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)

2019
INTERIM REPORT

CONTENTS

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 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
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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. LEUNG Siu Kee

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 *(retired on 11 January 2019)*
Mr. CHEN Jiajun *(appointed on 17 January 2019)*
Mr. XIE Weixin

AUTHORISED REPRESENTATIVES

Mr. LEUNG Siu Kee

CONTACT INFORMATION FOR INVESTOR RELATIONS

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Email: ir@yulong.com

AUDITORS

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Certified Public Accountants
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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

CORPORATE INFORMATION

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.
Bank of China Limited
Hong Kong and Shanghai Banking (Hong Kong) Co., Ltd.

COMPANY WEBSITE

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 2019 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		
	2019 (HK$'000) (Unaudited)	2018 (HK$'000) (Unaudited)	Change (%)
Revenue	**657,628**	802,752	-18.1
Loss before tax	**(26,370)**	(344,579)	-92.3
Income tax (expense)/credit	**(458)**	12,431	-103.7
Net loss attributable to owners of the Company	**(26,828)**	(325,869)	-91.8
Basic and diluted loss per share	**(HK0.53 cents)**	(HK6.47 cents)	-91.8

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 30 June 2019 (HK$'000) (Unaudited)	At 31 December 2018 (HK$'000) (Audited)
Non-current assets	**1,885,516**	1,856,007
Current assets	**1,430,846**	1,260,759
Non-current liabilities	**561,043**	278,352
Current liabilities	**2,365,363**	2,423,747
Net assets	**389,956**	414,667
Cash and cash equivalents	**126,846**	168,554

MANAGEMENT DISCUSSION & ANALYSIS

TOTAL REVENUE HK$657.6 MILLION

The financial data below are extracted from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2019 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	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
REVENUE		
Sale of mobile phones and related accessories	**655,966**	792,033
Wireless application service income	**1,325**	10,035
Finance service income	**337**	684
Total revenue	**657,628**	802,752
Cost of sales	**(551,601)**	(827,901)
Gross profit/(loss)	**106,027**	(25,149)
Other income and gains	**163,066**	136,437
Selling and distribution expenses	**(126,655)**	(105,131)
Administrative expenses	**(110,810)**	(179,310)
Other expenses	**(10,413)**	(90,355)
Finance costs	**(22,132)**	(16,895)
Share of losses of		
A joint venture	**(1,702)**	(394)
Associates	**(23,751)**	(63,782)
Loss before tax	**(26,370)**	(344,579)
Income tax (expense)/credit	**(458)**	12,431
Loss for the period	**(26,828)**	(332,148)
Basic and diluted loss per share	**(HK0.53 cents)**	(HK6.47 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:

	Six months ended 30 June			
	2019		2018	
Revenues	**Revenue HK$ million (Unaudited)**	**% of total revenue**	Revenue HK$ million (Unaudited)	% of total revenue
Sale of mobile phones and related accessories	**656.0**	**99.8**	792.1	98.7
Wireless application service income	**1.3**	**0.2**	10.0	1.2
Finance Service	**0.3**	**–**	0.7	0.1
Total	**657.6**	**100**	802.8	100

The Group's unaudited revenue for the six months ended 30 June 2019 amounted to HK$657.6 million, representing a decline of 18.1% as compared with HK$802.8 million for the six months ended 30 June 2018. The decrease in revenue during the reporting period was mostly because of the intensifying competition of the smartphone market in China and purchase orders continued to decrease in domestic market during the first half of 2019.

GROSS PROFIT

	Six months ended 30 June			
	2019		2018	
Gross profit/(loss)	**Gross profit HK$ million (Unaudited)**	**Gross profit margin**	Gross loss HK$ million (Unaudited)	Gross loss margin
Total	**106.0**	**16.1%**	(25.1)	-3.1%

The Group's overall gross profit for the six months ended 30 June 2019 increased by HK$131.1 million, representing an increase of 522.3% as compared with a gross loss of HK$25.1 million for the corresponding period in 2018. Its overall gross profit margin increased by 19.2% to 16.1% in the reporting period as compared with a gross loss margin of 3.1% in the corresponding period of 2018. The achievement of the gross profit was primarily due to the Group's i) proactive and effective cost control; and ii) the expansion of overseas sales contributing higher gross profit margins.

OTHER INCOME AND GAINS

Other income and gains of the Group increased by HK$26.7 million, or 19.6%, to HK$163.1 million for the six months ended 30 June 2019 as compared with HK$136.4 million for the corresponding period in 2018. The increase was mainly due to the increase in fair value of the Group's equity investments in the shares of Wanka Online Inc., a company listed on the main board of the Stock Exchange (Stock Code: 1762).

SELLING AND DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Selling and distribution expenses (HK$ million)	**126.7**	105.1
As a percentage of total revenue	**19.3%**	13.1%

Selling and distribution expenses of the Group for the six months ended 30 June 2019 increased by HK$21.6 million to HK$126.7 million from HK$105.1 million for the corresponding period in 2018. The net increase of HK$21.6 million was primarily attributable to increased expenditures for marketing, advertising and promotion expenses in American market during the reporting period.

ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2019 (Unaudited)	2018 (Unaudited)
Administrative expenses (HK$ million)	**110.8**	179.3
As a percentage of total revenue	**16.8%**	22.3%

Administrative expenses decreased by HK$68.5 million to HK$110.8 million for the six months ended 30 June 2019 from HK$179.3 million for the corresponding period in 2018. The net decrease of HK$68.5 million was primarily attributable to the decline of employees in the first half of 2019. Administrative expenses remained a 16.8% as a percentage of total revenue was primarily because of the continuing R&D expenditures on 5G technologies during the reporting period.

INCOME TAX EXPENSE

For the six months ended 30 June 2019, the Group's income tax expenses decreased to HK$0.5 million which primarily due to abatement of assessable profits and the utilisation of available tax losses.

NET LOSS

For the six months ended 30 June 2019, the Group recorded a net loss of HK$26.8 million, representing a decline of HK$305.3 million, or 91.9%, as compared with the net loss of HK$332.1 million for the six months ended 30 June 2018.

LIQUIDITY, FINANCIAL RESOURCE AND CAPITAL STRUCTURE

For the six months ended 30 June 2019, operating capital was mainly generated from its daily operation and 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% as at 30 June 2019 (31 December 2018: 85%).

Cash and cash equivalents of the Group as at 30 June 2019 amounted to HK$126.8 million, while it was HK$168.6 million as at 31 December 2018.

As at 30 June 2019, the Group had total debts (i.e. total borrowings) of approximately HK$334.4 million, which was all denominated in RMB. The Group's borrowings are subject to floating rates ranging from 5% to 12% per annum with maturity periods ranging from within one year to two years.

As at 30 June 2019, the Company had 5,033,407,480 ordinary shares of par value HK$0.01 each in issue.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any significant contingent liabilities.

INVENTORY

For the reporting period, the Group's inventory turnover period was 86.3 days (year ended 31 December 2018: 78.8 days).

TRADE RECEIVABLES

The trade receivable turnover period was 85.8 days for the reporting period (year ended 31 December 2018: 112.2 days).

TRADE PAYABLES

The trade payable turnover period was 132.8 days for the reporting period (year ended 31 December 2018:134.6 days).

PLEDGED OF ASSETS

As at 30 June 2019, time deposits of approximately HK$72.1 million were used as a security for bank to provide a performance guarantee (31 December 2018: HK$115.0 million).

BUSINESS REVIEW

In early 2019, the Group has undergone a major management change. Mr. Chen Jiajun ("Mr. Chen") was appointed as an executive Director and the new chief executive officer of the Company with effect from 17 January 2019. The Group believes that under the leadership of Mr. Chen, the Company could further strengthen its competitiveness to achieve success.

The Group's unaudited revenue for the six months ended 30 June 2019 amounted to HK$657.6 million, representing a decline of 18.1% as compared with HK$802.8 million for the six months ended 30 June 2018. The Group's overall gross profit for the six months ended 30 June 2019 increased by HK$131.1 million, representing an increase of 522.3% as compared with a gross loss of HK$25.1 million for the corresponding period in 2018. Its overall gross profit margin increased by 19.2% to 16.1% in the reporting period as compared with a gross loss margin of 3.1% in the corresponding period of 2018. The achievement of the gross profit was primarily due to the Group's proactive and effective increase in operation efficiency and cost control in the first half of 2019.

Development and sales of smartphones remained the main business of the Group for the six months ended 30 June 2019. The Group continued to operate its business in three main regions: i) the U.S.; ii) China domestic; and iii) Southeast Asia, and applied different strategies in these markets.

BUSINESS REVIEW (Continued)

For the China domestic market, the Group did not achieve a satisfactory result in the first half of 2019. Purchase orders from telecommunication operators have continued to decrease as impacted by the industry reform since 2015. However, the Group considered the domestic market an indispensable business unit and restructured its sales team. On one hand, the new team continued to release low-end smartphones to coordinate with the telecommunication operators' contract layout; on the other hand, the new team has been working on a new mid-to-high-end smartphone, which is expected to be launched in the third quarter of 2019, targeting to bring consumers/end customers better user experience at a more economical price.

The Group still recognized opportunities rising from the Southeast Asian market in the first half of 2019, intended to manage the risks and business stability of this market. By maintaining a solid bond with several core channel clients, the Group reduced its channel management expenses in order to provide a more competitive price for customers so as to increase better sell-ins.

In the first half of 2019, the Group focused on the overseas market, especially on the U.S. market, which accounted for approximately 88% of the Group's net sales in the first half of 2019. The Group categorizes its business in the U.S. market into two parts: i) the smartphone business, by cooperating with local telecommunication operators, and ii) the smart accessories, such as chargers, cables and portable power banks, by cooperating with amazon.com in the U.S.. The Group appointed local professionals to be the new management overseeing the U.S. market and provided an independent exclusive product line for the U.S. market, which led to a steady increase in percentage in the Group's total sales derived from the U.S. market despite the Group's decrease in total sales as a whole in the first half of 2019.

