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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 2020

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Variance
	2020	2019	
	(HK\$'000)	(HK\$'000)	(%)
	(Unaudited)	(Unaudited)	
Revenue	385,920	657,494	-41.3
Loss before tax	(28,767)	(26,474)	8.7
Net loss attributable to owners of the Company	(65,927)	(26,828)	145.7
Basic and diluted loss per share	(HK1.13 cents)	(HK0.53 cents)	113.2

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 2020 together with comparative figures for the corresponding period of 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	<i>Notes</i>	Six months ended 30 June	
		2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
CONTINUING OPERATIONS			
REVENUE	4	385,920	657,494
Cost of sales		(301,841)	(551,601)
Gross profit		84,079	105,893
Other income and gains	4	202,229	163,013
Selling and distribution expenses		(99,444)	(126,655)
Administrative expenses		(98,175)	(110,731)
Other expenses		(69,602)	(10,409)
Finance costs		(18,102)	(22,132)
Share of losses of:			
A joint venture		(451)	(1,702)
Associates		(29,301)	(23,751)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	5	(28,767)	(26,474)
Income tax expense	6	(40,103)	(400)
LOSS FOR THE PERIOD FROM CONTINUING OPERATIONS		(68,870)	(26,874)
DISCONTINUED OPERATION			
Profit for the period from a discontinued operation	7	2,943	46
LOSS FOR THE PERIOD		(65,927)	(26,828)
Attributable to:			
Owners of the Company		(65,927)	(26,828)
Non-controlling interests		–	–
		(65,927)	(26,828)

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	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
<i>Note</i>	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	<u>(65,927)</u>	<u>(26,828)</u>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	9,355	2,318
Reclassification adjustment for foreign operations disposed of during the period	–	29
Share of other comprehensive loss of:		
A joint venture	(3,774)	(337)
Associates	<u>(264)</u>	<u>(649)</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>5,317</u>	<u>1,361</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(60,610)</u>	<u>(25,467)</u>
Attributable to:		
Owners of the Company	(60,607)	(25,465)
Non-controlling interests	<u>(3)</u>	<u>(2)</u>
	<u>(60,610)</u>	<u>(25,467)</u>
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	<i>9</i>	
	HK cents	HK cents
Basic and diluted for the period	(1.13)	(0.53)
Basic and diluted for continuing operations	<u>(1.18)</u>	<u>(0.53)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

		30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		678,513	547,334
Investment properties		537,435	389,118
Right-of-use assets		179,822	164,054
Intangible assets		2,880	3,644
Investment in a joint venture		175,858	180,083
Investments in associates		266,272	304,341
Equity investments at fair value through profit or loss		53,653	94,369
Loans receivable		–	1,098
Other non-current assets		34,676	35,791
Deferred tax assets		483	543
		<hr/> 1,929,592	<hr/> 1,720,375
Total non-current assets			
CURRENT ASSETS			
Inventories		169,351	254,255
Trade receivables	10	229,891	422,580
Short-term loans receivable		–	2,272
Prepayments, deposits and other receivables		323,085	402,807
Amounts due from associates		2,955	7,080
Pledged deposits		67,953	66,866
Cash and cash equivalents		228,465	297,420
		<hr/> 1,021,700	<hr/> 1,453,280
Assets classified as held for sale		183,060	186,323
Assets of a disposal group classified as held for sale	7	368,462	–
		<hr/> 1,573,222	<hr/> 1,639,603
Total current assets			
CURRENT LIABILITIES			
Trade payables	11	337,683	505,961
Other payables and accruals		1,727,046	1,402,490
Interest-bearing bank and other borrowings		218,953	240,439
Lease liability		10,626	9,587
Amounts due to associates		39,200	52,811
An amount due to a related party		272,163	–
Tax payable		109,212	112,409
		<hr/> 2,714,883	<hr/> 2,323,697
Liabilities directly associated with the assets classified as held for sale	7	9,380	–
		<hr/> 2,724,263	<hr/> 2,323,697
Total current liabilities			

