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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)

2015 ANNOUNCEMENT OF FINAL RESULTS

The board (the “Board”) of directors (the “Directors”) of Coolpad Group Limited (the “Company”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2015, together with the comparative figures for the year ended 31 December 2014.

| Financial Highlights | Year ended 31 December | | Variance (%) |
|--|------------------------|---------------|-----------------|
| | 2015 | 2014 | |
| | HK\$'000 | HK\$'000 | |
| Revenue | 14,667,866 | 24,900,471 | -41.09 |
| Profit before tax* | 2,311,011 | 606,629 | 280.96 |
| Profit for the year attributable to owners of the Company | 2,324,518 | 512,855 | 353.25 |
| Basic earnings per share | HK53.66 cents | HK11.94 cents | 349.41 |
| Diluted earnings per share | HK52.68 cents | HK11.69 cents | 350.64 |
| Paid interim dividend per ordinary share | – | HK1.0 cent | – |

* The profit before tax included a gain on the loss of control of a subsidiary of the Group.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2015

| | <i>Notes</i> | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|--------------|--------------------------------|-------------------------|
| REVENUE | 4 | 14,667,866 | 24,900,471 |
| Cost of sales | | (13,079,059) | (21,885,012) |
| Gross profit | | 1,588,807 | 3,015,459 |
| Other income and gains | 4 | 472,999 | 431,680 |
| Gain on the loss of control of a subsidiary | 4 | 2,635,391 | – |
| Selling and distribution expenses | | (958,838) | (1,434,843) |
| Administrative expenses | | (970,297) | (1,233,857) |
| Other expenses | | (168,581) | (83,759) |
| Finance costs | 6 | (103,319) | (87,269) |
| Share of profits and losses of: | | | |
| Joint ventures | | (184,491) | (297) |
| Associates | | (660) | (485) |
| PROFIT BEFORE TAX | 5 | 2,311,011 | 606,629 |
| Income tax expense | 7 | (34,505) | (92,551) |
| PROFIT FOR THE YEAR | | <u>2,276,506</u> | <u>514,078</u> |
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | |
| Available-for-sale investments: | | | |
| Changes in fair value | | (377) | (1,889) |
| Exchange differences on translation of foreign operations | | (196,905) | (5,537) |
| Share of other comprehensive loss of a joint venture | | (55,318) | – |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | | (252,600) | (7,426) |
| Other comprehensive income not to be reclassified to profit or loss in subsequent periods: | | | |
| Gain on property revaluation | | 28,999 | 28,368 |
| Income tax effect | | (3,220) | (4,729) |
| Net other comprehensive income not to be reclassified to profit or loss in subsequent periods | | 25,779 | 23,639 |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | <u>(226,821)</u> | <u>16,213</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | <u>2,049,685</u> | <u>530,291</u> |

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

| | <i>Notes</i> | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| Profit or loss attributable to: | | | |
| Owners of the Company | | 2,324,518 | 512,855 |
| Non-controlling interests | | (48,012) | 1,223 |
| | | <u>2,276,506</u> | <u>514,078</u> |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | 2,106,449 | 526,648 |
| Non-controlling interests | | (56,764) | 3,643 |
| | | <u>2,049,685</u> | <u>530,291</u> |
| EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | | | |
| Basic | 9 | <u>HK53.66 cents</u> | <u>HK11.94 cents</u> |
| Diluted | 9 | <u>HK52.68 cents</u> | <u>HK11.69 cents</u> |

Details of the dividend for the years are disclosed in note 8 to this announcement.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

| | <i>Notes</i> | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|--------------|--------------------------------|-------------------------|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 1,001,136 | 906,006 |
| Investment properties | | 110,011 | 113,029 |
| Prepaid land lease payments | | 436,038 | 268,231 |
| Intangible assets | | 102,945 | 113,486 |
| Investments in joint ventures | <i>10</i> | 3,748,371 | 4,891 |
| Investments in associates | | 197,759 | 58,500 |
| Available-for-sale investments | | 36,916 | 56,152 |
| Long-term loan receivables | | 37,046 | – |
| Other non-current assets | | 45,106 | 86,671 |
| Deferred tax assets | | 30,000 | 18,620 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 5,745,328 | 1,625,586 |
| CURRENT ASSETS | | | |
| Inventories | | 1,686,570 | 2,797,660 |
| Trade receivables | <i>11</i> | 1,619,599 | 3,019,063 |
| Bills receivable | <i>12</i> | 129,345 | 553,099 |
| Short-term loans receivable | | 995,513 | 290,768 |
| Prepayments, deposits and other receivables | | 979,157 | 957,108 |
| Due from a director | | 3,282 | – |
| Due from a joint venture | | 195,051 | – |
| Pledged deposits | | 413,488 | 641,659 |
| Cash and cash equivalents | | 2,515,974 | 2,959,143 |
| | | <hr/> | <hr/> |
| Total current assets | | 8,537,979 | 11,218,500 |
| CURRENT LIABILITIES | | | |
| Trade payables | <i>13</i> | 1,916,195 | 2,117,840 |
| Bills payable | <i>14</i> | 1,351,701 | 2,179,404 |
| Other payables and accruals | | 2,081,268 | 2,853,419 |
| Interest-bearing bank and other borrowings | | 1,205,263 | 547,798 |
| Due to an associate | | 706 | 3,830 |
| Due to a joint venture | | 2,359 | – |
| Tax payable | | 84,004 | 77,470 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 6,641,496 | 7,779,761 |
| NET CURRENT ASSETS | | | |
| | | 1,896,483 | 3,438,739 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | |
| | | 7,641,811 | 5,064,325 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| TOTAL ASSETS LESS CURRENT LIABILITIES | <u>7,641,811</u> | <u>5,064,325</u> |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank and other borrowings | 155,519 | 1,615,624 |
| Deferred tax liabilities | 53,255 | 54,839 |
| Other non-current liabilities | <u>16,342</u> | <u>33,946</u> |
| Total non-current liabilities | <u>225,116</u> | <u>1,704,409</u> |
| Net assets | <u>7,416,695</u> | <u>3,359,916</u> |
| EQUITY | | |
| Equity attributable to owners of the Company | | |
| Issued capital | 43,544 | 42,950 |
| Reserves | <u>7,283,171</u> | <u>3,310,371</u> |
| | 7,326,715 | 3,353,321 |
| Non-controlling interests | <u>89,980</u> | <u>6,595</u> |
| Total equity | <u>7,416,695</u> | <u>3,359,916</u> |

NOTES TO FINANCIAL STATEMENTS

31 December 2015

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, certain buildings classified as property, plant and equipment and certain available-for-sale investments which have been measured at fair value. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.1 BASIS OF PREPARATION (continued)

