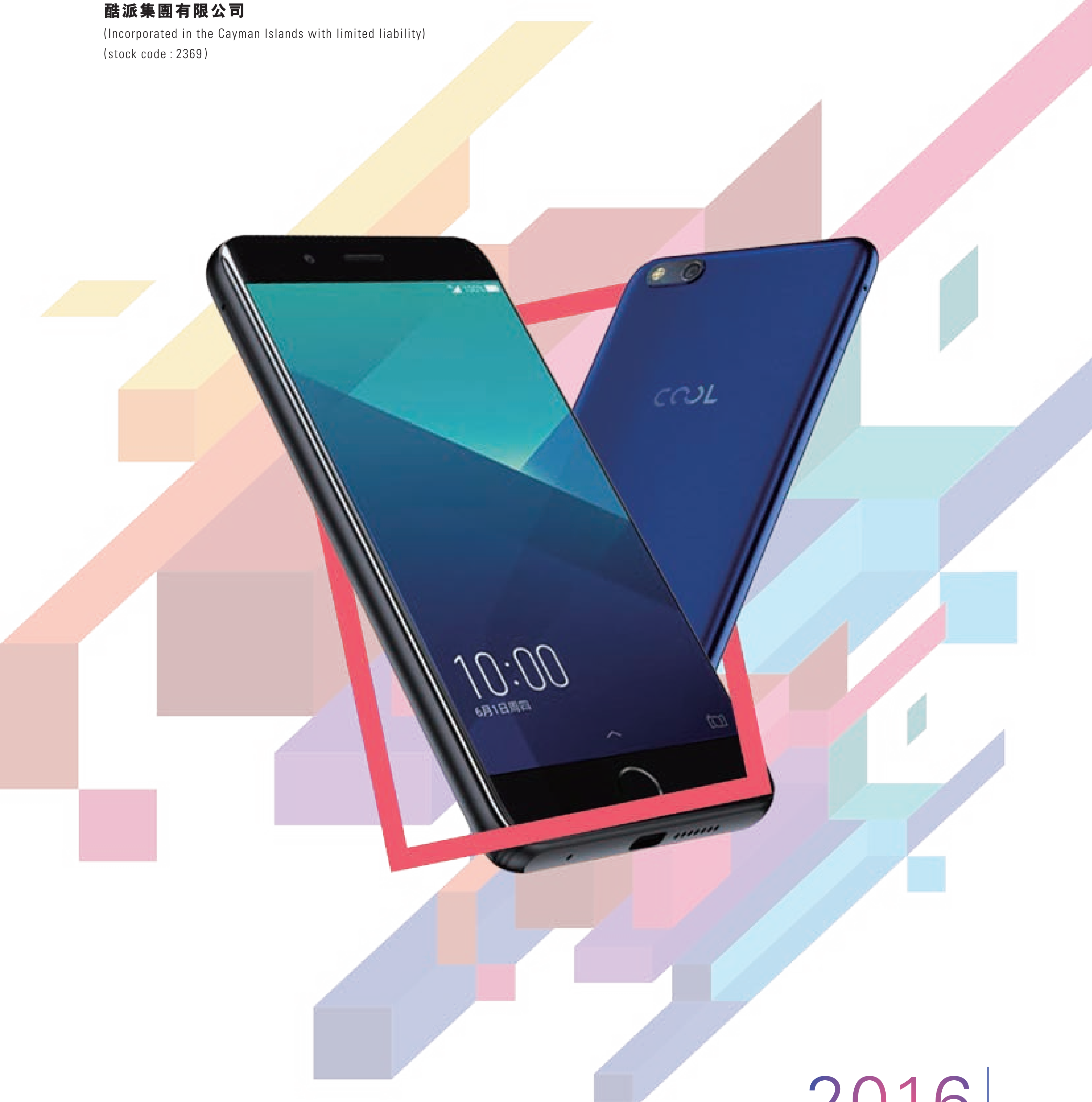
COOLPAD GROUP LIMITED

酷派集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(stock code : 2369)



2016 ANNUAL REPORT

CORPORATE PROFILE

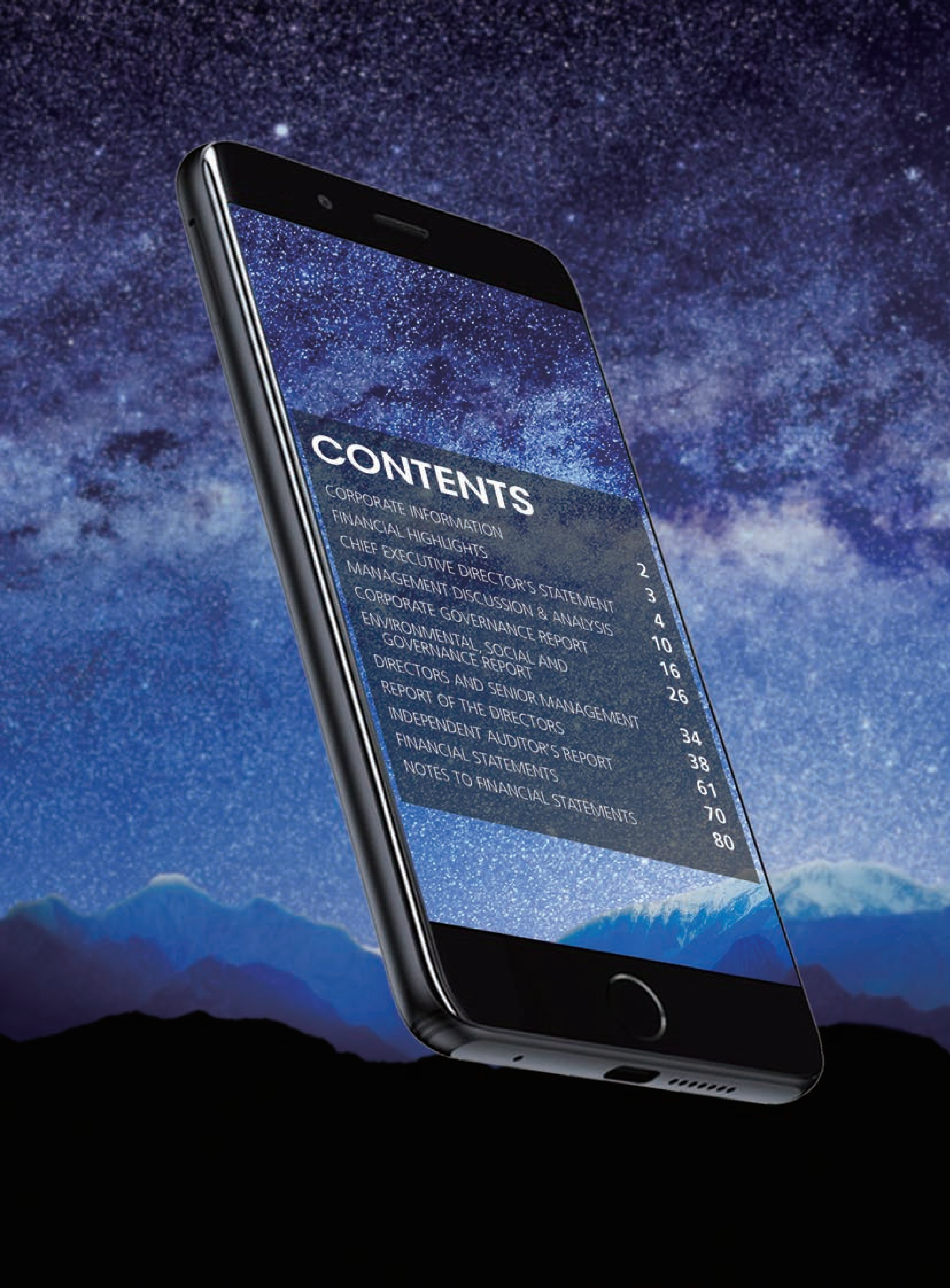
Coolpad Group Limited (the "Company"), formerly known as China Wireless Technologies Limited, was incorporated in the Cayman Islands as an exempted company with limited liability on 11 June 2002. The shares of the Company (the "Shares") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 December 2004 (Stock Code: 2369).

Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen") is an indirect wholly owned subsidiary of the Company. It was founded by Mr. GUO Deying (the Company's former chairman, former executive director and former chief executive officer) in April 1993. Yulong Shenzhen is a leading developer and provider of integrated solutions for Coolpad 酷派 smartphone sets, mobile data platform system, and value-added business operations in the People's Republic of China (the "PRC" or the "Mainland China"). Yulong Shenzhen mainly provides its Coolpad products for enterprises, government and mobile operators as well as individual consumers in the PRC.

In the last decade, capitalizing on the development of wireless telecommunications technological know-how in wireless telecommunications across multiple wireless telecommunications network standards including TD-LTE, FDD-LTE, TD-SCDMA, CDMA-EVDO, WCDMA, GSM, and CDMA1X networks, the Company and its subsidiaries (collectively, the "Group") have developed a large number of proprietary technologies and patents in mobile operating systems, radio frequency, protocols and wireless data decomposed transmission technology, etc. The Group has developed advanced research and development capabilities in mobile communications and gradually becomes a leader of 4G and 3G smartphone in the Mainland China's telecommunications market. The Group never stops enhancing its R&D ability and is striving to be an important participant and a leader in the latest field of 5G and Artificial Intelligence.

In spite of being a leading smartphone developer in Mainland China's telecommunications market, the Group has succeeded in breaking into the global telecommunications market in respect of Coolpad brand with the overseas telecommunications operators. The Group has established strong and close strategic cooperation relationships with certain global telecommunication operators and is striving to further develop its business in the global telecommunication markets.

The Group is committed to providing every individual with the privilege to enjoy the extravagant experience of using integrated terminal of wireless data solutions. To achieve this goal, the Group is striving to realize its dream by providing customized products and services based on its differentiated mobile operating systems and applications.



CONTENTS

CORPORATE INFORMATION

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Coolpad Information Harbor
NO.2 Mengxi Road
Hi-Tech Industry Park (Northern)
Nanshan District
Shenzhen

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1902, China Evergrande Centre
38 Gloucester Road
Wanchai, Hong Kong

COMPANY SECRETARY

Mr. JIANG Chao, ACCA *(Resigned on 19 January 2018)*
Mr. LEUNG Siu Kee *(Appointed on 19 January 2018)*

AUDIT COMMITTEE & REMUNERATION COMMITTEE

Mr. CHAN King Chung *(Chairperson)*
Dr. HUANG Dazhan
Mr. XIE Weixin

NOMINATION COMMITTEE

Mr. GUO Deying *(Chairperson resigned on 5 August 2016)*
Mr. JIA Yueting *(Chairperson appointed on 5 August 2016, resigned on 17 November 2017)*
Mr. CHAN King Chung *(Chairperson appointed on 17 November 2017)*
Mr. JIANG Chao *(Appointed on 17 November 2017)*
Mr. XIE Weixin

AUTHORISED REPRESENTATIVES

Mr. JIANG Chao
Mr. LI Bin *(Resigned on 1 March 2017)*
Mr. LIU Hong *(Appointed on 1 March 2017)*
Mr. LIU Hong *(Resigned on 8 February 2018)*
Mr. LEUNG Siu Kee *(Appointed on 8 February 2018)*

CONTACT INFORMATION FOR INVESTOR RELATIONS

Tel: +86 755 3302 3607
Email: ir@yulong.com

AUDITOR

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Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

LEGAL ADVISERS TO THE COMPANY AS TO HONG KONG LAW

DLA Piper Hong Kong
17th Floor
Edinburgh Tower
The Landmark
15 Queen's Road
Central
Hong Kong

LEGAL ADVISERS TO THE COMPANY AS TO CAYMAN ISLANDS LAW

Conyers Dill & Pearman
2901 One Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
Royal Bank House, 24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-16
17th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Bank of Communications Co., Ltd.
DBS Bank (Hong Kong) Ltd.
Bank of China Limited
Hong Kong and Shanghai Banking (Hong Kong) Co., Ltd.

COMPANY WEBSITE

www.coolpad.com.hk

STOCK CODE

2369

FINANCIAL HIGHLIGHTS

The financial data below are extracted from the Group's audited financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

RESULTS

	Year ended 31 December (HK$'000)				
	2016	2015	2014	2013	2012
Revenue	**7,969,477**	14,667,866	24,900,471	19,623,652	14,390,166
(Loss)/profit before tax*	**(4,356,068)**	2,311,011	606,629	437,373	418,160
Income tax expense	**(45,352)**	(34,505)	(92,551)	(89,121)	(93,857)
(Loss)/profit for the year	**(4,401,420)**	2,276,506	514,078	348,252	324,303

FINANCIAL POSITION

	As at 31 December (HK$'000)				
	2016	2015	2014	2013	2012
Non-current assets	**2,741,032**	5,745,328	1,625,586	1,251,002	1,244,373
Current assets	**7,113,372**	8,537,979	11,218,500	8,810,732	6,859,028
Non-current liabilities	**67,213**	225,116	1,704,409	57,904	98,645
Current liabilities	**6,248,881**	6,641,496	7,779,761	7,242,936	5,591,769
Net assets	**3,538,310**	7,416,695	3,359,916	2,760,894	2,412,987

* *The loss before tax for 2016 included a loss on disposal of an investment in a joint venture amounting to HK$1,837,114,000 and the impairment of investments in associates amounting to HK$793,445,000, respectively. The profit before tax for 2015 included a gain on the loss of control of a subsidiary amounting to HK$2,635,391,000.*

CHIEF EXECUTIVE DIRECTOR'S STATEMENT

Dear fellow shareholders:

I am deeply honored to report the consolidated results for the year ended 31 December 2016 to the Shareholders of the Group. China's smartphone market went through a fierce competition and significant adjustment stage in the year of 2016. Under such fierce competition smartphone market, the Group didn't achieve a satisfactory result and received a decline in sales volume and revenue.

Jiang Chao
Vice Chairman, Executive Director and CEO

The Group saw a large decline in both shipment and revenue in the past year of 2016, due to the fierce competition of the smartphone market and the restructuring of its business, strategies and organization structure. For the year ended 31 December 2016, the Group had a turnover of approximately HK$7,969.5 million, which decreased 45.7% from HK$14,667.9 million in 2015. The decrease was mainly due to the fact that the process of the business restructuring, the intensive competition of the smartphone business in China and the decrease in market share and sales volume for the current year. The net loss of the year 2016 was approximately HK$4,401.4 million, which decreased by 293.3% from the net profit of HK$2,276.5 million in the year 2015. Gross profit margin for the year 2016 was 4.4%, representing a decrease of 6.4% as compared with 10.8% for the year ended 31 December 2015. The decline in gross profit margin was primarily attributable to the intensive competition of the 4G smartphone market and the Group strengthened the stock management and accelerated the disposal of slow-moving inventories in the year of 2016. Both of the basic and diluted loss per share of the Company was HK89.82 cents for the year ended 31 December 2016.

CHIEF EXECUTIVE DIRECTOR'S STATEMENT

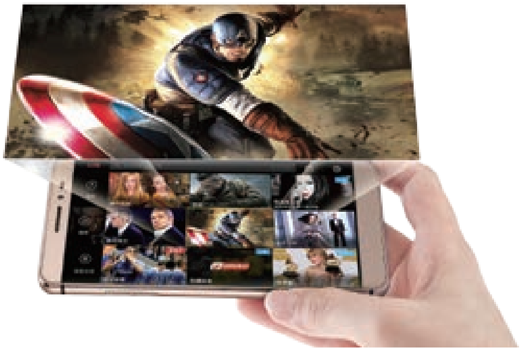
The Group mainly ran its business by three divided sales channels (carrier channel, retail open channel and online channel) in the Mainland China in order to better adapt to the variations and competitions of the smartphone market. Carrier channel would be a fundamental one to keep a certain market share while retail open and online channels would be vigorous ones to acquire more market share. Even though these sales channels undertook different function and weight, they all contributed to the Group to build a more diversified and solid sales networks.

The Group still kept a solid cooperation relationship with local carriers and their sales and distribution channels, even though the percentage of the smartphones sales of carriers channel witnessed a decrease in the year of 2016. As an important smartphone provider in the domestic telecommunications carrier channel, the Group continued to release low-end customized models, such as "FengShang" series, to support the 4G popularization plan of the carriers.

The Group continued to pay attention to APP distribution business on its own APP store platform and run software pre-installation and ad business with other Internet company in the year of 2016, even though revenue contribution from these business is small so far. Meanwhile, the Group had successfully run its own e-commerce business by building its own official B2C online store to retail smartphones directly to consumers online. And the Group landed official flagship store into JD and Tmall platform respectively, which is the largest two e-commerce platforms in domestic market.

On 5 August 2016, Leview Mobile HK Limited ("Leview Mobile") became the single largest shareholder of the Group, announcing that the day of deep and comprehensive cooperation with LeEco arrived. For the year of 2016, the Group tried to turn itself into an Internet hardware ecosystem company operating both hardware and software at the same time.

