

# 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)

# 2018

Interim Report



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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 former chairman, former executive director and former 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. The Group never stops enhancing its R&D ability and is striving to be an important participant and a leader in the latest field of 5G and Artificial Intelligence.

The Group has succeeded in breaking into the global telecommunications market in respect of Coolpad brand, the Group has established strong and close strategic cooperation relationships with certain global telecommunication operators and is striving to further develop its business in the global telecommunication 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 realize its dream by providing customized products and services based on its differentiated mobile operating systems and applications.

## REGISTERED OFFICE

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

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Coolpad Information Harbor  
NO.2 Mengxi Road  
Hi-Tech Industry Park (Northern)  
Nanshan District  
Shenzhen

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1902, Mass Mutual Tower  
38 Gloucester Road  
Wanchai  
Hong Kong

## COMPANY SECRETARY

Mr. JIANG Chao, ACCA (*Resigned on 11 January 2019*)  
Mr. LEUNG Siu Kee (*Appointed on 19 January 2018*)

## AUDIT COMMITTEE & REMUNERATION COMMITTEE

Mr. CHAN King Chung (*Chairperson*)  
Dr. HUANG Dazhan  
Mr. XIE Weixin

## NOMINATION COMMITTEE

Mr. CHAN King Chung (*Chairperson*)  
Mr. JIANG Chao (*resigned on 11 January 2019*)  
Mr. CHEN Jiajun (*appointed on 17 January 2019*)  
Mr. XIE Weixin

## AUTHORISED REPRESENTATIVES

Mr. JIANG Chao (*Resigned on 11 January 2019*)  
Mr. LIU Hong (*Resigned on 8 February 2018*)  
Mr. LEUNG Siu Kee (*Appointed on 8 February 2018*)

## CONTACT INFORMATION FOR INVESTOR RELATIONS

Tel: +86 755 3302 3607  
Email: ir@yulong.com

## AUDITORS

Ernst & Young  
Certified Public Accountants  
22/F CITIC Tower  
1 Tim Mei Avenue  
Central  
Hong Kong

## LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW

Baker & McKenzie  
14th Floor, One Taikoo Place  
979 King's Road  
Quarry Bay  
Hong Kong

## LEGAL ADVISERS TO THE COMPANY AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman  
2901 One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

## **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

SMP Partners (Cayman) Limited  
3rd Floor, Royal Bank House, 24 Shedden Road  
P.O. Box 1586  
Grand Cayman KY1-1110  
Cayman Islands

## **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited  
Shops 1712-16  
17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

## **PRINCIPAL BANKERS**

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

## **COMPANY WEBSITE**

[www.coolpad.com.hk](http://www.coolpad.com.hk)

## **STOCK CODE**

2369

The financial data below are extracted from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018 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		
	2018 (HK\$'000) (Unaudited)	2017 (HK\$'000) (Unaudited)	Change (%)
Revenue	<b>802,752</b>	2,390,165	-66.4
Loss before tax	<b>(344,579)</b>	(1,057,420)	-67.4
Tax	<b>12,431</b>	(1,398)	-989.2
Net loss attributable to owners of the Company	<b>(325,869)</b>	(1,049,097)	-68.9
Basic and diluted loss per share	<b>(HK6.47 cents)</b>	(HK20.84 cents)	-69.0

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 30 June 2018 (HK\$'000) (Unaudited)	At 31 December 2017 (HK\$'000) (Audited)
Non-current assets	<b>1,988,764</b>	1,991,344
Current assets	<b>2,321,276</b>	2,859,486
Non-current liabilities	<b>270,965</b>	296,464
Current liabilities	<b>3,438,116</b>	3,764,950
Net assets	<b>600,959</b>	789,416
Cash and cash equivalents	<b>223,844</b>	451,130