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

| | |
|---|---|
| Amendments to HKAS 19 <i>Annual Improvements</i> <i>2010-2012 Cycle</i> | <i>Defined Benefit Plans: Employee Contributions</i> Amendments to numbers of HKFRSs |
| <i>Annual Improvements</i> <i>2011-2013 Cycle</i> | Amendments to numbers of HKFRSs |

The adoption of the above revised standards has had no significant financial effect on these financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the 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 financial statements.

| | |
|--|---|
| HKFRS 9 | <i>Financial Instruments</i> ³ |
| Amendments to HKFRS 10 and HKAS 28 (2011) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁶ |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | <i>Investment Entities: Applying the Consolidation Exception</i> ¹ |
| Amendments to HKFRS 11 | <i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹ |
| HKFRS 14 | <i>Regulatory Deferral Accounts</i> ⁵ |
| HKFRS 15 | <i>Revenue from Contracts with Customers</i> ³ |
| Amendments to HKAS 1 | <i>Disclosure Initiative</i> ¹ |
| Amendments to HKAS 16 and HKAS 38 | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹ |
| Amendments to HKAS 16 and HKAS 41 | <i>Agriculture: Bearer Plants</i> ¹ |
| Amendments to HKAS 27 (2011) | <i>Equity Method in Separate Financial Statements</i> ¹ |
| <i>Annual Improvements</i> <i>2012-2014 Cycle</i> | Amendments to numbers of HKFRSs ¹ |
| Amendments to HKAS 7 | <i>Statement of Cash Flows</i> ² |
| Amendments to HKAS 12 | <i>Income Taxes</i> ² |
| HKFRS 16 | <i>Leases</i> ⁴ |

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

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

⁴ Effective for annual periods beginning on or after 1 January 2019

⁵ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁶ Effective for annual periods beginning on or after 1 January 2019

The Group has commenced an assessment of the impact of these new and revised HKFRSs, but is not yet in a position to state whether they would have a significant impact on its results of operations and financial positions.

3. OPERATING SEGMENT INFORMATION

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

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

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

Segment assets exclude investments in joint ventures, investments in associates, available-for-sale investments, deferred tax assets, an amount due from a director, an amount due from a joint venture, pledged deposits and cash and cash equivalents other than those used for finance service purpose as these assets are managed on a group basis.

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

3. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2015 | Mobile phone HK\$'000 | Property investment HK\$'000 | Finance service HK\$'000 | Total HK\$'000 |
|---|-----------------------------|------------------------------------|--------------------------------|-------------------|
| Sales to external customers | 14,640,758 | – | 27,108 | 14,667,866 |
| Other revenue and gains | 357,543 | 12,348 | – | 369,891 |
| Total | 14,998,301 | 12,348 | 27,108 | 15,037,757 |
| Segment results | (150,383) | 11,314 | 13,724 | (125,345) |
| <i>Reconciliation:</i> | | | | |
| Interest income | | | | 103,108 |
| Share of loss of a joint venture | | | | (184,491) |
| Share of loss of associates | | | | (660) |
| Gain on the loss of control of a subsidiary | | | | 2,635,391 |
| Corporate and other unallocated expenses | | | | (13,673) |
| Finance costs | | | | (103,319) |
| Profit before tax | | | | 2,311,011 |
| Segment assets | 5,938,514 | 111,685 | 1,092,267 | 7,142,466 |
| <i>Reconciliation:</i> | | | | |
| Investments in joint ventures | | | | 3,748,371 |
| Investments in associates | | | | 197,759 |
| Corporate and other unallocated assets | | | | 3,194,711 |
| Total assets | | | | 14,283,307 |
| Segment liabilities | 5,517,663 | 1,246 | 1,311 | 5,520,220 |
| <i>Reconciliation:</i> | | | | |
| Corporate and other unallocated liabilities | | | | 1,346,392 |
| Total liabilities | | | | 6,866,612 |
| Other segment information: | | | | |
| Write-down of inventories to net realisable value | 198,519 | – | – | 198,519 |
| Fair value gain on investment properties | – | 3,734 | – | 3,734 |
| Product warranty provision | 76,241 | – | – | 76,241 |
| Depreciation and amortisation | 167,077 | – | 7 | 167,084 |
| Capital expenditure* | 480,357 | – | – | 480,357 |

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

3. OPERATING SEGMENT INFORMATION (continued)

| Year ended 31 December 2014 | Mobile phone HK\$'000 | Property investment HK\$'000 | Finance service HK\$'000 | Total HK\$'000 |
|--|-----------------------------|------------------------------------|--------------------------------|-------------------|
| Segment revenue: | | | | |
| Sales to external customers | 24,896,444 | – | 4,027 | 24,900,471 |
| Other revenue and gains | 329,384 | 8,132 | – | 337,516 |
| Total | 25,225,828 | 8,132 | 4,027 | 25,237,987 |
| Segment results | | | | |
| | 536,133 | 7,363 | 4,321 | 547,817 |
| <i>Reconciliation:</i> | | | | |
| Interest income | | | | 94,164 |
| Share of loss of a joint venture | | | | (297) |
| Share of loss of associates | | | | (485) |
| Corporate and other unallocated expenses | | | | 52,699 |
| Finance costs | | | | (87,269) |
| Profit before tax | | | | 606,629 |
| Segment assets | | | | |
| | 8,601,470 | 113,892 | 389,759 | 9,105,121 |
| <i>Reconciliation:</i> | | | | |
| Investment in a joint venture | | | | 4,891 |
| Investments in associates | | | | 58,500 |
| Corporate and other unallocated assets | | | | 3,675,574 |
| Total assets | | | | 12,844,086 |
| Segment liabilities | | | | |
| | 6,273,519 | 1,329 | 5,963 | 6,280,811 |
| <i>Reconciliation:</i> | | | | |
| Corporate and other unallocated liabilities | | | | 3,203,359 |
| Total liabilities | | | | 9,484,170 |
| Other segment information: | | | | |
| Write-down of inventories to net realisable value | 190,611 | – | – | 190,611 |
| Fair value gain on investment properties | – | 1,724 | – | 1,724 |
| Product warranty provision | 130,901 | – | – | 130,901 |
| Depreciation and amortisation | 207,168 | – | 2 | 207,170 |
| Capital expenditure* | 473,505 | – | – | 473,505 |

* Capital expenditure consists of additions to property, plant and equipment, intangible assets and prepaid land lease payments.

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Mainland China | 12,463,504 | 23,341,725 |
| Overseas | 2,204,362 | 1,558,746 |
| | <u>14,667,866</u> | <u>24,900,471</u> |

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

(b) Non-current assets

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|----------------|-------------------------|-------------------------|
| Mainland China | 5,670,190 | 1,542,041 |
| Overseas | 8,222 | 8,773 |
| | <u>5,678,412</u> | <u>1,550,814</u> |

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

Information about major customers

During the year, no revenue from transactions with a single external customer amounted to 10% or more of the Group's total revenue (2014: Three).