The Group reconstructed its organization structure into a flatter one in order to improve general operation efficiency and to further adapt to the transition to an Internet hardware company in the year of 2016. On 16 August 2016, the Group launched a new brand "Cool" series, which was the first step to refresh Coolpad brand image into a younger one. All models under the "Cool" brand owned 3-12 months of membership for LeEco depending on different performance. With its optimization for sound effect and mobile gaming, coupled with enormous LeEco's Internet resources and splendid hardware design, "Cool" brand had managed to gain satisfactory brand awareness in younger consumers for the Group.



CHIEF EXECUTIVE DIRECTOR'S STATEMENT

Meanwhile, to adapt to the variations of smartphone market, the Group also spent more energy and resources in improving the brand awareness and enlarge the brand promotion in 2016. The Group not only held each launch event for new models, but also invested in plane advertisement platform, such as bus stop, airport, railway station, and etc. Moreover, the Group leveraged Internet platform and media resource to maximize the marketing effect to the consumers.

Overseas market was another important business unit for the Group and was receiving much more attention from management in the year of 2016. Under the notion that different expansion strategies coordinate different local characteristic, the Group had achieved a doubling sustainable increasing result in the past year and continued to expand its businesses aggressively in USA, India, South East Asia and Europe. The sales channel of overseas became more diversified as compared with before because of different channel layouts. The Group either cooperated with overseas telecommunications carriers to sell smartphones or sell products through e-commerce platform like Amazon. Meanwhile, the Group set the cooperation with retailers abroad to build a healthy distributing and retailing networks in the retail open channel. The Group also invested more resources in improving the brand awareness globally.

To change the inferior position and survive in such intensive competition of smartphone market, the Group has made an elaborate business mending plan. First and foremost, the Group will focus more on overseas market and follow our advantage to make a further growth. Compared to the declining tendency in domestic market, overseas market had recorded a very good result for the Group, achieving a doubling year over year (YOY) growth. Based on the stable existing market, the Group will continue to improve its global layout through expanding its business into new countries and districts like Latin America and the Middle East. The Group will deepen the cooperation with telecommunication carriers in America and broaden the channels in India and South East Asia, as these districts are the major and most promising market for the Group. The Group will always carry out the notion that different expansion strategies coordinate different local characteristic in overseas market.

The Group believes that product innovation and R&D investments are essential to achieve success in nowadays 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 continue to be an important participant in the field of 5G. With the new fully optimized R&D team, the Group believes that it can provide more star-products to all kinds of consumers.

The Group will streamline the product line to provide more delicate smartphones in different price range

CHIEF EXECUTIVE DIRECTOR'S STATEMENT

in order to meet multiple consumers demand. Under such fierce competition smartphone market, the Group will continue to keep close relationship with carriers' channel and released appropriate low-end models that comply with the carriers' requirement, so as to keep a basic source of income and market share. Leveraging innovation and expertise, the Group will turn to provide those products with characteristic function as well as handy, cool, and delicate to satisfy diversified users' needs.

Moreover, as the Group treasures more on quality rather than quantity, it will keep a slimmed inventory to maintain a healthy operation. The Group will maintain a basic business operation in domestic market and limit its loss by a more delicacy and efficiency management. The Group will continue to focus on delicacy management to improve general operation efficiency and control the overall costs. The product quality and the production cost controls will also be assured, depending on the delicacy management and the improvements of the infrastructure for the product testing and assembly.

Going forward, even though the competitive environment of the smartphone market will be more and more intense, the Group will endeavour to strengthen its carriers' channel and R&D Capability, to expand the overseas market more aggressively, to attain a more delicacy and efficiency management. The coming year is going to be a year of great challenges and opportunities, for which all the staff should stay together and work hard to achieve a satisfactory result, through innovative technologies, delicacy management, hard-working philosophy, quick-responded capabilities to the market demands and differentiated product positioning.

APPRECIATIONS

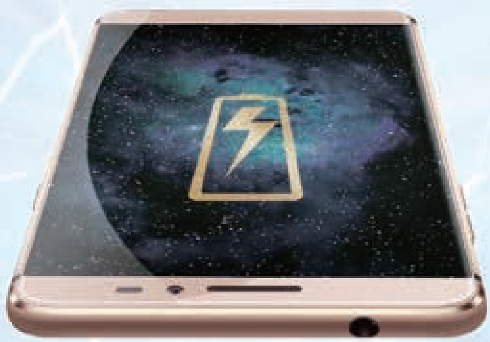
I would like to express my sincere gratitude to the Group management and staff with their consistent efforts and tireless spirit of excellence. I would also like to take this opportunity to express my gratitude to all the shareholders, business partners, customers and suppliers of the Group for their long-term trust and support.

Jiang Chao
Vice Chairman, Executive Director & Chief Executive Officer

Hong Kong, 3 April 2018

TODAY'S INNOVATION SUCCESS IN THE FUTURE

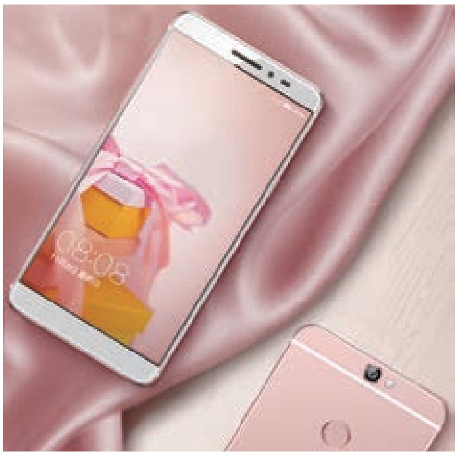
創新今天 成就未來

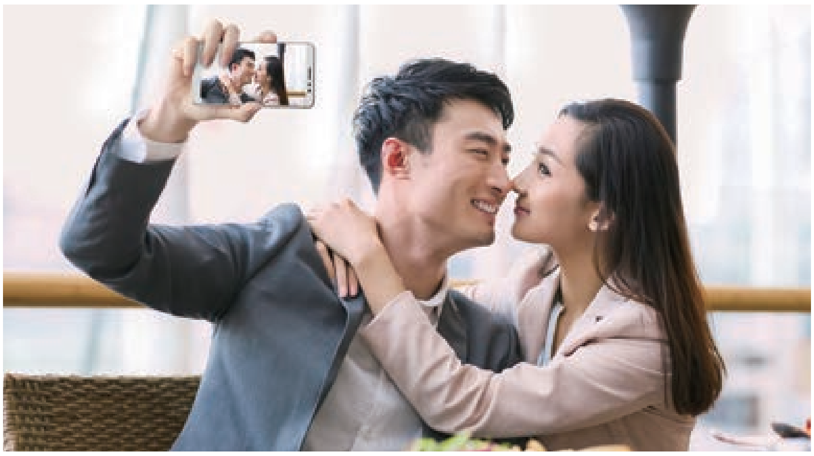


TOTAL REVENUE HK$7,969.5 MILLION

The financial data below are extracted from the Group's financial statements prepared under HKFRSs. The following discussion and analysis should be read in conjunction with the Group's audited financial statements.

	Year ended 31 December HK$ million		
	2016	2015	Variance (%)
Revenue			
4G Coolpad Smartphone	**7,346.1**	12,790.5	-42.6
3G Coolpad Smartphone	**315.7**	1,595.9	-80.2
Wireless application service income	**202.3**	236.0	-14.3
Finance service income	**105.4**	27.1	288.9
Others	–	18.4	–
Total revenue	**7,969.5**	14,667.9	-45.7
Cost of sales	**(7,615.0)**	(13,079.1)	-41.8
Gross profit	**354.5**	1,588.8	-77.7
Other income and gains	**449.9**	473.0	-4.9
Gain on the loss of control of subsidiaries	**154.1**	2,635.4	-94.2
Loss on disposal of an investment in a joint venture	**(1,837.1)**	–	–
Impairment of investments in associates	**(793.4)**	–	–
Selling and distribution expenses	**(1,010.0)**	(958.8)	5.3
Administrative expenses	**(955.0)**	(970.3)	-1.6
Other expenses	**(324.2)**	(168.6)	92.3
Finance costs	**(84.0)**	(103.3)	-18.7
Share of losses of:			
Joint ventures	**(139.0)**	(184.5)	-24.7
Associates	**(171.9)**	(0.7)	24457.1
(Loss)/profit before tax	**(4,356.1)**	2,311.0	-288.5
Income tax expense	**(45.3)**	(34.5)	31.3
(Loss)/profit for the year	**(4,401.4)**	2,276.5	-293.3





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:

	Year ended 31 December			
	2016		2015	
	Revenue HK$ Million	**% of revenue**	Revenue HK$ Million	% of revenue
Revenue				
4G Coolpad smartphone	**7,346.1**	**92.2**	12,790.5	87.2
3G Coolpad smartphone	**315.7**	**4.0**	1,595.9	10.9
Wireless Application Service income	**202.3**	**2.5**	236.0	1.6
Finance Service	**105.4**	**1.3**	27.1	0.2
Others	**–**	**–**	18.4	0.1
Total	**7,969.5**	**100**	14,667.9	100

The Group recorded consolidated revenue for the year ended 31 December 2016 of HK$7,969.5 million, representing a decrease of 45.7% as compared with HK$14,667.9 million for the year ended 31 December 2015. The decrease of the consolidated revenue in 2016 was mainly due to the fact that the process of the business restructuring, the intensive competition of the smartphone business in China and the decrease in market share and sales volume for the current year.

The revenue from the sales of 4G Coolpad smartphone dropped by HK$5,444.4 million or 42.6% from HK$12,790.5 million in 2015 to HK$7,346.1 million in 2016, due primarily to the decrease in the sales volumes of smartphones in the current year. Sales volume of smartphones decreased by approximately 25.6% and the average price of the smartphones decreased by 28.5% compared with the year of 2015.

Revenue from the sales of 3G Coolpad smartphone decreased by 80.2% to HK$315.7 million for the year ended 31 December 2016 as compared with HK$1,595.9 million for year ended 31 December 2015. The decline in revenue of 3G Coolpad smartphone was primarily attributable to the fact that the Group stopped releasing new 3G models and concentrated its product strategic development in 4G smartphone from the year of 2015.

Wireless application service income from mobile phone applications was HK$202.3 million in 2016, representing a decrease of 14.3% as compared with HK$236.0 million in 2015, due to the decrease in the sales volume of the Group's smartphones for the year of 2016. The revenue from finance service increased by 288.9% to HK$105.4 million for the year ended 31 December 2016 as compared with HK$27.1 million for the year ended 31 December 2015. The increase of financing service income was attributable to the continuing expansion of the finance service business in 2016.

MANAGEMENT DISCUSSION & ANALYSIS

GROSS PROFIT

Gross profit	Year ended 31 December			
	2016		2015	
	Gross profit HK$ Million	**Gross profit margin (%)**	Gross profit HK$ Million	Gross profit margin (%)
Total	**354.5**	**4.4**	1,588.8	10.8

The Group's overall gross profit for the year ended 31 December 2016 decreased to HK$354.5 million, representing a decrease of 77.7% as compared with HK$1,588.8 million for the year ended 31 December 2015. The Group's overall gross profit margin for the year ended 31 December 2016 decreased to 4.4%, representing a decrease of 6.4% as compared with 10.8% for the year ended 31 December 2015. The decline in gross profit margin was primarily attributable to the intensive competition of the 4G smartphone market and the Group strengthened the stock management and accelerated the disposal of slow-moving inventories in the year of 2016.

OTHER INCOME AND GAINS

Other income and gains of the Group amounted to approximately HK$449.9 million for the year ended 31 December 2016, representing a decrease of 4.9% as compared with HK$473.0 million for the year ended 31 December 2015. This decrease was attributable to the decrease of government grant and subsidies received by the Group and the decrease of bank interest income in 2016.

GAIN ON THE LOSS OF CONTROL OF A SUBSIDIARY

The gain of HK$154.1 million during the year was from the loss of control of a subsidiary Shenzhen Coolpad Mobile Tech Co., Ltd., for brand "ivvi", while, the gain of HK$2,635.4 million for the year ended 31 December 2015 was from the loss of control of a subsidiary Coolpad E-commerce Inc.

SELLING AND DISTRIBUTION EXPENSES

	Year ended 31 December	
	2016	2015
Selling and distribution expenses (HK$ million)	**1,010.0**	958.8
Selling and distribution expenses/Revenue (%)	**12.7**	6.5

Selling and distribution expenses of the Group for the year ended 31 December 2016 increased to HK$1,010.0 million, representing an increase of approximately HK$51.2 million, or 5.3%, as compared with HK$958.8 million for the year ended 31 December 2015. Amount saw an increase in the current year by 5.3% when compared to 2015 though sales decreased by 45.7%. This was primarily attributable to the investments for kinds of channels set up, promotion and expansion, expenditures for the brand awareness building in overseas market, and other promotion activities. As a percentage of total revenue, selling and distribution expenses increased to 12.7% in 2016 from 6.5% in 2015. The net increase of 6.2% as a percentage of total revenue was because of the decline of sales volume and more expenditure on marketing, advertising and promotion activities to improve the brand image in the retail open channel and overseas market during the year.

MANAGEMENT DISCUSSION & ANALYSIS

ADMINISTRATIVE EXPENSE

	Year ended 31 December	
	2016	2015
Administrative expenses (HK$ million)	**955.0**	970.3
Administrative expenses/Revenue (%)	**12.0**	6.6

Administrative expenses decreased by 1.6% from HK$970.3 million for the year ended 31 December 2015 to HK$955.0 million for the year ended 31 December 2016. As a percentage of total revenue, administrative expenses increased to 12.0% in 2016 from 6.6% in 2015. The net increase of 5.4% as a percentage of total revenue was because of the decrease of overall revenue and the increase of the accelerated amortization of R&D costs for outdated smartphone during the year.

INCOME TAX EXPENSE

For the year ended 31 December 2016, the Group's income tax expense amounted to HK$45.3 million (2015: HK$34.5 million). The increase in the income tax expense was mainly attributable to the reversal of the deferred assets in 2016.

NET (LOSS)/PROFIT

For the year ended 31 December 2016, the Group recorded a net loss of HK$4,401.4 million, representing a decline of HK$6,677.9 million, or 293.3%, as compared with the net profit of HK$2,276.5 million for the year ended 31 December 2015. The decline in the net profit was mainly because of a loss on disposal of an investment in a joint venture amounting to HK$1,837.1 million and the impairment for investments in associates amounting to HK$793.4 million, respectively. The profit before tax for 2015 included a gain on the loss of control of a subsidiary amounting to HK$2,635.4 million. Besides, the decrease of the sales and decrease of the gross profit margin of the products also led to the decrease of the net profit.

LIQUIDITY AND FINANCIAL RESOURCE

For the year ended 31 December 2016, 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 58% as at 31 December 2016 (2015: 36%). 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 2016 amounted to HK$1,308.1 million, while it was HK$2,516.0 million as at 31 December 2015.

MANAGEMENT DISCUSSION & ANALYSIS

CONTINGENT LIABILITIES

(a) Litigation with the customers

A subsidiary of the Group is currently a plaintiff in a lawsuit with two customers in United States of America, who refused to settle trade receivables of approximately USD25,000,000 (equivalent to HK$199,405,000).

(b) Litigations with the suppliers

The Group received several civil complaints in 2017 and 2018 from the suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB228 million (equivalent to HK$282 million). The arbitration procedures of the civil complaints are still in progress as at the date of approval of the consolidated financial statements.

PLEDGE OF ASSETS

As at 31 December 2016, the following assets of the Group were pledged for certain bank borrowings: (i) certain properties and plants of the Group located in Mainland China, the total book value of which were approximately HK$200.8 million (2015: HK$210.9 million); as at 31 December 2016, the Group's time deposits of approximately (i) HK$296.8 million were used to secure bills payable (2015: HK$321.7 million), (ii) HK$41.9 million were used as a security for issuance of letters of credit (2015: HK$79.4 million), and (iii) HK$23.0 million were used as a security for the banks to provide performance guarantees (2015: HK$12.4 million).

BUSINESS REVIEW

Looking back to 2016, China's smartphone market went through a fierce competition and significant adjustment stage. Thanks to the great increasing shipments in the retail open channel, China's smartphone market recorded an 8.7% YOY growth in 2016 which means a significant highlight comparing to 2.3% YOY worldwide growth. Under such tendency, the retail open channel of the smartphone sales continued to lead the whole market in the past year. The smartphone market needed more competitive feature differentiated products than ever before and market segment began to play a very important role in the meantime.

The Group saw a large decline in both shipments and revenue in the past year of 2016, due to the fierce competition of the smartphone market and the restructuring of its businesses, strategies and organization structure. For the year ended 31 December 2016, the Group had a turnover of approximately HK$7,969.5 million, which decreased by 45.7% from HK$14,667.9 million in 2015. The decrease was mainly due to the fact that the process of the business restructuring, the intensive competition of the smartphone business in China and the decrease in market share and sales volume for the current year. The net loss of the year 2016 was approximately HK$4,401.4 million, which decreased 293.3% from the net profit of HK$2,276.5 million in the year 2015. Gross profit margin for the year 2016 was 4.4%, representing a decrease of 6.4% as compared with 10.8% for the year ended 31 December 2015. The decline in gross profit margin was primarily attributable to the intensive competition of the 4G smartphone market and the Group strengthened the stock management and accelerated the disposal of slow-moving inventories in the year of 2016. Both of the basic and diluted loss per share of the Company was HK89.82 cents for the year ended 31 December 2016.