# MANAGEMENT DISCUSSION & ANALYSIS

## TOTAL REVENUE HK\$802.8 MILLION

The financial data below are extracted from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2018 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	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>REVENUE</b>		
Sale of mobile phones and related accessories	<b>792,033</b>	2,320,625
Wireless application service income	<b>10,035</b>	52,305
Finance service income	<b>684</b>	17,235
<b>Total revenue</b>	<b>802,752</b>	2,390,165
<b>Cost of sales</b>	<b>(827,901)</b>	(2,296,561)
Gross (loss)/profit	<b>(25,149)</b>	93,604
Other income and gains	<b>136,437</b>	162,638
Selling and distribution expenses	<b>(105,131)</b>	(477,407)
Administrative expenses	<b>(179,310)</b>	(506,788)
Other expenses	<b>(90,355)</b>	(265,584)
Finance costs	<b>(16,895)</b>	(10,447)
Share of losses of		
A joint venture	<b>(394)</b>	(585)
Associates	<b>(63,782)</b>	(52,851)
<b>Loss before tax</b>	<b>(344,579)</b>	(1,057,420)
Income tax credit/(expense)	<b>12,431</b>	(1,398)
<b>Loss for the period</b>	<b>(332,148)</b>	(1,058,818)
<b>Basic and diluted loss per share</b>	<b>(HK6.47 cents)</b>	(HK20.84 cents)

## REVENUE ANALYSED BY PRODUCT TYPE

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

Revenues	Six months ended 30 June			
	2018		2017	
	Revenue HK\$ million (Unaudited)	% of total revenue	Revenue HK\$ million (Unaudited)	% of total revenue
Sale of mobile phones and related accessories	792.1	98.7	2,320.6	97.1
Wireless application service income	10.0	1.2	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

Gross (loss)/profit	Six months ended 30 June			
	2018		2017	
	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 126.8% 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\$25.9 million, or 16.0%, 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

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>(Unaudited)</b>	(Unaudited)
Selling and distribution expenses (HK\$ million)	<b>105.1</b>	477.4
As a percentage of total revenue	<b>13.1%</b>	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

	<b>Six months ended 30 June</b>	
	<b>2018</b>	2017
	<b>(Unaudited)</b>	(Unaudited)
Administrative expenses (HK\$ million)	<b>179.3</b>	506.8
As a percentage of total revenue	<b>22.3%</b>	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\$726.7 million, or 68.6%, as compared with the net loss of HK\$1,058.8 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, 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).

## PLEGDED OF ASSETS

As at 30 June 2018, 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.

## BUSINESS REVIEW (continued)

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 planned 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 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.

## 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 that 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.

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

As at 30 June 2018, 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

### Long positions in Shares:

Name of director	Notes	Directly Beneficially Owned	Through spouse or child	Through controlled corporation	Beneficiary of a trust	Founder of a trust	Share Option	Total	Approximate percentage of the Company's issued share capital
Mr. Jiang Chao	1	23,000,000	-	-	483,000	-	-	23,483,000	0.47
Mr. Chan King Chung	2	441,600	-	-	-	-	-	441,600	0.01
Mr. Huang Dazhan	2	288,000	-	-	-	-	-	288,000	0.01
Mr. Xie Weixin	2	384,000	-	-	-	-	-	384,000	0.01

#### Notes:

- 1 Mr. JIANG Chao, an executive Director, was interested in the 483,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the Coolpad Group Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the Coolpad Group Share Award Plan.
- 2 The interests of these Directors are in the underlying Shares of the options granted to the relevant Directors by the Company under the Share Option Scheme.

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

As at 30 June 2018, 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:

Name	Notes	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Mr. CHEN Jiajun	1	897,437,000	Interest of controlled corporation	897,437,000	17.83
Mr. GUO Deying	2	462,889,484	Founder of a discretionary trust	463,372,484	9.21
		483,000	Through controlled corporation		
Data Dreamland Holding Limited ("Data Dreamland")	2	462,889,484	Beneficial owner	462,889,484	9.20
HSBC International Trustee Limited ("HSBC Trustee")	3	463,889,484	Trustee	463,889,484	9.22
Power Sun Ventures Limited	1	897,437,000	Beneficial owner	897,437,000	17.83
Zeal Limited	4	551,367,386	Beneficial owner	551,367,386	10.95