4. REVENUE, OTHER INCOME AND GAINS

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

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

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Revenue | | |
| Sale of mobile phones and related accessories | 14,404,768 | 24,547,301 |
| Wireless application service income | 235,990 | 349,143 |
| Finance service income | 27,108 | 4,027 |
| | <u>14,667,866</u> | <u>24,900,471</u> |
| Other income | | |
| Bank interest income | 103,108 | 94,164 |
| Government grants and subsidies* | 279,934 | 297,009 |
| Fair value gain on investment properties | 3,734 | 1,724 |
| Gain on disposal of items of property, plant and equipment | 1,118 | 152 |
| Gross rental income | 8,614 | 6,408 |
| Others | 76,491 | 32,223 |
| | <u>472,999</u> | <u>431,680</u> |
| Gains | | |
| Gain on the loss of control of a subsidiary (<i>note 15</i>) | 2,635,391 | – |
| | <u>3,108,390</u> | <u>431,680</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. PROFIT BEFORE TAX

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

| | <i>Note</i> | 2015 HK\$'000 | 2014 HK\$'000 |
|---|-------------|--------------------------------|------------------|
| Cost of inventories sold | | 12,880,541 | 21,694,401 |
| Depreciation | | 88,015 | 70,829 |
| Amortisation of patents and licences and computer software* | | 6,280 | 38,538 |
| Amortisation of prepaid land lease payments | | 7,658 | 3,594 |
| Research and development costs*: | | | |
| Product development costs amortised | | 65,131 | 94,209 |
| Current year expenditure | | 523,273 | 631,066 |
| | | 588,404 | 725,275 |
| Operating lease rental | | 31,851 | 40,985 |
| Auditors' remuneration | | 4,532 | 3,536 |
| Employee benefit expense (including directors' remuneration): | | | |
| Wages and salaries | | 726,534 | 967,414 |
| Staff welfare expenses | | 56,377 | 72,074 |
| Pension scheme contributions (defined contribution scheme) | | 63,879 | 86,841 |
| Equity-settled share option expense | | 49,591 | 37,254 |
| Equity-settled share award plan expense | | – | 2,017 |
| | | 896,381 | 1,165,600 |
| Loss on disposal of a piece of land [#] | | – | 1,876 |
| Impairment/(reversal of impairment) of trade receivables [#] | <i>11</i> | 12,840 | (4,361) |
| Impairment of an unlisted available-for-sale investments [#] | | 16,169 | – |
| Write-down of inventories to net realisable value ^{&} | | 198,519 | 190,611 |
| Direct operating expenses arising on rental-earning investment properties | | 1,034 | 769 |
| Product warranty provision | | 76,241 | 130,901 |
| Foreign exchange differences, net [#] | | 137,076 | 70,723 |

* Included in "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income

Included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income

& Included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income

6. FINANCE COSTS

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|-----------------------------|--------------------------------|-------------------------|
| Interest on: | | |
| Bank and other borrowings | 102,047 | 84,503 |
| Discounted bills receivable | 1,272 | 2,766 |
| | <u>103,319</u> | <u>87,269</u> |

There were no capitalised interest expenses during the year (2014: Nil).

7. 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 (2014: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year. 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.

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|-------------------------------|--------------------------------|-------------------------|
| Current | | |
| Charge for the year | 43,067 | 94,605 |
| Underprovision in prior years | 6,522 | 4,061 |
| Deferred | <u>(15,084)</u> | <u>(6,115)</u> |
| Total tax charge for the year | <u>34,505</u> | <u>92,551</u> |

7. INCOME TAX EXPENSE (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory tax rate for the country in which the majority of the Company's subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Profit before tax | 2,311,011 | 606,629 |
| Tax at the statutory tax rate | 577,753 | 151,657 |
| Effect of different tax rates for certain group entities | (600,435) | (170,686) |
| Adjustments in respect of current tax of previous periods | 6,522 | 4,061 |
| Results attributable to associates | 99 | 73 |
| Expenses not deductible for tax | 8,634 | 48,902 |
| Additional deduction of research and development expenses | (28,611) | (37,294) |
| Temporary differences not recognised | (78,523) | 84,317 |
| Tax losses not recognised | 149,066 | 11,521 |
| Tax charge at the Group's effective rate | 34,505 | 92,551 |
| The Group's effective income tax rate | 1.5% | 15.3% |

The Group's PRC Subsidiaries are subject to corporate income tax ("CIT") at a rate of 25%. Certain subsidiaries of the Group operating in Mainland China are eligible for certain tax concessions. Major tax concessions applicable to those entities are detailed as follows:

- (a) Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad"), the Company's wholly-owned subsidiary, was reassessed and recognised as a high-technology enterprise in September 2014 and is subject to CIT at a rate of 15% for three years till September 2017. Therefore, Shenzhen Coolpad was subject to CIT at a rate of 15% (2014: 10% as a key software developer) for the year ended 31 December 2015.
- (b) Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen"), the Company's wholly-owned subsidiary, has been recognised as a high-technology enterprise in October 2014 and is subject to CIT at a rate of 15% for three years till October 2016. Therefore, Yulong Shenzhen was subject to CIT at a rate of 15% (2014: 15%) for the year ended 31 December 2015.
- (c) Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an Coolpad"), the Company's wholly-owned subsidiary, was assessed and recognised as a high-technology enterprise in November 2014, and is subject to CIT at a rate of 15% for three years from 2015 till 2017. Therefore, Xi'an Coolpad was subject to CIT at a rate of 15% (2014: 12.5%) for the year ended 31 December 2015.
- (d) Shenzhen Coolpad Technologies Co., Ltd. ("SZ Coolpad Technologies"), the Company's wholly-owned subsidiary, has been recognised as a software enterprise and therefore was exempted from CIT for each of the two years ended 31 December 2013 and 2014 and is entitled to a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2017. In this regard, SZ Coolpad Technologies is subject to CIT at a rate of 12.5% for the year ended 31 December 2015.
- (e) Nanjing Coolpad Software Tech Co., Ltd. ("Nanjing Coolpad"), the Company's wholly-owned subsidiary, was newly established during the year and has been assessed as a software enterprise and therefore is exempted from CIT for the first two years starting from the year when it begins to make profit and will be entitled to a 50% reduction in the applicable tax rate for CIT in the three years that follow. Nanjing Coolpad started its tax concession period from year 2015 as it began to make profit during the year.