The Group continued to strengthen its research and development (the "R&D") capability in the first half of 2019. The Group deeply recognize the importance of R&D capability for the Company and recognize itself as a tech-driven company. While the Group owns a high-ranking design team, deeply differentiates and optimizes the functions and features of the Android operating system and continues to strengthen its R&D capability to bring users the best smartphone experience, the Group also continues to invest in 5G technology research and expanded its R&D team.

BUSINESS OUTLOOK

As a tech-driven company, the Group has been in the telecommunication industry for more than 25 years since the very beginning of 1994 and has accumulated extensive experiences and knowledge on telecommunication technologies. Development and sales of smartphones will continue to be the main business of the Group. The Group will seize the opportunity for revitalization especially with the arrival of the 5G era.

The Group intends to apply the following two strategies for its business: i) for the overseas market, the Group will remain focusing on the development of the U.S. market and target to improve the growth rate of this market and the Group also intends to manage the risks and business stability of the Southeast Asian market, and ii) for the China domestic market, the Group will increase investment, and continue to focus on the carrier channel and the online channel development.

The Group has appointed local professionals to become the new management overseeing the U.S. market, and will continue to regard it as one of the core business regions and allocate sufficient resources to this region, with an aim to achieving a stable turnover in the second half of 2019. The Group will continue to provide training to its professional team to ensure that the team will have a thorough understanding of the U.S. market, and will continue to recruit the best talents in the industry. The Group has already built a solid cooperation relationship with T-Mobile. Further beyond, the Group will centralize its resources to meet the local telecommunication carriers' requirements so as to expand a solid cooperation to other mobile carrier companies as well.

The Group has made initial progress in expanding its product portfolio to smart accessories in 2019. The Group is selling mid-to-high end smart accessories at Amazon's flagship store in the U.S., which includes chargers, cables, portable power banks, etc., and has received positive feedbacks from users and intends to expand its product categories into intelligent hardware such as bluetooth headphones and security and protection cameras. Meanwhile, the Group is also considering expanding the accessories business and its selling channel to other countries such as Germany, United Kingdom and Japan, retail channel and telecommunication carriers' channel in the future.

The Group is also looking out for opportunities in the Southeast Asian market. The Group will conduct its business in a stable and healthy pace.

BUSINESS OUTLOOK (Continued)

As the sales in the U.S. market accounts for the majority of the total sales of the Group in the first half of 2019, the Group has been monitoring the risks of the trade war between China and the U.S.. The Group has been evaluating the possibility and efficiency of transferring its supply chain and plant from mainland China to Southeast Asia. The Group will be prepared to deal with potential risks brought about by the trade war. Coolpad is one of the few China brands which possesses sufficient registered patents and accumulated extensive R&D capability. Such advantage enables the Group to mitigate the legal risks when exploring the overseas markets.

As to the domestic market, the Group intends to increase its investments and continue to focus on the carrier channel and online channel development. The Group continues to see promising market opportunities in China, especially through the online channel, so it attaches great importance to the domestic market during the current year and does not intend to withdraw from the domestic market.

As a member of the domestic 5G standard formulation group, the Group is devoted to develop the next 5G technology and its smart terminal. The Group believes that 5G technology poses another growth opportunity for the Group. The Group will continue to invest in 5G R&D and expand the R&D team during the year. The year of 2019 is the beginning year for 5G, and 5G supportable smartphones may be expensive. The Group aims to bring more affordable 5G smartphones to consumers as soon as possible.

With its sophisticated management, consistent endeavour, innovative technologies and promising product layout, the Group is confident that it will be able to overcome the hardship and navigate forward. Amidst taking on heavy burden and embarking on a new journey, the Group shall strive to march on with solidarity and diligence.

FOREIGN EXCHANGE EXPOSURE

The Group has transactional foreign currency exchange risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales and certain portion of the bank loans are denominated in USD. Exchange rate fluctuations between RMB and USD may affect the Group's performance and asset value. The depreciation of RMB will increase the purchasing cost of certain raw materials of the Group in the future. The Group had not entered into any derivative contracts to hedge against the risk for the six months ended 30 June 2019.

MANAGEMENT DISCUSSION & ANALYSIS

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 2019 amounted to approximately HK$58.1 million (six months ended 30 June 2018: HK$105.6 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 2019, the Group had 683 employees (31 December 2018: 637 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

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2019.

EVENT AFTER THE REPORTING PERIOD

On 19 July 2019, the Company was informed by the subscriber of certain convertible bonds as described in the Company's announcement dated 17 October 2017 that the subscriber decided not to further extend the long stop date and to terminate the relevant subscription agreement with immediate effect. For more details, please refer to the announcement made by the Company on 19 July 2019.

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

As at 30 June 2019, 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. CHEN Jiajun	*1*	–	–	897,437,000	–	–	–	897,437,000	17.83
Mr. CHAN King Chung		441,600	–	–	–	–	–	441,600	0.01
Mr. HUANG Dazhan		288,000	–	–	–	–	–	288,000	0.01
Mr. XIE Weixin		384,000	–	–	–	–	–	384,000	0.01

Notes:

1 Mr. CHEN Jiajun, an executive Director, was interested in the 897,437,000 shares held by Kingkey Financial Holdings (Asia) Limited which is ultimately owned by him.

