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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 2022**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Variance (%)
	2022 (HK\$'000) (Unaudited)	2021 (HK\$'000) (Unaudited)	
Revenue	140,455	320,119	-56.1
Loss before tax	(300,056)	(210,698)	42.4
Net loss attributable to owners of the Company	(303,377)	(238,134)	27.4
Basic and diluted loss per share	(HK2.23 cents)	(HK3.11 cents)	-28.3

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 2022 together with comparative figures for the corresponding period of 2021 as follows:

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

For the six months ended 30 June 2022

	<i>Notes</i>	Six months ended 30 June	
		2022	2021
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
REVENUE	4	140,455	320,119
Cost of sales		<u>(201,231)</u>	<u>(334,590)</u>
Gross loss		(60,776)	(14,471)
Other income and gains	4	74,911	123,074
Selling and distribution expenses		(57,850)	(80,344)
Administrative expenses		(157,299)	(124,535)
Other expenses		(65,294)	(84,893)
Finance costs		(9,709)	(27,149)
Share of profits and losses of:			
Joint ventures		(16,728)	(12,837)
Associates		<u>(7,311)</u>	<u>10,457</u>
LOSS BEFORE TAX	5	(300,056)	(210,698)
Income tax expense	6	<u>(3,493)</u>	<u>(27,436)</u>
LOSS FOR THE PERIOD		<u>(303,549)</u>	<u>(238,134)</u>
Attributable to:			
Owners of the Company		(303,377)	(238,134)
Non-controlling interests		<u>(172)</u>	<u>–</u>
		<u>(303,549)</u>	<u>(238,134)</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME** (continued)

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022	2021
<i>Notes</i>	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD	(303,549)	(238,134)
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(31,259)	2,111
Share of other comprehensive (loss)/income of:		
Joint ventures	(6,483)	2,301
Associates	(15,642)	8,807
OTHER COMPREHENSIVE (LOSS)/ INCOME FOR THE PERIOD, NET OF TAX	(53,384)	13,219
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(356,933)	(224,915)
Attributable to:		
Owners of the Company	(356,752)	(224,919)
Non-controlling interests	(181)	4
	(356,933)	(224,915)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	8	
	HK cents	HK cents
Basic and diluted for the period	(2.23)	(3.11)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		747,048	674,890
Investment properties		2,270,282	2,375,184
Right-of-use assets		91,239	98,349
Intangible assets		15,926	19,939
Investments in joint ventures		120,743	143,954
Investments in associates		351,752	374,705
Financial assets at fair value through profit or loss		124,714	27,263
Other non-current assets		62,802	47,461
Deferred tax assets		301	427
		3,784,807	3,762,172
TOTAL non-current assets			
CURRENT ASSETS			
Inventories		97,320	71,226
Trade receivables	9	40,754	54,366
Prepayments, deposits and other receivables		137,088	354,180
Amounts due from associates		3,189	3,335
Pledged deposits		64,859	64,919
Cash and cash equivalents		573,086	814,812
		916,296	1,362,838
TOTAL current assets			
CURRENT LIABILITIES			
Trade payables	10	140,904	116,499
Other payables and accruals		1,115,033	1,477,956
Interest-bearing bank and other borrowings		227,191	244,618
Lease liabilities		4,035	3,860
Amounts due to associates		39,532	41,350
An amount due to a joint venture		1,736	1,816
Amounts due to related parties		1,141	158,739
Tax payable		107,002	117,112
		1,636,574	2,161,950
TOTAL current liabilities			
NET CURRENT LIABILITIES		(720,278)	(799,112)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

30 June 2022

	30 June 2022	31 December 2021
<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	
TOTAL ASSETS LESS CURRENT LIABILITIES	3,064,529	2,963,060
NON-CURRENT LIABILITIES		
Lease liabilities	11,197	13,424
Deferred tax liabilities	368,848	382,397
Other non-current liabilities	21,261	23,127
Total non-current liabilities	401,306	418,948
Net assets	2,663,223	2,544,112
EQUITY		
Equity attributable to owners of the Company		
Share capital	137,129	121,050
Reserves	2,525,866	2,422,653
	2,662,995	2,543,703
Non-controlling interests	228	409
Total equity	2,663,223	2,544,112

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 2022 has been prepared in accordance with Hong Kong Accounting Standard 34 (“**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 2021.