8. DIVIDEND

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Interim – nil (2014: HK1 cent) per ordinary share | <u>–</u> | <u>42,914</u> |

The directors did not recommend the payment of final dividend for the years ended 31 December 2015 and 2014.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 4,332,172,259 (2014: 4,294,033,251) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|--------------------------------|-----------------------------|
| Earnings | | |
| Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations | <u>2,324,518</u> | <u>512,855</u> |
| | Number of shares | |
| | 2015 | 2014 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the year | <u>4,332,172,259</u> | 4,294,824,922 |
| Weighted average number of shares held for the Share Award Plan | <u>–</u> | <u>(791,671)</u> |
| Adjusted weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | <u>4,332,172,259</u> | <u>4,294,033,251</u> |
| Effect of dilution – weighted average number of ordinary shares: Share options and awarded shares | <u>80,467,156</u> | <u>93,219,191</u> |
| | <u>4,412,639,415</u> | <u>4,387,252,442</u> |

10. INVESTMENTS IN JOINT VENTURES

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---------------------|-------------------------|-------------------------|
| Share of net assets | 1,320,916 | 4,891 |
| Goodwill | 2,427,455 | – |
| | <u>3,748,371</u> | <u>4,891</u> |

On 16 December 2014, the Group entered into a share subscription agreement (“Share Subscription Agreement”) with Tech Time Development Limited (“Tech Time”), a company incorporated in the British Virgin Islands (the “BVI”) with limited liability and a wholly-owned subsidiary of Oihoo 360 Technology Co., Ltd. (“Qihoo”), to allot certain shares of Coolpad E-commerce Inc. (“Coolpad E-commerce”) to Tech Time at a consideration of US\$409,050,000 (equivalent to HK\$3,170,187,000) (the “First Transaction”). Upon completion of the First Transaction on 23 April 2015, the Group and Tech Time held 55% and 45% equity interests of Coolpad E-commerce therein, respectively. The Group still retained the control of Coolpad E-commerce and accordingly, continued to account for it as a subsidiary. The change in the ownership interest in Coolpad E-commerce was accounted for as an equity transaction.

On 25 May 2015, the Group entered into an equity transfer agreement with Tech Time to transfer 4.5% of its equity interest in Coolpad E-commerce to Tech Time for a consideration of US\$45,000,000 (equivalent to HK\$348,867,000) (the “Second Transaction”). Upon completion of the Second Transaction on 29 May 2015, the Group’s equity interest in Coolpad E-commerce was reduced from 55% to 50.5%. The Group lost the control of Coolpad E-commerce and accounted for it as a joint venture. (note 15).

Particulars of the Group’s material joint venture are as follows:

| Name | Place of registration and business | Fully paid-up capital | Percentage of | | | Principal activities |
|--------------------|------------------------------------|-----------------------|--------------------|--------------|----------------|----------------------|
| | | | Ownership interest | Voting power | Profit sharing | |
| Coolpad E-commerce | Cayman Islands | US\$20 | 50.5% | 50% | 50.5% | Investment holding |

The above investment is directly held by the Company.

Coolpad E-commerce is an investment holding company and its subsidiaries (collectively, the “Coolpad E-commerce Group”) are engaged in the research, development, designing, manufacturing, distribution, marketing and sale of internet and other terminal products that are distributed through internet as the primary channel and the research, development, operation and provision of services for the key components, software and/or applications of the internet terminal products. Coolpad E-commerce Group, which is considered a material joint venture of the Group, acts as a strategic partner of the Group and is accounted for using the equity method.

10. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the summarised financial information in respect of Coolpad E-commerce Group adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

| | 31 December 2015 <i>HK\$'000</i> |
|--|---|
| Cash and cash equivalents | 2,576,539 |
| Other current assets | 720,840 |
| | <hr/> |
| Current assets | 3,284,379 |
| | <hr/> |
| Non-current assets | 42,947 |
| | <hr/> |
| Trade payables | (462,703) |
| Other current liabilities | (168,146) |
| | <hr/> |
| Current liabilities | (630,849) |
| | <hr/> |
| Non-current liabilities | (39,515) |
| | <hr/> |
| Net assets | 2,656,962 |
| | <hr/> <hr/> |
| Reconciliation to the Group's interest in the joint venture: | |
| Proportion of the Group's ownership | 50.5% |
| Group's share of net assets of the joint venture | 1,341,766 |
| Unrealised profits on the transactions with Coolpad E-commerce Group | (25,741) |
| Goodwill | 2,427,455 |
| Carrying amount of the investment | 3,743,480 |
| | <hr/> <hr/> |
| | Period from 29 May 2015 to 31 December 2015 <i>HK\$'000</i> |
| Revenue | 1,633,770 |
| Loss for the year | (365,327) |
| Other comprehensive loss for the year | (109,541) |
| | <hr/> |
| Total comprehensive loss for the year | (474,868) |
| | <hr/> <hr/> |

The following table illustrates the aggregate financial information of the Group's joint venture that is not individually material:

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Share of the joint venture's loss and total comprehensive loss for the year | – | (297) |
| Carrying amount of the Group's investment in the joint venture | 4,891 | 4,891 |
| | <hr/> <hr/> | <hr/> <hr/> |

11. TRADE RECEIVABLES

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|-------------------|-------------------------|-------------------------|
| Trade receivables | 1,638,849 | 3,025,913 |
| Impairment | <u>(19,250)</u> | <u>(6,850)</u> |
| | <u>1,619,599</u> | <u>3,019,063</u> |

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. In the cases of long-standing customers and those with a good repayment history, the Group may offer these customers with a credit period of 30 to 90 days, extending up to 120 days for some overseas customers. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|------------------|-------------------------|-------------------------|
| Within 3 months | 1,373,110 | 2,948,505 |
| 4 to 6 months | 225,445 | 63,764 |
| 7 to 12 months | 32,282 | 3,188 |
| Over 1 year | <u>8,012</u> | <u>10,456</u> |
| | 1,638,849 | 3,025,913 |
| Less: Impairment | <u>(19,250)</u> | <u>(6,850)</u> |
| | <u>1,619,599</u> | <u>3,019,063</u> |

The movements in the provision for impairment of trade receivables are as follows:

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| At 1 January | 6,850 | 12,637 |
| Impairment losses recognised/(reversed) (<i>note 5</i>) | 12,840 | (4,361) |
| Amounts written off as uncollectible | (21) | (1,411) |
| Exchange realignment | <u>(419)</u> | <u>(15)</u> |
| | <u>19,250</u> | <u>6,850</u> |

11. TRADE RECEIVABLES (continued)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK\$19,250,000 (2014: HK\$6,850,000) with a carrying amount before provision of HK\$141,906,000 (2014: HK\$49,107,000).

An aging analysis of the trade receivables that are not considered to be impaired is as follows:

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|-------------------------------|--------------------------------|-------------------------|
| Neither past due nor impaired | 1,332,204 | 2,910,896 |
| Less than 3 months past due | 138,776 | 58,848 |
| More than 3 months past due | 25,963 | 7,062 |
| | <u>1,496,943</u> | <u>2,976,806</u> |

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

12. BILLS RECEIVABLE

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

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|-----------------|--------------------------------|-------------------------|
| Within 3 months | <u>129,345</u> | <u>553,099</u> |

Bills receivable are non-interest-bearing.

At 31 December 2015 and 2014, the Group did not have any past due or impaired bills receivable.