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	30 June 2020 HK\$'000 (Unaudited)	31 December 2019 HK\$'000 (Audited)
NET CURRENT LIABILITIES	<u>(1,151,041)</u>	<u>(684,094)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>778,551</u>	<u>1,036,281</u>
NON-CURRENT LIABILITIES		
Lease liability	3,515	7,733
An amount due to a related party	–	269,432
Deferred tax liabilities	86,247	47,424
Other non-current liabilities	<u>5,537</u>	<u>3,468</u>
Total non-current liabilities	<u>95,299</u>	<u>328,057</u>
Net assets	<u>683,252</u>	<u>708,224</u>
EQUITY		
Equity attributable to owners of the Company		
Share capital	60,334	58,334
Reserves	<u>622,699</u>	<u>649,668</u>
	683,033	708,002
Non-controlling interests	<u>219</u>	<u>222</u>
Total equity	<u>683,252</u>	<u>708,224</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 address of the Company (the “Company”) is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

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

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

2.1 Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 June 2020 has been prepared in accordance with HKAS 34 Interim Financial Reporting. The interim condensed consolidated financial information does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2019.

2.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2019, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”) for the first time for the current period’s financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and impact of the revised HKFRSs are described below:

- (a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

- (b) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedge relationships.
- (c) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The amendments did not have any impact on the financial position and performance of the Group as no lease payments for the leases of the Group's office buildings have been reduced or waived by the lessors as a result of the Covid-19 pandemic.
- (d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. The amendments did not have any impact on the Group's interim condensed consolidated financial information.

3. OPERATING SEGMENT INFORMATION

Six months ended 30 June 2020	Mobile phone <i>HK\$'000</i> (Unaudited)	Property investment <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue (note 4)			
Sales to external customers	385,920	–	385,920
Other revenue and gains	32,260	167,522	199,782
Total	<u>418,180</u>	<u>167,522</u>	<u>585,702</u>
Segment results	<u>(150,223)</u>	<u>166,289</u>	<u>16,066</u>
<i>Reconciliation:</i>			
Interest income			1,835
Finance costs (other than interest on lease liabilities)			(17,528)
Gain on disposal of an investment in associate			612
Share of loss of a joint venture			(451)
Share of losses of associates			(29,301)
Loss before tax from continuing operations			<u>(28,767)</u>
Six months ended 30 June 2019	Mobile phone <i>HK\$'000</i> (Unaudited)	Property investment <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue (note 4)			
Sales to external customers	657,494	–	657,494
Other revenue and gains	150,655	6,464	157,119
Total	<u>808,149</u>	<u>6,464</u>	<u>814,613</u>
Segment results	<u>14,351</u>	<u>5,688</u>	<u>20,039</u>
<i>Reconciliation:</i>			
Interest income			5,894
Impairment of investment in an associate			(4,822)
Finance costs (other than interest on lease liabilities)			(22,132)
Share of loss of a joint venture			(1,702)
Share of losses of associates			(23,751)
Loss before tax from continuing operations			<u>(26,474)</u>

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2020 and 31 December 2019, respectively.

	Mobile phone <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Financing Service (discontinued operation) <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets				
At 30 June 2020 (Unaudited)	<u>1,615,878</u>	<u>539,775</u>	<u>–</u>	<u>2,155,653</u>
At 31 December 2019 (Audited)	<u>1,827,483</u>	<u>391,504</u>	<u>3,966</u>	<u>2,222,953</u>
Segment liabilities				
At 30 June 2020 (Unaudited)	<u>2,076,080</u>	<u>3,202</u>	<u>–</u>	<u>2,079,282</u>
At 31 December 2019 (Audited)	<u>1,913,452</u>	<u>3,597</u>	<u>2,335</u>	<u>1,919,384</u>

Geographical information

Non-current assets

	30 June 2020 <i>HK\$'000</i> (Unaudited)	31 December 2019 <i>HK\$'000</i> (Audited)
Mainland China	1,864,414	1,607,010
Overseas	<u>3,382</u>	<u>9,146</u>
	<u>1,867,796</u>	<u>1,616,156</u>

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

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Revenue from contracts with customers		
Sale of mobile phones and related accessories	385,413	656,169
Wireless application service income	507	1,325
	385,920	657,494