MANAGEMENT DISCUSSION & ANALYSIS

Under the new operating strategy, the Group mainly ran its business by three divided sales channels (carrier channel, retail open channel and online channel) in the Mainland China in order to better adapt to the variations and competitions of the smartphone market. Carrier channel would be a fundamental one to keep a certain market share while retail open and online channels would be vigorous ones to acquire main market share. Even though these sales channels undertook different function and weight, they all contributed to the Group to build a more diversified and solid sales networks.

The Group still kept a solid cooperation relationship with local carriers and their sales and distribution channels, even though the percentage of the smartphones sales of carriers channel continued to decrease in the year of 2016. As an important smartphone provider in the domestic telecommunications carrier channel, the Group continued to release low-end customized models, such as "FengShang" series, to support the 4G popularization plan of the carriers.

On 22 April 2016, the Group completed the Share Adjustment Framework Agreement (the "Agreement") with Tech Time Development Limited ("Tech Time"). After the completion, the equity interest held by the Group in Coolpad E-commerce Inc. ("Coolpad E-commerce") decreased from 50.5% to 25%, and Coolpad E-commerce has no longer been a joint venture of the Group. Since then, The Group regained full control of the Internet Related Business to enable future cooperation opportunities with internet company in Mainland China and worldwide.

The Group continued to pay attention to APP distribution business on our own APP store platform and run software pre-installation and ad business with other Internet company in the year of 2016, even though revenue contribution from these business are small so far. Meanwhile, the Group had successfully run its own e-commerce business by building its own official B2C online store to retail smartphones directly to consumers online. And the Group landed official flagship store into JD and Tmall platform respectively, which is the largest two e-commerce platforms in domestic market.

On 5 August 2016, Leview Mobile HK Limited ("Leview Mobile") became the single largest shareholder of the Group, announcing the day of deep and comprehensive cooperation with LeEco arrived. For the year of 2016, the Group tried to turn itself into an Internet hardware ecosystem company operating both hardware and software at the same time.

The Group reconstructed its organization structure into a flatter one in order to improve general operation efficiency and to further adapt to the transition to an Internet hardware company in the year of 2016. On 16 August 2016, the Group launched a new brand "Cool" series, which was the first step to refresh Coolpad brand image into a younger one. All models under the "Cool" brand owned 3-12 months of membership for LeEco depending on different performance. With its optimization for sound effect and mobile gaming, coupled with enormous LeEco's Internet resources and splendid hardware design, "Cool" brand had managed to gain satisfactory brand awareness in younger consumers for the Group.

MANAGEMENT DISCUSSION & ANALYSIS

The Group also reconstructed its product structure to gain market share in the retail open channel in the year of 2016, under the circumstances that the total smartphone market sold through the retail open channel continued to record a good result in Mainland China in the past year. The Group released more mid-to-high-end models in the past year but not received a satisfactory result.

In order to further concentrate on adjusting its product structure, the Group entered into an Equity Transfer Arrangement with Shenzhen SuperD Technology Co., Ltd. ("SuperD") on 2 December 2016. Upon completion of the Equity Transfer on 12 December 2016, Shenzhen Coolpad Mobile Tech Co., Ltd. ("Coolpad Mobile") was held as to 20% by the Group and 80% by SuperD, and ceased to be a subsidiary of the Group. Before the equity transaction, Coolpad Mobile was wholly owned by the Group, operating and managing "ivvi", a brand of trendy mobile phone of the Group. Accordingly, the new "Cool" brand had taken the responsibility to acquire market share in the open retail channel.

Overseas market was another important business unit for the Group and was receiving much more attention from management in the year of 2016. Under the notion that different expansion strategies coordinate different local characteristic, the Group had achieved a doubling sustainable increasing result in the past year and continued to expand its business aggressively in USA, India, South East Asia and Europe. The sales channel of overseas became more diversified as compared with before because of different channel layout. The Group either cooperated with overseas telecommunications carriers to sell smartphones or sell products through e-commerce platform like Amazon. Meanwhile, the Group set the cooperation with retailers abroad to build a healthy distributing and retailing networks in the retail open channel. The Group also invested more resources in improving the brand awareness globally.

A strong R&D team is another footstone for a tech company besides sales channel and an intelligent management team. The Group had built a high-ranking design team and 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 deeply differentiated and optimized the functions and features of the Android operating system to bring users better mobile applications.

Meanwhile, to adapt to the variations of smartphone market, the Group also spent more energy and resources in improving the brand awareness and enlarge the brand promotion in 2016. The Group not only held each launch event for new models, but also invested in plane advertisement platform, such as bus stop, airport, railway station, etc. The Group leveraged Internet platform and media resource to maximize the marketing effect to the consumers.

CORPORATE GOVERNANCE REPORT

APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES

The board (the "Board") of directors (the "Directors") of the Company is committed to enhancing the Group's corporate governance standards by improving corporate transparency through effective channels of information disclosure.

The Board believes that good corporate governance is beneficial for maintaining close and trustful relationships with its employees, business partners, shareholders and investors.

The Company has applied the principles of the Code Provisions under the Corporate Governance Code (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2016, save for the deviation discussed below. The following sections set out the principles in the Code as they have been applied by the Company, including any deviations therefrom, for the year under review.

The Company was not able to timely comply with the financial reporting provisions under the Listing Rules in (i) announcing the annual results for the financial year ended 31 December 2016; and (ii) publishing the annual report for the year ended 31 December 2016. Such delay has constituted non-compliance with Rules 13.46(2)(a) and 13.49 of the Listing Rules.

The Company failed to hold its annual general meeting for the year ended 31 December 2016 within the times stipulated under the Listing Rules and the articles of association of the Company (the "Articles"). An annual general meeting will be convened on 18 May 2018 in which the Board will cause the audited consolidated financial statements of the Group for the year ended 31 December 2016 to be laid before the Shareholders for their consideration. Circular and the notice for the annual general meeting will be dispatched as soon as reasonably practicable.

BOARD OF DIRECTORS

It is the duty of the Board to create value to the shareholders of the Company, establish the Company's strategic direction, set the Company's objectives and plan in accordance therewith, and provide leadership and ensure availability of resources in the attainment of such objectives. The Board endeavors to manage the Company in a responsible and effective manner, and strive to ensure that each of the Directors carries out his duty in good faith and in compliance with the memorandum and articles of association of the Company (the "Articles of Association"), the applicable laws and regulations, and acts in the best interests of the Company and its shareholders at all times.

The Board and management of the Company ("Management") have clearly defined responsibilities under various internal control and checks-and-balance mechanism. The Board has delegated certain responsibilities to the Management, including implementation of decisions of the Board and organization and direction of the day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board; preparation and monitoring of annual business plans and operating budget; and control, supervision and monitoring of capital, technical and human resources. The Board will review these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

CORPORATE GOVERNANCE REPORT

BOARD COMPOSITION

The Board currently comprises nine Directors, four of whom are executive Directors, two are non-executive Directors and three are independent non-executive Directors ("INEDs"). The composition of the Board is set out as follows:

EXECUTIVE DIRECTORS

Mr. JIANG Chao *(Vice Chairman of the Board and CEO)*
Mr. LI Wang (resigned on 18 January 2016)
Mr. GUO Deying (resigned on 05 August 2016)
Mr. LI Bin (resigned on 01 March 2017)
Mr. JIA Yueting (resigned on 17 November 2017)
Mr. Liu Jiangfeng (appointed on 16 August 2016, resigned on 17 November 2017)
Mr. Abulikemu Abulimiti (appointed on 16 August 2016, resigned on 17 November 2017)
Mr. Leung Siu Kee (appointed on 19 January 2018)
Mr. Lam Ting Fung Freeman (appointed on 19 January 2018)
Mr. Liang Rui (appointed on 19 January 2018)

NON-EXECUTIVE DIRECTORS

Mr. Ng Wai Hung (appointed on 19 January 2018)
Mr. Liu Hong (re-designated from executive Director on 19 January 2018, resigned on 3 April 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Chung
Dr. HUANG Dazhan
Mr. XIE Weixin

The biography of the Directors are set out in the "Directors and Senior Management" on pages 34 to 37 of this Annual Report.

To the best knowledge of the Company, none of the Directors has any relationship (including financial, business, family or other material or relevant relationship) with any other Director or chief executive.

The Company has arranged for appropriate liability insurance to indemnify the Directors for their liabilities arising out of corporate affairs. The insurance coverage is reviewed annually.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

As at the end of the year of 2016, roles of the chairman and chief executive officer were separate and exercised by different individuals. Mr. LIU Jiangfeng was appointed as chief executive officer on 16 August 2016. Mr. JIA Yueting was appointed as chairman of the Board on 05 August 2016. Mr. GUO Deying acted as chairmen of the Board and chief executive officer during the period 1 January 2016 to 05 August 2016. The Board considered that this structure will not impair the balance of power and authority between the Board and the Management, and in view of the scale of operations of the Group, the Board believed that this structure enables the Group to make and implement decision promptly and efficiently.

NON-EXECUTIVE DIRECTORS

The non-executive directors provide various expertise and experiences and maintain balance of interest to safeguard the interests of the Group and the Shareholders. They participate in Board meetings and committee meetings and make independent judgements on issues related to the Group's strategies, performance, interest conflicts and management process so as to ensure the interests of all Shareholders are properly considered. Currently, all non-executive directors are appointed for a period of three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The INEDs have the same duties of care, skill and fiduciary duties as the executive Directors. They are expressly identified as such in all corporate communications that disclose the names of the Directors. The INEDs have expertise in respective areas of accounting, business management and possess in-depth industry knowledge. With their professional knowledge and experience, the INEDs have advised the Company on its operation and management; participated in the meetings of the audit committee of the Company (the "Audit Committee"), the meetings of the remuneration committee of the Company (the "Remuneration Committee") and the meetings of the nomination committee of the Company (the "Nomination Committee"). The INEDs have contributed to provide checks and balance to protect the interests of the Company and its shareholders as a whole, and to promote the development of the Company.

The Company has received an annual confirmation of independence from each of the INEDs pursuant to Rule 3.13 of the Listing Rules and on this basis, considers that all INEDs are independent as at the date of this Annual Report.

Under Code Provision A.4.1 of the Code, non-executive Directors should be appointed for specific terms, subject to re-election. Currently, all INEDs are appointed for a period of one year subject to renewal and retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association.

CORPORATE GOVERNANCE REPORT

BOARD OPERATION

During the year ended 31 December 2016, the Board held four meetings. Besides the Annual General Meeting ("AGM") held on 23 June 2016 and the Extraordinary General Meeting ("EGM") held on 27 September 2016, no other general meeting was held during the year ended 31 December 2016.

Attendance of individual Directors at the Board meetings in 2016 is as follows:

Name of Directors	Board Meetings	AGM	EGM
Executive Directors			
Mr. GUO Deying (resigned on 05 August 2016)	2/2	0/1	N
Mr. JIANG Chao	4/4	1/1	1/1
Mr. LI Wang (resigned on 18 January 2016)	N	N	N
Mr. LI Bin (resigned on 01 March 2017)	4/4	0/1	0/1
Mr. JIA Yueting (resigned on 17 November 2017)	4/4	0/0	0/0
Mr. Liu Jiangfeng (appointed on 16 August 2016, resigned on 17 November 2017)	2/2	N	0/1
Mr. Abulikemu Abulimiti (appointed on 16 August 2016, resigned on 17 November 2017)	2/2	N	0/1
Mr. Leung Siu Kee (appointed on 19 January 2018)	N	N	N
Mr. Lam Ting Fung Freeman (appointed on 19 January 2018)	N	N	N
Mr. Liang Rui (appointed on 19 January 2018)	N	N	N
Non-executive Directors			
Mr. Ng Wai Hung (appointed on 19 January 2018)	N	N	N
Mr. LIU Hong (re-designated from executive Director on 19 January 2018, resigned on 03 April 2018)	4/4	0/0	0/0
Independent Non-executive Directors			
Mr. CHAN King Chung	4/4	1/1	0/1
Dr. HUANG Dazhan	4/4	0/1	0/1
Mr. XIE Weixin	4/4	0/1	0/1

Code Provision E.1.2 of the Code specifies that the chairman of the board should attend the annual general meeting. Mr. GUO Deying, the chairman of the Board, was absent from the annual general meeting held on 23 June 2016 due to his prior business engagement. Mr. JIANG Chao, an executive Director and the elected chairman of that meeting, was available to answer questions in that meeting.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board also assumes the corporate governance functions and is responsible for: developing and reviewing the Company's policies on corporate governance; reviewing and monitoring training and continuous professional development of Directors and senior management; reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the Company's code of conduct; and reviewing the Company's compliance with the Code and disclosure in this Corporate Governance Report. Besides, the Company has set up three committees including the Nomination Committee, the Remuneration Committee and the Audit Committee. Each committee has its specific terms of reference with reference to the Code.

REMUNERATION COMMITTEE

The written terms of reference of the Remuneration Committee are in compliance with the Code. The primary duties of the Remuneration Committee include (without limitation):

(a) to make recommendations to the Board on policies and structure for remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration; and

(b) to determine the remuneration packages for executive Directors and senior management and to make recommendations to the Board on the remuneration of non-executive Directors.

The Remuneration Committee is made up of all of the INEDs, namely, Mr. CHAN King Chung (Chairman), Dr. HUANG Dazhan, and Mr. XIE Weixin.

The Remuneration Committee had two meetings in 2016 which were attended by all the members of the Remuneration Committee, to review the remuneration packages of Directors and senior management of the Group and share option scheme. The attendance record of each member of the Remuneration Committee is set out below:

Name	**Number of meetings attended**
Mr. CHAN King Chung *(Chairman)*	2/2
Dr. HUANG Dazhan	2/2
Mr. XIE Weixin	2/2

No Director took part in any discussion about his or her own remuneration.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management by band for the year 2016 is set out below:

Remuneration bands (HK$)	**Number of persons**
1 to 1,000,000	5
1,000,001 to 2,000,000	2
2,000,001 to 3,000,000	3
3,000,001 to 4,000,000	2
4,000,001 to 5,000,000	–
Total	12

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The major responsibility of the Audit Committee is to conduct independent and objective audit of the truth and accuracy of the Group's economic operation and financial activities, financial policies, financial procedures, risk management, internal control, external audit, internal audit, financial information reporting and financial data and assist the Board in discharging its relevant duties.

The Audit Committee, comprising all of the INEDs, namely, Mr. CHAN King Chung (Chairman), Dr. HUANG Dazhan and Mr. XIE Weixin, has reviewed the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters.

In 2016, the Audit Committee held three meetings. The attendance record of each member of the Audit Committee is set out below:

Name	Number of meetings attended
Mr. CHAN King Chung *(Chairman)*	3/3
Dr. HUANG Dazhan	3/3
Mr. XIE Weixin	3/3

The Audit Committee has carefully reviewed and discussed the Company's half-yearly and annual results for the year under review and system of internal control and has made recommendations for improvement. The Audit Committee has carried out and discharged its duties set out in Code.

NOMINATION COMMITTEE

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for nomination and appointment of Directors and senior management, making recommendations to the Board on the appointment and succession planning of Directors and senior management, and assessment of the independence of the independent non-executive Directors.

The Nomination Committee comprises one executive Director and two independent non-executive Directors, namely Mr. GUO Deying (the Chairman of the Committee, resigned on 05 August 2016), Mr. Jia Yueting (the Chairman of the Committee, appointed on 05 August 2016 and resigned on 17 November 2017) Mr. CHAN King Chung and Mr. XIE Weixin as members.

The Nomination Committee carries out the process of selecting and recommending candidates for directorship and senior management by making reference to the skills, experience, professional knowledge, personal integrity and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary. The Nomination Committee held two meeting during the year ended 31 December 2016. The attendance record of the Nomination Committee meeting is set out below:

Name	Number of meetings attended
Mr. GUO Deying (*Chairman,resigned on 05 August 2016*)	N
Mr. JIA Yueting (*Chairman, appointed on 05 August 2016 and resigned on* 17 November 2017)	2/2
Mr. XIE Weixin	2/2
Mr. CHAN King Chung	2/2

The Nomination Committee recommended the re-appointment of the Directors standing for re-election at the next forthcoming annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

PROVISION OF INFORMATION TO DIRECTORS

To assist the Directors in the discharge of their respective duties, the Company will provide every Director with a comprehensive induction program on the first occasion of his appointment, in which the Director will be provided with information on the Company's organisation and business, including the membership, duties and responsibilities of the Board, the various Board committees and the Management; corporate governance practices and procedures; and the latest financial information of the Company. Such information shall be supplemented with visits to the Company's key plant sites and meetings with key members of the Management.

Throughout their tenure, the Directors will be provided with updates on the business of the Company, latest developments of the Listing Rules and other applicable legal and regulatory requirements, corporate social responsibility matters and other changes affecting the Company from time to time.

CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company has arranged in-house trainings for Directors in the form of seminar and provision of training materials. A summary of training received by Directors during the year ended 31 December 2016 according to the records provided by the Directors is as follows:

Name of directors	Training on corporate governance, Directors' responsibilities and other relevant topics
Executive Directors	
Mr. GUO Deying (resigned on 05 August 2016)	√
Mr. JIANG Chao	√
Mr. JIA Yueting (resigned on 17 November 2017)	√
Mr. LI Bin (resigned on 01 March 2017)	√
Mr. LIU Jiangfeng (appointed on 16 August 2016, resigned on 17 November 2017)	√
Mr. Abulikemu Abulimiti (appointed on 16 August 2016, resigned on 17 November 2017)	√
Mr. LIU Hong (re-designated from executive Director to Non-executive Director on 19 January 2018, resigned on 03 April 2018)	√
Independent Non-executive Directors	
Mr. CHAN King Chung	√
Dr. HUANG Dazhan	√
Mr. XIE Weixin	√

CORPORATE GOVERNANCE REPORT

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct for securities transactions and dealings (the "Code of Conduct") based on the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). The terms of the Code of Conduct are no less exacting than the standards in the Model Code, and the Code of Conduct applies to all relevant persons as defined in the Model Code, including all the Directors, all other employees of the Company, and director and employees of a subsidiary or holding company of the Company who, because of such office or employment, are likely to be in possession of unpublished price sensitive information in relation to the Company or its securities. Specific enquiry has been made of all the Directors who have confirmed in writing their compliance with the required standards set out in the Model Code and the Code of Conduct during the year under review.

CORPORATE ACCOUNTABILITY AND INTERNAL CONTROL

The Board is responsible for the Group's internal control system and has the responsibility for reviewing its effectiveness. The Directors are responsible for the preparation of the financial statements of the Group. In the preparation of financial statements, the Hong Kong financial reporting standards have been adopted and the appropriate accounting policies have been consistently used and applied. The Board aims to present a clear and balanced assessment of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner. Pursuant to code provision C.1.1 of the CG Code, management would provide sufficient explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The Board is responsible for the internal control of the Group and for reviewing its effectiveness. Procedures have been designed for safeguarding assets against unauthorised use or disposition, the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publications and the compliance of applicable laws, rules and regulations.

The Directors conducted a review of the overall effectiveness of the internal control system of the Group for the year ended 31 December 2016. An internal audit department has been established to perform regular reviews and conduct audit of the Company and its subsidiaries and reported to the Board on any material issues and make recommendations to the Board. The work carried out by the internal audit department will ensure the internal controls are in place and functioning properly as intended.

The Board has taken further steps to review its internal control and established an independent board committee to look into and investigate the outstanding audit issues. The independent board committee is doing its best to identify and engage an independent legal advisers and internal control expert to conduct an overall review on the internal control of the Group.

Baker Tilly Hong Kong Risk Assurance Limited, an external professional adviser, was engaged by the Company in March 2018 to conduct an independent internal control review and to assist the management to improve the internal control systems of the Group.

The Board also reviews, at least annually, the adequacy of resources, staff qualifications and experience of the Group's accounting and financial reporting function, internal audit function, risk management functions, and their training programmes and budget.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR FINANCIAL REPORTING IN RESPECT OF FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016. The Directors' responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016 are set out in the Report of the Directors on page 57 of the Annual Report.

BOARD DIVERSITY POLICY

The Board has adopted a "Board Diversity Policy" in relation to the nomination and appointment of new Directors, which sets out: the selection of board candidates shall be based on a range of diversity perspectives with reference to the Company's business model and specific needs, including but not limited to gender, age, race, language, cultural background, educational background, industry experience and professional experience.

The above measurements were also reviewed and adopted when the Nomination Committee reviewed the composition of the Board. After assessing the suitability of the directors' skills and experience to the Company's business, the Nomination Committee confirmed that the existing Board was appropriately structured and no change was required.

COMPANY SECRETARY

All Directors have access to the advice and services of the Company Secretary. The Company Secretary reports to the Board, and is responsible for ensuring that Board procedures are followed and for facilitating information flows and communications among Directors as well as with Shareholders and the management, Mr. JIANG Chao was appointed as the Company Secretary of the Company in 2016 and he have complied with the training requirement of the Listing Rules during the year.

EXTERNAL AUDITORS

The Group has not changed external auditors in the past three years. Ernst & Young has been appointed as the External Auditors of the Group for the year under review. An amount of approximately HK$5.8 million was charged by Ernst & Young for its audit services provided to the Group in 2016 (2015: HK$3.8 million). The responsibilities of the external auditors with respect to financial reporting are set out in the section headed "Independent Auditor's Report" on page 69 of this report.

During the year, HK$0.7 million (2015: HK$1.3 million) was incurred as remuneration to Ernst & Young for the provision of non-audit services to the Group which represented tax advisory services.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The Company recognizes the importance of good communications with all shareholders and investors. The Company's annual general meeting is a valuable forum for the Board to communicate directly with the shareholders. The Company provides information relating to the Company and its business in its annual and interim reports and also disseminates such information electronically through its website www.coolpad.com.hk and the website of the Stock Exchange. All shareholders of the Company are given a minimum of 21 days' notice of the date and venue of such annual general meeting. The Company supports the Code's principle to encourage shareholders' participation.

Pursuant to the Article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition, and such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

The Group values feedback from the Shareholders on its effort to promote transparency and foster investor relationships. Comments and suggestions are always welcomed. Specific enquiries and suggestions by shareholders can be sent in writing to the Board or the Company Secretary at the Company's registered address or by e-mail to the Company's email address at ir@yulong.com.

CONSTITUTIONAL DOCUMENTS

During the year under review, the Company has not made any changes to its Memorandum and Articles of Association. An updated version of the Company's Memorandum and Articles of Association is available on the websites of the Company and the Stock Exchange.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

We are pleased to present this Environmental, Social and Governance ("ESG") Report, which provides an overview of the ESG performance of Coolpad Group Limited (the "Company" or "Coolpad") together with its subsidiaries (collectively, the "Group") for the year ended 31 December 2016.

This report is prepared in accordance with the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange of Hong Kong Limited in 2015.

OUR PHILOSOPHY IN ESG

The Group has strong belief in the need of prioritising environmental and social responsibilities. Besides fulfilling our business objectives, we are committed to operating in an accountable and sustainable way by integrating ESG considerations in our day-to-day operations. The Group has always regarded corporate social responsibility as an essential part of the Group's activities, and attached great importance to the benefits and relationships that its corporate social responsibility actions generate among its customers, employees, local communities, shareholders, business partners and supervisory authorities. We are fully aware that strengthening social responsibility is not only crucial for Coolpad's future development, but is also a compelling obligation as a part of Coolpad's participation in civil society.

For the past years, we have been concerning ourselves with environmental protection and committed ourselves to achieving an ecological balance as part of our efforts towards creating a green enterprise. We have also been maintaining integrity in our operations in providing safe, quality products to customers, which has earned us social credibility and made us a company to be relied on. We have been attaching great importance to the talent of our employees, and aimed at creating an environment that offers a win-win development outcome for both employees and the enterprise. Our concern for employees' working conditions and career development has driven us to create a welcoming, harmonious and mutually beneficial corporate culture for employees, in which we share with them the success brought by the company's growth and thus integrate individual, corporate and social values. We have also been expanding our involvement in public welfare activities, actively participating in a range of social undertakings such as education and social welfare activities, serving the community with sincerity and bringing new hope to those in need. Coolpad has been striving to establish itself as a responsible and reliable company that customers, employees, shareholders and society can trust, and one that is committed to sustainable development.

In 2016, as usual, the Group enhanced its social corporate responsibility activities and further integrated the concept of social corporate responsibility into its daily operations. We strived to maintain and enhance the Group's leading position in the development of wireless telecommunications technological, high quality products and services to its customers, while also delivering mutual benefits for customers, employees and the society.

ENVIRONMENT

The environment is the foundation for corporate presence and development. As people gain more awareness and better understanding on the environment, they increasingly treat it as a resource. As the wealth of nature and the material basis for the development of production, the environment is one of the elements of productivity. After the industrial revolution, machines replaced manpower, and large-scale factory production replaced manual operations in individual workshops. However, people only focused on economic development while ignoring the environmental protection. Seeking economic development at the expense of the environment has cost human beings a lot.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

With the improvement of people's awareness of environmental protection, more national and industry laws and regulations were introduced to regulate and deal with environmental problems in various countries. For many years, the Group has made environmental protection one of its top corporate governance priorities. The Group implements a series of mechanisms and measures relating to environmental management and energy conservation in its daily operations aimed at protecting the environment and conserving energy, with a view to promoting harmonious balance and sustainable development in terms of economic, social and ecological benefits.

Since the establishment of the environment management system with the ISO14001 certification obtained in 2005, we have continued to advocate resource conservation. We appropriate a fixed fund for energy saving every year with a working group in place to ensure order implementation of energy conservation work, timely campaign and education for energy conservation knowledge and a rather perfect management system, securing order implementation and results of energy conservation work in terms of capital, human and material resources and system. In 2016, the Group invested more than HK$0.5 million in environmental protection, and the Group has never experienced economic and non-economic penalties related to environmental protection laws and regulations.

USE OF RESOURCES

The Group actively promotes the concept of environmental protection and to this end, implements various policies to optimise its working environment, which emphasizes green operations and green initiatives in the workplace. The Group has adopted an eco-friendly approach to the interior design of its office and manufacturing workshop. Our open-plan designs maximise use of outdoor natural light and shared light. As far as possible, original furniture is retained, remodelled or reinstated during renovation to make rational use of existing resources and to reduce waste.

In addition, the Group encourages employees to use public transport for business trips, so as to reduce vehicle fuel consumption. A Group-wide lights-off campaign has been launched to integrate environmental awareness into the everyday work life of employees. The Group has also formulated internal operational guidelines containing detailed requirements regarding water and electricity consumption and the operating hours and temperature setting of air-conditioners.

POLLUTANT EMISSIONS AND WASTES

The Group has policies in place to encourage continuous improvement in environmental management practices. Numerous initiatives have been carried out across our operations to reduce emissions and waste, enhance resource efficiency and minimise environmental footprint. We work to minimise energy consumption and greenhouse gas (GHG) emissions. The group has imported ISO14064 greenhouse gas quantification and verification management system, has carried out greenhouse gas inspection for major domestic production and operation bases, and has formulated emission reduction plans according to the results of the investigation. The Group participated in the pilot carbon trading in Shenzhen, and successfully achieved the annual emission reduction targets set by Shenzhen Development and Reform Commission on carbon trading after verification by third-party verification institutions. The Group's total greenhouse gas emissions amount to 4,265.74tCO2e for the year ended 31 December 2016 and meets the requirement of local criterion.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

We advocate treatment of hazardous and nonhazardous wastes generated in the course of operation scientifically and effectively to minimize adverse impacts that our production and operation may have on the environment. The Group acts stringently up to the Directory of National Hazardous Wastes as wastes generated in the course of production would be checked against the Directory while those listed therein would be picked out and collected in designated locations in accordance with relevant laws and regulations of the State, and be properly disposed of by category in stipulated timeframes. We try our best to streamline the production process, improve the conversion rate of materials, reduce or replace the use of hazardous or harmful substances, and maximize integrated use of wastes generated in the course of production. Meantime, we continue to study and use more environmental friendly EP new materials and new crafts, use clean energy, advanced technology and equipment, improve monitoring over production and implement clean production assessment. Other than the proper treatment of wastes in the course of production, we pay special attention to the effective treatment of wastes in the canteen. Food leftovers from the canteen are collected twice per day by dedicated workers. Wasted cooking oils from the canteen are collected by a State-assigned contractor under the title of "stringent controller over wastes" for centralized treatment by the government.

SOCIETY

EMPLOYMENT AND LABOUR PRACTICES

Practices The Group has always regarded its employees as critically valuable assets of corporate operation and development. Under its "people-oriented" core culture, the Group strictly complies with all local labour standards and relevant employment regulations, and implements a standardised recruitment system. Its goal is to provide its employees with a healthy, safe and welcoming working environment and to build a fair, just and transparent working platform so as to create a promising development prospect for its employees.

The Group strictly prohibits the use of child and forced labour. During the year, we were not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to employment and labour practices and occupational health and safety. Nor did we identify any incidents that have a significant impact on the Group relating to the use of child or forced labour.

EMPLOYMENT

The Group places great emphasis on upholding the basic rights of its employees. It respects diversity in its employees and adheres to the principle of equal opportunities in employment, recruiting and cultivating talents regardless of race, religion, ethnicity, nationality, gender or age. The Group also continually revises its mechanism and structure in different aspects in order to adapt to the development of the enterprise and, at the same time, to benefit the employees' development.

The Group has adopted a comprehensive work assessment management system, under which it regularly reviews its recruitment system and its internal policy for grooming talents so as to ensure transparency and to maintain fairness and justice.

The Group implements scientific remuneration management and various other incentives, and regularly reviews its remuneration packages and promotion opportunities for different positions to guarantee their market competitiveness. To attract talents, the Group also offers various welfare incentives to its employees, including pension plans, MPF plans, insurance schemes, and housing and meal allowances.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Further, the Group grants share options to the general management staff and associates of the Company in recognition of their contributions to the Group, and as an incentive encouraging initiative and good performance in the workplace.

As at 31 December 2016, the Group had a total of 4,504 employees (2015: 5,634) shown as follows:

	As at 31 December 2016
Total number of staffs	**4,504**
a.) Total number of staffs (by gender)	
Female	1,424
Male	3,080
b.) Total number of staffs (by age)	
<30	3,324
>=30	1,180

TRAINING AND DEVELOPMENT

Employee development drives the progress of a company. While developing its business and safeguarding the basic rights of its employees, the Group also provides a platform for employees to develop their careers, which includes offering a comprehensive learning and training system that helps them develop quickly and strengthens their sense of belonging. The Group formulates suitable training courses according to the needs of its different departments and businesses. It also implements an internal recruitment system, in which employees can choose their career path based on their interests and strengths.

To meet different career pursuit, the Group has made a duel career development channel (professional channel & management channel), providing enormous space for career rise and on longer constraint from traditional career development model. At the same time, it has really cultivated and selected a batch of qualified personnel to enter the management channel, so that different types of employees can achieve good career development.

Every year, the Group provides new recruits with comprehensive induction training. The training provides an overview of the Group's business, delivers information about business partners, products knowledge, corporate culture and core values, and introduces business-related policies and laws to help new recruits integrate into the Coolpad family.

HEALTH AND SAFETY, SOLICITUDE ACTIVITIES FOR THE STAFF

The Group is deeply committed to its employees' well-being and organises regular health check-ups for them, as well as providing various medical insurance schemes. The Group implements its administration and management with the primary concept of "people-oriented and staff first". The devotion and loyalty of the staff determine the scope of corporate development. We raise staffs' sense of well-being in unceasing bits of care, by providing them with perfect benefits, communication systems and diversified staff activities, so that they can enjoy working without worries and lead a blissful and happy life.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, the Group actively launches and implements work that is favourable for building a harmonious relationship between the enterprise and the labour as well as facilitating the enterprise's sound development, so as to care for employees and strengthen their solidarity and their sense of belonging to the Group. In order to listen better to the staff and ensure a smooth exchange of information, Coolpad has established manifold communication channels and a complete communication mechanism to collect opinions from the staff, identify corporate deficiencies and grow with them.

During the year under review, the labour unions at different levels organised various activities, such as employee birthday parties, group travels, thematic exhibitions visits, employee walking and mountaineering. These activities enhanced employees' physical and psychological well-being and strengthened their sense of belonging and overall team spirit.

The Group places great emphasis on maintaining workplace health and safety. In order to protect health and safety of employees, the Group has built and implement occupational health and safety management system according to OHSAS18001. The Group keep perfecting the safety management system and operational procedures, strengthening the employee's safety training and education, and conducting regular safety monitoring on safety production, fire control, engineering safety and other key point to prevent the happening of accidents. The Group provides employees with workplace, environment and conditions in line with national occupational health standards and hygiene requirements, and regularly arranges medical institutions for free health check-ups for all employees.

OPERATION PRACTICES

Taking a highly responsible attitude toward our employees, customers and the environment, Coolpad unswervingly adheres to the strategies of quality of excellence, safe and healthy production management and highly responsible supply chain management and endeavours to create sustainable value, achieve win-win development and build glory together for customers and business partners.the Group cooperates closely with suppliers and retailers to deliver safe, quality products to customers, and is dedicated to maintaining a high level of industrial production transparency and product responsibility. Throughout its operations, the Group ensures it maintains a good social reputation by complying with all national and regional anti-corruption and anti-bribery policies.

SUPPLY CHAIN MANAGEMENT

The Group implements an efficient supply chain management system that optimises links between manufacturers, suppliers, distributors and retailers, optimising the allocation of social resources. Meanwhile, the Group realises an effective link between production and sales as well as a reasonable flow of logistics, information and capital through an efficient information network, and delivers quality products and considerate services to consumers in a timely manner at reasonable prices.