Going concern basis

For the six months ended 30 June 2022, the Group incurred a net loss of HK\$304 million and the Group recorded net current liabilities of HK\$720 million as at 30 June 2022. These circumstances may cast significant doubt on the Group’s ability to continue as a going concern.

In view of these circumstances, the directors of the Group have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Taking into account the successful completion of a placement as of 30 June 2022, the available unutilized loan facilities from a related party of the Group and a conditional bank facility provided by a reputable financial institution, the Directors are of the opinion that the Group is able to meet in full its financial obligations as and when they fall due for the foreseeable future and it is appropriate to prepare the interim condensed consolidated financial statements on a going concern basis.

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 2021, 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>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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

- (a) Amendments to HKFRS 3 replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the Conceptual Framework for Financial Reporting issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group has applied the amendments prospectively to business combinations that occurred on or after 1 January 2022. As there were no contingent assets, liabilities and contingent liabilities within the scope of the amendments arising in the business combination that occurred during the period, the amendments did not have any impact on the financial position and performance of the Group.
- (b) Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The Group has applied the amendments retrospectively to items of property, plant and equipment made available for use on or after 1 January 2021. Since there was no sale of items produced while making property, plant and equipment available for use on or after 1 January 2021, the amendments did not have any impact on the financial position or performance of the Group.
- (c) Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The Group has applied the amendments prospectively to contracts for which it has not yet fulfilled all its obligations at 1 January 2022 and no onerous contracts were identified. Therefore, the amendments did not have any impact on the financial position or performance of the Group.

- (d) *Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are applicable to the Group are as follows:

HKFRS 9 Financial Instruments: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The Group has applied the amendment prospectively to financial liabilities that are modified or exchanged on or after 1 January 2022. As there was no modification of the Group's financial liabilities during the period, the amendment did not have any impact on the financial position or performance of the Group.

HKFRS 16 Leases: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

3. OPERATING SEGMENT INFORMATION

Six months ended 30 June 2022

	Mobile phone <i>HK\$'000</i> (Unaudited)	Property investment <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue (<i>note 4</i>)			
Sales to external customers	140,455	–	140,455
Other revenue and gains	24,173	48,336	72,509
	<u>164,628</u>	<u>48,336</u>	<u>212,964</u>
Total	<u>164,628</u>	<u>48,336</u>	<u>212,964</u>
Segment results	(310,871)	41,642	(269,229)
<i>Reconciliation:</i>			
Interest income			2,402
Finance costs (other than interest on lease liabilities)			(9,190)
Share of losses of joint ventures			(16,728)
Share of losses of associates			(7,311)
			<u>(300,056)</u>
Loss before tax			<u>(300,056)</u>

Six months ended 30 June 2021

	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	320,119	–	320,119
Other revenue and gains	90,781	31,616	122,397
	<u>410,900</u>	<u>31,616</u>	<u>442,516</u>
Segment results	(201,241)	19,177	(182,064)
<i>Reconciliation:</i>			
Interest income			677
Finance costs (other than interest on lease liabilities)			(26,931)
Share of losses of joint ventures			(12,837)
Share of profits of associates			10,457
			<u>(210,698)</u>

The following table presents the asset and liability information of the Group's operating segments as at 30 June 2022 and 31 December 2021, respectively.

	Mobile phone <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment assets			
At 30 June 2022 (Unaudited)	<u>1,042,718</u>	<u>2,327,746</u>	<u>3,370,464</u>
At 31 December 2021 (Audited)	<u>1,179,948</u>	<u>2,418,598</u>	<u>3,598,546</u>
Segment liabilities			
At 30 June 2022 (Unaudited)	<u>1,269,003</u>	<u>21,261</u>	<u>1,290,264</u>
At 31 December 2021 (Audited)	<u>1,521,727</u>	<u>21,570</u>	<u>1,543,297</u>

Geographical information

Non-current assets

	30 June 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Mainland China	3,640,999	3,730,942
Overseas	15,741	2,372
	<u>3,656,740</u>	<u>3,733,314</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	
	2022 HK\$'000 (Unaudited)	2021 HK\$'000 (Unaudited)
Revenue from contracts with customers		
Sale of mobile phones and related accessories	132,194	318,596
Wireless application service income	8,261	1,523
	<u>140,455</u>	<u>320,119</u>