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES (continued)

Notes:

1. The 897,437,000 shares were directly held by Power Sun Ventures Limited, and Power Sun Ventures Limited is ultimately owned by Mr. Chen Jiajun. Therefore, Mr. Chen Jiajun is indirectly interested in the 897,437,000 shares of the Company.
2. The entire issued share capital of Data Dreamland is held by Barrie Bay (PTC) Limited. Barrie Bay (PTC) Limited is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo Deying and Ms. Yang Xiao (the spouse of Mr. Guo Deying) and the beneficiary objects of which include the children of Mr. Guo Deying and Ms. Yang Xiao. Mr. Guo Deying is taken to be interested in the 483,000 shares held by Wintech Consultants Limited as he is one out of the three directors of Wintech Consultants Limited and the other two directors are accustomed to act in accordance with Mr. Guo Deying's direction.
3. The 462,889,484 shares were held by Data Dreamland, the entire share capital of which is held by Barrie Bay (PTC) Limited, 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. The rest 1,000,000 shares were held by HSBC Trustee privately as the trustee.
4. The 551,367,386 shares were directly held by Zeal Limited, and Zeal limited is wholly owned by Shenzhen LETV Bridge Merger Acquisition Fund Investment Management Enterprise (Limited Partnership) (深圳市樂視鑫根併購基金投資管理企業(有限合夥)).

Save as disclosed above, as at 30 June 2018, 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.

## 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 2018 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.

## CHANGES OF INFORMATION OF DIRECTORS UNDER RULE 13.51B(1) OF LISTING RULES

Below are the information relating to the changes of Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules since the date of the 2017 Annual Report:

Mr. Liu Hong re-designated from executive Director to non-executive Director on 19 January 2018, and resigned on 3 April 2018. Mr. Zhang Wei, Mr. Ma Lin, Mr. Yang Yongqiang and Mr. Wang Junmin resigned on 05 January 2018. Mr. Leung Siu Kee, Mr. Lam Ting Fung Freeman, and Mr. Liang Rui appointed as executive Director on 19 January 2018. Mr. Ng Wai Hung appointed as non-executive Director on 19 January 2018. Mr. Jiang Chao resigned on 11 January 2019, and Mr. Chen Jiajun appointed as executive Director and Chief Executive Officer on 17 January 2019.

Save as disclosed above, there is no information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## 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

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 2018, 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..

For and on behalf of

**Coolpad Group Limited**

**CHEN Jiajun**

*Executive Director & Chief Executive Officer*

Hong Kong, 29 March 2019

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
REVENUE	4	802,752	2,390,165
Cost of sales		(827,901)	(2,296,561)
Gross (loss)/profit		(25,149)	93,604
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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)
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

	<i>Notes</i>	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>1,003,801</b>	943,870
Investment properties		<b>118,600</b>	120,013
Prepaid land lease payments		<b>235,925</b>	271,171
Intangible assets		<b>11,955</b>	12,855
Investment in a joint venture		<b>105,227</b>	106,677
Investments in associates		<b>380,480</b>	448,468
Available-for-sale investments		–	34,921
Equity investments at fair value through profit or loss		<b>117,460</b>	–
Loans receivable		<b>4,236</b>	18,266
Other non-current assets		<b>2,873</b>	26,825
Deferred tax assets		<b>8,207</b>	8,278
<b>Total non-current assets</b>		<b>1,988,764</b>	1,991,344
<b>CURRENT ASSETS</b>			
Inventories		<b>236,660</b>	395,569
Trade receivables	10	<b>384,809</b>	616,478
Bills receivable	11	–	11,572
Short-term loans receivable		<b>12,855</b>	64,710
Prepayments, deposits and other receivables		<b>1,355,347</b>	1,160,450
Amounts due from associates		<b>53,756</b>	43,801
Pledged deposits		<b>54,005</b>	115,776
Cash and cash equivalents		<b>223,844</b>	451,130
<b>Total current assets</b>		<b>2,321,276</b>	2,859,486
<b>CURRENT LIABILITIES</b>			
Trade payables	12	<b>760,099</b>	756,397
Bills payable	13	<b>8,303</b>	45,934
Other payables and accruals		<b>1,836,201</b>	1,886,662
Interest-bearing bank borrowings	14	<b>343,969</b>	684,966
Amounts due to associates		<b>191,883</b>	277,082
An amount due to a related party		<b>202,467</b>	–
Tax payable		<b>95,194</b>	113,909
<b>Total current liabilities</b>		<b>3,438,116</b>	3,764,950

