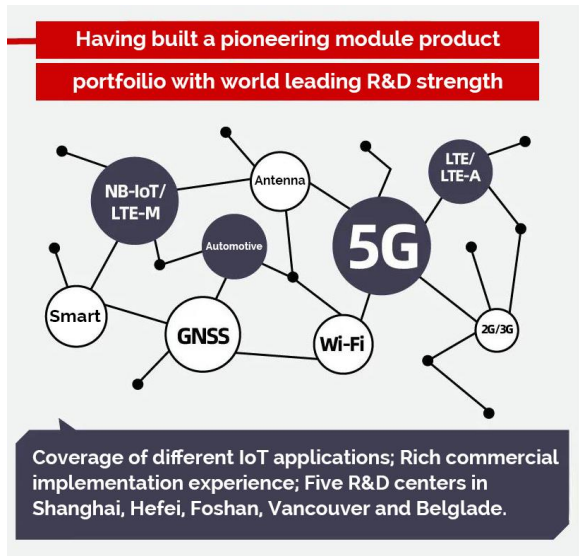
With the continuous development of communication technologies such as NB-IoT, 5G and Wi-Fi and their related technologies like sensors, artificial intelligence and big data, the IoT technology gradually matures, and the demands for various IoT connections continue to grow. According to the data from ABI Research, it is estimated that by 2026, the number of IoT terminal connections will reach 23.72 billion, and the value of IoT connections will reach 52.34 billion USD.



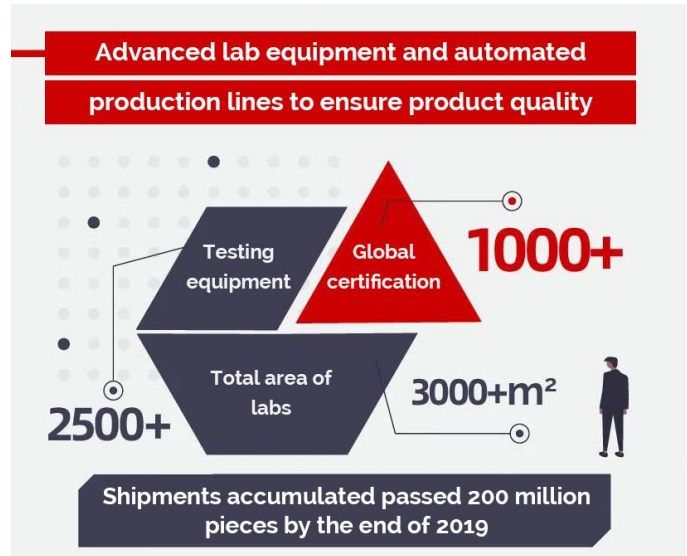
Source: ABI Research

3.2 Analysis on Core Competencies in the Reporting Period

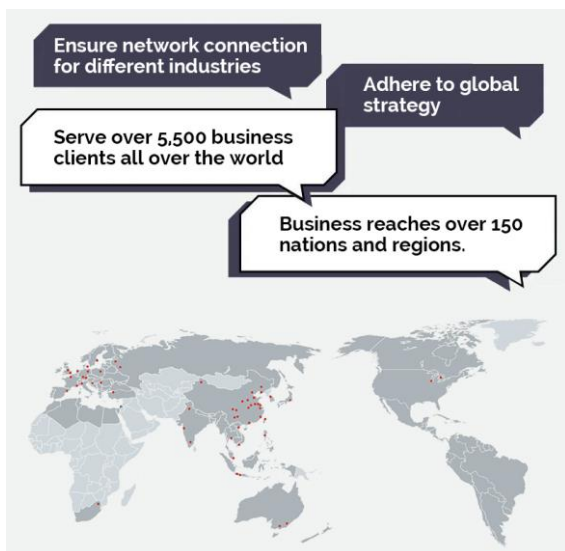
The production of modules involves multiple technologies of communications, software development, hardware design, certification, production, testing, etc. In addition, the application of modules also requires comprehensive technical support. Therefore, the communication module industry has a high entry threshold. Having been working in the industry for years, Quectel has accumulated strong technical force and rich experiences, boasting sharp competitive advantages in supply chain, R&D, production, sales and service. The company's core competencies are analyzed as follows:



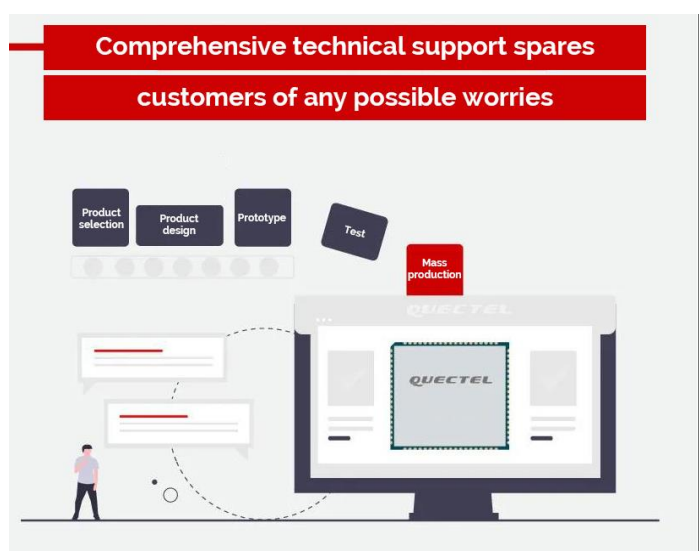
R&D and Product Advantage



Quality and Scale Advantage



Global Business Layout



Comprehensive Technical Service

3.3 Discussion and Analysis of Business Conditions

The increasingly severe international economic situation has brought unprecedented challenges to the global industrial chain. In the face of uncertainties in both domestic and international environment, the Company's management team has taken prudent countermeasures and made overall arrangements. All the employees have been making efforts to push forward businesses and shoulder social responsibilities. Oriented by customers' requirements and driven by technological innovation, they are continually promoting the stable and healthy development of the Company.

- (1) During the Reporting Period, the Company generated business revenue of 2497 million Yuan, an increase of 46.22% over the same period of the previous year; net profit attributable to shareholders of the Company was about 69,657,300 Yuan, a decrease of 10.94% over the same period of the previous year. In the first half of 2020, the Company's gross profit margin was 20.35%, basically stable compared with the same period of last year.
- (2) During the Reporting Period, the Company built in Foshan its fifth R&D center, complementing the other four in Shanghai, Hefei, Vancouver and Belgrade.
- (3) During the Reporting Period, the Company invested 262 million Yuan in research and development, accounting for 10.48% of its business revenue, an increase of 100.98% over the same period of last year. By the end of the Reporting Period, the Company has obtained 104 patents and 134 software copyrights.
- (4) Dedicated to creating a full product portfolio, the Company keeps enriching its product lines. During the Reporting Period, every product line launched new products, such as the Automotive 5G NR Sub-6 GHz module AG550Q, the 5G/4G/3G multi-mode module RG801H that features ultra-high uplink rate and extreme temperature adaptability, the GNSS-integrated LPWA module BG600L-M3 which supports Cat M1, Cat NB2 and EGPRS, the super cost-effective and high-performance LTE Cat 1 modules EC200S and EC100Y, the IEEE 802.11 ax and 802.11a/b/g/n/ac compatible Wi-Fi6 module FG50X that supports the simultaneous access of 32 terminals, the multi-mode, dual-frequency, high-precision GNSS positioning module LC29D that can achieve the highest sub-meter level positioning accuracy at the centimeter-level, and the flagship smart module SA800U which has a super processing power, rich multimedia functions and Wi-Fi projection capability. These product innovations have boosted the growth of the Company's overall business revenue.
- (5) The Company has put into use an intelligent manufacturing center with advanced SMT production lines and a complete set of automated production and test lines independently developed by the Company, thus having realized highly automated SMT, testing and packaging.
- (6) During the Reporting Period, the Company actively fulfilled its social responsibilities and donated one million Yuan via the Shanghai Charity Foundation to medical workers dispatched from Shanghai to Hubei Province on the mission of the special action against COVID-19 outbreak. On top of that, products equipped with Quectel modules such as contactless smart food delivery vehicles, smart door magnetic alarms, unmanned aerial vehicle, unmanned logistics robots and medical service

