

2014 | INTERIM
REPORT



Coolpad 酷派

COOLPAD GROUP LIMITED

酷派集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(stock code : 2369)

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CORPORATE PROFILE

Coolpad Group Limited (the “Company”), formerly known as China Wireless Technologies Limited, was incorporated in the Cayman Islands as an exempted company with limited liability on 11 June 2002. The shares of the Company (the “Shares”) were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 9 December 2004 (Stock Code: 2369).

Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. (“Yulong Shenzhen”) is an indirect wholly owned subsidiary of the Company. It was founded by Mr. GUO Deying (the Company’s chairman, executive director and chief executive officer) in April 1993. Yulong Shenzhen is a leading developer and provider of integrated solutions for Coolpad 酷派 smartphone sets, mobile data platform system, and value-added business operations in the People’s Republic of China (the “PRC” or the “Mainland China”). Yulong Shenzhen mainly provides its Coolpad products for enterprises, government and mobile operators as well as individual consumers in the PRC.

In the last decade, capitalizing on the development of wireless telecommunications technological know-how in wireless telecommunications across multiple wireless telecommunications network standards including TD-LTE, FDD-LTE, TD-SCDMA, CDMA-EVDO, WCDMA, GSM, and CDMA1X networks, the Company and its subsidiaries (collectively, the “Group”) have developed a large number of proprietary technologies and patents in mobile operating systems, radio frequency, protocols and wireless data decomposed transmission technology, etc. The Group has developed advanced research and development capabilities in mobile communications and gradually becomes a leader of 4G and 3G smartphone in the Mainland China’s telecommunications market.

In spite of being a leading smartphone developer in Mainland China’s telecommunications market, the Group has succeeded in breaking into the global telecommunications market in respect of Coolpad brand with the overseas telecommunications operators. The Group has established strong and close strategic cooperation relationships with certain global telecommunications operators and is striving to further develop its business in the global telecommunications markets.

The Group is committed to providing every individual with the privilege to enjoy the extravagant experience of using integrated terminal of wireless data solutions. To achieve this goal, the Group is striving to realise its dream by providing customised products and services based on its differentiated mobile operating systems and applications.



CORPORATE INFORMATION

REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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38 Gloucester Road
Wanchai
Hong Kong

COMPANY SECRETARY

Mr. JIANG Chao, ACCA

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Mr. CHAN King Chung (*Chairperson*)
Dr. HUANG Dazhan
Mr. XIE Weixin
Mr. YANG Xianzu (resigned on 17 February 2014)

NOMINATION COMMITTEE

Mr. GUO Deying (*Chairperson*)
Mr. YANG Xianzu (resigned on 17 February 2014)
Mr. XIE Weixin
Mr. CHAN King Chung (appointed on 17 February 2014)

AUTHORISED REPRESENTATIVES

Mr. JIANG Chao
Mr. LI Wang

CONTACT INFORMATION FOR INVESTOR RELATIONS

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AUDITORS

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LEGAL ADVISERS TO THE COMPANY AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman
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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
DBS Bank (Hong Kong) Ltd.
Hong Kong and Shanghai Banking (Hong Kong) Co., Ltd.

COMPANY WEBSITE

www.coolpad.com.hk

STOCK CODE

2369



FINANCIAL HIGHLIGHTS

The financial data below are extracted from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2014 prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended 30 June		
	2014 (HK\$'000) (Unaudited)	2013 (HK\$'000) (Unaudited)	Change (%)
Revenue	14,934,734	9,647,783	+54.8%
Profit before tax	482,734	259,612	+85.9%
Tax	69,702	46,838	+48.8%
Net profit attributable to owners of the Company	412,862	212,844	+94.0%
Basic earnings per share (2013 restated)	9.71 cents	5.05 cents	+92.3%
Diluted earnings per share (2013 restated)	9.46 cents	4.97 cents	+90.3%
Declared interim dividend per ordinary share	1.00 cent	2.00 cents*	-

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 30 June 2014 (HK\$'000) (Unaudited)	At 31 December 2013 (HK\$'000) (Audited)
Non-current assets	1,334,183	1,251,002
Current assets	12,253,577	8,810,732
Non-current liabilities	1,269,876	57,904
Current liabilities	9,156,032	7,242,936
Net assets	3,161,852	2,760,894
Cash and cash equivalents	2,360,576	1,628,266

* Taking into account the issue of the bonus shares on the basis of one bonus share for every one ordinary share held on 3 June 2014, the Directors consider that there is no change for the declared interim dividend per ordinary share for 2013 and 2014.



MANAGEMENT DISCUSSION & ANALYSIS

TOTAL REVENUE HK\$14,934.7 MILLION

The financial data below are extracted from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2014 prepared under HKFRSs. The following discussion and analysis should be read in conjunction with the Group's condensed consolidated financial statements and its notes.

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
REVENUE		
3G Coolpad smartphone	9,444,347	9,305,667
4G Coolpad smartphone	5,361,344	293,098
Wireless application service income	87,158	16,060
Other products	41,885	32,958
Total revenue	14,934,734	9,647,783
Cost of sales	(12,908,827)	(8,377,862)
Gross profit	2,025,907	1,269,921
Other income and gains	143,360	92,013
Selling and distribution expenses	(807,134)	(473,165)
Administrative expenses	(815,386)	(607,665)
Other expenses	(32,880)	(6,129)
Finance costs	(31,197)	(14,861)
Share of profit/(loss) from associates	125	(30)
Share of loss of a joint venture	(61)	(472)
Profit before tax	482,734	259,612
Income tax expense	(69,702)	(46,838)
Profit for the period	413,032	212,774
Earnings per share – basic (2013 restated)	9.71 cents	5.05 cents
– diluted (2013 restated)	9.46 cents	4.97 cents



MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYSED BY PRODUCT TYPES

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

Revenues	Six months ended 30 June			
	2014		2013	
	Revenue HK\$ million (Unaudited)	% of total revenue	Revenue HK\$ million (Unaudited)	% of total revenue
3G Coolpad smartphone	9,444.3	63.2%	9,305.7	96.4%
4G Coolpad smartphone	5,361.3	35.9%	293.1	3.0%
Wireless application service income	87.2	0.6%	16.1	0.2%
Other products	41.9	0.3%	32.9	0.4%
Total	14,934.7	100%	9,647.8	100%

The Group's unaudited revenue for the six months ended 30 June 2014 amounted to HK\$14,934.7 million, representing a remarkable growth of 54.8% as compared with HK\$9,647.8 million for the six months ended 30 June 2013. The significant increase in revenue during the reporting period was driven by the fast increasement of the domestic 4G smartphone market and the initial success of the online sales of the Group in Mainland China during the first half of 2014.