Disaggregated revenue information for revenue from contracts with customer:

For the six months ended 30 June 2022

Segments	Total HK\$'000 (Unaudited)
Geographical markets	
Mainland China	113,455
Overseas	27,000
	<u>140,455</u>
Timing of revenue recognition	
Goods and services transferred at a point of time	140,455
	<u>140,455</u>
Total revenue from contracts with customers	<u>140,455</u>

For the six months ended 30 June 2021

Segments	Total <i>HK\$'000</i> (Unaudited)
Geographical markets	
Mainland China	45,321
Overseas	<u>274,798</u>
Total revenue from contracts with customers	<u><u>320,119</u></u>

Timing of revenue recognition	
Goods and services transferred at a point of time	<u>320,119</u>
Total revenue from contracts with customers	<u><u>320,119</u></u>

Other income	Six months ended 30 June	
	2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Bank interest income	2,402	677
Gross rental income from investment property operating leases:		
Fixed lease payments	48,336	31,616
Government grants and subsidies*	13,017	10,147
Gain on disposal of a parcel of land and construction in progress	–	63,230
Foreign exchange gain	–	11,834
Others	<u>11,156</u>	<u>5,570</u>
	<u><u>74,911</u></u>	<u><u>123,074</u></u>

* 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	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	180,319	315,844
Depreciation of property, plant and equipment	10,003	9,163
Amortisation of patents and licences*	2,989	1,528
Depreciation of right-of-use assets	2,860	2,636
Research and development costs:		
Expenditure for the period*	88,449	74,288
Minimum lease rental expense in respect of short-term leases*	206	1,190
Interest expense recognised related to lease liabilities@	519	218
Gain on disposal of a parcel of land and construction in progress^	–	(63,230)
Write-down of inventories at net realisable value&	20,912	18,746
Direct operating expenses arising on rental-earning investment properties*	5,910	12,439
Recognition of equity-settled share option expense	23,904	14,550
(Gain)/Loss on disposal of items of property, plant and equipment##	(575)	183
(Reversal of impairment)/impairment of financial assets, net##	(61)	15,736
Fair value losses on financial assets at fair value through profit or loss, net#	18	58,908
Foreign exchange losses/(gains), net##	64,148	(11,834)
	<u>64,148</u>	<u>(11,834)</u>

* Included in "Administrative expenses" in profit or loss

@ Included in "Finance costs" in profit or loss

& Included in "Cost of sales" in profit or loss

^ Included in "Other income and gains" in profit or loss

Included in "Other expenses" in profit or loss

Included in "Other expenses"/"Other income and gains" in profit or loss.

6. INCOME TAX EXPENSE

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

No provision for Hong Kong profits tax has been made (2021: 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.

Land appreciation tax is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditures including land costs and other property development expenditures. The Group has made and included in taxation a provision for land appreciation tax according to the requirements set forth in the relevant tax laws and regulations.

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current		
Corporate income tax	103	9,862
Land appreciation tax*	–	13,427
Deferred	3,390	4,147
	<u>3,493</u>	<u>27,436</u>

* On 25 April 2019, the Group entered into an agreement with Xi'an Hi-Tech Industrial Development Zone in respect of the disposal of a certain parcel of land and the construction in progress held by Xi'an Coolpad Equipment with a transaction price of RMB236,293,000 (equivalent to HK\$283,979,000). The relevant transfer procedures were completed in February 2021.

7. DIVIDENDS

The Directors did not recommend the payment of any interim dividends for the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

8. 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\$303,377,000 (six months ended 30 June 2021: a loss of HK\$238,134,000), and the weighted average number of ordinary shares of 13,590,996,530 in issue during the six months ended 30 June 2022 (six months ended 30 June 2021: 7,664,572,666).

No adjustment has been made to the basic loss per share amount presented for the six months ended 30 June 2022 in respect of a dilution as the impact of the share option outstanding had no dilution effect on the basic loss per share amount presented.

