COOLPAD GROUP LIMITED
酷派集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2369)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2016	2015	change
	(HK$'000)	*(HK$'000)*	*(%)*
	(Unaudited)	(Unaudited)	
Revenue	**5,277,394**	8,782,787	-39.9%
(Loss)/profit before tax	**(2,071,178)**	2,869,783	-172.2%
Tax	**1,248**	32,602	-96.2%
Net (loss)/profit attributable to owners of the Company	**(2,053,124)**[#1]	2,842,841[#2]	-172.2%
Basic (loss)/earnings per share (2015 restated)	**(HK 40.90 cents)**	HK57.33 cents	-171.3%
Diluted (loss)/earnings per share (2015 restated)	**(HK 40.90 cents)**	HK56.25 cents	-172.7%

The board (the "Board") of directors (the "Directors") of Coolpad Group Limited (the "Company") announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2016 together with comparative figures for the corresponding period of 2015 as follows:

[#1] Net loss attributable to owners of the Company for the six months ended 30 June 2016 included a loss of HK$1,890.3 million resulting from the disposal of certain interests in a joint venture of the Group.

[#2] Net profit attributable to owners of the Company for the six months ended 30 June 2015 included a gain of HK$2,656.7 million resulting from the disposal of certain interests in a subsidiary of the Group.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 HK$'000 (Unaudited)	2015 HK$'000 (Unaudited)
REVENUE	4	**5,277,394**	8,782,787
Cost of sales		**(4,571,945)**	(7,668,922)
Gross profit		**705,449**	1,113,865
Other income and gains	4	**130,307**	2,853,384
Selling and distribution expenses		**(379,035)**	(479,726)
Administrative expenses		**(402,807)**	(489,898)
Other expenses		**(1,932,079)**	(39,873)
Finance costs	6	**(26,682)**	(50,340)
Share of losses of:			
Associates		**(46,753)**	(97)
A joint venture		**(119,578)**	(37,532)
(LOSS)/PROFIT BEFORE TAX	5	**(2,071,178)**	2,869,783
Income tax expense	7	**(1,248)**	(32,602)
(LOSS)/PROFIT FOR THE PERIOD		**(2,072,426)**	2,837,181
OTHER COMPREHENSIVE LOSS			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(41,202)**	(2,012)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX		**(41,202)**	(2,012)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		**(2,113,628)**	2,835,169
PROFIT OR LOSS FOR THE PERIOD			
Attributable to:			
Owners of the Company		**(2,053,124)**	2,842,841
Non-controlling interests		**(19,302)**	(5,660)
		(2,072,426)	2,837,181
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD			
Attributable to:			
Owners of the Company		**(2,094,326)**	2,840,829
Non-controlling interests		**(19,302)**	(5,660)
		(2,113,628)	2,835,169
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic (2015 restated)		**(HK 40.90 cents)**	HK57.33 cents
Diluted (2015 restated)		**(HK 40.90 cents)**	HK56.25 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2016

	Notes	**30 June 2016 *HK$'000* (Unaudited)**	31 December 2015 *HK$'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,192,032**	1,001,136
Investment properties		**107,625**	110,011
Prepaid land lease payments		**432,052**	436,038
Intangible assets		**98,752**	102,945
Investments in a joint venture		**–**	3,748,371
Investments in associates		**2,130,661**	197,759
Available-for-sale investments		**35,082**	36,916
Long-term loan receivables		**18,806**	37,046
Other non-current assets		**41,203**	45,106
Deferred tax assets		**28,850**	30,000
Total non-current assets		**4,085,063**	5,745,328
CURRENT ASSETS			
Inventories		**1,081,095**	1,686,570
Trade receivables	*10*	**1,412,603**	1,619,599
Bills receivable	*11*	**152,352**	129,345
Short-term loans receivable		**943,554**	995,513
Prepayments, deposits and other receivables		**865,041**	979,157
Due from directors		**5,187**	3,282
Due from a joint venture		**–**	195,051
Due from an associate		**138,964**	–
Pledged time deposits		**378,872**	413,488
Cash and cash equivalents		**2,231,513**	2,515,974
Total current assets		**7,209,181**	8,537,979
CURRENT LIABILITIES			
Trade payables	*12*	**1,025,063**	1,916,195
Bills payable	*13*	**1,103,011**	1,351,701
Other payables and accruals		**1,420,320**	2,081,268
Interest-bearing bank borrowings		**1,508,503**	1,205,263
Due to an associate		**1,323**	706
Due to a joint venture		**–**	2,359
Tax payable		**42,035**	84,004
Total current liabilities		**5,100,255**	6,641,496