robots also provided logistical support for the containment of the epidemic.

In the future, Quectel will continue its R&D investment in the field of IoT communications and cooperate with upstream and downstream partners in the industry chain to jointly promote the development of the IoT ecosystem and accelerate the integration of communications technology into all walks of life.

4 Financial Reports

Consolidated Balance Sheet

Jun. 30, 2020

Name of enterprise: Quectel Wireless Solutions Co., Ltd.

Unit: Yuan Currency: RMB

Items	Jun. 30, 2020	Dec. 31, 2019
Current Assets:		
Cash and bank balances	791,990,224.05	601,191,423.32
Financial assets held for trading		301,118,055.56
Accounts receivable	647,704,455.45	480,932,487.85
Accounts receivable financing	254,518,163.42	178,553,333.41
Prepayments	126,431,724.84	15,026,229.99
Other receivables	33,821,545.99	35,718,179.44
Inventories	1,375,330,627.67	724,338,080.95
Other current asset	216,777,481.14	221,122,770.18
Total current assets	3,446,574,222.56	2,558,000,560.70
Non-current Assets:		
Long-term equity investment	1,747,522.23	
Other equity instrument investment	60,000,000.00	60,000,000.00
Fixed assets	211,749,877.60	159,112,536.14
Construction in process	33,350,769.15	21,768,111.39
Intangible assets	67,954,580.69	53,785,328.05
Long-term deferred expenses	54,984,889.21	44,694,624.82
Deferred tax assets	7,123,795.37	5,609,982.41
Other non-current assets	105,823,576.96	29,002,402.10
Total non-current assets	542,735,011.21	373,972,984.91
Total assets	3,989,309,233.77	2,931,973,545.61
Current Liabilities:		

Short-term borrowings	674,320,725.80	236,535,945.54
Notes payable	169,497,867.93	127,045,352.65
Account payable	1,237,578,494.31	723,773,777.03
Advances from customers		29,136,712.76
Contract liability	24,708,236.82	
Employee salaries payable	104,555,950.68	94,749,548.93
Taxes payable	2,782,788.45	4,684,557.45
Other payables	1,221,300.34	1,324,529.07
Total current liabilities	2,214,665,364.33	1,217,250,423.43
Non-current Liabilities:		
Long-term borrowings	30,000,000.00	
Total Non-current liabilities	30,000,000.00	
Total liabilities	2,244,665,364.33	1,217,250,423.43
Shareholders' equity		
Share capital	107,016,000.00	89,180,000.00
Capital reserve	1,159,529,341.31	1,172,630,636.96
Other comprehensive income	140,081.72	21,323.70
Surplus reserve	35,468,387.85	35,468,387.85
Retained earnings	442,490,058.56	417,422,773.67
Total equity attributable to parent company	1,744,643,869.44	1,714,723,122.18
Total shareholders' equity	1,744,643,869.44	1,714,723,122.18
Total liabilities and shareholders' equity	3,989,309,233.77	2,931,973,545.61

Parent Company Balance Sheet

Jun. 30, 2020

Name of enterprise: Quectel Wireless Solutions Co., Ltd.