Disaggregated revenue information for revenue from contracts with customer

For the six months ended 30 June 2020

Segments	Total <i>HK\$'000</i> (Unaudited)
Geographical markets	
Mainland China	30,246
Overseas	355,674
Total revenue from contracts with customers	385,920
Timing of revenue recognition	
Goods and services transferred at a point of time	385,920
Total revenue from contracts with customers	385,920

For the six months ended 30 June 2019

Segments	Total <i>HK\$'000</i> (Unaudited)
Geographical markets	
Mainland China	67,069
Overseas	590,425
Total revenue from contracts with customers	657,494
Timing of revenue recognition	
Goods and services transferred at a point of time	657,494
Total revenue from contracts with customers	657,494

Other income	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Bank interest income	1,835	5,894
Gross rental income	10,278	6,464
Government grants and subsidies*	20,316	69,567
Fair value gains on equity investments at fair value through profit or loss, net	–	41,794
Others	12,556	39,294
Fair value gains on investment properties	157,244	–
	202,229	163,013

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

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Cost of inventories sold	273,644	603,480
Depreciation of property, plant and equipment	10,015	15,195
Amortisation of patents and licences*	700	732
Depreciation of right-of-use assets	5,926	8,675
Research and development costs: Expenditure for the period*	97,783	64,663
Minimum lease rental expense in respect of short-term leases	901	734
Interest expense recognised related to lease liabilities	574	762
Impairment of investment in an associate	–	4,822
Write-down/(reversal) of inventories at net realisable value	28,197	(51,879)
Recognition equity-settled share option expense	9,638	756
Gain on disposal of investments in associates	(612)	(2,340)
Loss on disposal of items of property, plant and equipment	110	665
Impairment of/(reversal of impairment) financial assets	7,305	(16,549)
Fair value gains on equity investments at fair value through profit or loss, net	38,978	(41,794)
Fair value gains on investment properties	(157,244)	–

* The amortisation of patents and licences, amortisation of product development costs and the research and development expenditure for the period are included in "Administrative expenses" in the interim condensed consolidated statement of profit or loss and other comprehensive income.

6. INCOME TAX EXPENSE

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

No provision for Hong Kong profits tax has been made (2019: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group’s subsidiaries operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current	151	6
Deferred	39,952	394
Total tax charge for the period from continuing operations	40,103	400
Total tax charge for the period from a discontinued operation	2,046	58
	42,149	458

7. DISCONTINUED OPERATION

On 17 April 2020, the Company announced the decision of its board of directors to dispose of Shenzhen Huiying Finance Co., Ltd. which engages in the financing services. The Group decided to cease its financing service business to focus its resources on its mobile phone products. The disposal of Shenzhen Huiying Finance Co., Ltd. is due to be completed in September 2020. As at 30 June 2020, final negotiations for the sale were in progress and Shenzhen Huiying Finance Co., Ltd. was classified as a disposal group held for sale and as a discontinued operation. With Shenzhen Huiying Finance Co., Ltd. being classified as a discontinued operation, the financing services business was no longer included in the note for operating segment information.

The results of Shenzhen Huiying Finance Co., Ltd. for the period are presented below:

	Six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	15,468	183
Expenses	(6,499)	(79)
Profit from the discontinued operation	8,969	104
Loss recognised on the remeasurement to fair value	(3,980)	–
Profit before tax from the discontinued operation	4,989	104
Income tax:		
Related to pre-tax profit	(2,046)	(58)
Profit for the period from the discontinued operation	2,943	46

The major classes of assets and liabilities of Shenzhen Huiying Finance Co., Ltd. classified as held for sale as at 30 June are as follows:

	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Assets	
Long-term loans receivable	924
Short-term Loans receivable	188,500
Prepayments, other receivables and other assets	196
Cash and bank balances	<u>178,842</u>
Assets classified as held for sale	<u>368,462</u>
Liabilities	
Other payables and accruals	(7,173)
Tax payable	<u>(2,207)</u>
Liabilities directly associated with the assets classified as held for sale	<u>(9,380)</u>
Net assets directly associated with the disposal group	<u><u>359,082</u></u>