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

As at 30 June 2019, 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
Kingkey Financial Holdings (Asia) 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 Kingkey Financial Holdings (Asia) Limited, and Kingkey Financial Holdings (Asia) 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. *On 11 January 2018, all of the 551,367,386 shares held by Leview Mobile Limited, which was held by a wholly-owned group of corporations namely (from bottom to top) Leview Mobile Ltd., Le Ltd., LeEco Global Holding Ltd. and Lele Holding Ltd., and is ultimately wholly-owned by Mr. Jia Yueting, were sold to Zeal Limited, which 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 2019, 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 2019 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.

SHARE OPTION SCHEME

Name or category of participant	Number of share options: At 1 January 2019	Grant during the period	Exercised during the period	Expired during the period	Forfeited during the period	At 30 June 2019	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share
Employees									
In aggregate – granted on 10 Jan 2014	3,180,000	–	–	3,180,000	–	–	10-01-14	10-1-15 to 10-1-19	1.540
In aggregate – granted on 22 Jan 2015	7,000,000	–	–	–	–	7,000,000	22-1-15	22-1-16 to 22-1-20	1.492
In aggregate – granted on 22 Jan 2015	2,200,000	–	–	–	–	2,200,000	22-1-15	22-1-17 to 22-1-21	1.492
In aggregate – granted on 16 Oct 2015	7,088,000	–	–	–	–	7,088,000	16-10-15	16-10-16 to 16-10-20	1.620
In aggregate – granted on 16 Oct 2015	10,000,000	–	–	–	–	10,000,000	16-10-15	16-10-17 to 16-10-21	1.620
Subtotal	29,468,000	–	–	3,180,000	–	26,288,000			
Business consultants									
Total	29,468,000	–	–	3,180,000	–	26,288,000			

* *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.*

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 2018 Annual Report:

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 the Directors 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 2019.

FORWARD LOOKING STATEMENTS

This report contains forward looking statements that are based on the current beliefs, assumptions and expectations of the Board regarding the industry and markets in which the Group operates. These forward statements are subject to risks, uncertainties and other factors beyond the Group's control which may cause actual results or performance to differ materially from those expressed or implied in such forward looking statements. Shareholders and/or potential investors of the Company are advised to exercise caution when dealing in the securities of the Company and not to place undue reliance on the information disclosed herein. Any holder of securities or potential investor of the Company who is in doubt is advised to seek advice from professional advisors.

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 provides that 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 separated since 5 August 2016. Since Mr. Liu Hong ceased to be the chairman of the Board on 19 January 2018, the Board had not designated a Director to act as the chairman of the Board as of 30 June 2019. On 30 August 2019, Mr. Chen Jiajun was appointed as chairman of the Board and Mr. Liang Rui was appointed as the chief executive officer.

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.

For and on behalf of
Coolpad Group Limited
CHEN Jiajun
Chairman

Hong Kong, 6 September 2019

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

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
REVENUE	4	**657,628**	802,752
Cost of sales		**(551,601)**	(827,901)
Gross profit/(loss)		**106,027**	(25,149)
Other income and gains	4	**163,066**	136,437
Selling and distribution expenses		**(126,655)**	(105,131)
Administrative expenses		**(110,810)**	(179,310)
Other expenses		**(10,413)**	(90,355)
Finance costs		**(22,132)**	(16,895)
Share of losses of:			
A joint venture		**(1,702)**	(394)
Associates		**(23,751)**	(63,782)
LOSS BEFORE TAX	5	**(26,370)**	(344,579)
Income tax (expense)/credit	6	**(458)**	12,431
LOSS FOR THE PERIOD		**(26,828)**	(332,148)
Attributable to:			
Owners of the Company		**(26,828)**	(325,869)
Non-controlling interests		**–**	(6,279)
LOSS FOR THE PERIOD		**(26,828)**	(332,148)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**1,361**	11,240
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		**1,361**	11,240
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(25,467)**	(320,908)
Attributable to:			
Owners of the Company		**(25,465)**	(314,629)
Non-controlling interests		**(2)**	(6,279)
		(25,467)	(320,908)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8	**HK cents**	HK cents
Basic and diluted		**(0.53)**	(6.47)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	**855,061**	843,867
Investment properties		**221,688**	222,563
Right-of-use assets		**203,769**	–
Prepaid land lease payments		**–**	184,800
Intangible assets		**4,431**	5,172
Investment in a joint venture		**99,363**	101,402
Investments in associates		**309,921**	339,225
Equity investments at fair value through profit or loss		**177,125**	139,932
Loans receivable		**1,580**	4,076
Other non-current assets		**11,973**	14,310
Deferred tax assets		**605**	660
Total non-current assets		**1,885,516**	1,856,007
CURRENT ASSETS			
Inventories		**333,663**	194,955
Trade receivables	10	**447,068**	179,850
Bills receivable	11	**1,754**	8,967
Short-term loans receivable		**3,536**	4,600
Prepayments, deposits and other receivables		**438,576**	560,945
Amounts due from associates	15	**7,257**	27,922
Pledged deposits		**72,146**	114,966
Cash and cash equivalents		**126,846**	168,554
Total current assets		**1,430,846**	1,260,759
CURRENT LIABILITIES			
Trade payables	12	**561,138**	252,664
Other payables and accruals		**1,498,062**	1,609,156
Interest-bearing bank and other borrowings	13	**90,035**	–
Amounts due to associates	15	**66,165**	248,891
An amount due to a joint venture	15	**39,427**	–
An amount due to a related party	15	**–**	202,129
Tax payable		**110,536**	110,907
Total current liabilities		**2,365,363**	2,423,747