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	<i>Note</i>	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
NET CURRENT ASSETS		<b>(1,116,840)</b>	(905,464)
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>871,924</b>	1,085,880
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		<b>241,519</b>	239,260
Deferred tax liabilities		<b>29,446</b>	55,823
Other non-current liabilities		–	1,381
Total non-current liabilities		<b>270,965</b>	296,464
Net assets		<b>600,959</b>	789,416
EQUITY			
Equity attributable to owners of the Company			
Issued capital	15	<b>50,334</b>	50,334
Reserves		<b>598,198</b>	793,592
Non-controlling interests		<b>(47,573)</b>	(54,510)
Total equity		<b>600,959</b>	789,416

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
At 31 December 2017	843,926	N/A
Effect of adoption of HKFRS 9	82,168	N/A
At 1 January – equity attributable to owners of the Company	926,094	3,538,310
Total comprehensive income for the period attributable to owners of the Company	(314,629)	(1,027,378)
Issue of shares, including share premium	–	272
Equity-settled share option arrangements	37,066	8,802
Transfer to share premium account from share option reserve	–	2,342
Transfer from share option reserve to share premium account	–	(2,342)
Other reserve from the disposal of certain interests in a subsidiary without loss of control	–	(1,370)
At 30 June – equity attributable to owners of the Company	648,531	2,518,636
Non-controlling interests	(47,573)	(14,319)
At 30 June – total equity	600,959	2,504,317

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
(Loss) before tax		<b>(344,579)</b>	(1,057,420)
Adjustments for:			
Bank and other interest income	4	<b>(5,013)</b>	(31,342)
Finance costs	6	<b>16,895</b>	10,447
Share of loss of a joint venture		<b>394</b>	585
Share of losses of associates		<b>63,782</b>	52,851
Depreciation	5	<b>21,308</b>	38,230
Changes in fair value of investment properties		<b>48</b>	64
Amortisation of patents, licences and computer software	5	<b>765</b>	952
Amortisation of product development costs	5	<b>3,365</b>	7,023
Recognition of prepaid land lease payments	5	<b>2,545</b>	3,904
Loss on disposal of items of property, plant and equipment	5	<b>2,036</b>	280
Loss from disposal of certain interests of associates	5	<b>–</b>	589
Impairment of financial assets	5	<b>9,032</b>	16,520
Write-down of inventories to net realisable value		<b>8,762</b>	10,892
Equity-settled share option expense		<b>–</b>	3,250
		<b>(220,660)</b>	(943,175)
Decrease in inventories		<b>158,909</b>	545,987
Decrease/(increase) in trade receivables		<b>231,669</b>	(39,623)
Decrease in bills receivable		<b>11,572</b>	82,491
Decrease in loans receivable		<b>47,619</b>	26,621
(Increase)/decrease in prepayments, deposits and other receivables		<b>(194,898)</b>	150,305
Decrease in an amount due from a director		<b>–</b>	500
Increase in an amount due from associates		<b>(9,955)</b>	(9,676)
Decrease in amounts due from a joint venture or other related parties		<b>–</b>	182,683
Decrease in other non-current assets		<b>23,950</b>	29,958
Increase/(decrease) in trade payables		<b>3,702</b>	(544,949)
Decrease in bills payable		<b>(37,631)</b>	(699,259)
(Decrease)/increase in other payables and accruals		<b>(50,460)</b>	280,991
Decrease in an amount due to associates		<b>(85,199)</b>	(95,593)
Increase/(decrease) in an amount due to a joint venture or other related parties		<b>202,467</b>	(50,273)
Decrease in other non-current liabilities		<b>(1,380)</b>	(1,375)