	30 June 2016 *HK$'000* **(Unaudited)**	31 December 2015 *HK$'000* (Audited)
NET CURRENT ASSETS	**2,108,926**	1,896,483
TOTAL ASSETS LESS CURRENT LIABILITIES	**6,193,989**	7,641,811
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**85,203**	155,519
Deferred tax liabilities	**51,236**	53,255
Other non-current liabilities	**10,325**	16,342
Total non-current liabilities	**146,764**	225,116
Net assets	**6,047,225**	7,416,695
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**50,177**	43,544
Reserves	**5,926,370**	7,283,171
Non-controlling interests	**70,678**	89,980
Total equity	**6,047,225**	7,416,695

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These unaudited condensed consolidated financial statements for the six months ended 30 June 2016 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 2015.

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 2015 except for the first time adoption of the following new and revised standards and interpretations:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to numbers of HKFRSs*

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

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

HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
HKFRS 16	*Leases*[2]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Mandatory effective date not yet determined but is available for earlier adoption

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

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has 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.

	Mobile phone HK$'000	Property investment HK$'000	Finance service HK$'000	Total HK$'000
Six months ended 30 June 2016 (Unaudited)				
Segment revenue:				
Sales to external customers	**5,256,105**	**–**	**21,289**	**5,277,394**
Other revenue and gains	**75,702**	**5,203**	**–**	**80,905**
Total	**5,331,807**	**5,203**	**21,289**	**5,358,299**
Segment results	**(10,426)**	**4,586**	**10,352**	**4,512**
Reconciliation:				
Interest income				**49,402**
Finance costs				**(26,682)**
Share of loss of a joint venture				**(119,578)**
Share of loss of associates				**(46,753)**
Loss from disposal of certain interests in a joint venture				**(1,890,272)**
Corporate and other unallocated expenses				**(41,807)**
Profit before tax				**(2,071,178)**
Six months ended 30 June 2015 (Unaudited)				
Segment revenue:				
Sales to external customers	8,766,273	–	16,514	8,782,787
Other revenue and gains	157,469	4,032	–	161,501
Total	8,923,742	4,032	16,514	8,944,288
Segment results	251,325	3,572	16,496	271,393
Reconciliation:				
Interest income				35,183
Finance costs				(50,340)
Share of loss of a joint venture				(37,532)
Share of profit of associates				(97)
Gain on the loss of control of a subsidiary				2,656,700
Corporate and other unallocated expenses				(5,524)
Profit before tax				2,869,783
Segment assets				
At 30 June 2016 (Unaudited)	**4,892,906**	**111,021**	**1,138,937**	**6,142,864**
At 31 December 2015 (Audited)	5,938,514	111,685	1,092,267	7,142,466
Segment liabilities				
At 30 June 2016 (Unaudited)	**3,968,425**	**1,128**	**2,010**	**3,971,563**
At 31 December 2015 (Audited)	5,517,663	1,246	1,311	5,520,220

Geographical information

(a) Revenue from external customers

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Mainland China	**4,113,573**	7,906,074
Overseas	**1,163,821**	876,713
	5,277,394	8,782,787

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

(b) Non-current assets

	30 June	31 December
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Mainland China	**4,013,028**	5,670,190
Overseas	**8,103**	8,222
	4,021,131	5,678,412

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue		
Sale of mobile phones	**5,174,214**	8,626,550
Wireless application service income	**81,891**	139,723
Finance service income	**21,289**	16,514
	5,277,394	8,782,787
Other income		
Bank interest income	**49,402**	35,183
Gross rental income	**5,203**	4,032
Government grants and subsidies*	**66,409**	118,468
Others#	**9,293**	2,695,701
	130,307	2,853,384

* 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.

\# Others for the six months ended 30 June 2015 included a gain resulting from the disposal of certain interests in a subsidiary of the Group.