The net cash flows incurred by Shenzhen Huiying Finance Co., Ltd. are as follows:

	Six months ended 30 June 2020 HK\$'000 (Unaudited)
Operating activities	<u>174,188</u>
Net cash inflow	<u><u>174,188</u></u>
Earnings per share:	
Basic and diluted from the discontinued operation	<u><u>HK0.05 cents</u></u>

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Profit attributable to ordinary equity holders of the Company from the discontinued operation	HK\$2,943,000	HK\$46,000
Weighted average number of ordinary shares used in the basic and diluted earnings per share calculation	<u><u>5,834,506,381</u></u>	<u><u>5,033,407,480</u></u>

8. DIVIDENDS

The Directors did not recommend the payment of any interim dividends for the six months ended 30 June 2020 (Six months ended 30 June 2019: Nil).

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

The calculation of the basic loss per share amount is based on the loss for the period attributable to ordinary equity holders of the Company of HK\$65,927,000 (six months ended 30 June 2019: a loss of HK\$26,828,000), and the weighted average number of ordinary shares of 5,834,506,381 in issue during the six months ended 30 June 2020 (six months ended 30 June 2019: 5,033,407,480).

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2020 in respect of a dilution as the impact of the share option outstanding had no dilution effect on the basic loss per share amount presented.

10. TRADE RECEIVABLES

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

	30 June 2020	31 December 2019
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 3 months	181,212	365,773
4 to 6 months	8,718	23,549
7 to 12 months	27,283	37,907
Over 1 year	326,029	301,326
	<u>543,242</u>	<u>728,555</u>
Less: Impairment	<u>(313,351)</u>	<u>(305,975)</u>
	<u>229,891</u>	<u>422,580</u>

11. TRADE PAYABLES

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

	30 June 2020	31 December 2019
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 3 months	123,638	332,458
4 to 6 months	28,286	46,957
7 to 12 months	97,907	34,629
Over 1 year	87,852	91,917
	<u>337,683</u>	<u>505,961</u>

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

12. EVENTS AFTER THE REPORTING PERIOD

The Group had no significant event after the reporting period.

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYSED BY PRODUCT TYPE

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

Revenues	Six months ended 30 June			
	2020		2019	
	Revenue <i>HK\$ million</i> (Unaudited)	% of total revenue	Revenue <i>HK\$ million</i> (Unaudited)	% of total revenue
Sale of mobile phones and related accessories	385.4	99.9	656.2	99.8
Wireless application service income	0.5	0.1	1.3	0.2
Total	<u>385.9</u>	<u>100</u>	<u>657.5</u>	<u>100</u>

The Group's unaudited revenue for the six months ended 30 June 2020 amounted to HK\$385.9 million, representing a decline of 41.3% as compared with HK\$657.5 million for the six months ended 30 June 2019. The decrease in revenue during the reporting period was mostly because the Group postponed the launch of new products originally scheduled in the second quarter of 2020 in the United States due to the continuing impact of the COVID-2019.

GROSS PROFIT

Gross profit/(loss)	Six months ended 30 June			
	2020		2019	
	Gross profit <i>HK\$ million</i> (Unaudited)	Gross profit margin	Gross loss <i>HK\$ million</i> (Unaudited)	Gross loss margin
Total	<u>84.1</u>	<u>21.8%</u>	<u>105.9</u>	<u>16.1%</u>

The Group's overall gross profit for the six months ended 30 June 2020 decreased by HK\$21.8 million, representing a decrease of 20.6% as compared with a gross profit of HK\$105.9 million for the corresponding period in 2019. Its overall gross profit margin increased by 5.7% to 21.8% in the reporting period as compared with a gross profit margin of 16.1% in the corresponding period of 2019. The achievement of the gross profit margin was primarily due to the Group's active and effective improvement of operational efficiency and cost control in the six months ended 30 June 2020.

SELLING AND DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Selling and distribution expenses (<i>HK\$ million</i>)	99.4	126.7
As a percentage of total revenue	25.8%	19.3%

Selling and distribution expenses of the Group for the six months ended 30 June 2020 decreased by HK\$27.3 million to HK\$99.4 million from HK\$126.7 million for the corresponding period in 2019. The selling and distribution expenses as percentage of revenue for the six months ended 30 June 2020 was 25.8%, increasing by 6.5% compared with 19.3% for the corresponding period in 2019. The increase of selling and distribution expense as percentage of revenue was primarily because that the Group increased the marketing and promotion efforts in the U.S. market during the COVID-19 to promote product sales.

ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Administrative expenses (<i>HK\$ million</i>)	98.2	110.7
As a percentage of total revenue	25.4%	16.8%

Administrative expenses decreased by HK\$12.5 million to HK\$98.2 million for the six months ended 30 June 2020 from HK\$110.7 million for the corresponding period in 2019. The administrative expenses as percentage of revenue for the six months ended 30 June 2020 was 25.4%, increasing by 8.6% compared with 16.8% for the corresponding period in 2019. The increase of administrative expenses as percentage of revenue was primarily due to the Group's enrichment of product categories boosting the R&D expenses.

INCOME TAX EXPENSE

For the six months ended 30 June 2020, the Group's income tax expenses for the period from continuing operations were HK\$40.1 million which was primarily due to the deferred tax expense recognised for the fair value gains on investment properties.

NET LOSS BEFORE TAX FROM CONTINUING OPERATIONS

For the six months ended 30 June 2020, the Group recorded a net loss before tax of HK\$28.8 million, compared with the net loss before tax of HK\$26.5 million for the six months ended 30 June 2019.

LIQUIDITY, FINANCIAL RESOURCE AND CAPITAL STRUCTURE

For the six months ended 30 June 2020, operating capital was mainly generated from cash from its daily operation and borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements. The Group had a gearing ratio of 78% as at 30 June 2020 (31 December 2019: 76%).

Cash and cash equivalents of the Group as at 30 June 2020 amounted to HK\$228.5 million, while it was HK\$297.4 million as at 31 December 2019.

As at 30 June 2020, the Group had total debts (i.e. total borrowings) of approximately HK\$491.1 million, which was all denominated in RMB. The Group's borrowings are subject to floating rates ranging from 5% to 6.5% per annum with maturity periods within one year.

As at 30 June 2020, the Company had 6,033,407,480 ordinary shares of par value HK\$0.01 each in issue.

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any significant contingent liabilities.

INVENTORY

For the reporting period, the Group's inventory turnover period was 126.3 days (year ended 31 December 2019: 56.7 days).

TRADE RECEIVABLES

The trade receivable turnover period was 152.2 days for the reporting period (year ended 31 December 2019: 58.4 days).

TRADE PAYABLES

The trade payable turnover period was 251.5 days for the reporting period (year ended 31 December 2019: 95.7 days).

PLEDGED OF ASSETS

As at 30 June 2020, time deposits of approximately HK\$68.0 million were used as a security for bank to provide a performance guarantee (31 December 2019: HK\$66.9 million).

As at 30 June 2020, the Group's investment in 20% of the shares of an associate, Nanjing Yulong Weixin Information Scientific Limited, with a carrying value of HK\$25,556,000 were pledged as security for a shareholder loan of this associate.

BUSINESS REVIEW

Looking back on the first half of 2020, in the face of unexpected pandemic, the Group, on one hand, has actively participating in the fight against the pandemic; on the other hand, the Group has sought for breakthrough during such difficult time.