Unit: Yuan Currency: RMB

Items	Jun. 30, 2020	Dec. 31, 2019
Current Assets:		
Cash and bank balances	633,354,383.72	506,572,015.47
Financial assets held for trading		301,118,055.56
Accounts receivable	648,791,595.11	477,027,756.48
Accounts receivable financing	253,818,163.42	181,831,546.86
Prepayments	56,617,326.68	9,917,961.67
Other receivables	39,382,619.23	34,294,491.87
Inventories	1,347,426,072.69	722,611,632.60
Other current asset	209,632,498.35	218,383,697.24
Total current assets	3,189,022,659.20	2,451,757,157.75
Non-current Assets:		
Long-term equity investment	196,671,689.85	121,839,380.85
Fixed assets	153,084,107.05	122,061,707.77
Intangible assets	54,196,719.05	53,785,328.05
Long-term deferred expenses	37,435,499.74	33,897,227.17
Deferred tax assets	6,941,065.97	5,558,054.07
Other non-current assets	103,962,255.46	14,406,480.58
Total non-current assets	552,291,337.12	351,548,178.49
Total assets	3,741,313,996.32	2,803,305,336.24
Current Liabilities:		
Short-term borrowings	674,320,725.80	236,535,945.54
Notes payable	162,086,827.71	117,131,012.65

Account payable	1,215,498,423.60	763,400,302.97
Advances from customers		28,859,240.70
Contract liability	18,721,286.84	
Employee salaries payable	35,471,367.26	41,008,266.21
Taxes payable	2,779,156.81	2,973,271.06
Other payables	1,492,249.41	4,533,255.53
Total current liabilities	2,110,370,037.43	1,194,441,294.66
Total liabilities	2,110,370,037.43	1,194,441,294.66
Shareholders' equity		
Share capital	107,016,000.00	89,180,000.00
Capital reserve	1,159,529,341.31	1,172,630,636.96
Surplus reserve	35,468,387.85	35,468,387.85
Retained earnings	328,930,229.73	311,585,016.77
Total shareholders' equity	1,630,943,958.89	1,608,864,041.58
Total liabilities and shareholders' equity	3,741,313,996.32	2,803,305,336.24

Consolidated Income Statement

Jan. to Jun. 2020

Unit: Yuan

Currency: RMB

Item	Half year of 2020	Half year of 2019
I. Revenue	2,497,180,222.72	1,707,873,425.72
Including: Operating revenue	2,497,180,222.72	1,707,873,425.72
II. Total operating costs	2,445,454,312.63	1,626,986,569.63
Including: Costs of sales	1,988,965,756.66	1,349,938,588.74
Taxes and surcharges	4,037,799.77	3,485,075.52
Selling expenses	105,596,564.82	71,087,696.62
Administrative expenses	75,117,117.51	61,648,077.16
Research and development expenses	261,774,941.07	130,250,197.47
Finance expenses	9,962,132.80	10,576,934.12
Including: Interest expenses	6,630,483.04	3,484,579.25
Interest income	1,840,703.70	163,565.24
Add: Other income	19,766,467.05	2,859,707.50
Investment income (loss expressed with "-")	2,768,736.08	237,802.54
Credit impairment losses (loss expressed with "-")	-9,056,366.45	-4,296,139.96
Asset impairment losses (loss expressed with "-")	-3,997,279.52	-2,483,659.89
Gains/loss on asset disposal (loss expressed with "-")	-128,036.03	
III. Operating profit (loss expressed with "-")	61,079,431.22	77,204,566.28
Add: Non-operating income	8,418,129.58	
Subtract: Non-operating expenses	1,354,088.87	
IV. Total profit (loss expressed with "-")	68,143,471.93	77,204,566.28
Subtract: Income tax expenses	-1,513,812.96	-1,011,569.58
V. Net profit (loss expressed with "-")	69,657,284.89	78,216,135.86