The revenue from the sale of 3G Coolpad smartphone increased by 1.5% to HK\$9,444.3 million for the six months ended 30 June 2014 as compared with HK\$9,305.7 million for the corresponding period in 2013. Revenue contribution from this segment dropped from 96.6% in the first half of 2013 to 63.2% in the first half of 2014. The decline of the proportion was primarily attributable to the change of the strategy from 3G smartphones to 4G smartphones of the Group during the reporting period.

The revenue from the sale of 4G Coolpad smartphone increased by 1,729.2% to HK\$5,361.3 million for the six months ended 30 June 2014 as compared with HK\$293.1 million for the corresponding period in 2013. Revenue contribution from this segment largely increased from 3.0% in the first half of 2013 to 35.9% in the first half of 2014. The increase in revenue of 4G Coolpad smartphone was primarily attributable to better 4G smartphone portfolio and the fast increasement in domestic 4G smartphone market during the reporting period.

Wireless application service income from mobile phone applications was HK\$87.2 million for the six months ended 30 June 2014, representing a growth of 441.6% as compared with HK\$16.1 million for the corresponding period in 2013, attributable to the increase of the shipments volume of Coolpad smartphones and more usage of the wireless applications in the smartphones during the reporting period. The revenue from other products was primarily generated from the sales of Coolpad smartphone's accessories. The revenue from other products increased by HK\$9.0 million, or 27.4%, to HK\$41.9 million for the six months ended 30 June 2014 as compared with HK\$32.9 million for the corresponding period in 2013.



MANAGEMENT DISCUSSION & ANALYSIS

GROSS PROFIT

	Six months ended 30 June			
	2014		2013	
Gross profit	Gross profit HK\$ million (Unaudited)	Gross profit margin	Gross profit HK\$ million (Unaudited)	Gross profit margin
Total	2,025.9	13.6%	1,269.9	13.2%

The Group's overall gross profit for the six months ended 30 June 2014 increased to HK\$2,025.9 million, representing an increase of 59.5% as compared with HK\$1,269.9 million for the corresponding period in 2013. Its overall gross profit margin increased to 13.6% in the reporting period, up 0.4% as compared with 13.2% in the corresponding period of 2013. The increase in gross profit margin was primarily attributable to the economies of scale and better cost control of the Group during the reporting period.

OTHER INCOME AND GAINS

Other income and gains of the Group increased by HK\$51.4 million, or 55.9%, to HK\$143.4 million for the six months ended 30 June 2014 as compared with HK\$92.0 million for the corresponding period in 2013. The increase was primarily generated from the increase of the Group's government grants and other subsidies.

SELLING AND DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Selling and distribution expenses (HK\$ million)	807.1	473.2
As a percentage of total revenue	5.4%	4.9%

Selling and distribution expenses of the Group for the six months ended 30 June 2014 increased by HK\$333.9 million to HK\$807.1 million from HK\$473.2 million for the corresponding period in 2013. The net increase of HK\$333.9 million was primarily attributable to increased expenditures for marketing, advertising and promotion expenses to support new product launches and new markets expansion. As a percentage of total revenue, selling and distribution costs increased to 5.4% in the first half of 2014 as compared with 4.9% in the corresponding period of 2013. The net increase of 0.5% as a percentage of total revenue was because of the increased spendings on marketing the new products of the Group during the reporting period.



MANAGEMENT DISCUSSION & ANALYSIS

ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2014 (Unaudited)	2013 (Unaudited)
Administrative expenses (HK\$ million)	815.4	607.7
As a percentage of total revenue	5.5%	6.3%

Administrative expenses increased by HK\$207.7 million to HK\$815.4 million for the six months ended 30 June 2014 from HK\$607.7 million for the corresponding period in 2013. The net increase of HK\$207.7 million was primarily attributable to the increased R&D expenditures and salaries of the Group's employees. As a percentage of total revenue, administrative expenses decreased by 0.8% to 5.5% in the first half of 2014 as compared with 6.3% in the corresponding period of 2013. The net decrease of 0.8% as a percentage of total revenue was primarily because of the strict internal budget control of the Group during the reporting period.

INCOME TAX EXPENSE

For the six months ended 30 June 2014, the Group's income tax expenses increased to HK\$69.7 million, representing an increase of HK\$22.9 million as compared with HK\$46.8 million for the corresponding period in 2013. The increase in the current income tax expense was primarily due to the increase of the Group's profit before tax during the reporting period.

NET PROFIT

Net profit of the Group amounted to HK\$413.0 million, or basic earnings per share of HK9.71 cents and diluted earnings per share of HK9.46 cents, for the six months ended 30 June 2014 as compared with net profit of HK\$212.8 million, or basic earnings per share (2013 restated) of HK5.05 cents and diluted earnings per share (2013 restated) of HK4.97 cents, for the six months ended 30 June 2013. The increase in net profit by HK\$200.2 million in the first half of 2014 reflected primarily an increase in the gross profit because of the increasement of the scale.

BONUS SHARES

The Group issued bonus shares on 13 June 2014 on the basis of one bonus share for every one ordinary share held to shareholders whose names appear on the register of members on 3 June 2014.

LIQUIDITY, FINANCIAL RESOURCE AND CAPITAL STRUCTURE

For the six months ended 30 June 2014, the Group's operating capital was mainly generated from cash 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 72.7% as at 30 June 2014 (31 December 2013: 67.0%). The increase was mainly attributable to the increase of capital as a result of increased long term bank borrowings during the reporting period. The gearing ratio is equal to net debt divided by the sum of capital and net debt.



MANAGEMENT DISCUSSION & ANALYSIS

LIQUIDITY, FINANCIAL RESOURCE AND CAPITAL STRUCTURE (continued)

Cash and cash equivalents of the Group as at 30 June 2014 amounted to HK\$2,360.1 million, while it was HK\$1,628.3 million as at 31 December 2013.

As at 30 June 2014, the Company had 4,271,530,000 ordinary shares of par value HK\$0.01 each in issue.

CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities.

INVENTORY

For the current period, the Group's inventory turnover period was 52.2 days (year ended 31 December 2013: 46.4 days).

TRADE RECEIVABLES

Credit period was one to three months on average and the trade receivable turnover period was 39.0 days for the current period (year ended 31 December 2013: 47.5 days).

TRADE PAYABLES

The trade payable turnover period was 34.1 days for the current period (year ended 31 December 2013: 38.1 days).

PLEGGED OF ASSETS

As at 30 June 2014, the following assets of the Group were pledged for certain bank borrowings (31 December 2013: Nil): (i) certain properties and plants of the Group located in Mainland China, the total book value of which were approximately HK\$141.3 million; and (ii) certain shares of the Company's subsidiaries. As at 30 June 2014, the Group's time deposits of approximately HK\$370.6 million were also used to secure bills payable (31 December 2013: HK\$597.4 million).