5. (LOSS)/PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**4,270,213**	7,073,771
Depreciation	**39,403**	38,243
Amortisation of patents and licences*	**20,142**	18,201
Amortisation of prepaid land lease payments	**23,062**	15,201
Research and development costs:		
Product development costs amortised*	**38,403**	39,250
Expenditure for the period*	**203,412**	256,980
	241,815	296,230
Operating lease rental	**10,301**	17,045
Loss on disposal of items of property, plant and equipment	**356**	180
Net impairment of trade receivables	**3,425**	3,052
Provision for inventories	**33,252**	60,007
Loss from disposal of certain interests in a joint venture	**1,890,272**	–

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

6. FINANCE COSTS

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**26,682**	50,340

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	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Group:		
Current	**1,368**	32,858
Deferred	**(120)**	(256)
Total tax charge for the period	**1,248**	32,602

8. DIVIDENDS

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interim dividend: nil (2015: nil)	**–**	–

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 2016.

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic (loss)/earnings per share amount is based on the loss for the period attributable to ordinary equity holders of the Company of HK$2,053,124,000 (six months ended 30 June 2015: a profit of HK$2,842,841,000), and the weighted average number of ordinary shares of 5,019,886,253 in issue during the six months ended 30 June 2016 (six months ended 30 June 2015: 4,958,402,972 (restated)).

The calculation of diluted earnings per share is based on the profit for the period of the six months ended 30 June 2015 attributable to ordinary equity holders of the Company of HK$2,842,841,000. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the prior period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares of 95,782,089 assumed to have been issued at no consideration on the deemed exercise or conversion of all the 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 2016 in respect of a dilution as the share options outstanding had an anti-dilutive effect on the basic loss per share amount presented.

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

	Six months ended 30 June	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(Loss)/Earnings		
(Loss)/profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	**(2,053,124)**	2,842,841

	Number of shares	
	2016	2015
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation (2015: restated to reflect the impact of the Right Issue#)	**5,019,886,253**	4,958,402,972
Effect of dilution – weighted average number of ordinary shares:		
Share options	**48,050,957**	95,782,089
	5,067,937,210	5,054,185,061

On 17 February 2016, the Group proposed to issue 653,189,580 new ordinary shares (the "Rights Shares") at the subscription price of HK$1.10 per Rights Share on the basis of 3 Rights Shares for every 20 existing shares of the Company (the "Rights Issue"). The Rights Issue had been completed on 9 March 2016.

10. TRADE RECEIVABLES

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

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

	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**1,203,107**	1,373,110
4 to 6 months	**198,903**	225,445
7 to 12 months	**22,065**	32,282
Over 1 year	**11,203**	8,012
	1,435,278	1,638,849
Less: Impairment	**(22,675)**	(19,250)
	1,412,603	1,619,599

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 2016	31 December 2015
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 3 months	**152,352**	129,345

Bills receivable are non-interest-bearing.

At 30 June 2016 and 31 December 2015, 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 period, based on the transaction date, is as follows:

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Within 3 months	**831,364**	1,778,233
4 to 6 months	**81,725**	22,858
7 to 12 months	**20,132**	28,098
Over 1 year	**91,842**	87,006
	1,025,063	1,916,195

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

13. BILLS PAYABLE

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

	30 June 2016 HK$'000 (Unaudited)	31 December 2015 HK$'000 (Audited)
Within 3 months	**1,103,011**	1,351,701

As at 30 June 2016, certain bills payable of the Group were secured by the Group's time deposits of approximately HK$308,210,000 (31 December 2015: HK$321,687,000).

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYSED BY PRODUCT TYPES

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

	Six months ended 30 June			
	2016		2015	
Revenues	**Revenue** *HK$ million* **(Unaudited)**	**% of total revenue**	Revenue *HK$ million* (Unaudited)	% of total revenue
4G Coolpad smartphone	**5,060.0**	**95.9%**	8,013.1	91.2%
3G Coolpad smartphone	**101.8**	**1.9%**	597.2	6.8%
Wireless application service income	**81.9**	**1.6%**	139.7	1.6%
Finance Service	**21.3**	**0.4%**	16.5	0.2%
Other products	**12.4**	**0.2%**	16.3	0.2%
Total	**5,277.4**	**100%**	8,782.8	100%

The Group's unaudited revenue for the six months ended 30 June 2016 amounted to HK$5,277.4 million, representing a decline of 39.9% as compared with HK$8,782.8 million for the six months ended 30 June 2015. The decline in revenue during the reporting period was mostly because of the restructuring of the Group's business units and the intensifying competition in the smartphone market in Mainland China during the first half of 2016.