Transferred financial assets that are derecognised in their entirety

At 31 December 2015, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with an aggregate carrying amount of RMB272,628,269 (equivalent to HK\$325,417,495). The Derecognised Bills had a maturity of one to three months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's continuing involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2015, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made throughout the year.

13. TRADE PAYABLES

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

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|-----------------|-------------------------|-------------------------|
| Within 3 months | 1,778,233 | 1,728,540 |
| 4 to 6 months | 22,858 | 317,403 |
| 7 to 12 months | 28,098 | 9,096 |
| Over 1 year | 87,006 | 62,801 |
| | <u>1,916,195</u> | <u>2,117,840</u> |

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

14. BILLS PAYABLE

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

| | 2015 <i>HK\$'000</i> | 2014 <i>HK\$'000</i> |
|-----------------|-------------------------|-------------------------|
| Within 3 months | <u>1,351,701</u> | <u>2,179,404</u> |

At 31 December 2015, the Group's bills payable were secured by time deposits of HK\$321,687,000 (2014: HK\$470,523,000).

15. DISPOSAL OF A SUBSIDIARY

As detailed in note 10 to the financial statements, upon completion of the Second Transaction on 29 May 2015 (the "Disposal Date"), the Group's equity interest in Coolpad E-commerce was reduced from 55% to 50.5%. As a result, the Group lost the control of Coolpad E-commerce and accounted for it as a joint venture.

| | Coolpad E-commerce Group <i>HK\$'000</i> |
|--|--|
| Net assets disposed of: | |
| Prepayments and other receivables | 1,784,737 |
| Inventories | 138,814 |
| Trade receivables | 5,364 |
| Bills receivables | 14,483 |
| Cash and cash equivalents | 1,215,502 |
| Other payables and accruals | (27,070) |
| | <u>3,131,830</u> |
| Proportion of the Group's ownership on the Disposal Date | 55% |
| Proportion of the net assets attributable to the Group on the Disposal Date | 1,722,506 |
| Fair value of the equity interests retained in Coolpad E-commerce on the Disposal Date | (4,009,030) |
| Gain on the loss of control of a subsidiary | <u>2,635,391</u> |
| | <u>348,867</u> |
| Satisfied by: | |
| Cash | <u>348,867</u> |

15. DISPOSAL OF A SUBSIDIARY (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the loss of control of a subsidiary is as follows:

| | <i>HK\$'000</i> |
|--|-------------------------|
| Cash consideration | 348,867 |
| Cash and cash equivalents disposed of | <u>(1,215,502)</u> |
| Net outflow of cash and cash equivalents in respect of the loss of control of a subsidiary | <u><u>(866,635)</u></u> |

16. EVENTS AFTER THE REPORTING PERIOD

- a) On 18 September 2015, the Company entered into a Share Adjustment Framework Agreement (the “Share Adjustment Agreement”) with Tech Time and Coolpad E-commerce, pursuant to which, among others, Coolpad E-commerce agreed to repurchase 6,800 shares (after the proposed share split in Share Adjustment Agreement) of Coolpad E-commerce held by the Company, representing a 25.5% equity interest (the “Disposal Interest”) therein. As a consideration for the repurchase, Coolpad E-commerce would transfer certain intellectual property items to the Group so as to allow the Group to regain a full control of the operation of its internet related business. The Share Adjustment Agreement was subject to the necessary approvals from all parties’ board of directors, shareholders and the relevant regulatory authorities.

On 23 February 2016, the Company announced that the Share Adjustment Agreement was approved by the shareholders. The completion of the Share Adjustment Agreement would expect to take place within 2 months after the shareholders’ approval.

Up to the date of this announcement, certain statutory procedures for the purpose of giving effect of the Share Adjustment Agreement had not yet been completed. Since the transfer of the above intellectual property items would not result in the recognition of a business or an asset, based on the most recent published financial statements of the Group, upon completion of the Share Adjustment Agreement, the Group would expect to record a loss of approximately HK\$1,890 million.

- b) On 17 February 2016, the Group proposed to issue 653,189,580 new ordinary shares (the “Rights Shares”) at the subscription price of HK\$1.10 per Rights Share on the basis of three Rights Shares for every twenty existing shares (the “Rights Issue”). The Rights Issue had been completed on 9 March 2016.
- c) On 9 January 2015, the Company, Coolpad E-commerce and Tech Time entered into a Shareholders’ Agreement to regulate the respective shareholders’ rights of the Company and Tech Time in Coolpad E-commerce. Pursuant to the Shareholders’ Agreement, among others, Tech Time was granted a Non-Competition Call and a Non-Competition Put Option that if the Company conducts business in competition with the business of Coolpad E-commerce, Tech Time shall have the right either to purchase the Company’s shares in Coolpad E-commerce or to sell its share in Coolpad E-commerce to the Company.

On 8 September 2015, the Company received the notices from Tech Time which alleged that the Company had breached its non-competition undertakings under the Shareholders’ Agreement and Tech Time was entitled to exercise its Non-Competition Put Option and sell its share in Coolpad E-commerce to the Company at a price of US\$1,485,000,000. The Company was of view that the said allegations were unfounded.

On 18 September 2015, the Company, Tech Time and Coolpad E-commerce signed a supplementary agreement to the Share Adjustment Agreement that the Company and Tech Time agreed to temporarily shelve disputes as stated above and agreed, among others, that the Non-Competition Put Option provisions in the Shareholders’ Agreement would no longer be effective upon the completion of the Share Adjustment Agreement.

Notwithstanding that the Share Adjustment Agreement had not yet been completed up to the date of this announcement, taking into account the remaining statutory procedures giving effect of the Share Adjustment Agreement, the directors expect that the above disputes would be of no material impact on the Group’s financial statements.

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYSED BY PRODUCT SEGMENTS

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

| Revenue | Year ended 31 December | | | |
|-------------------------------------|--------------------------------|-------------------|--------------------------------|-------------------|
| | 2015 | | 2014 | |
| | Revenue <i>HK\$ Million</i> | % of revenue | Revenue <i>HK\$ Million</i> | % of revenue |
| 4G Coolpad smartphone | 12,790.5 | 87.2 | 12,331.5 | 49.5 |
| 3G Coolpad smartphone | 1,595.9 | 10.9 | 12,179.0 | 48.9 |
| Wireless Application Service income | 236.0 | 1.6 | 349.1 | 1.4 |
| Finance Service | 27.1 | 0.2 | 4.0 | – |
| Others | 18.4 | 0.1 | 36.9 | 0.2 |
| Total | <u>14,667.9</u> | <u>100</u> | <u>24,900.5</u> | <u>100</u> |

The Group recorded consolidated revenue for the year ended 31 December 2015 of HK\$14,667.9 million, representing a decrease of 41.1% as compared with HK\$24,900.5 million for the year ended 31 December 2014. The decrease of the consolidated revenue in 2015 was mainly due to the fact that the process of the business restructuring, fierce competition, and slower growth of the smartphone market in Mainland China during the year under review.