BUSINESS REVIEW

During the transition period from 3G to 4G, the growth of the whole smartphones market slowed down in Mainland China in the first half of 2014. After the 4G licences of Time Division Long Term Evolution ("TD-LTE") were issued to the local three telecommunications carriers in December 2013, more attentions of the smartphone market transferred to 4G products. Meanwhile, the 3G smartphones market lacked the momentum of the growth in Mainland China, and faced the inventory adjustment problem in the first half of 2014. Taking the advantage of the earlier preparation of 4G technology, and the earlier strategy transformation to 4G for the new models, the Group has already been in the leading position in the 4G smartphone market in Mainland China for the six months ended 30 June 2014.



MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW (continued)

In the first half of 2014, the shipments volume of Coolpad smartphones and the revenue of the Group kept increasing half on half, and achieved a new record. Operating revenue of the Group for the six months ended 30 June 2014 reached HK\$14,934.70 million, increasing by HK\$5,280.9 million or 54.8% compared with that of the corresponding period of 2013. Meanwhile, the net profit increased by HK\$200.3 million, or 94.1%, to HK\$413.0 million for the six months ended 30 June 2014, compared with that of the corresponding period of 2013. The basic and diluted earnings per share for the six months ended 30 June 2014 increased to HK9.71 cents and HK9.46 cents from HK5.05 cents and HK4.97 cents of the corresponding period of last year respectively. The Group's overall average selling price ("ASP") increased to HK\$624.6 in the first half of 2014 from HK\$572.8 for the corresponding period in 2013. The increase of the overall ASP was primarily because of the larger 4G shipments volume and the higher prices of the 4G smartphones during the reporting period.

The Group started to research and develop the 4G technology, and participated in the 4G programmes with the telecommunications carrier in 2009. The first one of Coolpad LTE test model was launched in 2010. Depending on the accumulation of the 4G technology, the Group transferred more than half of the R&D resources to the 4G products, and officially released the development strategy "Coolpad LTE for all" in 2014. The Group firstly launched the thousand-yuan 4G smartphone, and the dual-sim 4G smartphone in Mainland China in the first quarter of 2014. Capitalizing on its advanced R&D capability and 4G strategy, the Group led the market in launching a series of high quality 4G smartphones at an affordable price of around RMB1,000. The 4G products were well-received by consumers due to their affordable prices, which has propelled a sharp increase in orders and the strong sales performance. These 4G products also perfectly complemented the 4G strategy of the telecommunications carriers and helped the Group to capture the opportunities presented by China's fast-developing 4G market.

In the first half 2014, the Group totally launched 29 new models with innovative, reliable, cost-effective, and many other advantages, including 12 4G new ones. The Group released comprehensive product portfolio from low/mid-end (S/K-series) to high-end/e-commerce models (Magview/Great God-series). The e-commerce models have gained initial success, and the network predetermined amount of the Great God series grew very fast. Under the product notion of born to scream, the Great God Series became ones of the highest visibility Internet phones. The sales volume of one of 4G Coolpad new model was the second best 4G mobile phone model in the market in the first half, just behind Apple's iPhone 5S, according to a SINO market research report. Some star models were sold more than one million, which strongly increased the sales of Coolpad smartphones and improved the brand recognition of Coolpad. In April 2014, one Coolpad TD-LTE smartphone won the gold awards of "2014 CITE innovative product and application" at the 2nd China Information Technology Expo (CITE) held in Shenzhen.

The Group continues to optimize the Coolcloud platform, which has brought Coolpad users better user experience of the smartphones. Nowadays, the mobile internet developed fast, and the innovative technologies and applications based on the mobile internet changed a lot, being restructuring the current information environment. The mobile internet brought the information period to the PMCC, which represents Personal, Mobile, Cloud, and Computer. In the PMCC period, the Group strengthened the cloud strategy based on the Coolpad smartphones. Meanwhile, the Group also sought to set up more cooperation with Internet companies and mobile game companies, and kept increasing the Internet business and the wireless application service income.



MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW (continued)

The Group started to execute the multi-channels strategy to sell Coolpad smartphones. In the first half of 2014, the Group took the advantage of good brand recognition of off-line sale to expand the on-line sale. The on-line Great God series got a great success in the e-commerce channel, and promoted the Group to expand the e-commerce sale. Meanwhile, the Group continued to keep close cooperation relationship with the domestic and overseas telecommunications carriers. Especially, the year of 2014 is the first year of the 4G market after the 4G licences issue in Mainland China, so the 4G smartphone market will significantly grow in the following years and bring the Group more opportunities.

Except for strengthening the R&D capability on new technologies and the management of multi-channels, the Group also strengthened the cooperation with the key components suppliers to meet its demands. In order to make sure the on-time delivery of some core components, the Group reached strategic agreements with these suppliers in earlier period. So even though some components were in shortage to varying degrees in the channel, the Group could still satisfy its demands in the first half of 2014. Furthermore, researching and developing with the key suppliers together, the Group had the advantages to lessen the time-to-market of new models and do a first strike in the market.

In the first half of 2014, the Group focused on delicacy management to improve general operation efficiency and control the overall cost. Delicacy management is a necessary process to the Group while the competition of the smartphone market is fierce at the moment. In terms of delicacy management, a series of measures were taken by the Group to improve its administrative efficiency and internal operating process during the reporting period. These measures did a great favor to the success of the Group in the smartphone massive market. The product quality and the production cost controls were also assured, depending on the delicacy management and the improvements of the infrastructure for the product testing and assembly.

BUSINESS OUTLOOK

As the 4G network coverage becomes better, and the retail prices of 4G smartphones become more acceptable, the 4G smartphone market will have a great opportunity to grow fast in the future. At the beginning of the year, the local telecommunications carriers made clear targets for the 4G development, but the whole industry developed a little slower in the first half because of the transition period from 3G to 4G and tight supply chain. So the growth of the 4G smartphone market will accelerate, and the 4G utilization rate will become higher in the second half of 2014, as the demands of the market are so strong, and the situation of the upstream supply may become much better. Especially, the trial 4G licenses of Frequency Division Duplex Long Term Evolution ("FDD-LTE") were issued in June, which will also promote the development of the 4G smartphone market in Mainland China in 2014.



MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS OUTLOOK (continued)

The Group will launch more 4G new models to the market in the second half of 2014, which cover from the high-end to mid- and low-end. These new 4G models will be supporting different types of networks, such as 3-mode, 4-mode, 5-mode, according to different demands of the local telecommunications carriers. The Coolpad smartphone portfolio will be enriched, and more flagship products will be launched. Coolpad S/K-series with the best cost-efficient will provide the users more choices, and improve the user experience of the smartphones. Coolpad Magview-series with the top design and the costly materials could better reveal the users' identity. Coolpad GreatGod series will provide more amazing features to the online customers. Through applying the spirit of craftsman into the work, the Group will understand the users' real demands, and design the products which could truly bring the wonderful experience to the users. Meanwhile, the Group will continue to launch some other smart accessories to the market, such as the next generation smartwatch, Android set-top box.