The revenue from the sale of 4G smartphone declined by 36.9% to HK$5,060.0 million for the six months ended 30 June 2016 as compared with HK$8,013.1 million for the corresponding period in 2015. Revenue contribution from this segment increased from 91.2% in the first half of 2015 to 95.9% in the first half of 2016. The increase of the proportion was primarily attributable to the Group changed its product strategic development to 4G smartphone during the reporting period.

The revenue from the sale of 3G Coolpad smartphone decreased by 83.0% to HK$101.8 million for the six months ended 30 June 2016 as compared with HK$597.2 million for the corresponding period in 2015. Revenue contribution from this segment dropped from 6.8% in the first half of 2015 to 1.9% in the first half of 2016. The decrease in revenue of 3G Coolpad smartphone was primarily attributable to the Group stopped releasing new 3G models during the reporting period.

Wireless application service income from mobile phone applications was HK$81.9 million for the six months ended 30 June 2016, representing a decrease of 41.4% as compared with HK$139.7 million for the corresponding period in 2015, coincided with the decline trend of revenue.

The finance service income was HK$21.3 million for the six months ended 30 June 2016, which came from a range of loan and finance services to suppliers, individuals and peer finance companies. The revenue from other products was primarily generated from the sales of Coolpad smartphone's accessories. The revenue from other products decreased by 23.9% to HK$12.4 million for the six months ended 30 June 2016 as compared with HK$16.3 million for the corresponding period in 2015.

GROSS PROFIT

	Six months ended 30 June			
	2016		2015	
Gross profit	**Gross profit** *HK$ million* **(Unaudited)**	**Gross profit margin**	Gross profit *HK$ million* (Unaudited)	Gross profit margin
Total	**705.4**	**13.5%**	1,113.9	12.7%

The Group's overall gross profit for the six months ended 30 June 2016 decreased by HK$408.5 million, representing a decrease of 36.7% as compared with HK$1,113.9 million for the corresponding period in 2015. Its overall gross profit margin increased by 0.8% to 13.5% in the reporting period as compared with 12.7% in the corresponding period of 2015. The decline in total gross profit was primarily attributable to the fierce competition of the 4G smartphone market in Mainland China and the decline of the shipments volume of the Group in the first half of 2016. The increase in gross profit margin was primarily attributable to lower costs and higher retail prices of 4G smartphones.

OTHER INCOME AND GAINS

Other income and gains of the Group declined by HK$2,723.1 million, or 95.4%, to HK$130.3 million for the six months ended 30 June 2016 as compared with HK$2,853.4 million for the corresponding period in 2015. The main reason is that the other income and gains for the six months ended 30 June 2016 includes bank interest income, gross rental income, government grants & subsidies and others, whereas an extraordinary gain of HK$2,656.7 million resulting from the loss control of a subsidiary of the Group had also been included in other income and gains for the six months ended 30 June 2015.

SELLING AND DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Selling and distribution expenses *(HK$ million)*	**379.0**	479.7
As a percentage of total revenue	**7.3%**	5.5%

Selling and distribution expenses of the Group for the six months ended 30 June 2016 decreased by HK$100.7 million to HK$379.0 million from HK$479.7 million for the corresponding period in 2015. The net decrease of HK$100.7 million was primarily attributable to decreased expenditures for marketing, advertising and promotion expenses to support new product launches. As a percentage of total revenue, selling and distribution costs increased to 7.3% in the first half of 2016 as compared with 5.5% in the corresponding period of 2015.

ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
Administrative expenses *(HK$ million)*	**402.8**	489.9
As a percentage of total revenue	**7.7%**	5.6%

Administrative expenses decreased by HK$87.1 million to HK$402.8 million for the six months ended 30 June 2016 from HK$489.9 million for the corresponding period in 2015. The net decrease of HK$87.1 million was primarily attributable to the stricter budget control on administrative expenses in the first half of 2016. As a percentage of total revenue, administrative expenses increased by 2.1% to 7.7% in the first half of 2016 as compared with 5.6% in the corresponding period of 2015. The net increase of 2.1% as a percentage of total revenue was primarily because of the R&D expenditures on new technologies during the reporting period.

