COOLPAD GROUP LIMITED
酷派集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2369)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2018	2017	change
	(HK$'000)	*(HK$'000)*	*(%)*
	(Unaudited)	(Unaudited)	
Revenue	**802,752**	2,390,165	-66.4
Loss before tax	**(344,579)**	(1,057,420)	-67.4
Net loss attributable to owners of the Company	**(325,869)**	(1,049,097)	-68.9
Basic and diluted loss per share	**(HK6.47 cents)**	(HK20.84 cents)	-69.0

The board (the "Board") of directors (the "Directors") of Coolpad Group Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018 together with comparative figures for the corresponding period of 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
		HK$'000	*HK$'000*
	Notes	**(Unaudited)**	(Unaudited)
REVENUE	*4*	**802,752**	2,390,165
Cost of sales		**(827,901)**	(2,296,561)
Gross (loss)/profit		**(25,149)**	93,604
Other income and gains	*4*	**136,437**	162,638
Selling and distribution expenses		**(105,131)**	(477,407)
Administrative expenses		**(179,310)**	(506,788)
Other expenses		**(90,355)**	(265,584)
Finance costs	*6*	**(16,895)**	(10,447)
Share of losses of:			
A joint venture		**(394)**	(585)
Associates		**(63,782)**	(52,851)
LOSS BEFORE TAX	*5*	**(344,579)**	(1,057,420)
Income tax credit/(expense)	*7*	**12,431**	(1,398)
LOSS FOR THE PERIOD		**(332,148)**	(1,058,818)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**11,240**	18,923
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**11,240**	18,923
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(320,908)**	(1,039,895)
LOSS FOR THE PERIOD			
Attributable to:			
Owners of the Company		**(325,869)**	(1,049,097)
Non-controlling interests		**(6,279)**	(9,721)
		(332,148)	(1,058,818)

	Note	Six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD			
Attributable to:			
Owners of the Company		**(314,629)**	(1,030,174)
Non-controlling interests		**(6,279)**	(9,721)
		(320,908)	(1,039,895)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	*9*	**(HK6.47 cents)**	(HK20.84 cents)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	**30 June 2018 *HK$'000* (Unaudited)**	31 December 2017 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,003,801**	943,870
Investment properties		**118,600**	120,013
Prepaid land lease payments		**235,925**	271,171
Intangible assets		**11,955**	12,855
Investment in a joint venture		**105,227**	106,677
Investments in associates		**380,480**	448,468
Available-for-sale investments		**–**	34,921
Equity investments at fair value through profit or loss		**117,460**	–
Loans receivable		**4,236**	18,266
Other non-current assets		**2,873**	26,825
Deferred tax assets		**8,207**	8,278
Total non-current assets		**1,988,764**	1,991,344
CURRENT ASSETS			
Inventories		**236,660**	395,569
Trade receivables	*10*	**384,809**	616,478
Bills receivable	*11*	**–**	11,572
Short-term loans receivable		**12,855**	64,710
Prepayments, deposits and other receivables		**1,355,347**	1,160,450
Amounts due from associates		**53,756**	43,801
Pledged deposits		**54,005**	115,776
Cash and cash equivalents		**223,844**	451,130
Total current assets		**2,321,276**	2,859,486
CURRENT LIABILITIES			
Trade payables	*12*	**760,099**	756,397
Bills payable	*13*	**8,303**	45,934
Other payables and accruals		**1,836,201**	1,886,662
Interest-bearing bank borrowings		**343,969**	684,966
Amounts due to associates		**191,883**	277,082
An amount due to a related party		**202,467**	–
Tax payable		**95,194**	113,909
Total current liabilities		**3,438,116**	3,764,950

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
NET CURRENT ASSETS	**(1,116,840)**	(905,464)
TOTAL ASSETS LESS CURRENT LIABILITIES	**871,924**	1,085,880
NON-CURRENT LIABILITIES		
Interest-bearing bank and other borrowings	**241,519**	239,260
Deferred tax liabilities	**29,446**	55,823
Other non-current liabilities	**–**	1,381
Total non-current liabilities	**270,965**	296,464
Net assets	**600,959**	789,416
EQUITY		
Equity attributable to owners of the Company		
Share capital	**50,334**	50,334
Reserves	**598,198**	793,592
Non-controlling interests	**(47,573)**	(54,510)
Total equity	**600,959**	789,416

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Coolpad Group Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands. The Company is an investment holding company.