The excellent R&D team of the Group will insist on pursuing the technology innovation, concentrate on improving the user experience of the new Coolpad products, and apply more patents mostly in the fields of software, hardware, and the wireless telecommunication network etc. The powerful R&D capability is the key point for the Group to keep growing in the 4G smartphone market, and will still be heavily invested by the Group in the future. Meanwhile, the Group will continue to improve the user experience of the Coolcloud based on the cloud-computing cloud-storage technology. The next Coolcloud versions will be poured into more practical, securable functions, individual features etc. The Group believes that the Coolcloud could bring it more opportunities in the PMCC period, especially promoted by the much better quality and faster speed of the 4G networks. The other useful functions of the Coolpad smartphones, such as Coolweather, Coolmedia, Coolfun, Coolnav, will also bring more convenient life style to the users.

In the year of 2014, the Group will keep focusing on the customized smartphone market for the telecommunications carriers, and launch more 4G smartphones cooperating with the carriers. The Group will not only strengthen the relationship with the domestic telecommunications carriers and improve the market share of the Coolpad smartphone in Mainland China, but also continue to export more smartphones through overseas telecommunications carriers. After the preliminary promotion and achievements in the cooperation with overseas carriers, the Group will execute further development arrangement in Asia, North America, Europe and other international markets.

The Group will pursue for multi-channels to sell Coolpad smartphones. Except for the major traditional carriers' channel, the Group will also increase the percentage of the e-commerce channel with lower operating expenses and stronger branding. The great success of the two online products launched in the first half means that the Group gained its initial success in the e-commerce channel. The next flagship online products will bring the users more surprises, and help the Group gain more recognition in the e-commerce channel. The Group will sell the online models on both its own online shopping store (www.coolpad.com) and the third-parties e-commerce platforms. The Group will continuously strengthen the affection of the channel and the construction of the team for the e-commerce channel as the newly explored sales channel, increase the investment, improve its proportion of channel sales to revenue, and expect that the e-commerce will bring the Group's business new highlights in the future. The multi-channels strategy will help keep the sales scale of the Group increasing, and enlarge the users number of Coolpad, so that it will also ensure the sustained growth of the mobile Internet business of the Group (the wireless application service income).



MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS OUTLOOK (continued)

Looking forward, the Group will continue to leverage innovation and expertise to satisfy diverse consumer needs, enhance core competitive strengths and the user experience of the products in the rapidly evolving global smartphone industry. Even though the environment of the smartphone market will be volatile, the Group will further consolidate its domestic 4G first position and expand the overseas market aggressively, depending on the famous brand reputation and the 4G smartphones from high-end to mid- and low-end smartphones. Under the strategy of “Coolpad LTE for all”, the Group believes that the 4G smartphone market will bring more opportunities to it in the year of 2014. The Group should work hard to strive for more chances of the markets’ development and sustained growth, through the innovative technologies, the hard-working philosophy, the quick-responded capabilities to the market demands, and the differentiated product positioning.

OPERATING RISK

Because of the low gross profit margin of the products of the e-commerce channel, high expenses of the preliminary marketing and promotion, the e-commerce channel will bring pressure to the whole Group’s profitability. Meanwhile, under the situation of the domestic telecommunications carriers’ reduction in selling expense and handset subsidy, the Group predicts that the operation of the business may face huge challenges, which may cause significant negative effect in the future. The Group also sees the risk of the intensified competition in the 4G smartphone market with more E-commercial smartphone developers in Mainland China.

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. 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 Group had not entered into any derivative contracts to hedge against the risk for the six months ended 30 June 2014.

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.

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. To the end of the period, the Group has neither executed any form of interest rate agreement or derivative to hedge against the fluctuation in interest rate.



MANAGEMENT DISCUSSION & ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

The total staff costs for the six months ended 30 June 2014 amounted to approximately HK\$455.8 million. The remuneration of the Group's employees is 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 of 30 June 2014, the Group had approximately 7,091 employees (31 December 2013; 6,226 employees).

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 30 June 2014.

MATERIAL ACQUISITION AND DISPOSAL DURING THE PERIOD

There were no material acquisitions and disposals of the Company, its subsidiaries and associated companies during the period.

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

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

INTERIM DIVIDEND

The Board has resolved to recommend the payment of an interim dividend of HK1 cent per ordinary share in respect of the first half of 2014, to shareholders whose names appear on the register of members of the Company on 23 September 2014. The proposed dividend will be paid on or about 16 October 2014.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to the proposed interim dividend, the register of members of the Company will be closed from 18 September 2014 to 23 September 2014, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the entitlement to the proposed interim dividend, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 17 September 2014. The interim dividend will be paid on or about 16 October 2014 to the shareholders whose names appear on the register of members at the close of business on 23 September 2014. As the interim dividend is declared after the balance sheet date, such dividend is not recognised as a liability as at 30 June 2014.



MANAGEMENT DISCUSSION & ANALYSIS

SHARE OPTION SCHEME

The Company has adopted (i) a share option scheme by a written resolution of all shareholders of the Company on 2 November 2004 which was terminated on 23 May 2014 and (ii) a share option scheme by a resolution at the annual general meeting of the Company held on 23 May 2014 (the “Share Option Schemes”). Details of options granted under the Share Option Schemes are disclosed in Note 16 to the condensed consolidated financial statements below.

DIRECTORS’ AND CHIEF EXECUTIVE’S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests and short positions of the Directors, the chief executive or their respective associates in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the “SFO”), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code (the “Model Code”), for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) were as follows:

Long positions in shares of the Company:

Name of director	Notes	Directly Beneficially Owned	Through spouse or minor children	Through controlled corporation	Beneficiary of a trust	Founder of a trust	Share Option	Total	Approximate percentage of the Company's issued share capital
Mr. GUO Deying	1 & 2	-	1,662,342,496	420,000	-	1,662,342,496	-	1,662,762,496	38.93
Mr. JIANG Chao	3	20,000,000-	-	-	420,000	-	-	20,420,000	0.48
Mr. LI Bin	4	17,500,000	-	-	-	-	11,200,000	28,700,000	0.67
Mr. LI Wang	4	10,040,000	-	-	-	-	9,600,000	19,640,000	0.46
Mr. CHAN King Chung	4	384,000	-	-	-	-	-	384,000	0.01
Mr. HUANG Dazhan	4	288,000	-	-	-	-	-	288,000	0.01
Mr. XIE Weixin	4	384,000	-	-	-	-	-	384,000	0.01



MANAGEMENT DISCUSSION & ANALYSIS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Long positions in shares of an associated corporation:

Name of director	Note	Number of shares held, capacity and nature of interest				Percentage of issued share capital of the associated corporation
		Name of associated corporation	Through spouse or minor children	Founder of a discretionary trust		
Mr. Guo Deying	1	Data Dreamland Holding Limited	1,000	1,000	100	

Notes:

- The entire issued share capital of Data Dreamland Holding Limited ("Data Dreamland") is held by Barrie Bay Limited ("Barrie Bay"), which is acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a unit trust held by HSBC International Trustee Limited ("HSBC Trustee") acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a discretionary trust set up by Mr. GUO Deying ("Mr. GUO"), an executive Director, and his spouse, Ms. YANG Xiao ("Ms. YANG"), the beneficiary objects of which include the children of Mr. GUO and Ms. YANG.