Coolpad has put in place an established system and strict standards for procurement from suppliers, to safeguard the interests of the Group and its customers, and monitor the behaviours of suppliers. While maintaining good and long-standing partnership with suppliers, we expect them to continuously refine the quality of products and services. By reference to the developments of international social and national policies, we request our suppliers to pursue energy saving, emissions reduction and environmental protection, and motivate ourselves and our suppliers to establish appropriate environmental policy. We endeavour to act in a social responsible manner, in an effort to drive ourselves and suppliers in achieving sustainable development and make contribution to the beautiful world.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

PRODUCT RESPONSIBILITY

The Group believes that providing quality products and excellent after-sales service is a crucial part of its successful corporate presence. The Group also believes that quality and customer first and keep pace with the age. System control is our quality assurance, zero defect is our unremitting pursuit. The Group takes the best of the industry as the benchmark, jointly undertake product responsibility with employees and suppliers and continuously improving and conducting process supervision.

Technological innovation is the source of enterprise's development. The idea of "everyone is an innovator" is already deeply rooted in the Group. Based on R&D ability and relied on technical progress, the Group creates its technical advantage by studying technology development trend, focusing on the market and fully tap the market and customer demand. The Group invests a large amount of resources each year to support product research and development and technological innovation. Headquartered in Shenzhen, the Group has set up R&D facilities in Xi'an, Nanjing, Dongguan, the United States and India respectively. The company aims at the most cutting-edge technology in the world, and focuses on independent innovation, and actively introducing, digesting and absorbing new technologies such as advanced platforms, systems and key materials. At the same time, we have established a system of research and development process management and evaluation system, constantly improving the R&D capability and the quality of research and development.

Based on the international leading IPD (integrated product development) process management system, continuous integration, benchmarking, optimization and improvement, the Group has formed a full process management of integrated product development with its own characteristics. The Group has introduced PLM (product life cycle management) information management platform from PTC, implemented electronic tracking and monitoring, to ensure the effective landing of the process. The Group continues to carry out technical innovation, implement technical research, knowledge accumulation and continuous improvement, and guarantee the core competitiveness of the Company's R&D.

The Group has established a comprehensive, strict quality control system, covering the whole product life cycle, including quality of product planning, R&D design quality, manufacturing quality, supplier quality, sales service quality, reliability test, customer satisfaction, quality of operation, etc. The Group's business process has achieved effective integration of multiple sets of quality management system, unified execution, and met certification requirements. The Group currently has passed ISO9001, ISO14001, OHSAS18000, QC080000, CNAS, CMMI L3 and other management system certification.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

"Safety first, prevention and comprehensive management" are the directions of production safety that we insist on. We strictly follow the PRC laws and regulations relating to production safety. We have established a safety management accountability system of "person-in-charge held responsible" and optimised the production safety criteria and management procedures. We have clear powers and responsibilities for each safety department. Each department is independent but cooperative. The safety committee is primarily in charge of the production safety matters of the Company and is responsible for the production safety of the Company. The safety committee office, which is responsible to the safety committee, is in charge of handling daily production safety matters of the Company. It is our policy that the person in charge of each department is the first person held responsible for safety management of his/her department. These persons will enter into the Letter of safety management regulations with the safety committee each year pursuant to which they will strengthen the internal safety management matters of the department according to the terms regulations. To ensure production and operational safety and prevent accidents, we have established four safety systems in areas of fire safety, safety on using electricity, safety on hazardous chemicals and construction safety to improve our safety facilities

To accelerate the handling of customer complaints and enhance after-sale quality and customer satisfaction, we have formulated the thorough after-sale service network and hot line service. Our customer service department, after receiving the complaint, will verify the details and classify the cases of complaints according to the actual conditions. At the same time, the cases will be directed to the relevant responsible departments where, after receiving the relevant complaints, they will generally respond to the customer service department within one business day on the cause of complaint, analysis of the investigation results, handling status and preventive measures.

EMPLOYEE HEALTH AND SAFETY

The Group puts great emphasis on the health and safety of employees. Through establishing and optimising the occupational health and safety management systems, we strive to build a safety culture that is conducive to the long-term development of the Company. We regularly organised a variety of safety drills and safety training each year and require each department to participate so as to raise employees' alertness awareness on safety incidents and their ability to tackle such incidents.

As to employees engaging in special type of work, we provide relevant labour protection and safety training to avoid work injury accidents. Special operators (electricians, welders, tin smelting workers, motor vehicle drivers, personnel who are frequently involved with hazardous chemicals and etc.) must attend professional training in accordance with the relevant PRC requirements and get on board after obtaining the qualifications or passing the exam for special type of work operations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ANTI-CORRUPTION

The Group is dedicated to establishing itself as a trustworthy, law-abiding enterprise. The Group advocates a work ethic that insists on compliance with law, integrity, honesty and professional dedication, and bans any form of acceptance of advantages or acts of bribery. Explicit rules concerning employees' professional integrity are communicated through the employees' guidebook, training courses as well as guidelines, for example, on conflict of interest, while the efficiency of the Group's entire internal management system is reviewed regularly. Channels are also available for employees to report on internal misconduct. The daily operations of the Group strictly comply with established procedures; the internal audit department audits each subsidiary regularly and reports to the audit committee while implementing appropriate measures to ensure all regulations are complied with. Further, the Group also commissions third-party auditors to carry out independent audits. All these measures effectively promoted the implementation and the improvement of the Group's regulatory system. During the year under review, there were no legal cases brought against the Group or any of its employees for their corruption or associated irregularities.

SOCIAL ENGAGEMENT

While maintaining a good shape for further development, Coolpad keeps in mind of rewarding the society and serving the community. Over the years, we have been taking active part in welfare and charity events. We address the social needs by supporting the underprivileged. To this effect, we have made tremendous financial and other contributions to creating value for the society in achieving sustainable development. Coolpad both supports and participates in various charity and public events, with a particular focus on the education, growth and development of young people from deprived backgrounds or environments.

As a practitioner of corporate social responsibility, Coolpad has been looking to children public welfare activities, and has visited poverty primary schools in Qinghai, Sichuan, Yunnan and other places, bringing them necessities of life and study. The Group participated in a left-behind children grow-up project namely "love backpack" held by other institution. The project theme is "love makes the world a better place". The project aims to help the left-behind children in the central and western regions by donating their love backpacks, paying attention to and concerning their emotions, guiding and helping them to establish correct morality and value.

Coolpad is committed to "shouldering social responsibility and becoming an outstanding corporate citizen". Thus, it actively participates in the social and charity activities in its locality for promoting the local development. We also engage our staff in the community activities, in order to jointly create sustainable social values. Shenzhen Tongxin Club (深圳同心俱樂部) was initiated by more than 20 NPC deputies and CPPCC members during the national two sessions in 2012. The Club consists 100 members, covering more than 20 industries including IT and high-tech, real estate and so on. Coolpad group responded positively, participating in the donation activity of concentric charitable foundation to repay the society. The Group understands the importance of corporate social responsibility. In the future, Coolpad will continue to assume corporate citizenship responsibilities, help more vulnerable groups, and continue to inherit love.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

Mr. JIANG Chao

Mr. JIANG Chao, aged 47, is an executive Director, vice chairman, the chief executive officer, and the chief financial officer of the Company. Mr. JIANG is responsible primarily for the finance and administrative functions of the Group. He is an associate member of the Association of Chartered Certified Accountants and a certified public accountant in the PRC. Mr. JIANG joined the Group in June 2002. Mr. JIANG has about 20 years of experience in accounting and finance. Prior to joining the Group, he had worked for the State Audit Bureau. Mr. JIANG had also worked for Qiaoxing Electronic Company Limited (the shares of which are listed on the NASDAQ Stock Exchange, stock symbol: XING) and ZTE Corporation Limited (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 763), where he was responsible for financial and accounting functions. Mr. JIANG was an independent non-executive director of Ming Fung Jewellery Group Limited (the shares of which are listed on the Stock Exchange, Stock Code: 860) from 2010 to 2015. Mr. JIANG is a member of Futian Committee of Chinese People's Political Consultative Conference. Mr. JIANG obtained a bachelor's degree in economics from Sun Yat-Sen University in 1991.

Mr. LIU Jiangfeng (Appointed on 16 August 2016, resigned on 17 November 2017)

Mr. Liu, aged 46, is a former executive Director and former chief executive officer of the Company. Mr. Liu graduated from Southeast University with a Bachelor's Degree in Computer Science in 1992. Mr. Liu has more than 20 years of experience in communication industry. He had served in Huawei for 19 years since 1996 and had successively served as the president of Global Technology Service Division, vice president of Network Product Line, vice president of Asia Pacific District and the president of Honor Business Unit. Under Mr. Liu's leadership, Honor, an independent subsidiary brand of Huawei, has become one of the most famous e-commerce brands in the mainland China. In 2015, Mr. Liu founded Dmall Fresh (Beijing) E-Commerce Co., Ltd., a retail platform selling fresh fruits and daily necessities online.

Mr. Abulikemu Abulimiti (Appointed on 16 August 2016, resigned on 17 November 2017)

Mr. Abulimiti, aged 37, is a former executive Director of the Company. Mr. Abulimiti graduated from the Department of Biology at Tsinghua University with a Bachelor degree in 2004, and from Tsinghua University School of Economics and Management with a Master degree in 2006. Before joining LeEco, Mr. Abulimiti served as the executive director of Roland Berger Strategy Management Consultants (Shanghai) Ltd., responsible for business development and project management in the fields of Internet, consumer goods and aviation. Mr. Abulimiti joined LeEco in 2014 and takes the overall responsibility of LeEco's global strategic planning and strategic operation and management.

Mr. LI Bin (Resigned on 1 March 2017)

Mr. LI Bin, aged 47, is a former executive director of the Company. Mr. LI has more than 15 years of experience in software development and testing. Mr. LI joined the Group in June 1996. Prior to joining the Group, Mr. LI worked in China Sanjiang Aviation Industry Group Company (中國三江航天工業集團有限公司). Mr. LI obtained a bachelor's degree in computer science and software engineering from Huazhong University of Science and Technology in 1992.

DIRECTORS AND SENIOR MANAGEMENT

Mr. JIA Yueting (Resigned on 17 November 2017)

Mr. JIA Yueting, aged 45, is a former executive Director and former chairman of the Company. Mr. JIA obtained his MBA degree from Shanxi University in September 2001. From September 1995 to July 1996, Mr. JIA worked as a network administrator at Yuanqu County Local Taxation Bureau in Shanxi Province. From 1996 to 2002, he worked as the general manager of Shanxi Yuanqu Zhuoyue Industry Co., Ltd. Mr. JIA founded Shanxi XBELL Communication Technology Co., Ltd. in 2002. He is the founding chairman of Beijing XBELL Communication Technology Co., Ltd., a company established in 2003 and listed on the Mainboard of the Singapore Exchange Limited in 2007 (stock code: D3W). In 2004, he founded Leshi Internet Information & Technology Corp. Beijing ("LETV"), a company listed on the Shenzhen Stock Exchange (stock code: 300104),

Mr. LEUNG Siu Kee (Appointed on 19 January 2018)

Mr. Leung, aged 41, is an executive Director, has more than 15 years of experience in accounting industry. Prior to joining our Group, Mr. Leung had worked in two international accounting firms for 5 years, mainly to provide auditing and business assurance services. He has been a director of a CPA Limited and a company providing accounting and taxation services since August 2008 and September 2016, respectively. Mr. Leung has been an independent non-executive director of China Chuanglian Education Financial Group Limited (stock code: 2371), which is listed on the Stock Exchange, since December 2009. He had been an independent non-executive director of KK Culture Holdings Limited (formerly known as Cinderella Media Group Limited and Recruit Holdings Limited, stock code: 550), which is listed on the Stock Exchange, for the period between September 2015 and December 2016, and has been a non-executive director of KK Culture Holdings Limited since December 2016. Mr. Leung obtained a bachelor degree of business administration in accounting from The Hong Kong University of Science and Technology in November 1998 with first class honour. He has been a member of the Hong Kong Society of Accountants since March 2003 and currently a practising certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. LIANG Rui (Appointed on 19 January 2018)

Mr. Liang, aged 42, is an executive Director, and is currently a president of Shenzhen Shuibei Jewelry Group. Mr. Liang obtained a doctoral degree of Technical Economics and Management from the School of Economics and Business Administration of Chongqing University in 2007 and a postdoctoral degree in Applied Economics from the School of Economics and Finance of Xi'an Jiaotong University in 2009. From January 2000 to October 2014, he worked in the Shenzhen Luohu District People's Government, serving as an officer in the Education Bureau, deputy director-general of the State Bureau for Letters and Calls, director-level deputy director of the district (governmental) committee office, and director of the Bureau of Civil Administration. From September 2014 to November 2017, he served as Secretary and director of the Shenzhen Nanhu Sub-district Office. Since December 2017, he has been serving as the president of Shenzhen Shuibei Jewelry Group.

Mr. LAM Ting Fung Freeman (Appointed on 19 January 2018)

Mr. Lam, aged 38, is an executive Director, and was recognised as an International Registered Financial Practitioner in 2006. He served as a divisional manager in AIA for 12 years since 1998. He joined Kossilon Group as a director in 2008 and assisted the group in establishing a corporate financial service division. He served as a senior branch manager in AXA in 2010 and was admitted as a life member of the Million Dollar Round Table in 2012. Mr. Lam has 10 years of experience in corporate financial services, providing professional advice to companies regarding asset restructuring and financing. He also has 15 years of experience in financial planning and asset management, having managed an asset investment with a value of HK$300 million in 2007. He also has 20 years of experience in the sales of insurance and wealth management products, leading a team of over 60 people.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. NG Wai Hung (Appointed on 19 January 2018)

Mr. Ng, aged 54, is a non-executive Director, and is a practicing solicitor and a partner in Iu, Lai & Li, a Hong Kong firm of solicitors and notaries. Mr. Ng has extensive experience in the areas of securities law, corporate law and commercial law in Hong Kong and China trades and has been involved in initial public offerings of securities in Hong Kong as well as corporate restructuring, mergers and acquisitions and takeovers of listed companies in Hong Kong. Mr. Ng is currently an independent non-executive director of three companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), namely China Star Cultural Media Group Limited (currently known as Lajin Entertainment Network Group Limited, stock code: 8172), Xinyi Automobile Glass Hong Kong Enterprises Limited (stock code: 8328) and 1957 & Co. (Hospitality) Limited (stock code: 8495) (all being companies listed on the Stock Exchange since March 2015, June 2016 and November 2017 respectively. Mr. Ng was also an independent non-executive director of Yun Sky Chemical (International) Holdings Limited (currently known as King Stone Energy Group Limited, stock code: 663), KTP Holdings Limited (currently known as Ares Asia Limited, stock code: 645), Tomorrow International Holdings Limited (currently known as Talent Property Group Limited, stock code: 760), Perception Digital Holdings Limited (currently known as HongDa Financial Holding Limited, stock code: 1822), HyComm Wireless Limited (currently known as Qingdao Holdings International Limited, stock code: 499), Tech Pro Technology Development Limited, stock code: 3823), GOME Retail Holdings Limited (stock code: 493), Kingbo Strike Limited (stock code: 1421), Trigiant Group Limited (stock code: 1300), Fortune Sun (China) Holdings Limited (stock code: 352), On Time Logistics Holdings Limited (stock code: 6123) and Sustainable Forest Holdings Limited (stock code: 723) (all being companies listed on the Stock Exchange) and resigned in February 2010, February 2011, January 2012, August 2014, September 2014, March 2017, May 2017, June 2017, August 2017, September 2017, December 2017 and December 2017 respectively.

Mr. LIU Hong (Re-designated from executive Director on 19 January 2018, resigned on 3 April 2018)

Mr. LIU Hong, aged 45, is a former non-executive Director of the Company. Mr. LIU graduated and obtained a Bachelor's Degree in Mechanical Manufacturing Technology and Equipment from Nanchang Institute of Aeronautical Technology in July 1995; graduated and obtained a Bachelor's Degree in Journalism from Beijing Broadcasting Institute in July 1997; and graduated and obtained a Master's degree in Law from the University of International Business and Economics in January 2003. He is also a veteran reporter. From 1997 to 2004, he worked as a reporter at China Radio International. He was included among the 100 top journalists in 1998 by the Publicity Department of the CPC Central Committee for his efforts in reporting flood disaster relief actions in China. He joined LETV, a company listed on the Shenzhen Stock Exchange (stock code: 300104), in October 2004 and held various positions in LETV from 2004 to 2008, including deputy general manager and head of financial department. He is the vice-chairman and deputy general manager of LETV. He is also serving as the non-executive director of Beijing Media Corporation Limited, a company listed on the Stock Exchange (stock code: 1000).

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. CHAN King Chung

Mr. CHAN King Chung, aged 55, is an independent non-executive Director and joined the Group in November 2004. He obtained a bachelor's degree in business administration and accountancy from the Chinese University of Hong Kong in 1987 and City University of Hong Kong in 1993, respectively. Mr. CHAN also obtained a Master degree in accountancy and business administration. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Hong Kong Institute of Company Secretaries. Mr. CHAN has more than 20 years of experience in corporate governance, management and financial controlling.