The Group is a wireless solution and equipment provider in Mainland China. During the period, the Group continued to focus on the production and sale of smartphones, the provision of wireless application service and finance service.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These unaudited condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and other relevant standards and interpretations and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the Group's interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017 except for the first time adoption of the following new and revised standards and interpretations:

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Other than as further explained below, the adoption of the above new and revised standards has had no significant financial effect on the financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has applied HKFRS 9 retrospectively in accordance with the transition requirements, with the initial application date of 1 January 2018. The Group has elected not to adjust the comparative information for the period beginning 1 January 2017, which the comparative information was prepared under classification and measurement requirements of HKAS 39.

Classification and measurement

Under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion")

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and other receivables.

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVPL comprise derivative instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The adoption of HKFRS 9 has had no significant impact on the classification and measurement of the financial assets of the Group.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in profit or loss. Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

Impairment

HKFRS 9 requires an impairment on trades receivables, prepayments, deposits and other receivables that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis.

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

	Impairment allowances under HKAS 39 at 31 December 2017	**Re-measurement**	**ECL allowances under HKFRS 9 at 1 January 2018**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	308,312	371	308,683

Impact on reserves and accumulated losses

The impact of transition to HKFRS 9 on reserves and accumulated losses as at 1 January 2018 is as follows:

	Increase in available-for-sale investment revaluation reserve	**Decrease/ (increase) in accumulated losses**	**Increase/ (decrease) in equity attributable to owners of the Company**
	HK$'000	*HK$'000*	*HK$'000*
Reclassification of available-for-sale investment revaluation reserve to accumulated losses as a result of reclassification of equity investments at fair value through profit or loss under HKFRS 9	2,314	(2,314)	–
Recognition of ECL allowance for trade receivables under HKFRS 9	–	(371)	(371)
Fair value remeasurement for equity investments previously measured at cost under HKAS 39	–	82,539	82,539
	2,314	79,854	82,168

Accumulated losses	*HK$'000*
Balance as at 31 December 2017 as previously reported	(2,552,847)
Recognition of expected credit losses for trade receivables under HKFRS 9	(371)
Reclassification of available-for-sale investment revaluation reserve as a result of reclassfication of equity investments at fair value through profit or loss under HKFRS 9	(2,314)
Fair value remeasurement for equity investments at fair value through profit or loss previously measured at cost under HKAS 39	82,539
Balance as at 1 January 2018 (restated)	(2,472,993)

(b) HKFRS 15 and its amendments replaces HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of accumulated losses as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

The application of HKFRS 15 in the current period has had no material impact on the amounts reported in the Group's condensed consolidated financial statements.

2.3 The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these unaudited condensed consolidated financial statements:

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC) Interpretation 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 January 2021
[4] Mandatory effective date not yet determined

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application, but is not yet in a position to state whether these new and revised HKFRSs will have a significant impact on the Group's results of operations and financial position.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) the mobile phone segment engages in the research, development, production and sale of mobile phones and related accessories and provision of wireless application service;

(b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation; and

(c) the finance service segment engages in the provision of a range of financing services in Mainland China.

Management monitors the results of its operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, share of profits and losses of associates and a joint venture and finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude an investment in a joint venture, investments in associates, available-for-sale investments/equity investments at fair value through profit or loss, deferred tax assets, an amount due from a joint venture, amounts due from associates, pledged deposits and cash and cash equivalents other than those used for finance service purpose as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings, amounts due to associates, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	Mobile phone HK$'000	Property investment HK$'000	Finance service HK$'000	Total HK$'000
Six months ended 30 June 2018 (Unaudited)				
Segment revenue:				
Sales to external customers	**802,068**	**–**	**684**	**802,752**
Other revenue and gains	**96,577**	**9,045**	**–**	**105,622**
Total	**898,645**	**9,045**	**684**	**908,374**
Segment results	**(288,198)**	**7,804**	**603**	**279,791**
Reconciliation:				
Interest income				**5,013**
Finance costs				**(16,895)**
Gain on loss of control of a subsidiary				**25,802**
Share of losses of a joint venture				**(394)**
Share of losses of associates				**(63,782)**
Corporate and other unallocated expenses				**(14,532)**
Loss before tax				**(344,579)**
Six months ended 30 June 2017 (Unaudited)				
Segment revenue:				
Sales to external customers	2,372,930	–	17,235	2,390,165
Other revenue and gains	123,891	7,405	–	131,296
Total	2,496,821	7,405	17,235	2,521,461
Segment results	(994,236)	5,960	2,890	(985,386)
Reconciliation:				
Interest income				31,342
Finance costs				(10,447)
Share of losses of a joint venture				(585)
Share of profits of associates				(53,440)
Corporate and other unallocated expenses				(38,904)
Loss before tax				(1,057,420)
Segment assets				
At 30 June 2018 (Unaudited)	**2,348,095**	**115,832**	**370,253**	**2,834,180**
At 31 December 2017 (Audited)	3,432,818	124,375	84,586	3,641,779
Segment liabilities				
At 30 June 2018 (Unaudited)	**2,189,064**	**1,872**	**105**	**2,191,041**
At 31 December 2017 (Audited)	2,630,191	1,381	–	2,631,572