9. 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 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Within 3 months	38,852	54,861
4 to 6 months	433	1,817
7 to 12 months	4,494	119
Over 1 year	213,960	213,437
	<u>257,739</u>	<u>270,234</u>
Less: Impairment	<u>(216,985)</u>	<u>(215,868)</u>
	<u>40,754</u>	<u>54,366</u>

10. 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 2022 HK\$'000 (Unaudited)	31 December 2021 HK\$'000 (Audited)
Within 3 months	76,077	63,696
4 to 6 months	5,140	89
7 to 12 months	9,324	3,199
Over 1 year	50,363	49,515
	<u>140,904</u>	<u>116,499</u>

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

11. EVENTS AFTER THE REPORTING PERIOD

The Group had no significant event after the reporting period.

MANAGEMENT DISCUSSION AND 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:

	Six months ended 30 June			
	2022		2021	
	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	132.2	94.1	318.6	99.5
Wireless application service income	8.3	5.9	1.5	0.5
Total	<u>140.5</u>	<u>100.0</u>	<u>320.1</u>	<u>100.0</u>

The Group's unaudited revenue for the six months ended 30 June 2022 amounted to HK\$140.5 million, representing a decline of 56.1% as compared with HK\$320.1 million for the six months ended 30 June 2021. This is primarily attributable to the COVID-19 pandemic in the domestic market, fierce competition in the PRC's mobile phone market and the main products sold in the first half of the 2022 were the models launched in 2021.

GROSS LOSS

	Six months ended 30 June			
	2022		2021	
	Gross loss <i>HK\$ million</i> (Unaudited)	Gross loss margin	Gross loss <i>HK\$ million</i> (Unaudited)	Gross loss margin
Total	<u>(60.8)</u>	<u>(43.3%)</u>	<u>(14.5)</u>	<u>(4.5%)</u>

The Group's overall gross loss for the six months ended 30 June 2022 increased substantially to HK\$60.8 million, representing an increase of 319.3% as compared with a gross loss of HK\$14.5 million for the corresponding period in 2021. Its overall gross loss margin increased to 43.3% in the reporting period as compared with a gross loss margin of 4.5% in the corresponding period of 2021. The increase in gross loss was mainly due to the substantial decline of the Group's revenue compared with the corresponding period of 2021 and the fact that the Group implemented a deeper promotional policy.

SELLING AND DISTRIBUTION EXPENSES

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Selling and distribution expenses (<i>HK\$ million</i>)	57.9	80.3
As a percentage of total revenue	41.2%	25.1%

Selling and distribution expenses of the Group decreased by HK\$22.4 million from HK\$80.3 million for the six months ended 30 June 2021 to HK\$57.9 million for the six months ended 30 June 2022. The selling and distribution expenses as percentage of revenue for the six months ended 30 June 2022 was 41.2%, increasing by 16.1% compared with 25.1% for the corresponding period in 2021. The decrease of selling and distribution expenses was primarily due to decreased expenditure for brand marketing.

ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
Administrative expenses (<i>HK\$ million</i>)	157.3	124.5
As a percentage of total revenue	112.0%	38.9%

Administrative expenses increased by HK\$32.8 million to HK\$157.3 million for the six months ended 30 June 2022 from HK\$124.5 million for the corresponding period in 2021. The administrative expenses as percentage of revenue for the six months ended 30 June 2022 was 112.0%, increasing by 73.1% compared with 38.9% for the corresponding period in 2021. The increase of administrative expenses and as percentage of revenue was primarily due to the increase in the research and development expenses attributable to the increase in compensation of research and developments personnels.

INCOME TAX EXPENSE

For the six months ended 30 June 2022, the Group's income tax expenses for the period decreased by HK\$23.9 million to HK\$3.5 million from HK\$27.4 million for the corresponding period in 2021, which was primarily due to the absence of land appreciation tax for the six months ended 30 June 2022 as compared with the corresponding period in 2021.

NET LOSS BEFORE TAX

For the six months ended 30 June 2022, the Group recorded a net loss before tax of HK\$300.1 million, compared with the net loss before tax of HK\$210.7 million for the six months ended 30 June 2021.