Net profit from continuing operations (loss expressed with "-")	69,657,284.89	78,216,135.86
Net profit attributable to shareholders of the parent company (loss expressed with "-")	69,657,284.89	78,216,135.86
VI. Other comprehensive income (net of tax)	118,758.02	-446,699.58
A. Other net comprehensive incomes attributable to owners of the Parent	118,758.02	-446,699.58
1. Other comprehensive income to be reclassified into profit or loss	118,758.02	-446,699.58
(1) Changes in the fair value of other debt investments		-758,182.70
(2) Foreign currency exchange reserves	118,758.02	311,483.12
VII. Total comprehensive income	69,776,042.91	77,769,436.28
A. Total comprehensive income attributable to shareholders of the parent	69,776,042.91	77,769,436.28
VIII. Earnings per share		
A. Basic earnings per share (Yuan/share)	0.65	0.73
B. Diluted earnings per share (Yuan/share)	0.65	0.73

Parent Company Income Statement

Jan. to Jun. 2020

Unit: Yuan

Currency: RMB

Item	Half year of 2020	Half year of 2019
I. Revenue	2,458,796,765.31	1,703,003,601.29
Subtract: Costs of sales	2,104,323,165.91	1,456,169,293.87
Taxes and surcharges	3,335,355.67	3,301,941.09
Selling expenses	52,041,079.67	39,477,864.96
Administrative expenses	111,905,943.51	85,834,551.17
Research and development expenses	115,157,888.09	64,733,959.05
Finance expenses	10,048,247.01	9,393,732.11
Including: Interest expenses	6,578,826.79	1,658,932.52
Interest income	1,657,253.26	142,935.27
Add: Other income	9,508,867.05	1,632,207.50
Investment income (loss expressed with "-")	3,061,213.85	237,802.54
Credit impairment losses (loss expressed with "-")	-8,523,794.74	-4,186,446.69
Asset impairment losses (loss expressed with "-")	-3,997,279.52	-2,483,659.89
Gains/loss on asset disposal (loss expressed with "-")	-128,036.03	
II. Operating profit (loss expressed with "-")	61,906,056.06	39,292,162.50
Add: Non-operating income		
Subtract: Non-operating expenses	1,353,855.00	
III. Total profit (loss expressed with "-")	60,552,201.06	39,292,162.50
Subtract: Income tax expenses	-1,383,011.90	-1,000,515.98
IV. Net profit (loss expressed with "-")	61,935,212.96	40,292,678.48
A. Net profit from continuing operations (loss expressed with "-")	61,935,212.96	40,292,678.48
V. Net amount of other comprehensive income after tax		-737,341.94

Other comprehensive income to be reclassified into profit or loss		-737,341.94
Changes in the fair value of other debt investments		-737,341.94
VI. Total comprehensive income	61,935,212.96	39,555,338.54
VII. Earnings per share		
A. Basic earnings per share (Yuan/share)	0.58	0.38
B. Diluted earnings per share (Yuan/share)	0.58	0.38

Consolidated Cash Flow Statement

Jan. to Jun. 2020

Unit: Yuan

Currency: RMB

Item	Half year of 2020	Half year of 2019
I. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	2,566,309,779.74	1,676,805,445.33
Refunds of taxes	160,731,251.29	129,572,181.11
Cash received from other operating activities	31,551,495.88	37,306,879.17
Sub-total of cash inflows from operating activities	2,758,592,526.91	1,843,684,505.61
Cash paid for goods and services	2,656,153,296.24	1,575,695,584.62
Cash paid to and on behalf of employees	290,826,818.46	228,028,626.43
Cash paid for all types of taxes	19,858,866.60	31,180,476.96
Cash paid for other operating activities	116,111,588.51	67,365,761.88
Sub-total of cash outflows from operating activities	3,082,950,569.81	1,902,270,449.89
Net cash flows from operating activities	-324,358,042.90	-58,585,944.28
II. Cash flows from investing activities		
Cash received from disposal or returns of investments	460,000,000.00	65,000,000.00
Cash received from returns on investments	3,886,791.64	376,709.19
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	1,600.00	
Sub-total of cash inflows from investing activities	463,888,391.64	65,376,709.19
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	204,497,076.46	87,200,353.45
Cash paid for the acquisition of investment	161,000,000.00	124,500,000.00
Sub-total of cash outflows from investing activities	365,497,076.46	211,700,353.45
Net cash flows from investing activities	98,391,315.18	-146,323,644.26
III. Cash flows from financing activities		