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Mainland China	**135,600**	1,008,260
Overseas	**667,152**	1,381,905
	802,752	2,390,165

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	30 June	31 December
	2018	2017
	HK$'000	*HK$000*
	(Unaudited)	(Audited)
Mainland China	**1,798,101**	1,923,781
Overseas	**5,539**	6,098
	1,803,640	1,929,879

The non-current asset information above is based on the locations of the assets and excludes financial instruments and deferred tax assets.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns, sales incentives and trade discounts, service income received and receivable from the provision of wireless application service, and the finance service income from the provision of finance services.

An analysis of revenue, other income and gains is as follows:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of mobile phones	**792,033**	2,320,625
Wireless application service income	**10,035**	52,305
Finance service income	**684**	17,235
	802,752	2,390,165
Other income		
Bank interest income	**5,013**	31,342
Gross rental income	**9,045**	7,405
Government grants and subsidies*	**68,403**	75,843
Gain on loss of control of a subsidiary	**25,802**	–
Others	**28,174**	48,048
	136,437	162,638

* Government grants and subsidies represented refunds of VAT received from a tax bureau and government grants received from a finance bureau to support certain of the Group's research and development activities. There are no unfulfilled conditions or contingencies relating to these grants.

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**814,532**	2,108,920
Depreciation	**21,308**	38,230
Amortisation of patents and licences*	**765**	952
Amortisation of prepaid land lease payments	**2,545**	3,904
Research and development costs:		
Product development costs amortised*	**3,365**	7,023
Expenditure for the period*	**68,035**	243,065
	71,400	250,088
Operating lease rental	**6,805**	18,452
Loss on disposal of items of property, plant and equipment	**2,036**	280
Impairment of doubtful debts	**9,032**	16,520
Gain on loss of control of a subsidiary	**25,802**	–
Loss from disposal of associates	**–**	589

* The amortisation of patents and licences, amortisation of product development costs and the research and development expenditure for the period are included in "Administrative expenses" in the condensed consolidated statement of profit or loss and other comprehensive income.

6. FINANCE COSTS

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings	**16,895**	10,447

7. INCOME TAX EXPENSE

The Company is a tax exempted company registered in the Cayman Islands and conducts substantially all of its business through its subsidiaries established in Mainland China.

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2018	2017
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group:		
Current	**2,031**	1,534
Deferred	**(14,462)**	(136)
Total tax charge for the period	**(12,431)**	1,398

8. DIVIDENDS

The Directors did not recommend the payment of any interim dividend for the six months ended 30 June 2018 and 2017.

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the Company of HK$325,869,000 (six months ended 30 June 2017: a loss of HK$1,049,097,000), and the weighted average number of ordinary shares of 5,033,246,581 in issue during the six months ended 30 June 2018 (six months ended 30 June 2017: 5,033,080,403).

The calculation of the diluted loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amount presented for six months ended 30 June 2018 in respect of a dilution as the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

10. TRADE RECEIVABLES

Sales of the Group's products are normally settled on a cash-on-delivery basis. However, in the cases of long-standing customers and those with a good repayment history, the Group may offer these customers with a credit period of 30 to 90 days, extending up to 120 days for some overseas customers. Trade receivables are non-interest-bearing.