The Group's unaudited revenue for the six months ended 30 June 2020 amounted to HK\$385.9 million, representing a decline of 41.3% as compared with HK\$657.5 million for the six months ended 30 June 2019. The revenue saw a decrease primarily because no new product was launched in the United States, the main sales target region, in the first half of the year, which resulted from the Group's postponed original plan to launch new products in the United States in the second quarter of 2020 owing to the continuing impacts of the pandemic. The Group's gross profit for the six months ended 30 June 2020 amounted to HK\$84.1 million, representing a decline of 20.6% as compared with the gross profit in the corresponding period of 2019. The gross profit margin increased by 5.7 percentage points to 21.8% as compared with that in the corresponding period of 2019. The increase in the gross profit margin was primarily due to the Group's proactive and effective increase in operation efficiency and cost control in the first half of 2020. The Group's selling and distribution expenses as a percentage of total revenue was 25.8%, representing an increase of 6.5 percentage points over the corresponding period in 2019, mainly due to the Group's enhanced promotional efforts in the United States market during the pandemic in order to promote product sales. Administrative and research and development expenses as a percentage of revenue was 25.4%, representing an increase of 8.6 percentage points over the corresponding period in 2019, mainly due to the Group's diversified product categories that resulted in higher research and development expenses and the limited reduction in fixed administrative expenses with the decrease in revenue during the pandemic. The Group's loss before tax was HK\$28.8 million in the first half of 2020, and the net loss before tax in the corresponding period in 2019 was HK\$26.5 million. The Group's net loss amounted to HK\$65.9 million in the first half of 2020, representing an increase of HK\$39.1 million as compared with the net loss of HK\$26.8 million in the corresponding period in 2019, mainly due to the Group's provision for income tax growing HK\$39.7 million in the first half of 2020.

PROGRESS IN LONG-TERM STRATEGY

In 2020, the Group's long-term strategy has made progress: 1) In respect of overseas markets, overseas market successfully expanded from North America to Japan, Latin America, etc., and the Group launched tablets, smart watches, trackers, MBB and other product categories; and 2) In respect of the PRC market, the Group has made milestone progress in smart cities, industrial Internet and smart AR glasses, and launched products successively in areas such as 5G terminals, 5G industrial modules, AR glasses and 5G small cell base stations.

5G INDUSTRIAL INTERNET PRODUCTS

In the first half of 2020, Coolpad launched its first industrial internet product – 5G industrial routing module, realizing “plug and play” based on the needs of practical industrial scenarios. The module is compatible to various interface needs, which cuts down the costs of secondary development of customers and shortens the time for product launch, and can be applied to multiple industrial application terminals such as drone, robotic arm, VR terminal, camera and robot.

CAPITAL SUPPORT

The Company issued 800,000,000 new ordinary shares at a subscription price of HK\$0.215 per share on 19 December 2019 and successfully financed HK\$171 million, after deducting the share issue expenses. The Company issued 200,000,000 new ordinary shares at a subscription price of HK\$0.130 per share on 30 June 2020 and successfully financed HK\$26.0 million. With the safeguard of such capital support, the Group is confident to provide more competitive products and better services to the market.

PATENTED INVENTION

Intellectual property right media IPRdaily and incoPat Innovation Index Research Centre jointly published “Top 100 PRC Corporation in Granted Invention Patents in the First Half of 2020”, in which Yulong Telecommunication, a domestic entity of Coolpad Group, ranked 35th with 224 patents among all the PRC corporations.

PANDEMIC PREVENTION SUPPLY PRODUCTION

Facing the pandemic and in response to the urgent demand for medical-use disease prevention materials and equipment, the Group has never forgotten its corporate social responsibility. Based on the production conditions of automated hardware, the Group has opened up the whole industry chain including raw material procurement, equipment manufacturing and product production by leveraging on its own capabilities and advantages in supply chain management, market synergy and technology output. In February 2020, the Group renovated and set up a production line for civil surgical masks, which not only meets the needs of the Group’s employees for pandemic prevention, but also provides timely supply of pandemic prevention materials in response to the needs of relevant government departments and the business partners.

BUSINESS OUTLOOK

In the future, the Group will adhere to its long-term strategies which put emphasis on both overseas markets and the PRC markets. In respect of overseas markets, the Group will proactively stabilize and maintain the relationships with overseas customers, enrich product categories and provide products with more competitiveness; in respect of the PRC markets, the Group will continue to expand its research and development in 5G areas. With successive launches of various mobiles and brand new smart hardware, the Group will also contribute to the rising intellectual terminals and system applications including products and applications of industrial internet, smart city and the modernization of social governance. Coolpad will return to the PRC markets with brand new product features.

5G LAYOUT

As one of the participants in setting 5G standards, Coolpad continued to invest in research and development in 5G. With efforts over the years, 5G application of Coolpad will see a promising future in Shenzhen, the first city in the world to realize full coverage of 5G independent networks. In the first half of 2020, Coolpad successively launched products in areas including 5G smartphone terminal, 5G industrial module, AR glasses and 5G small cell base station, and has accumulated over 900 patents regarding 5G. With the accumulated efforts in 5G technology, Coolpad commenced its comprehensive layout in respect of the rising intellectual terminals and system applications including IOT, products and applications of industrial internet, smart city and modernization of social governance.