Each of Mr. GUO and Ms. YANG is taken to be interested in the 1,662,342,496 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their minor children under the Barrie Bay Trust. The long positions in the Company's shares of each of Mr. GUO and Ms. YANG under the column "Through spouse or minor children" and the column "Founder of a discretionary trust" in the table headed "Long positions in shares of the Company" above refers to the same 1,662,342,496 shares. Each of Mr. GUO and Ms. YANG is taken to be interested in the entire issued share capital of Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their minor children under the Barrie Bay Trust. The long positions in shares of Data Dreamland of each of Mr. GUO and Ms. YANG in the column "Through spouse or minor children" and the column "Founder of a discretionary trust" under the table headed "Long positions in shares of an associated corporation" above refers to the same 1,000 shares.

- Mr. GUO was taken to be interested in the 420,000 shares held by Wintech Consultants Limited as he was one out of the three directors of Wintech Consultants Limited and the other two directors were accustomed to act in accordance with Mr. GUO's direction.
- Mr. JIANG Chao, an executive Director, was interested in the 420,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the China Wireless Share Award Plan.
- The interests of these Directors in the underlying Shares are the options granted to the relevant Directors by the Company under the Share Option Schemes.



MANAGEMENT DISCUSSION & ANALYSIS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in shares of the Company:

Name	Notes	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Data Dreamland Holding Limited ("Data Dreamland")	1	1,662,342,496	Beneficial owner	1,662,342,496	38.92
Barrie Bay Limited ("Barrie Bay")	2	1,662,342,496	Interest of controlled corporation	1,662,342,496	38.92
HSBC International Trustee Limited ("HSBC Trustee")	2	1,662,342,496	Trustee	1,662,342,496	38.92
Ms. Yang Xiao	1	1,662,762,496	Spouse interest	1,662,762,496	38.93

Notes:

- The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is an unit trust which are held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a discretionary trust set up by Mr. Guo and Ms. Yang and the discretionary objects of which include the minor children of Mr. Guo and Ms. Yang.
- The 1,662,342,496 shares were held by Data Dreamland, the entire share capital of which is held by Barrie Bay, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee.

Save as disclosed above, as at 30 June 2014, so far as the directors are aware, there are no other persons, other than the directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.



MANAGEMENT DISCUSSION & ANALYSIS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time for the six months ended 30 June 2014 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

Code Provision A.2. 1 of the Code of Corporate Governance Practices (the "Code") as was set out in Appendix 14 of the Listing Rules stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Currently, Mr. Guo Deying is the chairman of the Board and the Chief Executive Officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management and believes that this structure enables the Group to make and thus implement decisions promptly and efficiently.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company was not, for any part of the six months ended 30 June 2014, in compliance with the Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of the Directors, the Directors have complied with the required standard set out in the Model Code, throughout the accounting period under review.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprising the three independent non-executive Directors, namely Mr. Chan King Chung (the Chairman), Dr. Huang Dazhan and Mr. Xie Weixin, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Group's unaudited financial statements for the six months ended 30 June 2014 have been reviewed by the members of the Audit Committee, who are of the opinion that such statements comply with applicable accounting standards, the Listing Rules and legal requirements and that adequate disclosures have been made therein.

For and on behalf of

Coolpad Group Limited

Guo Deying

Chairman & Chief Executive Officer

Hong Kong, 20 August 2014



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
REVENUE	4	14,934,734	9,647,783
Cost of sales		(12,908,827)	(8,377,862)
Gross profit		2,025,907	1,269,921
Other income and gains	4	143,360	92,013
Selling and distribution expenses		(807,134)	(473,165)
Administrative expenses		(815,386)	(607,665)
Other expenses		(32,880)	(6,129)
Finance costs	6	(31,197)	(14,861)
Share of profit/(loss) of associates		125	(30)
Share of loss of a joint venture		(61)	(472)
PROFIT BEFORE TAX	5	482,734	259,612
Income tax expense	7	(69,702)	(46,838)
PROFIT FOR THE PERIOD		413,032	212,774
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(8,406)	6,010
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		(8,406)	6,010
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		404,626	218,784
PROFIT FOR THE PERIOD			
Attributable to:			
Owners of the Company		412,862	212,844
Non-controlling interests		170	(70)
		413,032	212,774
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD			
Attributable to:			
Owners of the Company		404,456	218,854
Non-controlling interests		170	(70)
		404,626	218,784
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic (2013 restated)		9.71 cents	5.05 cents
Diluted (2013 restated)		9.46 cents	4.97 cents

Details of the dividends declared for the period are disclosed in note 8 to the condensed consolidated financial statements.



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	<i>Notes</i>	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		785,420	567,866
Investment properties		110,614	218,117
Prepaid land lease payments		140,241	153,491
Intangible assets		155,478	173,522
Investments in a joint venture		5,819	5,881
Investments in associates		59,286	53,843
Available-for-sale investments		34,028	28,884
Other non-current assets		33,452	38,844
Deferred tax assets		9,845	10,554
Total non-current assets		1,334,183	1,251,002
CURRENT ASSETS			
Inventories		4,897,577	2,594,764
Trade receivables	10	3,475,821	2,998,154
Bills receivable	11	435,842	211,551
Prepayments, deposits and other receivables		698,757	678,693
Pledged time deposits		385,004	699,304
Cash and cash equivalents		2,360,576	1,628,266
Total current assets		12,253,577	8,810,732
CURRENT LIABILITIES			
Trade payables	12	3,008,421	1,876,058
Bills payable	13	2,918,330	2,695,579
Other payables and accruals		2,874,125	1,987,932
Interest-bearing bank borrowings	14	310,184	603,011
Due to an associate		10,410	6,708
Tax payable		34,562	73,648
Total current liabilities		9,156,032	7,242,936