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	**30 June 2019 HK$'000 (Unaudited)**	31 December 2018 HK$'000 (Audited)
NET CURRENT LIABILITIES		**(934,517)**	(1,162,988)
TOTAL ASSETS LESS CURRENT LIABILITIES		**950,999**	693,019
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	**244,338**	228,258
An amount due to a related party	15	**266,034**	–
Deferred tax liabilities		**45,532**	45,335
Other non-current liabilities		**5,139**	4,759
Total non-current liabilities		**561,043**	278,352
Net assets		**389,956**	414,667
EQUITY			
Equity attributable to owners of the Company			
Share capital		**50,334**	50,334
Reserves		**339,170**	363,879
		389,504	414,213
Non-controlling interests		**452**	454
Total equity		**389,956**	414,667

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
At 31 December (audited)	**414,213**	843,926
Effect of adoption of HKFRS 9	**–**	82,168
Effect of adoption of HKFRS 16	**–**	–
At 1 January (restated) (unaudited)		
– equity attributable to owners of the Company	**414,213**	926,094
Total comprehensive income for the period attributable to owners of the Company	**(25,465)**	(314,629)
Equity-settled share option arrangements	**756**	37,067
At 30 June – equity attributable to owners of the Company	**389,504**	648,532
Non-controlling interests	**452**	(47,573)
At 30 June – total equity (unaudited)	**389,956**	600,959

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(26,370)**	(344,579)
Adjustments for:			
Bank and other interest income	4	**(5,947)**	(5,013)
Finance costs		**22,132**	16,895
Share of loss of a joint venture		**1,702**	394
Share of losses of associates		**23,751**	63,782
Depreciation of property, plant and equipment	5	**15,195**	21,308
Changes in fair value of investment properties		**–**	48
Amortisation of patents, licenses and computer software	5	**732**	765
Amortisation of product development costs	5	**–**	3,365
Depreciation of right-of-use assets/recognition of prepaid land lease payments	5	**8,675**	2,545
Loss on disposal of items of property, plant and equipment	5	**665**	2,036
(Reversal of impairment)/impairment of financial assets, net	5	**(16,549)**	9,032
Fair value gains on equity investments at fair value through profit or loss, net	5	**(41,794)**	–
Impairment of investment in an associate	5	**4,822**	–
Gain on disposal of investments in associates	5	**(2,340)**	–
Write-down of inventories at net realisable value	5	**65,362**	8,762
Recognition/(reversal) of equity-settled share option expense	5	**756**	(10,471)
Unrealised exchange difference		**1,627**	11,010
		52,419	(220,121)
Decrease in other non-current assets		**2,279**	23,411
(Increase)/decrease in inventories		**(204,443)**	158,909
(Increase)/decrease in trade receivables		**(273,201)**	231,669
Decrease in bills receivable		**7,213**	11,572
Decrease in loans receivable		**3,583**	47,619
Decrease/(increase) in prepayments, deposit and other receivables		**115,526**	(194,898)
Decrease/(increase) in amounts due from associates		**43,543**	(9,955)
Increase in trade payables		**310,650**	3,702
Decrease in bills payable		**–**	(37,631)
Decrease in other payables and accruals		**(174,375)**	(50,460)
Decrease in amounts due to associates		**(183,459)**	(85,199)
Increase in amounts due to a joint venture		**39,427**	–
Increase/(decrease) in other non-current liabilities		**390**	(1,380)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cash used in operations	**(260,448)**	(122,762)
Income tax paid	**(126)**	(1,032)
Net cash flows used in operating activities	**(260,574)**	(123,794)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	**5,947**	5,842
Purchases of items of property, plant and equipment	**(95,336)**	(62,520)
Proceeds from disposal of items of property, plant and equipment	**3,737**	18,903
Proceeds from disposal of interests in associates	**–**	20,700
Additional investment in an associate	**(14,096)**	–
Proceeds from disposal of equity investments at fair value through profit or loss	**4,534**	–
Advance received in respect of a disposal of a parcel of land and construction in progress	**136,416**	–
Cash transferred to restricted bank deposits	**(14,845)**	(54,005)
Cash transferred from restricted bank deposits	**57,920**	115,776
Net cash flows generated from investing activities	**84,277**	44,696
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank and other borrowings	**91,539**	248,265
Repayment of bank and other borrowings	**–**	(587,003)
Increase in other borrowings from a related party	**57,790**	202,467
Principal portion of lease payments	**(6,941)**	–
Interest paid	**(7,749)**	(14,025)
Net cash flows generated from/(used in) financing activities	**134,639**	(150,296)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(41,658)**	(229,394)
Cash and cash equivalents at beginning of period	**168,554**	451,130
Effect of foreign exchange rate changes, net	**(50)**	2,108
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**126,846**	223,844
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**126,846**	223,844

1. CORPORATE AND GROUP INFORMATION

Coolpad Group Limited is a limited liability company incorporated in the Cayman Islands. The registered address of the Company (the "Company") is Royal Bank House – 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.