Revenue from the sales of 3G Coolpad smartphone decreased by 86.9% to HK\$1,595.9 million for the year ended 31 December 2015 as compared with HK\$12,179.0 million for year ended 31 December 2014. The decline in revenue of 3G Coolpad smartphone was primarily attributable to the Group stopped releasing new 3G models and changed its product strategic development to 4G smartphone in the year of 2015.

The revenue from the sales of 4G Coolpad smartphone increased by 3.7% to HK\$12,790.5 million for the year ended 31 December 2015 as compared with HK\$12,331.5 million for the year ended 31 December 2014. The percentage of the revenue from 4G smatrphones increased from 49.5% in 2014 to 87.2% in the year of 2015. The increase in revenue of 4G Coolpad smartphone was primarily attributable to more 4G smartphone products launched during the reporting period.

Wireless application service income from mobile phone applications was HK\$236.0 million in 2015, representing a decrease of 32.4% as compared with HK\$349.1 million in 2014, due to the restructuring of the wireless application service in 2015. The revenue from finance service increased by 577.5% to HK\$27.1 million for the year ended 31 December 2015 as compared with HK\$4.0 million for the year ended 31 December 2014. The increase of finance service was attributable to the expansion of the finance service business in 2015 and the finance service business had only operated for a few months in 2014.

Revenue from the sale of other products decreased by HK\$18.5 million, or 50.1%, to HK\$18.4 million for the year ended 31 December 2015 as compared with HK\$36.9 million for the year ended 31 December 2014. The decline in the revenue from the sale of other products during the year was mainly attributable to a decline in the sales of Coolpad smartphones' accessories.

GROSS PROFIT

| Gross profit | Year ended 31 December | | | |
|--------------|-------------------------------------|----------------------------|-------------------------------------|----------------------------|
| | 2015 | | 2014 | |
| | Gross profit <i>HK\$ Million</i> | Gross profit margin (%) | Gross profit <i>HK\$ Million</i> | Gross profit margin (%) |
| Total | <u>1,588.8</u> | <u>10.8</u> | <u>3,015.5</u> | <u>12.1</u> |

The Group's overall gross profit for the year ended 31 December 2015 decreased to HK\$1,588.8 million, representing a decrease of 47.3% as compared with HK\$3,015.5 million for the year ended 31 December 2014. The Group's overall gross profit margin for the year ended 31 December 2015 decreased to 10.8%, representing a decrease of 1.3% as compared with 12.1% for the year ended 31 December 2014. The decline in gross profit margin was primarily attributable to the intensive competition of the 4G smartphone market and the decline of the shipments volume of the Group in the year of 2015.

OTHER INCOME AND GAINS

Other income and gains of the Group amounted to approximately HK\$473.0 million for the year ended 31 December 2015, representing an increase of 9.6% as compared with HK\$431.7 million for the year ended 31 December 2014. This increase was also attributable to the increase of government grant, subsidies received by the Group and the increase of bank interest income in 2015.

GAIN ON THE LOSS OF CONTROL OF A SUBSIDIARY

The gain of HK\$2,635 million was from the loss of control of a subsidiary during the year.

SELLING AND DISTRIBUTION EXPENSES

| | Year ended 31 December | |
|---|------------------------|------------|
| | 2015 | 2014 |
| Selling and distribution expenses (<i>HK\$ million</i>) | 958.8 | 1,434.8 |
| Selling and distribution expenses/Revenue (%) | <u>6.5</u> | <u>5.8</u> |

Selling and distribution expenses of the Group for the year ended 31 December 2015 decreased to HK\$958.8 million, representing a decrease of approximately HK\$476.0 million, or 33.2%, as compared with HK\$1,434.8 million for the year ended 31 December 2014. The net decrease of HK\$476.0 million was primarily attributable to the decreased expenditures for the sales in the telecommunications carriers, including marketing, advertising and promotion activities. As a percentage of total revenue, selling and distribution expenses increased to 6.5% in 2015 from 5.8% in 2014. The net increase of 0.7% as a percentage of total revenue was because of more expenditures on marketing, advertising and promotion activities to improve the brand image in the retail open channel during the year.

ADMINISTRATIVE EXPENSE

| | Year ended 31 December | |
|---|------------------------|------------|
| | 2015 | 2014 |
| Administrative expenses (<i>HK\$ million</i>) | 970.3 | 1,233.9 |
| Administrative expenses/Revenue (%) | <u>6.6</u> | <u>5.0</u> |

Administrative expenses decreased by 21.4% from HK\$1,233.9 million for the year ended 31 December 2014 to HK\$970.3 million for the year ended 31 December 2015. The net decrease of HK\$263.6 million was primarily attributable to the stricter budget control on the administrative expenses in 2015. As a percentage of total revenue, administrative expenses increased to 6.6% in 2015 from 5.0% in 2014. The net increase of 1.6% as a percentage of total revenue was because of the increase of the R&D expenditures on new technologies during the year.

INCOME TAX EXPENSE

For the year ended 31 December 2015, the Group's income tax expense amounted to HK\$34.5 million (2014: HK\$92.6 million). The decrease in the income tax expense was mainly attributable to the decrease of the Group's assessable profit in 2015.

NET PROFIT

For the year ended 31 December 2015, the Group recorded a net profit of HK\$2,276.5 million, representing an increase of HK\$1,762.4 million, or 342.8%, as compared with HK\$514.1 million for the year ended 31 December 2014. The increase in the net profit was mainly because of the gain recognised on the loss of control of a subsidiary.

LIQUIDITY AND FINANCIAL RESOURCE

For the year ended 31 December 2015, 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 36.4% as at 31 December 2015 (2014: 65.4%). The drop in the gearing ratio was mainly attributable to the factors of i) the decrease in long-term bank borrowings; and ii) the growth in the equity attributable to the owners of the Group. 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 31 December 2015 amounted to HK\$2,516.0 million, while it was HK\$2,959.1 million as at 31 December 2014.

CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any significant contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2015, the following assets of the Group were pledged for certain bank borrowings: (i) certain properties and plants of the Group located in Mainland China, the total book value of which were approximately HK\$210.3 million (2014: HK\$222.4 million); as at 31 December 2015, the Group's time deposits of approximately (i) HK\$321.7 million were used to secure bills payable (2014: HK\$470.5 million), (ii) HK\$79.4 million were used as a security for issuance of letters of credit (2014: HK\$103.7 million), and (iii) HK\$12.4 million were used as a security for the banks to provide performance guarantees (2014: HK\$43.7 million).