INCOME TAX EXPENSE

For the six months ended 30 June 2016, the Group's income tax expenses decreased to HK$1.2 million, representing a decrease of HK$31.4 million as compared with HK$32.6 million for the corresponding period in 2015. The decrease in the current income tax expense was primarily due to the decrease of the Group's assessable profit in the corresponding period in 2015.

NET (LOSS)/PROFIT

For the six months ended 30 June 2016, the Group recorded a net loss of HK$2,072.4 million, representing a decline of HK$4,909.6 million, or 173.0%, as compared with the net profit of HK$2,837.2 million for the six months ended 30 June 2015. The loss was mainly because of the disposal of certain interests in a joint venture of the Group.

LIQUIDITY, FINANCIAL RESOURCE AND CAPITAL STRUCTURE

For the six months ended 30 June 2016, the Group's operating capital was mainly generated from its daily operation and bank borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements. The Group had a gearing ratio of 33.3% as at 30 June 2016 (31 December 2015: 36.4%). The decrease was mainly attributable to the decrease in the Group's debt. The gearing ratio is equal to net debt divided by the sum of capital and net debt.

Cash and cash equivalents of the Group as at 30 June 2016 amounted to HK$2,231.5 million, while it was HK$2,516.0 million as at 31 December 2015.

As at 30 June 2016, the Group had total debts (i.e. total borrowings) of approximately HK$1,593.7 million, which was all denominated in RMB. The Group's borrowings are subject to floating rates ranging from 4.35% to 5.78% per annum with maturity periods ranging from within one year to two years.

As at 30 June 2016, the Company had 5,017,746,780 ordinary shares of par value HK$0.01 each in issue.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any significant contingent liabilities.

INVENTORY

For the reporting period, the Group's inventory turnover period was 54.5 days (year ended 31 December 2015: 61.7 days).

TRADE RECEIVABLES

Credit period was one to three months on average, extending up to 120 days for some overseas customers, and the trade receivable turnover period was 51.7 days for the reporting period (year ended 31 December 2015: 56.2 days).

TRADE PAYABLES

The trade payable turnover period was 57.9 days for the reporting period (year ended 31 December 2015: 55.5 days).

PLEDGED OF ASSETS

As at 30 June 2016, the following assets of the Group were pledged for certain bank borrowings: (i) Certain properties and plants of the Group located in Mainland China, the total book value of which were approximately HK$204.6 million(31 December 2015: HK$210.3 million). As at 30 June 2016, the Group's time deposits of approximately HK$308.2 million were also used to secure bills payable (31 December 2015: HK$321.7 million); (ii) HK$58.6 million were used as a security for issuance of letters of credit (31 December 2015: HK$79.4 million); (iii) HK$12.1 million were used as a security for the banks to provide a performance guarantee (31 December 2015: HK$12.4 million).

BUSINESS REVIEW

Looking back to the first half of 2016, China's smartphone market continued to weaken for the time being and entered a wholly different competition environment. The whole smartphone market was also impacted by the weak economic environment and the growth continued to decline in the first half of 2016. Meanwhile, the retail open channel of the smartphone sales was still leading the whole market of Mainland China in the first half of 2016. The smartphone market became more mature in the first half of 2016 and the smartphones needed more feature innovations and differentiations to stimulate consumption.

In the first half of 2016, both of the shipments volume of Coolpad smartphones and the revenue of the Group declined, because of the current economy condition, fierce competition of the smartphone market and the restructuring of its business. The Group's unaudited revenue for the six months ended 30 June 2016 amounted to HK$5,277.4 million, representing a decline of 39.9% as compared with HK$8,782.8 million for the six months ended 30 June 2015. The Group recorded a net loss of HK$2,072.4 million for the six months ended 30 June 2016. The loss was mainly because of the disposal of certain interests in a joint venture of the Group. Accordingly, the basic and diluted earnings per share recorded a loss of HK40.90 cents and HK40.90 cents for the six months ended 30 June 2016, respectively.

In order to better adapt to the variations of the smartphone market in Mainland China and maintain its long term growth of the shipment units, the Group restructured the sales channels and divided its businesses into four business units ("BUs") in the year of 2014. To conform to the most recent sales trend, the Group shifted some of attention to the retail open channel, continued to restructure its business in the year of 2015. The Group had established more than 20 associates with first tier-1 smartphones distributors in each province so that much more retail stores and counters can be covered with Coolpad smartphones. Those associates worked smoothly in the first half of 2016, becoming the start and the foundation of retail channel networks, which has brought much stores and counters covering for the Group.