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	Six months ended 30 June	
		2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Cash generated from/(used in) operations		79,705	(1,084,387)
Tax paid		(1,032)	(3,680)
Net cash flows from/(used in) operating activities		78,673	(1,088,067)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Bank interest received		5,842	13,405
Loans advanced to certain third parties		–	(546,668)
Repayment of loans advanced to certain third parties		–	481,550
Repayment in respect of a potential equity investment		–	916,850
Purchases of items of property, plant and equipment		(62,520)	(53,860)
Proceeds from disposal of items of property, plant and equipment		18,903	2,485
Proceeds from disposal of interests in associates		20,700	–
Investments in associates		–	(9,570)
Decrease in pledged deposits		61,771	186,042
Net cash flows generated from investing activities		44,696	990,234
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of ordinary shares		–	272
New bank loans		248,265	496,621
Repayment of bank loans		(587,003)	(987,950)
Interest paid		(14,025)	(12,035)
Net cash flows used in financing activities		(352,763)	(503,092)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at beginning of year		451,130	1,308,082
Effect of foreign exchange rate changes, net		2,108	12,450
<b>CASH AND CASH EQUIVALENTS AT 30TH JUNE</b>		<b>223,844</b>	<b>719,607</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		223,844	719,607

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

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Changes in accounting policies and disclosures (continued)

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

#### *Classification and measurement (continued)*

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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

#### *Impairment (continued)*

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 HK\$'000	Re-measurement HK\$'000	ECL allowances under HKFRS 9 at 1 January 2018 HK\$'000
Trade receivables	308,312	371	308,683

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

#### *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 HK\$'000	Decrease/ (increase) in accumulated losses HK\$'000	Increase/ (decrease) in equity attributable to owners of the Company 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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

*Impact on reserves and accumulated losses (continued)*

	HK\$'000
<b>Accumulated losses</b>	
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 to equity investments revaluation reserve as a result of reclassification of equity investments at fair value through profit or loss under HKFRS 9	(2,314)
Fair value remeasurement for equity investments 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.

# 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:

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

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, deferred tax assets, an amount due from directors, an amount due from a joint venture, an amount due from an associate, 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, an amount due to an associate, an amount due to a joint venture, 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	Finance service HK\$'000	Total HK\$'000
<b>Six months ended 30 June 2018 (Unaudited)</b>				
<b>Segment revenue:</b>				
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
<b>Segment results</b>	<b>(288,198)</b>	<b>7,804</b>	<b>603</b>	<b>(279,791)</b>
<i>Reconciliation:</i>				
Interest income				5,013
Finance costs				(16,895)
Gain on loss of control of a subsidiary				25,802
Share of loss of a joint venture				(394)
Share of losses of associates				(63,782)
Corporate and other unallocated expenses				(14,532)
Loss before tax				<b>(344,579)</b>
<b>Six months ended 30 June 2017 (Unaudited)</b>				
<b>Segment revenue:</b>				
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
<b>Segment results</b>	<b>(994,236)</b>	<b>5,960</b>	<b>2,890</b>	<b>(985,386)</b>
<i>Reconciliation:</i>				
Interest income				31,342
Finance costs				(10,447)
Share of loss of a joint venture				(585)
Share of profits of associates				(53,440)
Corporate and other unallocated expenses				(38,904)
Loss before tax				<b>(1,057,420)</b>
<b>Segment assets</b>				
At 30 June 2018 (Unaudited)	<b>2,348,095</b>	<b>115,832</b>	<b>370,253</b>	<b>2,834,180</b>
At 31 December 2017 (Audited)	3,432,818	124,375	84,586	3,641,779
<b>Segment liabilities</b>				
At 30 June 2018 (Unaudited)	<b>2,189,064</b>	<b>1,872</b>	<b>105</b>	<b>2,191,041</b>
At 31 December 2017 (Audited)	2,630,191	1,381	–	2,631,572