Dr. HUANG Dazhan

Dr. HUANG Dazhan, aged 60, is an independent non-executive Director and joined the Group in November 2004. Dr. HUANG obtained his doctorate degree from the Victoria University of Manchester, England, the United Kingdom in 1993. Dr. HUANG currently serves at China Merchants Group.

Mr. XIE Weixin

Mr. XIE Weixin, aged 76, is an independent non-executive Director and joined the Group in November 2004. Mr. XIE graduated from the Department of Electronics Engineering of Xi'an University of Electronics Technology in 1965. Mr. XIE was a visiting scholar in University of Pennsylvania during the period from 1981 to 1983 and from 1989 to 1990, respectively. He was honored as one of the national outstanding middle-aged and young experts. Mr. XIE currently is the chairman of the Academic Committee of Shenzhen University, a professor in College of Information Engineering of Shenzhen University, and Mr. XIE was an independent non-executive director of Shenzhen Sed Industry Co. Limited (the shares of which are listed on the Shenzhen Stock Exchange, Stock Code: 000032) from 2010 to 2014.

SENIOR MANAGEMENT

Mr. KANG Yongqing

Mr. Kang Yongqing, aged 47, is an executive vice president of the Group, responsible for sales and marketing, product operation and quality management of the Company. Mr. Kang, obtained a bachelor's degree in mechanical and electronic integration from Xi'an Jiaotong University in 1994, and obtained a master's degree in computer technology and application from University of Delhi in 2002. Mr. Kang has more than 20 years of experiences in telecommunications industry, he joined the Group in 2013. Prior to joining Coolpad, he had worked for ZTE Corporation Limited (the shares of which are listed on the Main Board of the Stock Exchange, Stock Code: 763), where he served as director of Vodafone business unit and was responsible for the sales of terminals and client relationship with Vodafone in German.

Mr. XU Yibo

Mr. XU Yibo, aged 43, is an executive vice president of the Group, responsible for R&D system of the Company. Mr. XU obtained a bachelor`s degree in electromagnetic field from Xidian University (西安電子科技大學). Mr. XU joined the Group in July 1998 and has about more than 15 years of experience in mobile communication, terminal security, cloud computing and mega data technology field, making contribution in standard work in more than 10 international and domestic standards organizations, such as 3GPP, IETF, IEEE, IMI-2020(5G) Promotion Group, etc. Mr. XU participated in the research and development of dual-standby technique which led to win the second prize of National Science and Technology Progress which is the highest award in the terminal field.

Save as disclosed above, none of the above Directors or senior management of the Company has any relationship with any Directors or senior management of the Company.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their report and the consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016 to the shareholders.

PRINCIPAL ACTIVITIES

The Group is a wireless solution and equipment provider. The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year under review.

KEY RISKS AND UNCERTAINTIES

Risks and uncertainties involved in the business operations of the Group may affect the Group's financial conditions or growth prospects. The Group has been focusing on the control of risks and uncertainties with the aim of understanding and addressing the concerns of stakeholders.

Key risk factors and uncertainties affecting the Group include macroeconomic risks, risks of inappropriate strategies for marketing competition, risks of the fluctuation of raw materials price, risks of adjustments of policies in relation to the economy and the industry. The potential risks of macroeconomic risks arise from the effects of macro-economy's volatility, the pressure of inflation, foreign currency risk, and interest rate risk. The potential risks of inappropriate strategies for market competition arise from the risks involved in the formulation of competition strategies, risks involved in the collection of clients' information.

These factors are not exhaustive or comprehensive, and there may be other risks in addition to those shown below which are not known to the Group or which may not be material now but could become material in the future.

RESULTS, DIVIDENDS AND DISTRIBUTION

The Group's loss for the year ended 31 December 2016 and the state of affairs of the Company and the Group on that date are set out in the financial statements on pages 70 to 178.

Considering daily operation needs after the restructuring of the Group, the Directors do not recommend the payment of any final dividend for the year ended 31 December 2016.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on 18 May 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders' entitlement to attend and vote at the said annual general meeting, the register of members of the Company will be closed from 15 May 2018 to 18 May 2018 (both days inclusive), during which no transfer of shares will be effected. In order to be eligible to attend and vote at the said annual general meeting, all transfer of shares, accompanied by the relevant share certificates and transfer forms, must be lodged with the Company's branch share registrars in Hong Kong, Computershare Hong Kong Investor Services Limited at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 14 May 2018.

CHARITABLE DONATIONS

In the year under review, the Group's charitable donations were approximately RMB800,000 (2015: RMB100,000).

REPORT OF THE DIRECTORS

SUMMARY OF FINANCIAL INFORMATION

The following is a published summary of the consolidated financial results and of the consolidated assets and liabilities of the Group for the last five financial years, prepared on the basis set out in note 2.1 to the financial statements.

	Year ended 31 December				
	2016*	2015*	2014*	2013*	2012*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**7,969,477**	14,667,866	24,900,471	19,623,652	14,390,166
(Loss)/profit before tax	**(4,356,068)**	2,311,011	606,629	437,373	418,160
Tax	**(45,352)**	(34,505)	(92,551)	(89,121)	(93,857)
(Loss)/profit for the year	**(4,401,420)**	2,276,506	514,078	348,252	324,303
Attributable to owners of the Company	**(4,379,631)**	2,324,518	512,855	348,547	325,581

	As at 31 December				
	2016*	2015*	2014*	2013*	2012*
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets and liabilities					
Non-current assets	**2,741,032**	5,745,328	1,625,586	1,251,002	1,244,373
Current assets	**7,113,372**	8,537,979	11,218,500	8,810,732	6,859,028
Non-current liabilities	**67,213**	225,116	1,704,409	57,904	98,645
Current liabilities	**6,248,881**	6,641,496	7,779,761	7,242,936	5,591,769
Net assets	**3,538,310**	7,416,695	3,359,916	2,760,894	2,412,987

* extracted from the published audited financial statements and restated/reclassified as appropriate

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

INVESTMENT PROPERTIES

As at 31 December 2016, details of the Group's investment properties are set out below:

Location	Group interest	Tenure	Use	Gross floor area
High Tech Plaza Tian An Cyberpark, Chegongmiao Futian District, Shenzhen Guangdong Province the PRC	100%	The property is held for a term of 50 years commencing on 16 November 1988	Office	3,802.01 sq.m.

Details of movements in the investment properties of the Group are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year under review are set out in notes 32 and 33 to the financial statements.

SHARE AWARD PLAN

On 3 March 2008, the directors approved the adoption of a share award plan (the "Share Award Plan") to recognise and reward the contribution of certain employees to the growth and development of the Group through an award of the Company's shares. The Share Award Plan became effective on 3 March 2008 and will remain in force for 10 years from that date.

The Group has appointed a trustee (the "Trustee") for the purposes of administering the Share Award Plan. The Trustee will be notified by the directors in writing upon making of an award to an eligible employee under the Share Award Plan. Upon the receipt of such notice, the Trustee will set aside the appropriate number of awarded shares out of a pool of shares.

The Trustee purchased in aggregate 19,024,000 shares of the Company at a total cost (including related transaction costs) of approximately HK$3,799,000 during the period from October 2008 to January 2009.

As at the end of the year 2014, the Group had already awarded all the 19,024,000 shares of the Company to its directors or employees pursuant to the Share Award Plan.

REPORT OF THE DIRECTORS

PENSION SCHEME

Particulars of the Group's pension schemes are set out in note 2.4 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's existing Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities.

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

The Company raised funds by way of Rights Issue (as defined below), on 17 February 2016, the Company proposed to issue 653,189,580 new ordinary shares (the "Rights Shares") at the subscription price of HK$1.10 per Rights Share on the basis of 3 Rights Shares for every 20 shares of the Company (the "Rights Issue") held on the record date which was 5 February 2016. The Rights Issue had been completed on 9 March 2016 and approximately HK$719 million before expenses had been raised from the Rights Issue.

As for the reasons for the Rights Issue, the Board considered it would be beneficial for the Group to replenish its funding resources to support the Reconstruction Plan and the development of the current businesses and to better prepare for the Company to take advantage of future business opportunities as and when they arise. The Board further considered that it is more prudent to finance the Group's long-term growth by long-term financing, preferably in the form of equity which will not increase the Group's finance costs. In this regard, after considering various possible fund raising avenues, the Directors considered that the Rights Issue to be most appropriate for reasons that:

(a) the Rights Issue offers all the Qualifying Shareholders an equal opportunity to participate in the enlargement of the capital base of the Company and enables the Qualifying Shareholders to maintain their proportionate interests in the Company and continue to participate in the future development of the Company should they wish to do so; and

(b) the Rights Issue could replenish and strengthen the equity base and funding resources of the Company for its further business development and working capital needs without imposing significant financial costs to the Group.

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 46 to the financial statements and in the consolidated statement of changes in equity, respectively.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

As at 31 December 2016, the Company's reserves available for distribution, calculated in accordance with the Companies Law (2001 Second Revision) of the Cayman Islands, amounted to HK$1,554,276,000. The Board do not recommend the payment of any final dividend for the year ended 31 December 2016. The distributable reserves include the Company's share premium account and contributed surplus, amounting to HK$1,280,195,000 in total as at 31 December 2016, which may be distributed provided that immediately following the date on which such reserves are proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements. Compliance procedures have been enhancing to ensure adherence to applicable laws, rules and regulations in particular, those have significant impact on the Group. Any changes in the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself was incorporated in Cayman Islands and listed on the Stock Exchange in Hong Kong. Our establishment and operations accordingly shall comply with relevant laws and regulations in Hong Kong, Cayman Islands and the mainland China. The group has established compliance procedures to ensure compliance with applicable laws, regulations and normative legal documents that are applicable (especially to the main business). If there is any change in the applicable laws, regulations and normative legal documents of the main business, the group will notify relevant staff and relevant operating teams from time to time.

Save as disclosed in the section head "APPLICATION OF CORPORATE GOVERNANCE PRINCIPLES", as far as the Company is aware, the Group has complied in material respects with the relevant laws and regulations which have a significant impact on the business and operations of the Company during the year ended 31 December 2016.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group considers the importance of environmental affairs and believes business development and environment affairs are highly related. The Group recognizes its corporate responsibility environmental and social sustainability and has therefore taken the initiatives with a view to reducing energy consumption, food and paper waste. The Group implements green office practices such as double-printing and copying, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliances. Through the initiative taken to control electricity consumption by using energy-efficient retrofits and air-conditioning and lighting control measures in workplaces, we have seen continued improvement in reducing the use of electricity. The Group also emphasized the social responsibility of eco-friendly production. Going forward, the Group will continue to promote environmental and social sustainability through various initiatives consistent with its policies and relevant laws and regulations.

For details, please refer to the section headed "Environmental, Social and Governance" on pages 26 to 33 of this annual report.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 50.06% of the total sales for the year and sales to the largest customer included therein amounted to 13.03%. Purchases from the Group's five largest suppliers accounted for approximately 27.90% of the total purchases for the year ended 31 December 2016 and purchases from the largest supplier included therein amounted to 7.18%.

None of the Directors or any of their close associates or any shareholders which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers and/or suppliers.

RELATIONSHIPS WITH CUSTOMERS AND SUPPLIERS

The Group understands that it is important to maintain good relationship with its suppliers and customers to fulfil its long-term goals and maintain the leading position in the market. To maintain its core competitiveness and brand dominant status, the Group aims at delivering constantly high standards of quality in the service to its customers. During the reporting period, there was no material and significant dispute between the Group and its suppliers and/or customers.

DIRECTORS

The Directors of the Company during the year under review and up to the date of this report were:

EXECUTIVE DIRECTORS

Mr. JIANG Chao
Mr. LI Wang (resigned on 18 January 2016)
Mr. GUO Deying (resigned on 05 August 2016)
Mr. LI Bin (resigned on 01 March 2017)
Mr. JIA Yueting (resigned on 17 November 2017)
Mr. Liu Jiangfeng (appointed on 16 August 2016, resigned on 17 November 2017)
Mr. Abulikemu Abulimiti (appointed on 16 August 2016, resigned on 17 November 2017)
Mr. Leung Siu Kee (appointed on 19 January 2018)
Mr. Lam Ting Fung Freeman (appointed on 19 January 2018)
Mr. Liang Rui (appointed on 19 January 2018)

NON-EXECUTIVE DIRECTORS

Mr. Ng Wai Hung (appointed on 19 January 2018)
Mr. Liu Hong (re-designated from executive Director on 19 January 2018, resigned on 3 April 2018)

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Dr. HUANG Dazhan
Mr. XIE Weixin
Mr. CHAN King Chung

Under the provisions of the Articles of Association, one-third of the Directors of the Company are subject to retirement by rotation and re-election at each annual general meeting.

REPORT OF THE DIRECTORS

In accordance with the Articles of Association, Dr. HUANG Dazhan, Mr. XIE Weixin and Mr. CHAN King Chung will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting of the Company. Besides, Mr. Ng Wai Hung was appointed by the Board as Non-executive Director of the Company with effect from 19 January 2018, and Mr. Leung Siu Kee, Mr. Lam Ting Fung Freeman and Mr. Liang Rui were appointed by the Board as Executive Directors with effect from 19 January 2018, they shall retire from office, but being eligible, have offered themselves for re-election at the forthcoming annual general meeting. Save for the aforesaid, the other remaining directors of the Company would continue in office.

The Company has received from each of the independent non-executive Directors an annual confirmation pursuant to Rule 3.13 of the Listing Rules and the Board still considers each of the independent non-executive Directors to be independent from the Company.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 34 to 37 of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Mr. JIANG Chao, an executive Director, has entered into a service agreement with the Company dated 21 November 2017 for a term of three years commencing from 21 November 2017.

Each of Mr. Leung Siu Kee, Mr. Lam Ting Fung Freeman and Mr. Liang Rui, executive Directors, has entered into a service agreement with the Company dated 19 January 2018 for a term of three years commencing from 19 January 2018.

Mr. Ng Wai Hung, a non-executive Director, has entered into a service agreement with the Company dated 19 January 2018 for a term of three years commencing from 19 January 2018.

Mr. LIU Hong, a non-executive Director, has entered into a service agreement with the Company dated 17 August 2015 for a term of three years commencing from 17 August 2015.

Each of Dr. HUANG Dazhan, Mr. XIE Weixin and Mr. CHAN King Chung, the independent non-executive Directors have entered into service agreements with the Company for a term of one year commencing from 21 November 2016. At the end of their terms, they continued for another year then.

None of the Directors has entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in notes 25 and 40 to the financial statements, neither Director nor entity connected with the Director had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group subsisting at any time during the year under review or at the end of the year under review to which the Company or any of its subsidiaries was a party.

REPORT OF THE DIRECTORS

CONTROLLING SHAREHOLDERS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

Save as disclosed in notes 25 and 40 to the financial statements, no controlling shareholders of the Company had a material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group subsisting at any time during the year under review or at the end of the year under review to which the Company or any of its subsidiaries was a party.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2016, some of the Company's subsidiaries had entered into (or continued to be a party to) the following continuing connected transactions which are subject to the annual review and reporting requirements under Chapter 14A of the Listing Rules:

(A) The Sales of Smartphones Transactions

Background: On 5 August 2016, Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen"), an indirect wholly-owned subsidiary of the Company, entered into a procurement framework agreement (the "Procurement Framework Agreement ") with Leshi E-commerce (Beijing) Company Limited ("Leshi E-commerce") in order to enhance its reputation and increase its market share by providing the smartphone users with integrated products that cater to their demands better. The Procurement Framework Agreement will expire on 31 December 2016.

Particulars of the Procurement Framework Agreement together with the total consideration for the year ended 31 December 2016 are disclosed below as required under the Listing Rules.

Nature of transactions: Yulong Shenzhen will supply smartphones specified in the purchase orders from Leshi E-Commerce.

Terms: The selling price of any specific model are negotiated and confirmed by both parties by taking into account reasonable cost plus reasonable profit, with reference to the market competition landscape and other factors, which may be adjusted by Yulong Shenzhen according to market changes. The above-mentioned cost mainly includes the material cost and necessary production and processing expenses of the Products; the profit margin shall be between 1% and 10%, any specific profit margin shall be determined with reference to the prevailing and then market prices of comparable products and the profit margin of previous similar products, as well as the quantity of the products prescribed in each order.