The Company and its subsidiaries (collectively referred to as the "Group") are wireless solution and equipment providers. During the period, the Group continued to focus on the production and sale of mobile phones and accessories, and the provision of wireless application services and financing services.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2019 has been prepared in accordance with HKAS 34 *Interim Financial Reporting*. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2018.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 Changes in accounting policies and disclosures (continued)

Other than as explained below regarding the impact of HKFRS 16 *Leases*, Amendments to HKAS 28 *Long-term Interests in Associates* and *Joint Ventures* and HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*, the new and revised standards are not relevant to the preparation of the Group's interim condensed consolidated financial information. The nature and impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for elective exemption for leases of short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets (e.g., laptop computers and telephones); and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

Impacts on transition (continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The impacts arising from the adoption of HKFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) HK$'000 (Unaudited)
Assets	
Increase in right-of-use assets	213,140
Decrease in prepaid land lease payments	(184,800)
Decrease in prepayments, other receivables and other assets	(5,194)
Increase in total assets	23,146
Liabilities	
Increase in interest-bearing bank and other borrowings	23,146
Increase in total liabilities	23,146
Changes in retained earnings	–

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

Impacts on transition (continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	HK$'000 (Unaudited)
Operating lease commitments as at 31 December 2018	25,071
Weighted average incremental borrowing rate as at 1 January 2019	7.13%
Discounted operating lease commitments as at 1 January 2019	22,479
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(2,807)
Add: Payments for optional extension periods not recognised as at 31 December 2018	3,474
Lease liabilities as at 1 January 2019	23,146

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

Summary of new accounting policies (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases, to lease equipment for additional terms of three years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 Changes in accounting policies and disclosures (continued)

(a) (continued)

Summary of new accounting policies (continued)

Amounts recognised in the interim condensed consolidated of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the period are as follow:

	Right-of-use assets			
	Prepaid land lease payment (unaudited)	**Properties (unaudited)**	**Subtotal (unaudited)**	**Lease liabilities (unaudited)**
As at 1 January 2019	189,438	23,702	213,140	23,146
Depreciation charge	(2,829)	(5,846)	(8,675)	–
Interest expense	–	–	–	762
Payments	–	–	–	(6,941)
Unrecognised exchange difference	(698)	2	(696)	10
As at 30 June 2019	185,911	17,858	203,769	16,977

The Group recognised rental expenses from short-term leases of HK$734,000 for the six months ended 30 June 2019.

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFR 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continue to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the Group's interim condensed consolidated financial information.

2. BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

2.2 Changes in accounting policies and disclosures (continued)

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

	Mobile phone HK$'000 (Unaudited)	Property investment HK$'000 (Unaudited)	Financing service HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Six months ended 30 June 2019				
Segment revenue				
Sales to external customers	**657,291**	**–**	**337**	**657,628**
Other revenue and gains	**150,655**	**6,464**	**–**	**157,119**
Total	**807,946**	**6,464**	**337**	**814,747**
Segment results	**14,298**	**5,688**	**104**	**20,090**
Reconciliation:				
Interest income				**5,947**
Impairment of investment in an associate				**(4,822)**
Finance costs				**(22,132)**
Share of loss of a joint venture				**(1,702)**
Share of losses of associates				**(23,751)**
Loss before tax				**(26,370)**
Six months ended 30 June 2018				
Segment revenue				
Sales to external customers	802,068	–	684	802,752
Other revenue and gains	96,577	9,045	–	105,622
Total	898,645	9,045	684	908,374
Segment results	(288,198)	7,804	603	(279,791)
Reconciliation:				
Interest income				5,013
Gain on loss of control of a subsidiary				25,802
Finance costs				(16,895)
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				(344,579)

3. OPERATING SEGMENT INFORMATION (continued)

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2019 and 31 December 2018, respectively.