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 3. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

#### (a) Revenue from external customers

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

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

#### (b) Non-current assets

	30 June	31 December
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Audited)
Mainland China	1,798,101	1,923,781
Overseas	5,539	6,098
	<b>1,803,640</b>	1,929,875

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
<b>Revenue</b>		
Sale of mobile phones	792,033	2,320,625
Wireless application service income	10,035	52,305
Finance service income	684	17,235
	<b>802,752</b>	2,390,165
<b>Other income</b>		
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
	<b>136,437</b>	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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (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
	<b>71,400</b>	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 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Interest on bank and other borrowings	16,895	10,447

# 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	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Group:		
Current	2,031	1,534
Deferred	(14,462)	(136)
Total tax (credit)/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 (2017: Nil).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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:

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (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:

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

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 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:

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Within 3 months	<b>8,303</b>	45,934
	<b>8,303</b>	45,934

## 14. INTEREST-BEARING BANK AND OTHER BORROWINGS

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
<b>Current</b>		
Bank loans – secured	–	589,262
Bank loans – unsecured	<b>343,969</b>	95,704
	<b>343,969</b>	684,966
<b>Non-current</b>		
Other loans – unsecured	<b>241,519</b>	239,260
	<b>241,519</b>	239,260
	<b>585,488</b>	924,226

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 15. SHARE CAPITAL

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Authorised:		
20,000,000,000 (31 December 2017: 20,000,000,000) ordinary shares of HK\$0.01 each	<b>200,000</b>	200,000
Issued and fully paid:		
5,033,407,480 (31 December 2017: 5,033,407,480) ordinary shares of HK\$0.01 each	<b>50,334</b>	50,334

During the six months ended 30 June 2018, there is no movement in share capital.

## 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. Eligible participants of the Scheme include the Company's non-executive directors, including independent non-executive directors, employees, consultants, advisers, customers and any shareholder of any member of the Group. The Company's first share option scheme with a valid period of 10 years became effective on 21 November 2004 and was terminated on 23 May 2014 since this scheme would be due to expire on 21 November 2014. A new share option scheme was adopted by the Company and became effective on 23 May 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Group is an amount equivalent, upon their exercise, to 10% of the shares in issue at the time dealings in the shares first commence on the Stock Exchange. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

No share options were exercised during the period. (The weighted average share price at the date of exercise for the share options exercised during Six months ended 30 June 2017 was HK\$0.740 per share).

# 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 2018 were as follows:

Name or category of participant	Number of share options					At 30 June 2018	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK\$ per share
	At 1 January 2018	Grant during the period	Exercised during the period	Expired during the period	Forfeited during the period				
<b>Employees</b>									
In aggregate – granted on 20 May 2008	2,764,000	-	-	-	2,764,000	-	20-05-08	20-05-14 to 19-05-18	0.337
In aggregate – granted on 30 Jun 2010	18,496,000	-	-	-	18,496,000	-	28-06-10	28-06-14 to 27-06-18	1.620
In aggregate – granted on 12 July 2011	336,000	-	-	-	-	336,000	12-07-11	12-07-14 to 11-07-18	0.839
In aggregate – granted on 27 Dec 2012	5,264,000	-	-	-	-	5,264,000	27-12-12	27-12-15 to 27-12-19	1.164
In aggregate – granted on 10 Jan 2014	25,210,000	-	-	-	-	25,210,000	10-01-14	10-1-15 to 10-1-19	1.540
In aggregate – granted on 10 Jan 2014	500,000	-	-	-	-	500,000	10-01-14	10-1-17 to 10-1-21	1.540
In aggregate – granted on 22 Jan 2016	35,512,000	-	-	-	-	35,512,000	22-1-15	22-1-16 to 22-1-20	1.492
In aggregate – granted on 22 Jan 2016	4,960,000	-	-	-	-	4,960,000	22-1-15	22-1-17 to 22-1-21	1.492
In aggregate – granted on 16 Oct 2016	30,004,000	-	-	-	-	30,004,000	16-10-15	16-10-16 to 16-10-20	1.620
In aggregate – granted on 16 Oct 2016	24,000,000	-	-	-	-	24,000,000	16-10-15	16-10-17 to 16-10-21	1.620
Subtotal	147,046,000	-	-	-	21,260,000	125,786,000			
<b>Total</b>	<b>147,046,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,260,000</b>	<b>125,786,000</b>			