Even though the percentage of the smartphone sales of the domestic telecommunications carriers channel continued to decrease in the first half of 2016, the Group maintained a solid cooperation relationship with the local carriers and continued to release the flagship customized models and other low-end to mid-end carriers customized models, e.g., FengShang 3, FengShang mini, etc.. As an important smartphone provider in the telecommunications carrier channel, the Group strongly supported the 4G popularization plan of the carriers.

To the open channel, it turned out a quite different phenomenon from the carrier channel. In the first half of 2016, the total smartphone market sold through the retail open channel recorded a good result in Mainland China, and it seems to be continued for a long time mainly because of the subsidy policies. The smartphone brands who prepared earlier and better in the retail open channel performed quite well. Even though last year was the start for its brand and business operation in retail open channel, "ivvi" received a satisfactory brand awareness in this sales channel.

"ivvi" set up cooperation with hundreds of provincial tier-1 smartphones distributors, covering tens of thousands of retail stores and counters in Mainland China, and would continue to increase the number by a high speed and access to third-tier and fourth-tier cities. Meanwhile, "ivvi" continued to exclusively sponsor the TV star show, called "Perhaps Love" which is produced and broadcasted by Hubei Television in 2016. The actress Ms. Zhao Liying was also invited to be the celebrity endorsements of "ivvi". "ivvi" had gained its brand recognition and more and more young users knew its slogan of "Fashion & Young".

"Coolpad" brand used to be sold in carrier channel but it is prepared to sell in retail open channel in order to gain market share. After the foundation of the associates with distributors of each province in November 2015, the Group had covered more stores and counters, and could access to consumers much easier. The Group valued the construction of distribution networks and retail stores covering, making full preparation to cater for sales trend in open channel.

On 16 December 2014, the Group entered into a share subscription agreement with Tech Time Development Limited ("Tech Time") to allot 900 shares of Coolpad E-commerce Inc. ("Coolpad E-commerce") to Tech Time at a consideration of USD409.05 million. The subscription was completed on 23 April 2015. On 25 May 2015, the Group entered into an equity transfer agreement with Tech Time to transfer 4.5% of the equity interest of Coolpad E-commerce to Tech Time at a consideration of USD45.0 million. Upon completion of the above transactions, Coolpad E-commerce was owned as to 50.5% and 49.5% by the Company and Tech Time, respectively. Further details were set out in the announcement and circular of the Company dated 12 February 2015 and 25 May 2015, respectively. On 18 September 2015, the Group, Tech Time and Coolpad E-commerce entered into the share adjustment framework agreement according to which Coolpad E-commerce agreed to repurchase 6,800 shares (after the proposed share split) of Coolpad E-commerce held by the Group, and Coolpad E-commerce, as a consideration for the repurchase will transfer certain intellectual property items to the Group. With the transaction completed on 22 April 2016, the equity interest held by the Company in Coolpad E-Commerce decreased from 50.5% to 25%, and Coolpad E-Commerce has no longer been a subsidiary of the Company. Further details were set out in the announcement of the Company dated 24 April 2016. Saved as stated above, the Company didn't have other material acquisition or disposal of subsidiary, associate and joint venture of the Company during the reporting period.

The Company also regained full control of the Internet Related Business to enable future cooperation opportunities with internet company in Mainland China and worldwide. The Group cooperated with Tencent to distribute APP in our own APP store and run preinstalling business with other Internet company, which would bring much high gross margin to the Company comparing to hardware business. Meanwhile, the Group began to run its own e-commerce business and has successfully built official B2C online store to retail smartphones directly to consumers online in the first half of 2016. And the Group landed official flagship store into JD and Tmall platform respectively, which is the largest two e-commerce platforms in domestic market. Moreover, the Group cooperated with LeMall to cover more consumers, and let more users enjoy the rich sources of LeEco.