	Mobile phone HK$'000	Property investment HK$'000	Financing service HK$'000	Total HK$'000
Segment assets				
At 30 June 2019 (Unaudited)	**2,295,944**	**221,391**	**5,764**	**2,523,099**
At 31 December 2018 (Audited)	1,989,885	224,911	9,309	2,224,105
Segment liabilities				
At 30 June 2019 (Unaudited)	**2,018,677**	**2,988**	**–**	**2,021,665**
At 31 December 2018 (Audited)	1,802,574	2,564	–	1,805,138

Geographical information

Non-current assets

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Mainland China	**1,702,442**	1,707,350
Overseas	**3,764**	3,989
	1,706,206	1,711,339

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers		
Sale of mobile phones and related accessories	**655,966**	792,033
Wireless application service income	**1,325**	10,035
Financing service income	**337**	684
	657,628	802,752

Disaggregated revenue information for revenue from contracts with customer

For the six months ended 30 June 2019

Segments	**Mobile Phone HK$'000 (Unaudited)**	**Financing service HK$'000 (Unaudited)**	**Total HK$'000 (Unaudited)**
Geographical markets			
Mainland China	**66,866**	**337**	**67,203**
Overseas	**590,425**	**–**	**590,425**
Total revenue from contracts with customers	**657,291**	**337**	**657,628**
Timing of revenue recognition			
Goods and services transferred at a point of time	**657,291**	**–**	**657,291**
Financing income recognised overtime	**–**	**337**	**337**
Total revenue from contracts with customers	**657,291**	**337**	**657,628**

4. REVENUE, OTHER INCOME AND GAINS (continued)

For the six months ended 30 June 2018

Segments	Mobile Phone HK$'000 (Unaudited)	Financing service HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Geographical markets			
Mainland China	134,916	684	135,600
Overseas	667,152	–	667,152
Total revenue from contracts with customers	802,068	684	802,752
Timing of revenue recognition			
Goods and services transferred at a point of time	802,068	–	802,068
Financing income recognised overtime	–	684	684
Total revenue from contracts with customers	802,068	684	802,752

Other income	**Six months ended 30 June**	
	2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
Bank interest income	**5,947**	5,013
Gross rental income	**6,464**	9,045
Government grants and subsidies*	**69,567**	68,403
Fair value gains on equity investments at fair value through profit or loss, net	**41,794**	–
Gain on loss of control of a subsidiary	**–**	25,802
Others	**39,294**	28,174
	163,066	136,437

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

5. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	Note	Six months ended 30 June 2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
Cost of inventories sold		**603,480**	814,532
Depreciation of property, plant and equipment		**15,195**	21,308
Amortisation of patents and licences*		**732**	765
Depreciation of right-of-use assets/recognition of prepaid land lease payments		**8,675**	2,545
Research and development costs:			
Product development costs amortised*		**–**	3,365
Expenditure for the period*		**64,663**	68,035
		64,663	71,400
Minimum lease rental expense in respect of short-term leases		**734**	6,805
Interest expense recognised related to lease liabilities	2.2	**762**	–
Impairment of investment in an associate		**4,822**	–
(Reversal)/write-down of inventories at net realisable value		**(51,879)**	8,762
Recognition/(reversal) of equity-settled share option expense		**756**	(10,471)
Gain on disposal of investments in associates		**(2,340)**	–
Loss on disposal of items of property, plant and equipment		**665**	2,036
(Reversal of impairment)/impairment of financial assets		**(16,549)**	9,032
Fair value gains on equity investments at fair value through profit or loss, net		**(41,794)**	–
Gain on loss of control of a subsidiary		**–**	25,802

* *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 interim condensed consolidated statement of profit or loss and other comprehensive income.*

6. INCOME TAX EXPENSE

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

No provision for Hong Kong profits tax has been made (2018: Nil) 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's subsidiaries operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(unaudited)
Current	**64**	2,031
Deferred	**394**	(14,462)
Total tax charge/(credit) for the period	**458**	(12,431)

7. DIVIDEND

The Directors did not recommend the payment of any interim dividends for the six months ended 30 June 2019 (Six months ended 30 June 2018: Nil).

8. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent of HK$26,828,000 (six months ended 30 June 2018: a loss of HK$325,869,000), and the weighted average number of ordinary shares of 5,033,407,480 in issue during the six months ended 30 June 2019 (six months ended 30 June 2018: 5,033,407,480).

The calculation of the diluted loss per share amount is based on the loss for the period attributable to ordinary equity holders of the parent. 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 assumed to have been issued at no consideration on the deemed exercise of all diluted potential ordinary shares into ordinary shares.

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2019 in respect of a dilution as the impact of the share option outstanding had no dilution effect on the basic loss per share amount presented.

9. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired assets with a cost of HK$34,352,000 (Six months ended 30 June 2018: HK$66,495,000).

Assets with a net book value of HK$4,402,000 were disposed of by the Group during the six months ended 30 June 2019 (30 June 2018: HK$4,727,000), resulting in a net loss on disposal of HK$665,000 (Six months ended 30 June 2018: HK$2,036,000).

During the six months ended 30 June 2019, no impairment loss (Six months ended 30 June 2018: Nil) was recognised for assets carried at historical cost.

10. TRADE RECEIVABLES

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

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Within 3 months	**386,773**	158,389
4 to 6 months	**52,068**	16,312
7 to 12 months	**13,693**	7,774
Over 1 year	**300,787**	299,275
	753,321	481,750
Less: Impairment	**(306,253)**	(301,900)
	447,068	179,850

11. BILLS RECEIVABLE

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

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Within 3 months	**1,754**	8,967

Bills receivable are non-interest-bearing.