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	<i>Notes</i>	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
NET CURRENT ASSETS		3,097,545	1,567,796
TOTAL ASSETS LESS CURRENT LIABILITIES		4,431,728	2,818,798
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	14	1,215,362	–
Deferred tax liabilities		45,102	48,263
Other non-current liabilities		9,412	9,641
Total non-current liabilities		1,269,876	57,904
Net assets		3,161,852	2,760,894
EQUITY			
Equity attributable to owners of the Company			
Issued capital	15	42,715	21,107
Shares held for the Share Award Plan	17	–	(240)
Reserves		3,116,015	2,737,075
Proposed final dividend		–	–
		3,158,730	2,757,942
Non-controlling interests		3,122	2,952
Total equity		3,161,852	2,760,894



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
At 1 January – equity attributable to owners of the Company	2,757,942	2,409,740
Total comprehensive income for the period attributable to owners of the Company	404,456	218,854
Issue of shares, including share premium	6,973	14,433
Equity-settled share option arrangements	9,035	22,110
Vesting of awarded shares	240	–
Transfer to share premium account from share option reserve	4,236	6,678
Transfer from share option reserve to share premium account	(4,236)	(6,678)
Share award reserve from shares awarded under the Share Award Plan	(19,916)	–
Final 2012 dividend declared	–	(63,227)
At 30 June – equity attributable to owners of the Company	3,158,730	2,601,910
Non-controlling interests	3,122	3,177
At 30 June – total equity	3,161,852	2,605,087



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		482,734	259,612
Adjustments for:			
Bank interest income	4	(35,139)	(25,704)
Finance costs	6	31,197	14,861
Share of loss of a joint venture		61	472
Share of profit/loss of associates		(125)	30
Depreciation	5	27,436	22,048
Changes in fair value of investment properties		25,352	–
Amortisation of patents, licences and computer software	5	16,815	12,031
Amortisation of product development costs	5	34,915	23,102
Recognition of prepaid land lease payments	5	1,607	1,253
Loss on disposal of items of property, plant and equipment	5	1,306	1,043
Impairment of trade receivables	5	2,599	2,301
Write-down of inventories to net realisable value	5	118,757	68,710
Equity-settled share option expense		9,035	22,110
		716,550	401,869
(Increase)/decrease in inventories		(2,391,320)	206,627
(Increase)/decrease in trade receivables		(477,667)	300,235
Increase in bills receivable		(224,491)	(194,730)
Increase in prepayments, deposits and other receivables		(20,117)	(157,240)
Decrease in an amount due from a director		53	–
Decrease in other non-current assets		957	6,628
Increase in trade payables		1,132,363	203,484
Increase in bills payable		222,751	164,317
Increase in other payables and accruals		886,195	222,200
Increase/(decrease) in an amount due to an associate		3,702	(4,769)
(Decrease)/increase in other non-current liabilities		(3,390)	2,044
Cash generated (used in)/from operations		(154,414)	1,150,665
Tax paid		(42,567)	(24,401)
Net cash flows (used in)/from operating activities		(196,981)	1,126,264



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
CASH FLOWS FROM INVESTING ACTIVITIES			
Bank interest received		35,139	25,704
Dividends received from an associate		-	268
Purchases of items of property, plant and equipment		(172,406)	(55,435)
Proceeds from disposal of items of property, plant and equipment		1,435	1,012
Additions to product development costs		(51,259)	(32,012)
Additions to patents and licences		(24,501)	(20,031)
Additions to computer software		(1,582)	(1,692)
Additions to prepaid land lease payments		-	(1,430)
Investments in associates		(4,892)	(18,245)
Purchase of available-for-sale investments		(6,241)	-
Decrease in pledged deposits		312,751	89,245
Net cash flows generated/(used in) from investing activities		88,444	(12,616)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	15	51,189	14,433
New bank loans		1,862,304	1,423,805
Repayment of bank loans		(1,039,769)	(1,718,426)
Interest paid		(29,862)	(13,812)
Dividends paid		-	(63,227)
Net cash flows from/(used in) financing activities		843,862	(357,227)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		1,628,266	1,273,540
Effect of foreign exchange rate changes, net		(3,015)	2,973
CASH AND CASH EQUIVALENTS AT END OF YEAR		2,360,576	2,032,934
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		2,360,576	2,032,934



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.

Pursuant to the special resolution passed at the extraordinary general meeting of the Company held on 29 November 2013 and the approval from the Registry of Companies in the Cayman Islands, the name of the Company was changed from “China Wireless Technologies Limited 中國無線科技有限公司” to “Coolpad Group Limited 酷派集團有限公司”.

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.

In the opinion of the Directors, the holding company and the ultimate holding company of the Company is Data Dreamland Holding Limited, which was incorporated in the British Virgin Islands.

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 2014 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 2013.

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 2013 except for the first time adoption of the following new and revised standards and interpretations:

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 – <i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</i>

The adoption of these new and revised HKFRSs has had no significant financial effect on these condensed consolidated financial statements.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

(continued)

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:

HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	<i>Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39</i> ⁴
HKFRS 11 Amendments	<i>Amendments to HKFRS 11 Accounting for Acquisitions of Interests in Joint Operations</i> ²
HKFRS 14	<i>Regulatory Deferral Accounts</i> ²
HKFRS 15	<i>Revenue from Contracts with Customers</i> ³
HKAS 16 and HKAS 38 Amendments	<i>Amendments to HKAS 16 and HKAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation</i> ²
HKAS 19 Amendments	<i>Amendments to HKAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions</i> ¹
<i>Annual Improvements 2010-2012 Cycle</i>	<i>Amendments to a number of HKFRSs issued in January 2014</i> ¹
<i>Annual Improvements 2011-2013 Cycle</i>	<i>Amendments to a number of HKFRSs issued in January 2014</i> ¹

- 1 *Effective for annual periods beginning on or after 1 July 2014,*
- 2 *Effective for annual periods beginning on or after 1 January 2016*
- 3 *Effective for annual periods beginning on or after 1 January 2017*
- 4 *No mandatory effective date yet determined but is available for adoption*

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 two reportable operating segments as follows:

- (a) the mobile phone segment engages in the research, development, production and sale of mobile phones and provision of wireless application service; and
- (b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation.

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, 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, finance costs, share of profit/(loss) of associates and a joint venture as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude pledged time deposits, cash and cash equivalents, deferred tax assets, an available-for-sale investment, an investment in a joint venture and investments in associates as these assets are managed on a group basis.