Cash received from borrowings	642,594,901.49	136,981,135.26
Sub-total of cash inflows from financing activities	642,594,901.49	136,981,135.26
Cash repayments of borrowings	176,840,662.94	60,653,308.92
Cash paid for distribution of dividends, profits or for interest expenses	49,189,941.33	2,951,667.35
Sub-total of cash outflows from financing activities	226,030,604.27	63,604,976.27
Net cash flows from financing activities	416,564,297.22	73,376,158.99
IV. Effect of exchange rate fluctuation on cash and cash equivalents	974,022.05	89,637.00
V. Net increase in cash and cash equivalents	191,571,591.55	-131,443,792.55
Add: Balance of cash and cash equivalents at the beginning of the period	597,574,871.10	258,463,963.66
VI. Balance of cash and cash equivalents at the end of the period	789,146,462.65	127,020,171.11

Parent Company Cash Flow Statement

Jan. to Jun. 2020

Unit: Yuan

Currency: RMB

Item	Half year of 2020	Half year of 2019
I. Cash flows from operating activities		
Cash received from sales of goods or rendering of services	2,514,551,935.75	1,670,454,755.41
Refunds of taxes	160,731,251.29	129,572,181.11
Cash received from other operating activities	19,465,010.00	12,341,149.44
Sub-total of cash inflows from operating activities	2,694,748,197.04	1,812,368,085.96
Cash paid for goods and services	2,761,997,008.68	1,630,487,302.66
Cash paid to and on behalf of employees	147,318,206.46	156,493,627.39
Cash paid for all types of taxes	16,184,463.34	28,401,592.81
Cash paid for other operating activities	112,396,373.82	99,116,326.76
Sub-total of cash outflows from operating activities	3,037,896,052.30	1,914,498,849.62
Net cash flows from operating activities	-343,147,855.26	-102,130,763.66
II. Cash flows from investing activities		
Cash received from disposal or returns of investments	460,000,000.00	65,000,000.00
Cash received from returns on investments	3,886,791.64	376,709.19
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	1,600.00	
Sub-total of cash inflows from investing activities	463,888,391.64	65,376,709.19
Cash paid for the purchase and construction of fixed assets, intangible assets and other long-term assets	148,531,790.17	82,253,534.23
Cash paid for the acquisition of investment	234,832,309.00	136,256,848.00
Sub-total of cash outflows from investing activities	383,364,099.17	218,510,382.23
Net cash flows from investing activities	80,524,292.47	-153,133,673.04
III. Cash flows from financing activities		

Cash received from borrowings	612,594,901.49	126,981,135.26
Sub-total of cash inflows from financing activities	612,594,901.49	126,981,135.26
Cash repayments of borrowings	176,840,662.94	41,153,308.92
Cash paid for distribution of dividends, profits or for interest expenses	49,138,285.08	1,110,312.28
Sub-total of cash outflows from financing activities	225,978,948.02	42,263,621.20
Net cash flows from financing activities	386,615,953.47	84,717,514.06
IV. Effect of exchange rate fluctuation on cash and cash equivalents	913,261.41	85,341.00
V. Net increase in cash and cash equivalents	124,905,652.09	-170,461,581.64
Add: Balance of cash and cash equivalents at the beginning of the period	506,472,015.47	275,656,693.13
VI. Balance of cash and cash equivalents at the end of the period	631,377,667.56	105,195,111.49