12. TRADE PAYABLES

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

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Within 3 months	**456,389**	87,231
4 to 6 months	**25,396**	4,512
7 to 12 months	**6,186**	17,621
Over 1 year	**73,167**	143,300
	561,138	252,664

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

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Current		
Other borrowings – unsecured	90,035	–
Non-current		
Other borrowings – unsecured	227,361	228,258
Lease liabilities – unsecured	16,977	–
Subtotal of non-current	244,338	228,258
	334,373	228,258

14. COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Contracted, but not provided for construction in progress	1,186,261	1,243,066
Capital contributions payable to certain associates	–	16,170
	1,186,261	1,259,236

15. RELATED PARTY TRANSACTIONS

(a) Balances with related parties:

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
Amounts due from associates (i)	**7,257**	27,922
Amounts due to associates (i)	**66,165**	248,891
An amount due to a joint venture (i)	**39,427**	–
An amount due to a related party (ii)	**266,034**	202,129
	371,626	451,020

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

(ii) The balance represented the loan and related interest due to Kingkey Group amounting to HK$266,034,000 as at 30 June 2019, which is unsecured, with a term of 36 months at an annual interest rate of 6.5%. Kingkey Group is an associate of Kingkey Financial Holdings (Asia) Limited, a substantial shareholder of the Company, and therefore a related party of the Group.

15. RELATED PARTY TRANSACTIONS (continued)

(b) Transactions with related parties:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Associates:		
Sale of products	**989**	480
Purchase of raw materials	**3,511**	–
Service income	**9,357**	–
Other related parties:		
Loan arrangement (i)	**57,790**	202,467
Interest expense (i)	**7,992**	–

(i) 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 36 months at an annual interest rate of 6.5%. In February 2019, the Group received a loan amounting to HK$57,790,000 and the associated interest expense recognised for the current period amounted to HK$7,992,000.

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 below:

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	**4,497**	3,985
Pension scheme contributions	**573**	215
Equity-settled share option expense	**–**	804
Total compensation paid to other key management personnel	**5,070**	5,004

16. 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 2019 HK$'000 (Unaudited)	As at 31 December 2018 HK$'000 (Audited)	**As at 30 June 2019 HK$'000 (Unaudited)**	As at 31 December 2018 HK$'000 (Audited)
Financial assets				
Equity investments at fair value through profit or loss	**177,125**	139,932	**177,125**	139,932
Financial liabilities				
Other borrowings	**317,396**	228,258	**317,396**	228,258

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The valuation process and results are discussed with the chief financial officer twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted equity investments designated at fair value through profit or loss have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. For the fair value of the unlisted equity investments at fair value through profit or loss, management has estimated the potential effect of using reasonably possible alternatives as inputs to the valuation model and has quantified this as a reduction in fair value of approximately HK$23,000, using less favorable assumptions, and an increase in fair value of approximately HK$23,000, using more favorable assumptions.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 30 June 2019:

	Valuation technique	**Significant unobservable input**	**Range**	**Sensitivity of fair value to the input**
Unlisted equity investment	Valuation multiples	Average P/S multiple of peers	30 June 2019: 1.13%	1% increase/decrease in multiple would result in increase/decrease in fair value by approximately HK$23,000

16. 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 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000 (Unaudited)	**Significant observable inputs (Level 2) HK$'000 (Unaudited)**	**Significant unobservable inputs (Level 3) HK$'000 (Unaudited)**	**Total HK$'000 (Unaudited)**
Equity investments at fair value through profit or loss	**155,046**	**–**	**22,079**	**177,125**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000 (Audited)	Significant observable inputs (Level 2) HK$'000 (Audited)	Significant unobservable inputs (Level 3) HK$'000 (Audited)	Total HK$'000 (Audited)
Equity investments at fair value through profit or loss	2,358	–	137,574	139,932

The Group did not have any financial liabilities measured at fair value as at 30 June 2019 and 31 December 2018.

16. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

The movements in fair value measurements within Level 3 during the period/year are as follows:

	30 June 2019 HK$'000 (Unaudited)	31 December 2018 HK$'000 (Audited)
At 1 January	**137,574**	114,725
Purchases	**–**	10,648
Total gains recognised in the statement of profit or loss included in other income	**41,530**	21,934
Disposal	**(4,534)**	(2,132)
Transfer to level 1	**(152,424)**	–
Exchange realignment	**(67)**	(7,601)
Fair value at the end of period/year	**22,079**	137,574

During the period, one of equity investments at fair value through profit and loss, used to be measured under level 3, has transferred to level 1 as the corresponding shares in listed equity investment is no-longer has restriction to sell. There are no other transfers of fair value measurements between Level 1 and Level 2 and no other transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2018: Nil).

17. EVENT AFTER THE REPORTING PERIOD

On 19 July 2019, the Company was informed by the subscriber of certain convertible bonds as described in the Company's announcement dated 17 October 2017 that the subscriber decided not to further extend the long stop date and to terminate the relevant subscription agreement with immediate effect. For more details, please refer to the announcement made by the Company on 19 July 2019.