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



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION (continued)

	Mobile phone HK\$'000	Property investment HK\$'000	Total HK\$'000
Six months ended 30 June 2014 (Unaudited)			
Segment revenue:			
Sales to external customers	14,934,734	–	14,934,734
Other revenue and gains	104,162	4,059	108,221
Total	15,038,896	4,059	15,042,955
Segment results	479,613	3,647	483,260
<i>Reconciliation:</i>			
Interest income			35,139
Finance costs			(31,197)
Share of loss of a joint venture			(61)
Share of profit of associates			125
Corporate and other unallocated expenses			(4,532)
Profit before tax			482,734
Six months ended 30 June 2013 (Unaudited)			
Segment revenue:			
Sales to external customers	9,647,783	–	9,647,783
Other revenue and gains	51,566	14,743	66,309
Total	9,699,349	14,743	9,714,092
Segment results	239,149	13,802	252,951
<i>Reconciliation:</i>			
Interest income			25,704
Finance costs			(14,861)
Share of loss of a joint venture			(472)
Share of loss of associates			(30)
Corporate and other unallocated expenses			(3,680)
Profit before tax			259,612
Segment assets			
At 30 June 2014 (Unaudited)	9,804,359	110,628	9,914,987
At 31 December 2013 (Audited)	7,401,233	233,716	7,634,949
Segment liabilities			
At 30 June 2014 (Unaudited)	8,976,245	4,120	8,980,365
At 31 December 2013 (Audited)	6,557,007	5,786	6,562,793



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and trade discounts.

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

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue		
Sale of mobile phones	14,847,576	9,631,723
Wireless application service income	87,158	16,060
	14,934,734	9,647,783
Other income		
Bank interest income	35,139	25,704
Gross rental income	4,059	14,743
Government grants and subsidies*	96,967	49,613
Others	7,195	1,953
	143,360	92,013

* 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.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Cost of inventories sold	12,790,070	8,309,152
Depreciation	27,436	22,048
Amortisation of patents and licences*	16,815	12,031
Amortisation of prepaid land lease payments	1,607	1,253
Research and development costs:		
Product development costs amortised*	34,915	23,102
Expenditure for the period*	365,926	180,243
	400,841	203,345
Operating lease rental	18,625	15,024
Loss on disposal of items of property, plant and equipment	1,306	1,043
Net impairment of trade receivables	2,599	2,301
Provision for inventories	118,757	68,710

* 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 profit or loss.

6. FINANCE COSTS

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Interest on bank loans	31,197	14,861



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Group:		
Current	72,154	46,712
Deferred	(2,452)	126
Total tax charge for the period	69,702	46,838

8. DIVIDENDS

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Interim dividend at HK\$0.01 per share (2013: HK\$0.02)	42,715	42,115

On 20 August 2014, the Directors resolved to declare interim dividend of HK\$0.01 per share in respect of the six months ended 30 June 2014 to its shareholders (six months ended 30 June 2013: HK\$0.02).

As the interim dividend is declared after the end of the reporting period, such dividend is not recognised as a liability as at 30 June 2014.

Taking into account the issue of the bonus shares on the basis of one bonus share for every one ordinary share held on 3 June 2014, the Directors consider that there is no change for the declared interim dividend per ordinary share for 2013 and 2014.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The calculation of basic earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$412,862,000 (six months ended 30 June 2013: HK\$212,844,000), and the weighted average number of ordinary shares of 4,251,110,641 in issue during the six months ended 30 June 2014 (six months ended 30 June 2013: 4,215,711,376).

The calculation of diluted earnings per share is based on the profit for the period attributable to ordinary equity holders of the Company of HK\$412,862,000. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 112,709,985 assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	412,862	212,844
	Number of shares	
	2014	2013 (Restated)
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	4,251,110,641	4,215,711,376
Effect of dilution – weighted average number of ordinary shares: share options	112,709,985	66,748,690
	4,363,820,626	4,282,460,066

The Group issued bonus shares on 13 June 2014 on the basis of one bonus share for every one ordinary share at a par value of HK\$0.01 each to shareholders whose names appear on the register of members on 3 June 2014. The number of shares before the issue of the bonus share was restated to reflect the issue of bonus shares.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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. Trade receivables are non-interest-bearing.

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within 3 months	3,444,990	2,968,544
4 to 6 months	26,379	24,868
7 to 12 months	4,582	5,337
Over 1 year	15,106	12,042
Less: Impairment	3,491,057 (15,236)	3,010,791 (12,637)
	3,475,821	2,998,154

11. BILLS RECEIVABLE

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within 3 months	435,842	211,551



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the period, based on the invoice date, is as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within 3 months	2,553,814	1,656,893
4 to 6 months	304,867	114,574
7 to 12 months	92,504	61,376
Over 1 year	57,236	43,215
	3,008,421	1,876,058

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

13. BILLS PAYABLE

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within 3 months	2,918,330	2,695,579

As at 30 June 2014, certain bills payable of the Group were secured by the Group's time deposits of approximately HK\$370,600,000 (31 December 2013: HK\$597,430,000).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Current		
Bank loans – secured	–	–
Bank loans – unsecured	–	21,416
Bank loans – import and trust receipt loans	310,184	581,595
	310,184	603,011
Non-current		
Bank loans – secured	1,215,362	–
	1,525,546	603,011

15. SHARE CAPITAL

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Authorised:		
20,000,000,000 (31 December 2013: 20,000,000,000) ordinary shares of HK\$0.01 each	200,000	200,000
Issued and fully paid:		
4,271,530,000 (31 December 2013: 2,110,745,000) ordinary shares of HK\$0.01 each	42,715	21,107



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. SHARE CAPITAL (continued)

During the six months ended 30 June 2014, the movements in share capital were as follows:

(a) The movements in share capital due to the share option exercised:

Numbers of the shares Issued due to the share option exercised(par value per share of HK\$0.01)	Exercised price	Total cash consideration (before expenses)
576,000	1.415	815,000
5,160,000	0.674	3,478,000
1,560,000	0.397	619,000
9,696,000	3.240	31,415,000
5,296,000	1.678	8,887,000
1,676,000	2.328	3,902,000
796,000	0.337	268,000
688,000	1.620	1,114,000
124,000	0.839	104,000
504,000	1.164	587,000
Total	26,076,000	51,189,000

(b) The movements in share capital due to the bonus shares:

2,134,709,000 bonus shares were granted for the ordinary shares held by the then existing shareholders on the basis of one bonus share for one ordinary share in issue on 3 June 2014, which were approved by the shareholders at the annual general meeting of the Company held on 23 May 2014.

16. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The weighted average share price at the date of exercise for share options exercised during the period was HK\$1.980 (adjusted) per share (Six months ended 30 June 2013: HK\$3.004).