Leview Mobile HK Limited ("Leview Mobile") has become the single largest shareholder of the Group, which means the Group will start a deeper cooperation with LeEco. Leveraging its strong smartphone research and development capability and mature supply chain, the Group could give LeEco the strong supports on their products. Meanwhile, the contents and mobile Internet businesses of the Group's products could also become more diversified and richer. We believe that leveraging each other's advantages in the corresponding businesses would offer us a win-win situation. In the case of the low gross profit margin of the smartphones because of the fierce market competition, the construction of the mobile ecosystem may bring the Group better and sustainable profitability in the long term.

Overseas market was another important business unit for the Group and was receiving much more attention from management in the first half of 2016. The Group expanded its overseas market into USA, India, Vietnam, Indonesia, and Europe. The revenue of overseas market accounted for 15% of total revenue and kept a steady uptrend. Meanwhile, the sales channel of overseas became more diversified compared before. The Group either cooperated with overseas telecommunications operators to distribute and sell smartphones or exported the products directly through e-commerce platform like Amazon. Meanwhile, the Group set the cooperation with retailers abroad to build a healthy distributing and retailing networks in the retail open channel. Moreover, the Group also invested more resources in improving the brand awareness globally.

The Group continued to strengthen its R&D capability to bring users the best smartphone experience in the first half 2016. The Group not only kept researching and developing smart terminals of the present 4G technology, but also started working on the next 5G technology and its smart terminals. The Group deeply differentiated and optimized the functions and features of the Android operating system to bring users better mobile applications. Meanwhile, the Group not only emphasized the importance of the R&D, but also spent more energy and resources in improving the brand awareness and enlarging the brand promotion in the first half of 2016.

The Group continued to focus on delicacy management to improve general operation efficiency and control the overall costs in the first half of 2016. Delicacy management was a necessary and significant process to the Group while the competition of the smartphone market in Mainland China was fierce at the moment. In terms of delicacy management, a series of measures were taken by the Group to improve its administrative efficiency and internal operating process during the reporting period. The product quality and the production cost controls were also assured, depending on the delicacy management and the improvements of the infrastructure for the product testing and assembly.

BUSINESS OUTLOOK

Even though the performance of the smartphone industry in Mainland China was kind of weak in the first half of 2016 and the Group recorded a decline in shipment units compared with the corresponding period of preceding year, the Group expects that the smartphone market will be better in the second half of 2016 and the Group will achieve a higher smartphone shipment volumes. There will be three major factors supporting the growth of the shipment units and smartphone market. The first one will be the potential more aggressive handset subsidies provided by the telecommunication carriers in the second half of 2016. Another one is that the Group will receive the primary result coming from the business restructuring. Last but not the least, the Group will have a unique advantage of LeEco content comparing to other smartphone vendors, which will bring users different mobile Internet experience.

At present, the four BUs of the Group operate quite well respectively after the restructuring completed in 2015. The Group will further consolidate its domestic 4G smartphone market and expand the overseas market aggressively depending on its four BUs. By partnering with the provincial distributors in every province of Mainland China, the Group will expand the sales of its retail open channel and increase the covering number of the retail stores and counters to sell "ivvi" and "Coolpad" smartphones. The Group will launch richer 4G product mix to the market through the diversified sale channels in the second half of 2016, which covers from the high-end to mid- and low-end. The Group will consistently strengthen the good relationship with the carrier and meet its 4G product demand. The Group will also enlarge its sales of overseas market depending on its own brands through different sales channels such as overseas telecommunications carriers channel, e-commerce channel and retail open channel. Meanwhile, the Group plans to assemble, process and produce its products directly in the overseas factory to save the cost and assure on time delivery.

After restructuring, the sales channel of the Group has become more diversified. Not only the Group own its longstanding carriers sales channels and rising retail open channel, but also the Group has managed to sell most recent model directly to consumers by e-commerce channel, given that it has successfully built official B2C store and landed official flagship store into JD and Tmall platform respectively, which is the largest two e-commerce platform in domestic market.

As described in the announcement of the Company dated 24 April 2016, the Group has regained full control of the internet related business to enable future cooperation opportunities with internet companies in Mainland China and worldwide. The Group will strengthen the operation of the internet related business, and bring users better experience of the mobile internet. The Group will cooperate with Internet company like Baidu, Tencent and etc. to increase the revenue of software which can bring much higher margin comparing to hardware. Through the internet related business, the Group will keep long-term interaction with the users instead of the one-time sale of the products like before.