LIQUIDITY, FINANCIAL RESOURCE AND CAPITAL STRUCTURE

For the six months ended 30 June 2022, operating capital was mainly generated from cash from its daily operation and capital supports. 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 27% as at 30 June 2022 (31 December 2021: 33%).

Cash and cash equivalents of the Group as at 30 June 2022 amounted to HK\$573.1 million, while it was HK\$814.8 million as at 31 December 2021.

As at 30 June 2022, the Group had total debts (i.e. total borrowings) of approximately HK\$227.2 million, which were all denominated in RMB. The Group's borrowings are subject to floating rates of 7% per annum with maturity periods within one year.

As at 30 June 2022, the Company had 13,712,911,955 ordinary shares of par value HK\$0.01 each in issue.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any significant contingent liabilities.

INVENTORY

For the reporting period, the Group's inventory turnover days was 75.4 days (year ended 31 December 2021: 72.3 days).

TRADE RECEIVABLES

The trade receivables turnover days were 61.0 days for the reporting period (year ended 31 December 2021: 43.1 days).

TRADE PAYABLES

The trade payables turnover days were 115.1 days for the reporting period (year ended 31 December 2021: 105.7 days).

PLEDGE OF ASSETS

As at 30 June 2022, time deposits of approximately HK\$64.9 million in which (i) HK\$58.5 million were used as a pledge for issuance of letters of credit (31 December 2021: HK\$61.1 million); and (ii) HK\$6.4 million were used as a security for the banks to provide performance guarantees (31 December 2021: HK\$3.8 million).

As at 30 June 2022, the Group's investment in 20% of the shares of an associate, Nanjing Yulong Weixin Information Scientific Limited, with a carrying value of HK\$100.1 million were pledged as security for a shareholder loan of this associate.

FINANCIAL REVIEW

The Group's unaudited revenue for the six months ended 30 June 2022 amounted to HK\$140.5 million, representing a decline of 56.1% as compared with HK\$320.1 million for the six months ended 30 June 2021. This is primarily attributable to the COVID-19 pandemic in the domestic market, fierce competition in the PRC's mobile phone market and the main products sold in the first half of the 2022 were the models launched in 2021. The Group's overall gross loss for the six months ended 30 June 2022 increased substantially to HK\$60.8 million, representing an increase of 319.3% as compared with a gross loss of HK\$14.5 million for the corresponding period in 2021. Its overall gross loss margin increased to 43.3% in the reporting period as compared with a gross loss margin of 4.5% in the corresponding period of 2021. The increase in gross loss was mainly due to the substantial decline of the Group's revenue compared with the corresponding period of 2021 and the fact that the Group implemented a deeper promotional policy. The Group's selling and distribution expenses as a percentage of total revenue was 41.2%, representing an increase of 16.1 percentage points over the corresponding period in 2021, which was primarily because the decreased expenditure for brand marketing. Administrative expenses as a percentage of revenue was 112.0%, representing an increase of 73.1 percentage points over the corresponding period in 2021, mainly because of the increase in the research and development expenses attributable from the increase in the compensation of research and developments personnels. The Group's loss before tax was HK\$300.1 million in the first half of 2022, and the loss before tax in the corresponding period in 2021 was HK\$210.7 million. The Group's net loss amounted to HK\$303.5 million in the first half of 2022, representing an increase of HK\$65.4 million as compared with the net loss of HK\$238.1 million in the corresponding period in 2021.

BUSINESS REVIEW

Product Strategies

According to the data released by the China Academy of Information and Communication Technology, the shipment volume of mobile phones in the PRC market amounted to 0.136 billion units in the first half of 2022, representing a 21.7% year-on-year decrease. In general, the mobile phone market has performed weakly in recent years, as reflected by sluggish hardware upgrades, the failing Moore's Law, and lengthened phone replacement cycles. With the overall phone shipment volume in the market dropping to a certain extent, some market players tried to maintain business growth by raising product prices, thereby creating room in the thousand-yuan phone market, leaving users' needs unsatisfied. The Group has made this customer base its primary target market. By establishing a clear product positioning and a pricing strategy that offers a strong price-performance ratio, we constantly optimized our phone operating system despite having limited hardware resources. Technologies such as extended RAM, hibernation, and the latest EROFS file system greatly enhanced our smartphone users' experience. We made up the hardware performance limitations of thousand-yuan phones through system optimization, so that users can enjoy better value-for-money.