BUSINESS REVIEW AND OUTLOOK

In the year of 2015, the global economy went through significant adjustment. On one hand, the economic recovery of the developed countries was unstable. USA recorded a comfortable growth, but most of the other countries performed worse than expected. On the other hand, the economic growth of the developing countries slowed down, and some emerging markets even started to contract. Bulk commodity prices had declined substantially in 2015 and the crude oil prices fell to a decade low. Meanwhile, most currencies depreciated in 2015.

Despite the relatively high downturn pressure, the overall economy of China showed a slow but steady improvement in 2015. The growth of consumption and investment continued to slow down and the total import and export declined. The government introduced additional proactive fiscal policies and fine-tuned the prudent monetary policy appropriately while removing various restrictions in order to stimulate innovation in different markets. The smartphone market in Mainland China was also impacted by the economic situation, and the growth rate continued to decline in 2015. The retail open channel of the smartphone sales led the whole market in the past year. The smartphone market became more mature in 2015 and the smartphones needed more innovations and differentiations.

Because of the current economy condition, fierce competition of the smartphone market, and the restructuring of its business, the Group went through a tough year in 2015. For the year ended 31 December 2015, the Group had a turnover of approximately HK\$14,667.9 million, which decreased 41.1% from HK\$24,900.5 million in 2014. The decrease was mostly due to the process of the business restructuring, fierce competition, and slower growth of the smartphone market in Mainland China during the year under review. The net profit of the year 2015 was approximately HK\$2,276.5 million, which increased 342.8% from HK\$514.1 million in the year 2014. The increase in the net profit was mainly because of the gain on disposal of a subsidiary. Gross profit margin for the year 2015 was 10.8%, representing a decrease of 1.3% as compared with 12.1% for the year ended 31 December 2014. The decline in gross profit margin was primarily attributable to the intensive competition of the 4G smartphone market and the decline of the shipments volume of the Group in the year of 2015. Basic and diluted earnings per share of the Company reached HK53.66 cents and HK52.68 cents for the year ended 31 December 2015, respectively.

In 2014, the Group restructured its business units ("BU") to better adapt to the change of the smartphone market. Through the first year of the operation in 2015, the effect of the business restructuring started to bring the Group a much healthier operating environment, and the sales channels of the Group became more diversified and solid. However, the revenue and the shipments volume of the Group recorded a decrease in 2015 compared with the same period of 2014, because of the change of the sales channels in Mainland China, slower growth of the smartphone market, and fierce competition.

Even though the percentage of the smartphone sales of the domestic telecommunications carriers channel continued to decrease in the year of 2015, the Group maintained a solid cooperation relationship with the local carriers and continued to release the flagship customized models. As an important smartphone provider in the telecommunications carriers channel, the Group strongly supported the 4G popularization plan of the carriers. To better present the notion of the brand, the Group renewed the logo of Coolpad with “4C” (Catalyst, Creative, Confident, Caring).

In the year of 2015, the total smartphone market sold through the retail open channel recorded a good result in Mainland China. The smartphone brands who prepared earlier and better in the retail open channel performed quite well in the past year. Even though last year was the start for its brand and business operation, “ivvi” as one brand of the Group, was sold solely in the retail open channel at present and received a satisfactory brand awareness in this sales channel.

“ivvi” set up cooperation with hundreds of provincial tier-1 distributors, covering tens of thousands of retail stores in Mainland China. Meanwhile, the brand of “ivvi” exclusively sponsored a popular TV star show, called “Perhaps Love” which is produced and broadcasted by Hubei Television. The actress Ms. Zhao Liying was also invited to be the celebrity endorsements of “ivvi”. “ivvi” had gained its brand recognition and more and more young users knew its slogan of “Fashion & Young”.

On 16 December 2014, the Group entered into a Share Subscription Agreement with Tech Time to allot 900 shares of Coolpad E-commerce to Tech Time at a consideration of USD409.05 million. The subscription was completed on 23 April 2015. On 25 May 2015, the Group entered into an equity transfer agreement with Tech Time to transfer 4.5% of the equity interest of Coolpad E-commerce to Tech Time at a consideration of USD45 million. Upon completion of the above transactions, Coolpad E-commerce was owned as to 50.5% and 49.5% by the Company and Tech Time respectively. Further details were set out in the announcement and circular of the Company dated 12 February 2015 and 25 May 2015 respectively. The Group lost control of Coolpad E-commerce since 29 May 2015 and Coolpad E-commerce became a joint venture (“JV”) operating the brands of “Dazen” to explore the e-commerce channel.

To further develop the e-commerce channel, the JV released another new brand named “Qiku” to cover the higher prices segment of its products, which differed from “Dazen” brand covering lower prices segment. On 18 September 2015, the Group, Tech Time and Coolpad E-commerce entered into the Share Adjustment Framework Agreement (the “Agreement”). Coolpad E-commerce agreed to repurchase 6,800 shares (after the proposed share split in Share Adjustment Agreement) of Coolpad E-commerce held by the Group, and Coolpad E-commerce as consideration for the repurchase will transfer certain intellectual property items to the Group. Upon completion the above Agreement, the Group and Tech Time will be interested in 25% and 75% of the issued share capital of Coolpad E-commerce respectively.

The overseas market was another important section for the Group in 2015. The Group either cooperated with overseas telecommunications operators to distribute the smartphones, or exported the products directly through e-commerce and retail open channel. In particularly, the Group has successfully sold the new models through the third-party e-commerce platform in India, such as Amazon and Flipkart. As at 31 December 2015, the Group expanded its overseas market into USA, India, Western Europe, and Southeast Asia. Not only the sales channel of the domestic market became diversified, but also the overseas sales channel became more diversified as compared with before. Meanwhile, the Group also invested more resources in improving the brand awareness globally.

The Group released the new flagship models in 2015, and earned good responses from the users. One of the flagship models under the brand of Coolpad, was equipped with a 5.5 inch IPS display covered by 2.5D curved glass, with fingerprint scanner of fingerprint technology 2.0, and with over 90% metal casing. In addition to the smooth industry design and the joyful experience of the hardware, this new model also provided the users with sweet and safe software experience, such as dual Wechat and dual operating system. Based on the idea of the plump pebbles and water drops, “ivvi” released its new flagship model with fashionable and concise design in 2015, using “Baby Skin” back texture to improve the user experience. The JV released “Qiku” flagship model with dual 13MP rear camera module and unibody metal casing, providing the users great image quality and safe usage of the private data.

The Group continued to strengthen its R&D capability to bring users the best smartphone experience. The Group not only kept researching and developing smart terminals of the present 4G technology, but also started working on the next 5G technology and its smart terminals. The Group officially became a member of the IMT 2020(5G) Promotion Group in March 2015, and had already been participating in the projects of the wireless and network technology group of 5G in Mainland China. The Group also deeply differentiated and optimized the functions and features of the Android operating system to bring users better mobile applications.