Annual cap (tax inclusive): RMB1,200,000,000

Total consideration for the year (tax inclusive): RMB107,605,000

REPORT OF THE DIRECTORS

(B) The Purchases of Raw Materials Transactions

Background:	On 22 September 2016, Dongguan Yulong Telecommunication Tech Co., Ltd. ("Dongguan Yulong"), a wholly-owned subsidiary of the Company, entered into the key component procurement framework agreement (the "Key Component Procurement Framework Agreement") with Lesai Mobile Hong Kong Limited ("Lesai Mobile"). The Key Component Procurement will expire on 31 December 2016. Particulars of the Key Component Procurement Framework Agreement together with the total consideration for the year ended 31 December 2016 are disclosed below as required under the Listing Rules.
Nature of transactions:	Purchase of raw materials for the production of smartphone from Lesai Mobile.
Terms :	The purchase price are determined with reference to the lower of: (i) the then prevailing market price of the products, and (ii) the price paid by Dongguan Yulong for procuring the products from independent third parties. Lesai Mobile has undertaken that the prices of the products offered to Dongguan Yulong shall be no higher than offered to independent third parties under the same conditions.
Annual cap (tax inclusive):	USD42,000,000
Total consideration for the year (tax inclusive):	USD24,839,000

REPORT OF THE DIRECTORS

(C) Membership Benefits Services Transactions

Background:	28 October 2016, Yulong Shenzhen entered into a membership benefits services agreement (the "Membership Benefits Services Agreement") with Horgos Le New Generation Culture Media Co., Ltd ("Horgos Company") in order to provide the consumers with exclusively-abundant mobile Internet contents, which will in turn improve the Group's competitiveness in the smartphone market. The Membership Benefits Services Agreement will expire on 31 December 2016. Particulars of the Membership Benefit Services Agreement together with the total consideration for the year ended 31 December 2016 are disclosed below as required under the Listing Rules.
Nature of transactions:	Pursuant to the Membership Benefit Services Agreement, Yulong Shenzhen will buy the membership benefit services from Horgos Company. The membership benefits services refer to Le dimension film and television membership and Le super film and television membership.
Terms：	The prices of the membership benefits services offered by Horgos Company to Yulong Shenzhen are identical with the prices (the "Public Prices") available to the public for purchasing the same as disclosed by Horgos Company on the website of LeTV (www.le.com). Hogors Company has undertaken that the prices of the membership benefit services to be offered to Yulong Shenzhen be no higher than those to be offered to independent third parties under the same conditions.
Annual cap (tax inclusive):	RMB275,000,000
Total consideration for the year (tax inclusive):	RMB47,919,000

REPORT OF THE DIRECTORS

(D) Membership Promotion Cooperative Transactions

Background:	On 28 October 2016, Yulong Shenzhen entered into a membership promotion agreement (the "Membership Promotion Agreement") with Horgos Company in order to enhance the attractiveness of the Memberships, which will in turn improve the sales of Coolpad smartphones presenting the memberships as gifts. The Membership Promotion Agreement will expire on 31 December 2016. Particulars of the Membership Promotion Agreement together with the total consideration for the year ended 31 December 2016 are disclosed below as required under the Listing Rules.
Nature of transactions:	Pursuant to the Membership Promotion Agreement, Yulong Shenzhen will promote the memberships for Horgos Company via promoting channels including offline exposure, offline introduction and introduction by mobile phone promoters, leveraging on the mobile terminals, so as to enhance the consumers' understanding and cognition of the memberships and to promote the memberships.
Terms:	The price of the Member Promotion Services payable by Horgos Company to Yulong Shenzhen are determined taking into account the quantity and categories of the memberships to be promoted by Yulong Shenzhen to the consumers, with reference to the higher of: (i) the then prevailing market prices of the same or similar promotion services; and (ii) the prices of the same or similar promotion services provided by Yulong Shenzhen to third parties. Hogors Company has undertaken that the prices of the membership promotion services to be offered to Yulong Shenzhen be no lower than that to be paid to independent third parties under the same conditions.
Annual cap (tax inclusive):	RMB218,000,000
Total consideration for the year (tax inclusive):	RMB38,335,000

REPORT OF THE DIRECTORS

(E) EUI Pre-installation Promotion Transactions

Background:	On 28 October 2016, Yulong Shenzhen entered into an agreement with LE Holding (Beijing) Co. Ltd. ("Le Co.") for EUI pre-installation promotion agreement (the "EUI Pre-installation Promotion Agreement") in order to improve the sales of smartphones by taking use of the EUI platform. EUI refers to the installation system integrating a series of permitted applications developed by Le Co. and the related companies for purpose of pre-installation on mobile terminals. The EUI Pre-installation Promotion Agreement will expire on 31 December 2016. Particulars of the EUI Pre-installation Promotion Agreement together with the total consideration for the year ended 31 December 2016 are disclosed below as required under the Listing Rules.
Nature of transactions:	Pursuant to the EUI Pre-installation Promotion Agreement, Yulong Shenzhen will promote the EUI for Le Co. by pre-installation of the EUI on the EUI terminals.
Terms:	The prices of the EUI promotion services payable by Le Co. to Yulong Shenzhen are determined taking into account the unit prices, the sales channels and the actual output of the EUI terminals, with reference to the higher of: (i) the then prevailing market prices of the same or similar promotion services; and (ii) the prices of the same or similar promotion services provided by Yulong Shenzhen to third parties. The specific promotion prices shall be confirmed by both parties in writing prior to the corresponding promotion. Le Co. has undertaken that the prices to be paid to Yulong Shenzhen for the EUI promotion services be no lower than those to be paid to independent third parties under the same conditions.
Annual cap (tax inclusive):	RMB25,900,000
Total consideration for the year (tax inclusive):	RMB1,956,000

REPORT OF THE DIRECTORS

(F) Advertisement Promotion Services Transactions

Background:	On 28 October 2016, Yulong Shenzhen entered into an advertisement promotion cooperative framework agreement (the "Advertisement Promotion Cooperative Framework Agreement") with Le Co. in order to increase the revenue generating from the Apps as well as the total gross margin of the Group by facilitating the Group's undergoing transformation into an Internet company operating both software and hardware. The Advertisement Promotion Cooperative Framework Agreement will expire on 31 December 2016. Particulars of the Advertisement Promotion Cooperative Framework Agreement together with the total consideration for the year ended 31 December 2016 are disclosed below as required under the Listing Rules.
Nature of transactions:	Pursuant to the Advertisement Promotion Cooperative Framework Agreement, Yulong Shenzhen will promote the corporate images, products and services of Le Co. and the Related Companies via advertisements on the apps.
Terms:	The prices of the advertisement promotion services payable by Le Co. to Yulong Shenzhen are determined after arm's length negotiations between both parties according to the unit prices as set out in the rate cards of Yulong Shenzhen, taking into account Le Co.'s industry nature, market circumstances, the placement position and placement time of the advertisements and the size thereof, the number of app users and other factors. Le Co. has undertaken that the prices to be paid to Yulong Shenzhen for advertisement promotion services be no lower than those to be paid to independent third parties under the same conditions.
Annual cap (tax inclusive):	RMB28,800,000
Total consideration for the year (tax inclusive):	RMB7,628,000

REPORT OF THE DIRECTORS

(G) Applications Pre-Installation Transactions

Background:	On 28 October 2016, Yulong Shenzhen entered into an application software pre-Installation cooperation agreement (the "Application Software Pre-Installation Cooperation Agreement") with Leshi Internet Information & Technology Corp. Beijing ("LeEco") in order to improve the sales of smartphone by attracting the consumers to enjoy LeEco contents. The Application Software Pre-Installation Cooperation Agreement will expire on 31 December 2016. Particulars of the Application Software Pre-Installation Cooperation Agreement together with the total consideration for the year ended 31 December 2016 are disclosed below as required under the Listing Rules.
Nature of transactions:	Pursuant to the Application Software Pre-Installation Cooperation Agreement, Yulong Shenzhen will carry out pre-installation and the installation of the applications on the mobile terminals along with the system update packages to be downloaded for updating the systems of such mobile terminals ("OTA Push") for LeEco.
Terms:	The pre-Installation price per mobile terminal or the OTA Push price per activation are determined after arm's length negotiations between both parties with reference to the higher of: (i) the then prevailing market prices of the same or similar services; and (ii) the prices of the same or similar services provided by Yulong Shenzhen to independent third parties. LeEco. has undertaken that the prices to be paid to Yulong Shenzhen for the application software pre-installation services be no lower than those to be paid to independent third parties under the same conditions.
Annual cap (tax inclusive):	RMB15,000,000
Total consideration for the year (tax inclusive):	RMB3,288,000

REPORT OF THE DIRECTORS

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above for the year ended 31 December 2016 has followed the pricing principles of such continuing connected transactions.

The directors of the Company have reviewed and confirmed that all the continuing connected transactions mentioned in (A) to (G) above conducted in the year were entered into on the following basis:

(a) in the ordinary and usual course of the business of the Group;

(b) on normal commercial terms or better; and

(c) according to the relevant agreements governing these transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group as above in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors, the chief executive or their respective associates in the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO"), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

LONG POSITIONS IN SHARES OF THE COMPANY:

Name of director	*Notes*	Directly Beneficially Owned	Through spouse or minor corporation	Through controlled corporation	Beneficiary of a trust	Founder of a trust	Share Option	Total	Approximate percentage of the Company's issued share capital
Mr. Jia Yueting	*1*	–	–	1,448,804,386	–	–	–	1,448,804,386	28.81
Mr. Jiang Chao	*2*	28,980,000	–	–	483,000	–	–	29,463,000	0.59
Mr. Li Bin	*3*	71,325,000	–	–	–	–	–	71,325,000	1.42
Mr. Liu Jiangfeng		3,900,000	–	–	–	–	–	3,900,000	0.08
Mr. Chan King Chung		441,600	–	–	–	–	–	441,600	0.01
Mr. Huang Dazhan		288,000	–	–	–	–	–	288,000	0.01
Mr. Xie Weixin		384,000	–	–	–	–	–	384,000	0.01

REPORT OF THE DIRECTORS

Notes:

1 Mr. JIA Yueting is interested in 780,380,000 shares of the Company as follows:

Name of controlled corporation	Name of controlling shareholder	% control	Direct interest	Number of shares	
Leview Mobile HK Limited	Leview Mobile Ltd.	100.00	Y	Long position	1,448,804,386
Leview Mobile Ltd.	Le Ltd.	100.00	N	Long position	1,448,804,386
Le Ltd.	LeEco Global Holding Ltd.	100.00	N	Long position	1,448,804,386
LeEco Global Holding Ltd.	Lele Holding Ltd.	100.00	N	Long position	1,448,804,386
Lele Holding Ltd.	Jia Yueting	100.00	N	Long position	1,448,804,386

2. Mr. JIANG Chao, an executive Director, was interested in the 483,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the Coolpad Group Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the Coolpad Group Share Award Plan.

3. The interests of these Directors are in the underlying Shares of the options granted to the relevant Directors by the Company under the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the following interests and short positions of 5% or more in the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

LONG POSITIONS IN SHARES OF THE COMPANY:

Name	*Notes*	Number of shares in which interested	Nature of interest	Total number of shares	Percentage of the Company's issued share capital
Mr. Guo Deying	*1*	462,889,484	Founder of a discretionary trust	463,372,484	9.21
		483,000	Through controlled corporation		
Data Dreamland Holding Limited ("Data Dreamland")	*1*	462,889,484	Beneficial owner	462,889,484	9.20
HSBC International Trustee Limited ("HSBC Trustee")	*2*	463,889,484	Trustee	463,889,484	9.22
Lele Holding Ltd.	*3*	1,448,804,386	Interest of controlled corporation	1,448,804,386	28.81

REPORT OF THE DIRECTORS

Notes:

1. The entire issued share capital of Data Dreamland is held by Barrie Bay (PTC) Limited. Barrie Bay (PTC) Limited is acting as the trustee of the Barrie Bay Unit Trust. The Barrie Bay Unit Trust is a unit trust held by HSBC Trustee, which is acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a discretionary trust set up by Mr. Guo Deying and Ms. Yang Xiao (the spouse of Mr. Guo Deying) and the beneficiary objects of which include the children of Mr. Guo Deying and Ms. Yang Xiao. Mr. Guo Deying is taken to be interested in the 483,000 shares held by Wintech Consultants Limited as he is one out of the three directors of Wintech Consultants Limited and the other two directors are accustomed to act in accordance with Mr. Guo Deying's direction.

2. The 462,889,484 shares were held by Data Dreamland, the entire share capital of which is held by Barrie Bay (PTC) Limited, which is acting as the trustee of the Barrie Bay Unit Trust and the entire issued share capital of which is held by HSBC Trustee. The rest 1,000,000 shares were held by HSBC Trustee privately as the trustee.

3. The entire issued share capital of Leview Mobile HK Limited is held by Leview Mobile Ltd. The entire issued share capital of Leview Mobile HK Limited is held by Le Ltd. The entire issued share capital of Le Ltd. is held by LeEco Global Holding Ltd.. The entire issued share capital of Le Ltd. is held by Lele Holding Ltd.

Save as disclosed above, as at 31 December 2016, so far as the Directors are aware, there are no other persons, other than the Directors and chief executive of the Company, who had interests or short positions in the shares, underlying shares or debentures of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and are required to be recorded in the register required to be kept pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 33 to the financial statements.

REPORT OF THE DIRECTORS

The following table discloses movements in the Company's share options outstanding during the year:

Name or category of participant	Number of share options						Date of grant of share options*	Exercise period of share options	Exercise price of share options**
	At 1 January 2016	Grant during the period	Exercised during the period	Expired during the period	Forfeited during the period	At 31 December 2016			HK$ per share
Employees									
In aggregate – granted on 20 May 2008	–	–	–	–	–	–	20-05-08	20-05-09 to 19-05-13	0.337
In aggregate – granted on 20 May 2008	–	–	–	–	–	–	20-05-08	20-05-10 to 19-05-14	0.337
In aggregate – granted on 20 May 2008	–	–	–	–	–	–	20-05-08	20-05-11 to 19-05-15	0.337
In aggregate – granted on 20 May 2008	4,364,000	–	600,000	–	200,000	3,564,000	20-05-08	20-05-14 to 19-05-18	0.337
In aggregate – granted on 30 Jun 2010	–	–	–	–	–	–	28-06-10	28-06-11 to 27-06-15	1.620
In aggregate – granted on 30 Jun 2010	8,884,000	–	–	8,884,000	–	–	28-06-10	28-06-12 to 27-06-16	1.620
In aggregate – granted on 30 Jun 2010	14,288,000	–	120,000	–	720,000	13,448,000	28-06-10	28-06-13 to 27-06-17	1.620
In aggregate – granted on 30 Jun 2010	13,504,000	–	–	–	2,504,000	11,000,000	28-06-10	28-06-14 to 27-06-18	1.620
In aggregate – granted on 12 July 2011	11,388,800	–	11,132,700	256,100	–	–	12-07-11	12-07-12 to 11-07-16	0.839
In aggregate – granted on 12 July 2011	336,000	–	–	–	–	336,000	12-07-11	12-07-14 to 11-07-18	0.839
In aggregate – granted on 27 Dec 2012	31,212,000	–	3,596,000	–	3,797,000	23,819,000	27-12-12	27-12-13 to 27-12-17	1.164
In aggregate – granted on 27 Dec 2012	5,952,000	–	96,000	–	1,200,000	4,656,000	27-12-12	27-12-15 to 27-12-19	1.164
In aggregate – granted on 10 Jan 2014	40,360,000	–	96,000		11,688,000	28,576,000	10-01-14	10-1-15 to 10-1-19	1.540
In aggregate – granted on 10 Jan 2014	2,000,000	–	–	–	–	2,000,000	10-01-14	10-1-17 to 10-1-21	1.540
In aggregate – granted on 22 Jan 2015	67,744,000	–	584,000		21,712,000	45,448,000	22-1-15	22-1-16 to 22-1-20	1.492
In aggregate – granted on 22 Jan 2015	10,432,000	–	–	–	2,016,000	8,416,000	22-1-15	22-1-17 to 22-1-21	1.492
In aggregate – granted on 16 Oct 2015	82,832,000	–	–	–	36,352,000	46,480,000	16-10-15	16-10-16 to 16-10-20	1.620
In aggregate – granted on 16 Oct 2015	76,000,000	–	–	–	16,000,000	60,000,000	16-10-15	16-10-17 to 16-10-21	1.620
Directors									
In aggregate – granted on 20 May 2008	–	–	–	–	–	–	20-05-08	20-05-10 to 19-05-14	0.337
In aggregate – granted on 27 Feb 2009	–	–	–	–	–	–	27-02-09	27-02-10 to 26-02-14	0.199
In aggregate – granted on 27 Feb 2009	6,000,000	–	6,000,000	–	–	–	27-02-09	27-02-13 to 26-02-17	0.199
In aggregate – granted on 30 Jun 2010	8,000,000	–	–	–	–	8,000,000	28-06-10	28-06-14 to 27-06-18	1.620
In aggregate – granted on 12 July 2011	2,800,000	–	2,800,000	–	–	–	12-07-11	12-7-12 to 11-07-16	0.839
In aggregate – granted on 27 Dec 2012	4,000,000	–	–	–	–	4,000,000	27-12-12	27-12-15 to 27-12-19	1.164
In aggregate – granted on 16 Oct 2015	46,000,000	–	–	–	–	46,000,000	16-10-15	16-10-17 to 16-10-21	1.620
Subtotal	436,096,800	–	25,024,700	9,140,100	96,189,000	305,743,000			
Total	436,096,800	–	25,024,700	9,140,100	96,189,000	305,743,000			

REPORT OF THE DIRECTORS

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of a share option is the amount that the employee is required to pay to obtain each share under the option.

