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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

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

The board (the “Board”) of directors (the “Directors”) of Coolpad Group Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014 together with comparative figures for the corresponding period of 2013 as follows:

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

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

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

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These unaudited condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and other relevant standards and interpretations and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

These interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2013.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the Group’s interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013 except for the first time adoption of the following new and revised standards and interpretations:

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

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

2.3 Issued but not yet effective Hong Kong financial reporting standards

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

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

¹ Effective for annual periods beginning on or after 1 July 2014,

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ No mandatory effective date yet determined but is available for adoption

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

3. OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

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

5. PROFIT BEFORE TAX

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

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

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

6. FINANCE COSTS

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

7. INCOME TAX EXPENSE

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

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

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

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Group:		
Current	72,154	46,712
Deferred	<u>(2,452)</u>	<u>126</u>
Total tax charge for the year	<u>69,702</u>	<u>46,838</u>

8. DIVIDENDS

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

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

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

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

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

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

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

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

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

10. TRADE RECEIVABLES

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

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

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

11. BILLS RECEIVABLE

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

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

12. TRADE PAYABLES

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

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

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

13. BILLS PAYABLE

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

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

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

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

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

The revenue from the sale of 4G Coolpad smartphone increased by 1729.2% to HK\$5,361.3 million for the six months ended 30 June 2014 as compared with HK\$293.1 million for the corresponding period in 2013. Revenue contribution from this segment largely increased from 3.0% in the first half of 2013 to 35.9% in the first half of 2014. The increase in revenue of 4G Coolpad smartphone was primarily attributable to better 4G smartphone portfolio and the fast increasement in domestic 4G smartphone market during the reporting period.

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

GROSS PROFIT

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

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

OTHER INCOME AND GAINS

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

SELLING AND DISTRIBUTION EXPENSES

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

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

ADMINISTRATIVE EXPENSES

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

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

INCOME TAX EXPENSE

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

NET PROFIT

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

BONUS SHARES

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

LIQUIDITY, FINANCIAL RESOURCE AND CAPITAL STRUCTURE

For the six months ended 30 June 2014, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements. The Group had a gearing ratio of 72.7% as at 30 June 2014 (31 December 2013: 67.0%). The increase was mainly attributable to the increase of capital as a result of increased long term bank borrowings during the reporting period. The gearing ratio is equal to net debt divided by the sum of capital and net debt.

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

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

CONTINGENT LIABILITIES

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

INVENTORY

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

TRADE RECEIVABLES

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

TRADE PAYABLES

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

PLEDGED OF ASSETS

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

BUSINESS REVIEW

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

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

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

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

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

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

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

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

BUSINESS OUTLOOK

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

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

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

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

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

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

OPERATING RISK

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

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales and certain portion of the bank loans are denominated in USD. Exchange rate fluctuations between RMB and USD may affect the Group's performance and asset value. The Group had not entered into any derivative contracts to hedge against the risk for the six months ended 30 June 2014.

CREDIT RISK

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

INTEREST RATE RISK

The risk in interest rate concerning the Group primarily related to its short-term and long-term bank loans and other borrowings. The interests are calculated at fixed and floating rates. Any rise in the current interest rate will increase the interest cost. To the end of the period, the Group has neither executed any form of interest rate agreement or derivative to hedge against the fluctuation in interest rate.

EMPLOYEES AND REMUNERATION POLICY

The total staff costs for the six months ended 30 June 2014 amounted to approximately HK\$455.8 million. The remuneration of the Group's employees is commensurate with their responsibilities and market rates, with discretionary bonuses given on a merit basis. The Group also provides on-the-job training to its employees from time to time.

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

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

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

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 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 2014.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

Code Provision A.2.1 of the Code of Corporate Governance Practices (the “Code”) as was set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Guo Deying is the chairman of the Board and the chief executive officer of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management and believes that this structure enables the Group to make and implement decision promptly and efficiently. In addition, the Board is of the view that, in view of the current scale of operations of the Group, the separation of the roles of the chairman and chief executive officer of the Company may hinder administrative efficiency and is neither suitable to the Group nor in the interests of its shareholders as a whole.

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

By order of the Board
Coolpad Group Limited
GUO DEYING
Chairman and Chief Executive Officer

Hong Kong, 20 August 2014

As at the date of this announcement, the executive Directors of the Company are Mr. Guo Deying, Mr. Jiang Chao, Mr. Li Bin and Mr. Li Wang, the independent non-executive Directors are Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan King Chung.