While the sales channels of the Group became more diversified, the strategy of the marketing also became more proactive and frequent. In the past, the Group focused more on the details of the technology solution because of the particularity of the telecommunications carriers channels. Compared with before, the Group not only emphasized the importance of the R&D, but also spent more energy and resources in improving the brand awareness and enlarge the brand promotion in 2015. The Group held hundreds of offline city-wide salons for users to experience the features of the new flagship models in different places, such as Beijing, Chengdu, Wuhan, and Xisha Island. On one hand, the Group held these offline activities, sponsored the TV shows, and invited the celebrity endorsements to improve the brand awareness. On the other hand, the Group also participated in the online Coolpad fans activities through Weibo, Wechat, and etc.

The Group continued to execute the delicacy management in order to improve general operation efficiency and control the overall cost in 2015. Delicacy management was a necessary and significant process to the Group while the competition of the smartphone market in Mainland China was fierce. In terms of delicacy management, a series of measures were taken by the Group to improve its administrative efficiency and internal operating process during the reporting period. The product quality and the production cost controls were also assured, depending on the delicacy management and the improvements of the infrastructure for the product testing and assembly.

Our Outlook for 2016

The global economy is expected to continue to recover slowly in 2016, but the downturn risk is also increasing. The variations of the economy recovery will cause differentiations of the currencies in the developed countries. The slower growth of the economy, the decreasing price of the bulk commodity, and the outflow of the international capital will bring the emerging markets with uncertainty. The International Monetary Fund has once again pared its forecast for global growth, warning that emerging markets face steeper economic challenges in the year to come.

China's economy is still facing with large downward pressure in 2016. The demand for economic structural adjustment and industrial restructuring and upgrading will become urgent, the market-oriented reforms will accelerate, and the implementation of innovation-driven development strategy will become facilitated. By the supply-side reform, the government hopes to streamline enterprises and promote industrial adjustment through optimization of the internal structure which involves technologies, brands, quality and services. The smartphone market also faces the downward challenge in 2016, for which needs to be consolidated and requires more innovations.

The Group believes that product innovation and R&D investments are critical to its success in this highly competitive smartphone market. The Group will continue to develop and optimize its standard software and hardware development platform through close cooperation with the industry leading suppliers so as to introduce more feature-rich and ease-to-use smartphones. The Group will not only improve the hardware specifications, but also optimize the software to support the best performance of its hardware.

The Group will constantly explore and invest in the leading-edge technologies, such as 5G network, mobile cloud, and mobile security. Meanwhile, considering the fast growth of the mobile internet and the wide adoption of 4G services by mobile carriers, the Group will partner with the internet companies to provide better experience of the mobile applications to its users and seize the business opportunities brought by the mobile internet. As information security for smartphone users are becoming more and more important, the Group will spend more efforts on preventing the users' smartphone and data from mobile security threats and release the next dual systems products with better experience.

The Group will continue to leverage innovation and expertise to satisfy diversified users' needs, to enhance core competitive strengths and to improve the user experience of the products in the rapidly evolving global smartphone industry. In order to bring the users with better products and to improve its brand image, the Group will change its new products mix by releasing more and more mid-to-high-end smartphones and increasing the percentage of the mid-to-high-end products. The Group will also execute the strategy of selling the star-products, and reduce the number of its new products.

Even though the environment of the smartphone market will be volatile, the Group will further consolidate its domestic 4G smartphone market and expand the overseas market aggressively depending on its four BUs. By partnering with the provincial distributors in every province of Mainland China, the Group will expand the sales of its retail open channel and increase the number of the retail stores to sell "ivvi" and Coolpad smartphones. The Group will also enlarge its sales of overseas market depending on its own brands through different sales channels such as overseas telecommunications carriers channel, e-commerce channel and retail open channel. Meanwhile, the Group plans to assemble, process and produce its products directly in the overseas factory to save the cost and assure on time delivery.

The Group will focus more on improving the brand awareness. In order to present its brand notion better, the Group renewed its logo with the 4C meaning. The changed logo will bring the new products the style of fashion and art. The Group will carry out more marketing activities globally to improve its brand awareness through different ways, such as internet marketing, advertisements, and the celebrity endorsements.

Through the transactions described in the circular of the Company dated 31 January 2016, the Group will regain full control of the internet related business which is important to the development of the Company, and enables further discussion on future cooperation opportunities with internet companies in Mainland China and all over the world. The Group will strengthen the operation of the internet related business, and bring users better experience of the mobile internet. Through the internet related business, the Group will keep long-term interaction with the users instead of the one-time sale of the products like before.

Going forward, even though the environment of the smartphone market will be volatile, the Group will endeavor to sell more smartphones in the 4G smartphone market, leveraging on the famous brand reputation, the diverse product portfolio and the restructuring of the sales channels. As opportunities co-exist with challenges, the Group also identifies the risk of the increasing competition, maturation and slower growth of the smartphone market in Mainland China. The coming year is going to be a year of great challenges, for which the Group should work hard to achieve a new high record in 2016, through innovative technologies, hard-working philosophy, quick-responded capabilities to the market demands, and differentiated product positioning.

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the units' functional currencies, where the receivable and payable are denominated in USD and EUR. The Group is exposed to foreign exchange risk with respect mainly to USD and EUR which may affect the Group's performance and value asset. The Group has not entered into any derivative contracts to hedge against the risk in the year 2015.

EMPLOYEES AND REMUNERATION POLICY

During the year ended 31 December 2015, the Group's staff costs (including directors' remuneration) amounted to approximately HK\$837.9 million (2014: HK\$1,165.6 million). The remuneration of the Group's employees was commensurate with their responsibilities and market rates, with discretionary bonus and training given on a merit basis. As of 31 December 2015, the Group had 5,634 employees (2014: 6,208 employees).

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.

As disclosed in the announcements of the Company dated 22 January 2016, 9 March 2016 and the prospectus of the Company dated 17 February 2016, the Company raised funds by way of Rights Issue. Pursuant to the Rights Issue, the Company issued 653,189,580 Rights Shares at the subscription price of HK\$1.10 per Rights Share on the basis of 3 Rights Shares for every 20 shares of the Company held on the record date which was 5 February 2016.

DIVIDEND

Considering that the needs of the ordinary operation after the reconstruction of the Group, the Directors do not recommend the payment of any final dividend for the year ended 31 December 2015.

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 annual results for the year ended 31 December 2015.

FINANCIAL INFORMATION

The financial information set out in this announcement does not constitute the Group’s audited accounts for the year ended 31 December 2015, but represents an extract from those accounts. The financial information has been reviewed by the Audit Committee, approved by the Board and agreed by the Group’s external auditors, Ernst & Young.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Code Provision A.2.1 of the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the 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, considering 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.

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 year ended 31 December 2015, in compliance with the Code.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on 23 June 2016. Notice of the annual general meeting together with the Company’s annual report for the year ended 31 December 2015 will be dispatched to the shareholders in due course.

By order of the Board
Coolpad Group Limited
GUO DEYING
Chairman

Hong Kong, 23 March 2016

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