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. SHARE OPTION SCHEME (continued)

Movements of the share options (the "Options") during the six months ended 30 June 2014 were as follows:

Name or category of participant	At 1 January 2014	Number of share options						Adjusted upon completion of the bonus issue	HKS per share	HKS per share
		Granted during the period	Exercised before completion of the bonus issue	Expired before completion of the bonus issue	Forfeited before completion of the bonus issue	Number of options At 30 June 2014				
						Before completion of the bonus issue	After completion of the bonus issue			
Employees										
In aggregate - granted on 18 September 2007	1,344,000	-	576,000	-	788,000	788,000	1,536,000	1,536,000.00	1,4150	
In aggregate - granted on 20 May 2008	1,100,000	-	1,100,000	-	2,960,000	5,920,000	5,920,000.00	5,124,000.00	0,6740	
In aggregate - granted on 20 May 2008	4,272,000	-	1,312,000	-	3,392,000	6,784,000	6,784,000.00	6,784,000.00	0,6740	
In aggregate - granted on 27 Feb 2009	696,000	-	560,000	136,000	-	-	-	-	0,3970	
In aggregate - granted on 30 Jun 2010	10,444,000	-	5,108,000	86,000	5,950,000	10,500,000	240,000.00	10,260,000.00	3,2400	
In aggregate - granted on 30 Jun 2010	12,068,000	-	3,496,000	288,000	8,312,000	16,624,000	384,000.00	16,440,000.00	3,2400	
In aggregate - granted on 30 Jun 2010	11,208,000	-	1,092,000	240,000	9,876,000	19,752,000	64,000.00	19,688,000.00	3,2400	
In aggregate - granted on 30 Jun 2010	7,500,000	-	-	-	7,500,000	15,000,000	-	15,000,000.00	3,2400	
In aggregate - granted on 12 July 2011	25,828,000	-	5,296,000	900,000	19,632,000	39,264,000	124,000.00	39,140,000.00	1,6780	
In aggregate - granted on 12 July 2011	288,000	-	-	288,000	-	-	576,000.00	576,000.00	1,6780	
In aggregate - granted on 27 Dec 2012	36,706,000	-	1,676,000	1,104,000	33,926,000	67,852,000	504,000.00	67,348,000.00	3,3280	
In aggregate - granted on 27 Dec 2012	2,876,000	-	-	1,408,000	29,612,000	29,612,000	59,224,000.00	59,224,000.00	3,0880	
In aggregate - granted on 10 Jan 2014	-	-	-	-	1,000,000	1,000,000	2,000,000.00	2,000,000.00	1,5400	
Directors										
In aggregate - granted on 20 May 2008	2,748,000	-	2,748,000	-	-	-	-	-	0,1985	
In aggregate - granted on 27 Feb 2009	4,000,000	-	1,000,000	-	3,000,000	6,000,000	6,000,000.00	6,000,000.00	0,1985	
In aggregate - granted on 30 Jun 2010	4,000,000	-	-	-	4,000,000	8,000,000	8,000,000.00	8,000,000.00	1,6200	
In aggregate - granted on 12 July 2011	1,400,000	-	-	-	1,400,000	2,800,000	2,800,000.00	2,800,000.00	0,8390	
In aggregate - granted on 27 Dec 2012	2,000,000	-	-	-	2,000,000	4,000,000	4,000,000.00	4,000,000.00	1,1640	
Total	131,998,000	32,020,000	23,964,000	-	4,162,000	135,892,000	271,784,000	2,112,000.00	269,672,000.00	

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of a share option is the amount that the employee is required to pay to obtain each share under the option.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

17. SHARE AWARD PLAN

On 3 March 2008, the directors approved the adoption of a share award plan (the “Share Award Plan”) to recognise and reward the contribution of certain employees to the growth and development of the Group through an award of the Company’s shares. The Share Award Plan became effective on 3 March 2008 and will remain in force for 10 years from that date.

The Group has appointed a trustee (the “Trustee”) for the purposes of administering the Share Award Plan. The Trustee will be notified by the directors in writing upon making of an award to an eligible employee under the Share Award Plan. Upon the receipt of such notice, the Trustee will set aside the appropriate number of awarded shares out of a pool of shares comprising the following:

- (a) the Company’s shares which will be purchased by the Trustee on the Stock Exchange at such times and prices as may be considered by the Trustee to be appropriate by utilising the fund to be paid by the Company to the Trustee;
- (b) such shares as may be purchased by the Trustee on the Stock Exchange by utilising the funds allocated by the directors out of the Company’s resources; and
- (c) such shares which remain unvested and revert to the Trustee by reason of a lapse of an award.

The legal and beneficial ownership of the relevant awarded shares shall vest in the relevant selected employee within 10 business days after the latest of: (a) the date specified by the directors on the notice of the award (which shall not be earlier than the first business day immediately following the expiry of six months after the adoption date); (b) where applicable, the date on which the condition(s) or performance target(s) (if any) to be attained by such selected employee as specified in the related notice of award have been attained and notified to the Trustee by the directors in writing; and (c) where applicable, the date on which the Trustee has completed the purchase of shares for the purpose of making the relevant award.

During the reporting period, the Trustee awarded a total number of 1,204,000 shares (six months ended 30 June 2013: Nil) to an employee at nil consideration. The total costs of the related shares awarded during the reporting period was HK\$240,000.

At the end of the reporting period, no shares of the Company under the Share Award Plan have yet to be awarded.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

As at 30 June 2014, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within one year	4,125	6,295
In the second to fifth years, inclusive	10,185	14,430
After five years	11,502	12,004
	25,812	32,729

(b) As lessee

The Group leases certain of its warehouses and office premises under operating lease arrangements for lease terms ranging from one to five years. The total future minimum lease payments under non-cancellable operating leases committed at the end of reporting period to be made by the Group were as follows:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Within one year	38,065	41,302
In the second to fifth years, inclusive	65,482	64,325
	103,547	105,627



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. COMMITMENTS

In addition to the operating lease commitments detailed in note 18(b) above, the Group had the following capital commitments at the end of the reporting period:

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Contracted, but not provided for:		
Land and buildings	302,485	296,420

At the end of the reporting period, the Company had no significant capital commitments.

20. RELATED PARTY TRANSACTIONS

(a) Balance with a related party

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Due to an associate	10,410	6,708

The amount due is unsecured, non-interest-bearing and has no fixed terms of repayment.

(b) Transactions with related parties

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
An associate:		
Purchase of raw materials	27,880	22,901

Purchases of materials from the Group's associate were made based on mutually agreed terms.



NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

20. RELATED PARTY TRANSACTIONS (continued)

(c) Compensation of key management personnel of the Group

Compensation of the key management personnel of the Group is set out as follows:

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Salaries, allowances and benefits in kind	11,852	9,643
Pension scheme contributions	184	168
Equity-settled share option expense	1,672	1,125
Total compensation paid to the key management personnel	13,708	10,936

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The Group did not have any financial assets or financial liabilities measured at fair value as at 30 June 2014. The carrying amounts of the Group's financial instruments recorded at amortised cost in the financial statements approximated to their fair values as at 30 June 2014.

22. EVENT AFTER THE REPORTING PERIOD

The Group had no significant event after the reporting period.

23. COMPARATIVE AMOUNTS

Wireless application service income of HK\$16,060,000 which was previously classified as other income and gains was reclassified as revenue. In the opinion of the directors, such reclassification of the prior year comparative amounts provides better presentation as to the nature of the transaction and accords with the current year's presentation.

24. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 20 August 2014.