Meanwhile, through the agreement described in the announcement of the Company dated 17 June 2016, upon the completion, Leview Mobile has become the single largest shareholder of the Group. Coolpad smartphones will be an important section of LeEco and enjoy rich content provided by LeEco. Coolpad's experience in the smartphone business and LeEco's reserves in software/content will create a unique advantage in providing high-quality hardware together with rich content. The Group and LeEco will share supply chain resources, R&D techniques, sales channels and brand building. By leveraging each other's advantages in corresponding areas, both Coolpad and LeEco could benefit, creating a win-win situation.

With the business integrating with LeEco, the Group will turn itself into an Internet hardware ecosystem company operating both hardware and software at the same time, which can lift its gross margin and revenue to a new high level. The Group will have a unique advantage of LeEco content comparing to other smartphone vendors, which will bring users different mobile Internet experience. With the ultimate goal to build a LeEco with "Platform + Content + Terminals + Applications", LeEco will inject its content and software into the Coolpad's handset, thereby creating added-value to the two companies.

Meanwhile, the powerful R&D capability is the key point for the Group to keep growing in the 4G smartphone market, and will still be heavily invested by the Group in the future. The Group will constantly explore and invest in the leading-edge technologies, such as 5G network, mobile cloud, and mobile security. Meanwhile, considering the fast growth of the mobile internet and the wide adoption of 4G services by mobile carriers, the Group will partner with the internet companies to provide better experience of the mobile applications to its users and seize the business opportunities brought by the mobile internet. The Group will also continue to strengthen its supply chain management ("SCM") to guarantee the adoption of the best components and the on-time delivery.

The Group will continue to leverage innovation and expertise to satisfy diverse user needs, enhance core competitive strengths and the user experience of the products in the rapidly evolving global smartphone industry. As opportunities co-exist with challenges, the Group also identifies the risk of the increasing competition, saturation and slower growth of the smartphone market in Mainland China. The Group believes that the ecosystem/content of LeEco and fast grow of mobile Internet market will bring it much more opportunities in the year of 2016.

Looking forward, even though the competitive environment of the smartphone market will be more and more intense, the Group will endeavor to sell more smartphones in the 4G smartphone market and expand the overseas market aggressively, leveraging on the famous brand reputation, the diverse product portfolio, the restructuring of the sales channels and the coming more powerful ecosystem.

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales and certain portion of the bank loans are denominated in USD. Exchange rate fluctuations between RMB and USD may affect the Group's performance and asset value. The 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 2016.

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 has neither 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 2016 amounted to approximately HK$312.6 million (six months ended 30 June 2015: HK$423.9 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 2016, the Group had 4,497 employees (31 December 2015: 5,634 employees).

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

On 17 February 2016, the Group proposed to issue 653,189,580 new ordinary shares (the "Rights Shares") at the subscription price of HK$1.10 per Rights Share on the basis of 3 Rights Shares for every 20 existing shares of the Company (the "Rights Issue"). The Rights Issue had been completed on 9 March 2016.

Save as stated above, 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 2016.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2016.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

Code Provision A.2.1 of the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules, stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the period from 1 January 2016 to 30 June 2016, Mr. Guo Deying was the chairman of the Board and the chief executive officer of the Company. The Board considered that this structure did not impair the balance of power and authority between the Board and the management and believed that this structure enabled the Group to make and implement decision promptly and efficiently.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company was not, for any part of the six months ended 30 June 2016, in compliance with the Code.

With effect from 5 August 2016, Mr. Guo Deying has resigned as the chairman of the Board and the chief executive officer of the Company due to his health condition, and Mr. Jia Yueting has been appointed as the chairman of the Board. In addition, with effect from 16 August 2016, Mr. Liu Jiangfeng has been appointed as an executive Director and the chief executive officer of the Company. Such arrangement separates the roles of the chairman of the Board and the chief executive officer of the Company, which enables the Company to comply with the requirements of the code provision A.2.1 of the Code.

By order of the Board
Coolpad Group Limited
JIA YUETING
Chairman

Hong Kong, 29 August 2016

As at the date of this announcement, the executive Directors of the Company are Mr. Jia Yueting, Mr. Jiang Chao, Mr. Liu Hong, Mr. Liu Jiangfeng, Mr. Li Bin and Mr. Abulikemu Abulimiti and the independent non-executive Directors are Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan King Chung.