\* 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. RELATED PARTY TRANSACTIONS

### (a) Balance with related parties

	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Amounts due from associates	<b>53,756</b>	43,801
	<b>53,756</b>	43,801
	<b>30 June 2018 HK\$'000 (Unaudited)</b>	31 December 2017 HK\$'000 (Audited)
Amounts due to associates	<b>191,883</b>	277,082
An amount due to a related party	<b>202,467</b>	–
	<b>394,350</b>	277,082

Amounts due from/to associates represented the trade receivables from and the deposits and advances payable to associates which arose from in the course of the Group's operation.

The balance represented the loan and related interest due to Kingkey Group Company Limited ("Kingkey Group") amounting to HK\$202,467,000 as at 30 June 2018, which is unsecured, with a term of 12 months at an annual interest rate of 6.5%.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 17. RELATED PARTY TRANSACTIONS (continued)

### (b) Transactions with related parties

	Six months ended 30 June	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Associates:		
Sale of products	480	49,050
Sale of assets	–	1,448
Other related parties:		
Sale of products (i)	–	7,171
Purchase of raw materials (i)	–	9,085
Loan arrangement (ii)	202,467	–

(i) After completion of the remaining orders of certain products and the purchase of raw materials in 2017, there was no more transaction with Leview Mobile HK Limited, the single largest shareholder of the Group before 4 January 2018.

(ii) In 2018, Kingkey Group has agreed to provide a loan with a maximum amount of no more than RMB500 million to the Group for corporate operation with a term of 12 months at an annual interest rate of 6.5%.

The above transactions with related parties were made based on mutually agreed terms.

### (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	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
Salaries, allowances and benefits in kind	3,985	9,015
Pension scheme contributions	215	159
Equity-settled share option expense	804	1,405
Total compensation paid to the key management personnel	5,004	10,579

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)	As at 30 June 2018 HK\$'000 (Unaudited)	As at 31 December 2017 HK\$'000 (Audited)
Financial assets				
Equity investments at fair value through profit or loss	117,460	–	117,460	–
Available-for-sale investments – listed	–	2,735	–	2,735
Financial liabilities				
Interest-bearing bank borrowings and other borrowings	585,488	924,226	585,488	924,226

Management has assessed that the fair values of unlisted available-for-sale investments, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, an amount due from a director, an amount due from a joint venture, amounts due from associates, pledged deposits, cash and cash equivalents, trade and bills payables, financial liabilities included in other payables and accruals and amounts due to associates approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank loans as at 30 June 2018 and 31 December 2017 was assessed to be insignificant.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

### As at 30 June 2018 (Unaudited)

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Equity investments at fair value through profit or loss	2,169	–	115,291	117,460

### As at 31 December 2017 (Audited)

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Available-for-sale investments – listed	2,735	–	–	2,735

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 19. EVENT AFTER THE REPORTING PERIOD

The Group and Kingkey Group entered into a supplementary agreement on 20 March 2019, pursuant to which, Kingkey Group agreed to grant the extension of the terms in connection with the loans drawn down under the loan agreement on 18 May 2018 from 12 months to 36 months. Up to the date of this report, the cumulative loan amount drawn down by the Group was approximately HK\$258 million. The remaining unused loan balance was approximately HK\$326 million.

## 20. APPROVAL OF THE FINANCIAL STATEMENTS

The condensed consolidated financial statements were approved and authorised for issue by the board of directors on 29 March 2019.