An aging analysis of the trade receivables as at the end of the reporting period, based on the transaction date, is as follows:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**372,735**	512,222
4 to 6 months	**35,872**	111,893
7 to 12 months	**13,250**	46,341
Over 1 year	**268,772**	254,334
	690,629	924,790
Less: Impairment	**(305,820)**	(308,312)
	384,809	616,478

11. BILLS RECEIVABLE

An aging analysis of the bills receivable as at the end of the reporting period, based on the issue date, is as follows:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**–**	9,101
Over 3 months	**–**	2,471
	–	11,572

Bills receivable are non-interest-bearing.

At 30 June 2018 and 31 December 2017, the Group did not have any past due or impaired bills receivable.

12. TRADE PAYABLES

An aging analysis of the trade payables as at the end of the reporting period, based on the transaction date, is as follows:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**356,990**	303,801
4 to 6 months	**98,905**	88,576
7 to 12 months	**114,850**	159,924
Over 1 year	**189,354**	204,096
	760,099	756,397

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 60 days.

13. BILLS PAYABLE

An aging analysis of the bills payable as at the end of the reporting period, based on the issue date, is as follows:

	30 June 2018	31 December 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**8,303**	45,934
	8,303	45,934

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYSED BY PRODUCT TYPE

A comparative breakdown of the consolidated revenue streams by the product type are set forth in the following table for the periods indicated:

	Six months ended 30 June			
	2018		2017	
Revenue	**Revenue *HK$ Million* (Unaudited)**	**% of total revenue**	Revenue *HK$ Million* (Unaudited)	% of total revenue
Sale of mobile phones and related accessories	**792.1**	**98.6**	2,320.6	97.1
Wireless application service income	**10.0**	**1.3**	52.3	2.2
Finance Service	**0.7**	**0.1**	17.3	0.7
Total	**802.8**	**100**	2,390.2	100

The Group's unaudited revenue for the six months ended 30 June 2018 amounted to HK$802.8 million, representing a decline of 66.4% as compared with HK$2,390.2 million for the six months ended 30 June 2017. The decrease in revenue during the reporting period was mostly because of the intensifying competition of the smartphone market in China and the decrease in market share and sales volume in China region during the first half of 2018.

GROSS PROFIT

	Six months ended 30 June			
	2018		2017	
Gross (loss)/profit	**Gross loss *HK$ Million* (Unaudited)**	**Gross loss margin**	Gross profit *HK$ Million* (Unaudited)	Gross profit margin
Total	**(25.1)**	**-3.1%**	93.6	3.9%

The Group's overall gross profit for the six months ended 30 June 2018 decreased by HK$118.7 million, representing a decrease of 126.9% as compared with HK$93.6 million for the corresponding period in 2017. Its overall gross profit margin decreased by 7% to -3.1% in the reporting period as compared with 3.9% in the corresponding period of 2017. The decline in total gross profit was primarily attributable to the fierce competition of the 4G smartphone market in China, the decline of the shipments volume of the Group, and the high operating expenses in the first half of 2018.

OTHER INCOME AND GAINS

Other income and gains of the Group decreased by HK$26 million, or 16.1%, to HK$136.4 million for the six months ended 30 June 2018 as compared with HK$162.3 million for the corresponding period in 2017. The decrease was because of the decrease of interest income.

SELLING AND DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
Selling and distribution expenses *(HK$ million)*	**105.1**	477.4
As a percentage of total revenue	**13.1%**	20.0%

Selling and distribution expenses of the Group for the six months ended 30 June 2018 decreased by HK$372.3 million to HK$105.1 million from HK$477.4 million for the corresponding period in 2017. The net decrease of HK$372.3 million was primarily attributable to decreased expenditures for marketing, advertising and promotion expenses. The net decrease of 6.9% as a percentage of total revenue was due to the cease of sales of products that may cost losses in the domestic market during the reporting period.

ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2017	2016
	(Unaudited)	(Unaudited)
Administrative expenses *(HK$ million)*	**179.3**	506.8
As a percentage of total revenue	**22.3%**	21.2%

Administrative expenses decreased by HK$327.5 million to HK$179.3 million for the six months ended 30 June 2018 from HK$506.8 million for the corresponding period in 2017. The net decrease of HK$327.5 million was primarily attributable to the decline of employees in the first half of 2018. Administrative expenses remained a 22.3% as a percentage of total revenue was primarily because of the continuing R&D expenditures on new technologies during the reporting period.