Products

At present, our major smartphone models consist of three models under the COOL 20 series, namely, the COOL 20 and COOL 20 Pro released in 2021, and the COOL 20s released in the first half of 2022. The COOL 20 model is targeted at the hundred-yuan smartphone market, which is the first in the industry to offer a 90-day product return guarantee and a 2-year warranty as part of our after-sales services. The other model, the COOL 20 Pro, is targeted at the thousand-yuan mid-range 5G phone market and is focused on featuring a higher quality display and speaker. The COOL 20s is targeted at the entry-level thousand-yuan 5G phone market with an excellent price-performance ratio. Particularly, it is equipped with a pair of 1318 symmetrical dual speakers with upgraded specifications, making it the best-sounding phone at this price range. In the first half of 2022, our smartphone shipment in the Mainland China market amounted to 195,600 units, and the internet monthly active users in Mainland China reached 219,000.

Research and Development

As an experienced player in the mobile phone and telecommunications market in the PRC, the Group has devoted intense development efforts in the field of telecommunications. It possesses strong R&D capabilities for both software and hardware, and has applied for over 10,000 patents related to telecommunications and more than hundred patents related to 5G technology. It is also one of the framers of telecommunications industry's standards. In April 2022, the Group ranked seventh among the top 100 Innovation Enterprises in Shenzhen in 2021, a list announced by the Shenzhen Intellectual Property Protection Center of China.

Since 2021, the Group has continued to invest more resources in optimizing our underlying operating system and has achieved certain results. We continued to contribute new features to EROFS, a well-known open-source file system which has been merged into the mainline kernel with Linux and is supported by Android 13. We are currently the reviewer of such project and have received further recognition by the Linux community. The proportion of the Group's contribution to the underlying Linux core code of the Android system has also continued to increase, and it has ranked among the top enterprises in mainland China.

Moreover, the Group has been actively seeking partners to jointly explore the possibilities of applying new technologies on our operating system. In April 2022, the Group entered into a strategic cooperation agreement with Tencent Cloud to establish a joint laboratory to jointly explore, research and develop underlying technologies regarding the next generation of operating systems, and commence in-depth cooperation in the fields of operating system, cloud storage, and cloud computing.

Sales Channels and Digital Management

The Group continued to expand its sales channels in depth and in breadth. We accelerated the creation of a synergistic sales network through three major channels, namely, online channel, authorized sales service stores, and our authorised distributors. The Group's products are sold on most mainstream e-commerce platforms, including JD.com, Tmall, Pinduoduo, Douyin, Kuaishou and Xiaohongshu etc.. Our self-operated e-commerce channel is mainly used to promote the Coolpad brand and enhance brand awareness. In the offline market segment, the Group gradually established the Coolpad Authorised Sales Services Stores after organizing its network in China into regions according to their respective market sizes. These Coolpad Authorised Sales Services Stores are service stores comprehensively used for product sales, after-sales services, marketing and promotion etc. They are assessed and evaluated by the Group based on sales volume, number of monthly active users in region and other indicators. As of 30 June 2022, the Group has established more than 5,700 service stores in different regions across Mainland China. In the first half of 2022, the Group's authorized sales service stores model made its first breakthrough in Hebei province. Furthermore, as the Group continues to develop its distributor channels, it has now expanded its channels to 17 provinces. The Group has commenced mobile brand partnerships with China Mobile in 17 provinces. During the first phase, we focused on deep cultivation in the Hebei province market. We leveraged on the breadth of our channel coverage, which allowed us to establish our authorized Coolpad sales service stores coverage and partnered China Mobile operators rapidly, and increase our market share.

All authorized Coolpad sales service stores established by the Group have adopted a highly digitalised management model with an internet-based digitalised monitoring system, which monitors the sales, inventory, and operation status of all authorized sales service stores in every region in real time. The system also analyses big data collected from different websites and refines our sales channel management by tailor-making marketing strategies, incentive schemes and other forms of support for each station according to their actual business performance. This helps us control costs, improve efficiency, and increase sales volume.