Launching high value-added 5G mobile phones in the PRC market

On 12 August 2020, Coolpad returned to the domestic market as an operator by launching Coolpad X10, the first one-thousand yuan 5G mobile phone jointly released with eSurfing Telecom, which is the most value-added 5G mobile phone in the current market. Coolpad is committed to creating the most value-added 5G mobile phone to achieve the goal of 5G for all, providing faster and cooler experience.

AR GLASSES

On 28 July 2020, Coolpad launched Xview, the first ultra-light wireless AR glasses. Weighing only 78g, with its thickest part less than 7mm, which is 1/4 of the same type of products, the product delivers extremely thin and light user experience. It is also equipped with the world-leading optical waveguide display technology, with its light transmittance reaching 83%, realizing unobstructed, high-contrast and completely frameless display, thus providing an ultimately immersed experience.

SMART CITY

On 29 July, Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. under Coolpad Group entered into an ecosystem partner strategic collaboration agreement with Shenzhen GenJoy Technology Co., Ltd. (深圳市景悦科技有限公司) in respect of the Baishizhou smart city project (白石洲智慧城區項目). Both parties will leverage on the technologies of their respective business areas to fully cooperate in multiple modules of the Baishizhou smart city project, jointly explore relevant smart city technologies to provide solutions for GenJoy Technology.

COOLPAD BUILDING

Situated at the prime location in the north area of Nanshan Science and Technology Park and boasting high-quality software and hardware equipment, Coolpad office building has entered the pre-leasing stage and will soon be put into use.

FOREIGN EXCHANGE EXPOSURE

The Group has transactional foreign currency exchange risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales are denominated in USD. Exchange rate fluctuations between RMB and USD may affect the Group's performance and asset value. The depreciation of RMB will increase the purchasing cost of certain raw materials of the Group in the future. The Group had not entered into any derivative contracts to hedge against the risk for the six months ended 30 June 2020.

CREDIT RISK

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

INTEREST RATE RISK

The risk in interest rate concerning the Group primarily related to its short-term and long-term bank loans and other borrowings. The interests are calculated at fixed and floating rates. Any rise in the current interest rate will increase the interest cost. As at the end of the reporting period, the Group had not executed any form of interest rate agreement or derivative to hedge against the fluctuation in interest rate.

EMPLOYEES

As at 30 June 2020, the Group had 684 employees (31 December 2019: 668 employees).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2020.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code for securities transactions. All the Directors have confirmed, following specific enquiry by the Company with all the Directors, that they have fully complied with the required standard as set out in the Model Code for the period under review.

AUDIT COMMITTEE

The audit committee ("Audit Committee") of the Company, which currently comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company, and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's interim results for the six months ended 30 June 2020.

EVENTS AFTER THE REPORTING PERIOD

The Group had no significant event after the reporting period.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Good corporate governance is conducive to enhancing overall performance and accountability and is essential in modern corporate governance. The Board continuously observes the principles of good corporate governance in the interests of Shareholders and devotes considerable effort identifying and formalizing the best practice. During the Reporting Period, the Company had reviewed its corporate governance documents and the Board is of the view that the Company had fully complied with the code provisions of the Corporate Governance Code set out in Appendix 14 to the Listing Rules..

FORWARD LOOKING STATEMENTS

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

For and on behalf of
Coolpad Group Limited
Ma Fei
Executive Director
Joint Company Secretary

Hong Kong, 26 August 2020

As at the date of this announcement, the executive Directors are Mr. Chen Jiajun, Mr. Liang Rui, Mr. Ma Fei, Mr. Xu Yibo and Mr. Lam Ting Fung Freeman; the non-executive Director is Mr. Ng Wai Hung; the independent non-executive Directors are Dr. Huang Dazhan, Mr. Xie Weixin, Mr. Chan King Chung and Mr. Guo Jinghui.