INCOME TAX EXPENSE

For the six months ended 30 June 2018, the Group's income tax expenses decreased to a net amount of HK$12.4 million which primarily due to the reversal of deferred tax liabilities during the reporting period.

NET LOSS

For the six months ended 30 June 2018, the Group recorded a net loss of HK$332.1 million, representing a decline of HK$712.8 million, or 67.4%, as compared with the net loss of HK$1,057.4 million for the six months ended 30 June 2017. The loss was mainly because of the decrease of sales volume of the Group.

LIQUIDITY, FINANCIAL RESOURCE AND CAPITAL STRUCTURE

For the six months ended 30 June 2018, the Group's operating capital was mainly generated from its daily operation and bank borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements. The Group had a gearing ratio of 87.8% as at 30 June 2018 (31 December 2017: 80%).

Cash and cash equivalents of the Group as at 30 June 2018 amounted to HK$223.8 million, while it was HK$451.1 million as at 31 December 2017.

As at 30 June 2018, the Group had total debts (i.e. total borrowings) of approximately HK$585.5 million, which was all denominated in RMB. The Group's borrowings are subject to floating rates ranging from 3.92% to 6.96% per annum with maturity periods ranging from within one year to two years.

As at 30 June 2018, the Company had 5,033,407,480 ordinary shares of par value HK$0.01 each in issue.

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any significant contingent liabilities.

INVENTORY

For the reporting period, the Group's inventory turnover period was 68.7 days (year ended 31 December 2017: 62 days).

TRADE RECEIVABLES

Credit period was one to three months on average, extending up to 112.3 days for some overseas customers, and the trade receivable turnover period was 86.3 days for the reporting period (year ended 31 December 2017: 92.9 days).

TRADE PAYABLES

The trade payable turnover period was 164.9 days for the reporting period (year ended 31 December 2017: 118.6 days).

PLEDGED OF ASSETS

As at 30 June 2018, the Group's time deposits of approximately HK$54.0 million were used as a security for bank to provide a performance guarantee (31 December 2017: HK$69.4 million).

BUSINESS REVIEW

Looking back to the first half of 2018, the Group faced a number of changes and started a whole new beginning for the future. The smartphone market was also full of challenges and competitions.

The Group saw a large decline in both shipments and revenue in the first half of 2018. The Group's unaudited revenue for the six months ended 30 June 2018 amounted to HK$802.8 million, representing a decline of 66.4% as compared with HK$2,390.2 million for the six months ended 30 June 2017. The Group recorded a net loss of HK$332.1 million for the six months ended 30 June 2018. Accordingly, both of the basic and diluted loss per share of the Group were HK6.47 cents for the six months ended 30 June 2018.

The Group's shareholding structure has undergone changes during the six months ended 30 June 2018. The Company had been notified by Leview Mobile HK Limited on 4 January 2018 that it had sold 897,437,000 shares of the Company (the "Share") at HK$0.9 per Share in cash to Power Sun Ventures Limited, a company incorporated in British Virgin Islands. Immediately after completion of that transaction, Leview Mobile HK Limited and the Power Sun Ventures Limited had become interested in 551,367,386 Shares and 897,437,000 Shares, representing approximately 10.95% and 17.83% of the issued share capital of the Company, respectively. Accordingly, Leview Mobile HK Limited ceased to be the single largest Shareholder and Power Sun Ventures Limited had become the single largest Shareholder.

On 11 January 2018, the Company had been notified by Leview Mobile HK Limited that it had sold 551,367,386 Shares to Zeal Limited, a company incorporated in Cayman Islands. Immediately after completion of that transaction, Leview Mobile HK Limited ceased to have any interest in the Company and Zeal Limited had become interested in 551,367,386 Shares, representing approximately 10.95% of the issued share capital of the Company. Accordingly, Leview Mobile HK Limited ceased to be a shareholder of the Company and the Zeal Limited had become a substantial Shareholder.

The Group did not receive a satisfactory result in domestic market in the first half of 2018. But it continued to keep a solid cooperation relationship with local carriers and their sales and distribution channels. The Group continued to release low-end smartphones through carriers' channel in the first half of 2018 so as to coordinate their diverse contract layout.