The Group fully embraces digitalisation and actively explored the application of digitalisation on every aspect of its operations. In terms of products, our digitalised system helps us record and analyze data and improve the stability of our operating system. In terms of our business operations, digitalisation provides immense support to our supply chain management and fosters effective communication among various departments.

BUSINESS OUTLOOK

In 2022, the Group will continue to look towards the future and gradually implement its marketing strategy. In terms of products, the Group will steadily promote R&D of new products. It will continue to increase R&D efforts for COOLOS, strengthen the operating system kernel, continue to introduce new features, continue to optimize system functions, strengthen the usability and stability of the operating system, as well as strengthen the application of cloud services on products, and making full use of internet and kernel technology advantages to launch 5G cloud storage expansion and other services, and continue to optimize user experience.

In terms of its sales channels, the Group will speed up the development of its authorized sales service stores, and improve their quality at the same time. The Group also aims to further improve its digital management, utilise its experience gained from existing service stores to quickly expand its market across the country and increase brand awareness among customers. In addition, the Group will continue to develop its distributor channels and establish in-depth collaborative relationships with China Mobile operators to increase its market share.

The Group firmly believes that intelligent digital transformation is an inevitable trend in contemporary corporate development. In 2022, the Group will continue to upgrade its digitalised system, leverage the advantages offered by big data and cloud services, to further increase the application of big data and AI in the Group's operations, management and decision-making, in order to continue to optimize the Group's operating costs, improve operation decision-making efficiency, and achieve comprehensive intelligent digital transformation in its user and product analysis, product sales and operation management, and internet services.

We will continue unswervingly to implement the Group's long-term strategy, strengthen the Group's competitive edge in the PRC market, conduct innovation based on high-frequency scenarios and enhance user experience, in order to provide society with satisfying, and high performing and cost-effective products.

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 2022.

INTEREST RATE RISK

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

EMPLOYEES AND REMUNERATION POLICY

The total staff costs for the six months ended 30 June 2022 amounted to approximately HK\$137.3 million (six months ended 30 June 2021: HK\$126.38 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 2022, the Group had 538 employees (31 December 2021: 546 employees).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

At the annual general meeting of the Company held on 29 June 2021 (the "AGM"), the grant of the Repurchase Mandate (the "**Repurchase Mandate**") was approved by the shareholders to the Directors to exercise the powers of the Company to repurchase Shares up to a maximum of 10% of the number of Shares in issue as at the date of the AGM, which up to a maximum of 1,080,239,922 Shares can be repurchased under the Repurchase Mandate.

During the reporting period, the Company by using its internal financial resources, repurchased 92,108,000 shares in total on the Stock Exchange for an aggregate consideration of approximately HKD18.8 million before expenses. The Board considered that the trading price of the Shares did not reflect their intrinsic value. The Shares repurchase also reflects the confidence of the Board in the prospects of the Company. The repurchased shares were subsequently cancelled on 2 June 2022. Details of Shares purchase are as follows:

Month of purchase in the six months ended 30 June 2022	No. of shares purchased	Purchase consideration per share		Aggregate consideration Paid HKD
		Highest price paid HKD	Lowest price paid HKD	
March	68,132,000	0.222	0.197	14,245,140
April	20,152,000	0.199	0.177	3,861,080
May	3,824,000	0.193	0.191	734,988
Total	<u>92,108,000</u>			<u>18,841,208</u>

Save as disclosed above, neither the Company nor any of its subsidiaries has 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 2022.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers as set out in Appendix 10 to the Listing Rules ("**Model Code**") 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. The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended June 30, 2022. The Audit Committee has also discussed matters with respect to the accounting policies and practices adopted by the Company and internal control with senior management members.

EVENTS AFTER THE REPORTING PERIOD

As at the date of this announcement, 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
Chen Jiajun
Executive Director
Chief Executive Officer
Chairman

Hong Kong, 24 August 2022

As at the date of this announcement, the Board comprises (i) two executive Directors, namely Mr. Chen Jiajun and Mr. Ma Fei; (ii) three non-executive Directors, namely Mr. Liang Rui, Mr. Ng Wai Hung and Mr. Xu Yibo; and (iii) three independent non-executive Directors, namely Mr. Guo Jinghui, Mr. Chiu Sin Nang Kenny and Mr. Ngai Tsz Hin Michael.