Whereas regional sales in the United States continued to maintain its growth momentum, and sales contribution and growth rate continued to expand for the first half of 2018. The United States market contributed the largest portion of the Group's total revenue, and became the core business market of the Group. The Group provided an independent exclusive product line for US market and was planed to enlarge product category to include smart accessories. The Group had conducted a series of researches on product demand and preference for the US market and has built a US dedicated research and development team.

During the first half of 2018, the Group had built a solid cooperation with US telecommunications carriers. Meanwhile, side by side with carrier field team, the Group developed strong relationship inside national retail channels and dealer channels progressively so as to build a healthy retailing networks in the retail open channel. The Group also attached great importance to branding, and hence, the Group had been in attended hundreds of events with local carrier partners to promote its new products and brand.

The Group attached more importance to Intellectual Property protection in the first half of 2018. The Company initiated a lawsuit against Xiaomi regarding patent infringement, further details of which have been disclosed in the Company's announcement dated 10 May 2018. Beyond that, the Company had also appointed a Chief IP Officer to focus on Company IP and trademarks management. The Group hold a strong belief that by respecting and protecting Intellectual Property, we can promote industry innovation and create a healthy and sustainable development of the industry.

The Group continued to strengthen its research and development (the "R&D") ability in the first half of 2018. The Group deeply realized the importance of R&D ability for the Company and recognized itself as a tech-driven company, The Group owned a high-ranking design team, deeply differentiated and optimized the functions and features of the Android operation system and continued to strengthen its R&D capability to bring users the best smartphone experience.

FOREIGN EXCHANGE EXPOSURE

The Group has transactional foreign currency exchange risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales and certain portion of the bank loans are denominated in USD. Exchange rate fluctuations between RMB and USD may affect the Group's performance and asset value. The depreciation of RMB will increase the purchasing cost of certain raw materials of the Group in the future. The Group had not entered into any derivative contracts to hedge against the risk for the six months ended 30 June 2018.

CREDIT RISK

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral arrangements.

INTEREST RATE RISK

The risk in interest rate concerning the Group primarily related to its short-term and long-term bank loans and other borrowings. The interests are calculated at fixed and floating rates. Any rise in the current interest rate will increase the interest cost. As at the end of the reporting period, the Group had not executed any form of interest rate agreement or derivative to hedge against the fluctuation in interest rate.

EMPLOYEES AND REMUNERATION POLICY

The total staff costs for the six months ended 30 June 2018 amounted to approximately HK$105.6 million (six months ended 30 June 2017: HK$308.5 million). The remunerations of the Group's employees commensurate with their responsibilities and market rates, with discretionary bonuses given on a merit basis. The Group also provides on-the-job training to its employees from time to time. As at 30 June 2018, the Group had 913 employees (31 December 2017: 1,421 employees).

ISSUE, PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had issued, purchased, redeemed or sold any of the Company's listed securities during the reporting period.

INTERIM DIVIDEND

Considering the needs of the ordinary operation after the restructuring of the Group, the Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All directors of the Company have confirmed, following specific enquiry by the Company with all the directors, that they have fully complied with the required standard as set out in the Model Code for the period under review.

AUDIT COMMITTEE

The audit committee ("Audit Committee") of the Company, which currently comprises three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Company, and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's interim results for the six months ended 30 June 2018.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Under Code Provision A.2.1 of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The roles of the chairman and chief executive officer of the Board have been separate since 5 August 2016. However, since Mr. Liu Hong ceased to be the chairman of the Board on 19 January 2019, the Board has not yet designated a Director to act as the chairman of the Board.

The Board will continue to evaluate the roles and functions of the Board members and will consider appointing a chairman of the Board in accordance with the relevant requirements and the Articles of Association of the Company.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company has not met the requirements under the Code during the six months ended 30 June 2018.

CONTINUED SUSPENSION OF TRADING IN THE SHARES

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9 a.m. on 31 March 2017 and will remain suspended until further notice.

For and on behalf of
Coolpad Group Limited
Leung Siu Kee
Executive Director
Company Secretary

Hong Kong, 29 March 2019

As at the date of this announcement, the executive Directors are Mr. Chen Jiajun, Mr. Leung Siu Kee, Mr. Lam Ting Fung Freeman and Mr. Liang Rui; the non-executive Director is Mr. Ng Wai Hung; the independent non-executive Directors are Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan King Chung.