AUDIT COMMITTEE

The Audit Committee, 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 2016.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

As at 31 December 2016, so far as the Directors were aware, the following Directors (not being independent non-executive Directors) were considered to have interests in businesses apart from the Group's businesses which compete, or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to Rule 8.10 of the Listing Rules as set out below:

As at 31 December 2016, Mr. JIA Yueting, the executive Director, ultimately controls Leshi Mobile Intelligent Information & Technology (Beijing) Co., Ltd. (樂視移動智能信息技術(北京)有限公司), which is principally engaged in mobile phone business and therefore, Mr. Jia Yueting is considered to have interest in the business which competes or is likely compete, either directly or indirectly, with the mobile phone businesses of the Group ("Businesses") pursuant to the Listing Rules.

Although Mr. JIA Yueting have competing interests in other companies, he will fulfill his fiduciary duties in order to ensure that he will act in the best interest of the shareholders of the Company and the Group as a whole at all times.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or any of their respective associates had any interest in any business which competes or likely to compete, either directly or indirectly, with the Businesses.

MATERIAL LEGAL PROCEEDINGS

During the year under review, the Company was not involved in any material litigation or arbitration and no material litigation or claim was pending or threatened or made against the Company as far as the Board was aware of.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the percentage of shares of the Company in public hands is in compliance with the prescribed level of the minimum public float as set out in Rule 8.08 of the Listing Rules.

REPORT OF THE DIRECTORS

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 receivables and payables 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 asset value. The Group has not entered into any derivative contracts to hedge against the risk in the year 2016.

EMPLOYEES AND REMUNERATION POLICY

During the year ended 31 December 2016, the Group's staff costs (including directors' remuneration) amounted to approximately HK$697.9 million (2015: HK$896.4 million). The remuneration of the Group's employees was commensurate with their responsibilities and market rates, with discretionary bonuses and training given on a merit basis. As of 31 December 2016, the Group had 4,504 employees (2015: 5,634 employees).

SIGNIFICANT INVESTMENTS

There were no significant investments held by the Group as at 31 December 2016.

MATERIAL ACQUISITIONS AND DISPOSAL

Coolpad Mobile and its subsidiaries (collectively, "Coolpad Mobile Group") are engaged in mobile phone trading, the provision of product design and software development for mobile handsets. Coolpad Mobile Group was a then subsidiary of the Company. On 11 October 2016, the Group entered into a sale and purchase agreement with the then noncontrolling shareholder of Coolpad Mobile to acquire its 40% equity interest in Coolpad Mobile at a cash consideration of RMB65,800,000 (equivalent to HK$75,853,000). The change in the ownership interest in Coolpad Mobile was accounted for as an equity transaction. On 12 December 2016, the Group disposed of its 80% equity interest in Coolpad Mobile to an independent third party for a cash consideration of RMB272,000,000 (equivalent to HK$304,077,000). As a result, the Group lost its control over Coolpad Mobile and accounted for it as an associate thereafter.

Save as stated above, the Company and its subsidiaries had no other material acquisition and disposal transactions during the year under review.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors have acknowledged their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016. The Board is responsible for presenting a balanced, clear and understandable assessment of annual and interim reports, inside information announcements and other disclosures required under the Listing Rules and other statutory and regulatory requirements.

REPORT OF THE DIRECTORS

INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

As disclosed in sections headed "Basis for Disclaimer of Opinion" and "Disclaimer of Opinion" in independent auditor's report contained on pages 61 to 67 of this report, the auditor of the Company did not express an audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2016 as a result of certain matters, including: (1) Prepayments in connection with a potential acquisition and interest income received and receivable from a company; (2) Prepayments to two new suppliers and interest income received from a new supplier; and (3) Related parties.

The Board of Directors of the Company has set up an independent investigation committee which has agreed to conduct the independent investigation on the matters as mentioned above as soon as practicable.

THE BOARD'S RESPONSE TO THE AUDITOR'S OPINION

In regard to the matters described in the section headed "Basis for Disclaimer of Opinion" in the Independent Auditor's Report, the Board would like to take this opportunity to provide the Board's preliminary response and other relevant information, as well as measures taken or to be taken by management of the Company for information purpose.

(1) THE BOARD'S RESPONSE TO THE DELAY IN PUBLICATION OF THE 2016 ANNUAL RESULTS

As disclosed in the Company's previous announcements in relation to, among other things, suspension of trading in the Company's Shares and update of the development in relation thereto, the Board had been actively working with the auditor in relation to the preparation of the Company's consolidated annual results for the year ended 31 December 2016. The management of the Company had made their efforts to provide all necessary information and documents to the Auditor and assisted the Auditor to complete the audit procedures of the 2016 Annual Results. In addition, as disclosed in the announcement of the Company dated 31 January 2018, the Board has taken further steps to respond to the auditor's enquiries, and established a new independent board committee (the "IBC") consisting of six Directors, namely, Mr. Leung Siu Kee, Mr. Lam Ting Fung Freeman, Mr. Liang Rui, Mr. Ng Wai Hung, Mr. Xie Weixin and Mr. Chan King Chung, who had no knowledge of and were not involved in the decision-making process or execution of any agreement in the relevant transactions to look into and investigate the audit issues. As further announced by the Company on 28 February 2018, the scope of the IBC includes (i) to identify and engage an independent legal adviser to formulate and assess any appropriate follow up actions to be taken in response to the audit issues; (ii) to identify and appoint internal control expert and conduct an overall review of the internal control of the Group; and (iii) to review on the working capital sufficiency of the Group, in conjunction with the management of the Group and the Company's auditor.

The Company was in full cooperation with the auditor, including but not limited to, (i) arrangements of interviews, especially with external parties, to the extent that such arrangements were feasible; (ii) refining the Group's operating plan, cash flow forecasts and continuing to communicate with banks, financial institutions and professional investors as to possible fund raising exercises, with a view to addressing the going concern issue; and (iii) appointment of new Directors, re-designating existing Director and change of the company

REPORT OF THE DIRECTORS

secretary to restructure the board composition and improve corporate governance of the Company. In response to the auditor's request for information for completing the audit procedures, all the relevant information obtained by the Company was provided to the auditor to the extent that such information was in existence and was available.

Based on the continuous efforts made by the Board and the management of the Company, and information obtained from the ongoing investigation so far, the Auditor of the Company drew their opinion on the consolidated financial statements for the year ended 31 December 2016. Subject to further findings from the ongoing investigation to be conducted by the IBC in conjunction with professional advisers, the Board may make further announcement in relation to the audit issues as described in the Independent Auditor's Report. For the avoidance of doubt, the investigation is still on-going and the information contained in this section shall not be considered as a full and conclusive response to the Disclaimer of Opinion.

(2) THE BOARD RESPONSE TO THE BASIS FOR DISCLAIMER OF OPINION

In respect of 1, 2 and 3 of the basis for disclaimer of opinion (collectively, the "Matters") as contained in the Independent Auditor's Report, the IBC has appointed Baker Tilly Hong Kong Risk Assurance Limited, an external professional adviser, to conduct an agreed-upon procedures (the "AUP") on the Matters. The scope of the AUP includes (i) carrying out interviews with the relevant parties; (ii) collection, review and examination of the supporting documents of the material fund movement transactions; (iii) review and examination of the relevant bank accounts and their respective fund movements; and (iv) provision of recommendation for internal control improvements. The AUP will be conducted in accordance with the Hong Kong Standard on Related Services 4400 "Engagement to Preform Agreed-Upon Procedures Regarding Financial Information" as published by the Hong Kong Institute of Certified Public Accountants. It is currently anticipated that the first draft report on the review will be available in May 2018. In addition, the IBC also engaged Baker & Mckenzie as its legal advisers to assist the IBC in preforming the scope of work as disclosed above. In particular, after obtaining the preliminary results of the AUP, the IBC, in conjunction with its legal advisers, will formulate and assess any appropriate follow-up actions to be taken in response to the audit issues. Further announcement will be made by the Company as and when appropriate.

Regarding the uncertainties relating to the going concern of the Group as raised by the auditor, the Board would like to take this opportunity to provide the following information regarding the financial and operating plans of the Group for the public's reference, which serves as the primary bases for which the Board was of the view that the Group would be able to operate as a going concern in the foreseeable future.

The Group is using its best efforts to refine the Group's one-year operating plan, cash flow forecasts and management evaluation and to communicate and negotiate proactively with banks, organisations and interested parties to acquire sufficient banking borrowings or financing for the Group's operation. As stated in the announcement of the Company dated 31 January 2018, the Company has negotiated a new financing arrangement with a bank, which is now being processed by the bank for internal approval.

REPORT OF THE DIRECTORS

The Group has properly resolved several legal disputes. As mentioned in the announcement of the Company dated 27 September 2017, the Court has made the verdict according to law to approve a settlement agreement reached between the plaintiff of a lawsuit, Ping An Bank Co., Ltd. Shenzhen Branch, and a subsidiary of the Company, Yulong Computer Communication Technology (Shenzhen) Co., Ltd., and two subsidiaries of the Group; and also approve for the plaintiff of another lawsuit, Bank of Ningbo Co., Ltd. Shenzhen Branch, to withdraw the case concerning the financing loan contract dispute. All the relevant contract disputes have been settled and resolved. As further stated in the announcement of the Company dated 16 January 2018, the Court made the verdict according to law to approve the plaintiff, Shanghai Pudong Development Bank Co., Ltd., Shenzhen Branch, to withdraw its case. The Group has made up for the shortfall of security deposit in full and on schedule and has settled all its debts with the Loan Bank. Additionally, the management will continue to pay attention to the relevant lawsuits of the Group and any instructions from the judicial authorities, and seek professional legal advice in respect of the relevant issues to protect the legitimate interests of the Group.

In order to cope with the challenges and uncertainties arising from the volatile market environment, the Group will take reasonable strategies to manage the operating plan and strategy for improving the Group's financial position. While the Group continues to put its best efforts to reduce production and operation costs, we are also actively seeking business opportunities to develop new market regions, research and develop new products and are committed to enhancing our brand value, particularly in those overseas markets represented by the United States. The Board is of the view that such measures will offer much more flexibility for the Group to adapt to market changes and provide more choices and better services to our existing customers, thereby improving the long-term competitiveness of the Group.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 45 to the financial statements.

AUDITOR

Ernst & Young retire and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Coolpad Group Limited

Jiang Chao
Vice Chairman, Executive Director & Chief Executive Officer

3 April 2018, Hong Kong

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Coolpad Group Limited
(Incorporated in the Cayman Islands with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Coolpad Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 70 to 178, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance. Because of the significance of the matters described in the Basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the consolidated financial statements.

BASIS FOR DISCLAIMER OF OPINION

1 PREPAYMENTS IN CONNECTION WITH A POTENTIAL ACQUISITION AND INTEREST INCOME RECEIVED AND RECEIVABLE FROM A COMPANY

During the year ended 31 December 2016, the Company made three payments to a company incorporated in Hong Kong ("Company A") which amounted to US$50 million (1st Payment), US$90 million (2nd Payment) and US$30 million (3rd Payment), in June, August and September respectively (collectively referred to herein as "Payments to Company A"). In July 2016, the Company received a sum of US$50 million from Company A, and between July and November 2016, the Company received sums from Company A which represented aggregate interest of US$3.59 million (HK$27.86 million). In addition, the Company accrued interest receivable of US$1.49 million (HK$11.50 million) on the outstanding prepayments up to 31 December 2016.

Accordingly, as at 31 December 2016, the Company and the Group had a cumulative outstanding balance of US$120 million (HK$930.61 million) from Company A and an accrued interest receivable of US$1.49 million (HK$11.50 million) from Company A, both of which were included in "Prepayments, deposits and other receivables" in the consolidated statement of financial position. Furthermore, the Company and the Group recorded and disclosed US$5.08 million (HK$39.36 million), being US$3.59 million (HK$27.86 million) received from Company A and US$1.49 million (HK$11.50 million) receivable from Company A, as "other income" in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 (the "Income from Company A"). Further details of the outstanding balance and interest income are set out in notes 24 and 5 to the consolidated financial statements, respectively.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

1 PREPAYMENTS IN CONNECTION WITH A POTENTIAL ACQUISITION AND INTEREST INCOME RECEIVED AND RECEIVABLE FROM A COMPANY (CONTINUED)

Subsequent to 31 December 2016, between March and July 2017, a subsidiary of the Group received funds from a company registered in the PRC ("Company B"), which in aggregate amounted to RMB850.57 million (equivalent to approximately HK$959.30 million) (collectively referred to as the "Subsequent Receipts from Company B"). The Group accounted for RMB824.41 million as a full refund of the aforesaid prepayments of US$120 million (HK$930.61 million) and the settlement of the interest receivable of USD1.49 million (HK$11.50 million) with the remaining balance as interest income in its subsequent management accounts.

Payments to Company A were made pursuant to three investment cooperation agreements entered into between the Company and Company A (the "Investment Cooperation Agreements"). Pursuant to the Investment Cooperation Agreements, the Company appointed Company A to act on its behalf to negotiate the consideration and undertake the due diligence work for the acquisition of an unnamed target company incorporated in the United States of America. The Company agreed to pay to Company A US$50 million, US$90 million and US$30 million, respectively, as prepayments in connection with the potential acquisition. Company A was required to complete its work by 8 July 2016, 25 December 2016 and 31 October 2016 respectively. If the acquisition price could not be agreed before these dates, Company A was required to refund the respective prepayments to the Company together with a penalty equivalent to the amount of interest based on the terms as set out in the respective Investment Cooperation Agreements.

However, these Investment Cooperation Agreements were all undated and did not contain any information relating to the identity of the target company and the percentage of equity to be acquired, nor any other details of the proposed acquisition. Hence, it was unclear to us whether these Investment Cooperation Agreements referred to the same acquisition or three separate acquisitions given three separate due dates were stated in each of the Investment Cooperation Agreements.

We were not provided with any details of the proposed investment and the identity of the target company until late March 2017 when the Company informed us that they had established an independent board committee to investigate the related matters of these prepayments. Management disclosed to us that the potential acquisition as referred to in the Investment Cooperation Agreements represented an 18.77% equity interest in a target company which was engaged in the manufacture of electric vehicles in the United States of America.

With respect to the 1st Payment of US$50 million, management advised that since Company A could not agree the consideration with the potential seller of the target company, the acquisition was terminated and a full refund of US$50 million was made to the Company in July 2016. The negotiations for the acquisition resumed in August 2016 and the Company made the 2nd and 3rd payments to Company A as prepayments which in aggregate amounted to US$120 million.

In June 2017, management provided us with a one-page intention agreement for the acquisition of an equity interest in the target company ("Intention Agreement") entered into between Company A and another company incorporated in Hong Kong ("Company C"), and a two-page payment agreement ("Payment Agreement") entered into between Company A, B, C and another company named Leshi Holdings (HK) Limited ("Leshi HK"). Both the Intention Agreement and the Payment Agreement were dated 10 August 2016.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

1 PREPAYMENTS IN CONNECTION WITH A POTENTIAL ACQUISITION AND INTEREST INCOME RECEIVED AND RECEIVABLE FROM A COMPANY (CONTINUED)

Company B was the shareholder of Company C based on the information obtained from the annual return of Company C. Management represented to us that Company A and Company B were beneficially owned by the same person (Individual A) through "holding on behalf" arrangements.

As stated in the Intention Agreement, Company A acted on behalf of the Company which had the intention to acquire from Company C the equity interests in an identified target company. Company A was required to pay earnest money to Company C. Company C was required to cooperate with Company A for the due diligence work. However, the total consideration for the acquisition, the percentage of the equity in the target company to be acquired and the expected duration of the due diligence work were not specified in the Intention Agreement.

Pursuant to the Payment Agreement, it was agreed that Company A would pay an earnest money of US$120 million to Company C. It was stated in the Payment Agreement that Company A would pay the earnest money directly to Leshi HK, and upon the receipt of the payments from Company A by Leshi HK, Company A would be regarded as having completed its payment of the earnest money. It was also stated in the Payment Agreement that the earnest money would offset against a loan amount payable by Company B to 樂視控股（北京）有限公司, being the shareholder of Leshi HK, under a loan and share conversion agreement and Leshi HK could use the funds received as the loan proceeds from the respective loan and share conversion agreement. Management explained that Company A, B and C were beneficially owned by the same individual and the payment to Leshi HK was to fulfil Company B's obligation as a lender.

Management further advised us that the acquisition was subsequently terminated in 2017 and therefore the full amount of the outstanding prepayments with interest was refunded to the Group. However, the outstanding prepayments and the interest were not refunded by Company A. Instead, the sums were received from Company B.

Management explained to us that Company A should have recovered the earnest money of US$120 million from Company C for the refund of the prepayment. However, as Company C was short of working capital, Company B refunded the sums on Company C's behalf. In June 2017, management provided us a settlement agreement (the "Settlement Agreement") which was entered into by the Company, a PRC subsidiary of the Group, Company A, Company B and Company C.

The Settlement Agreement was dated 5 January 2017, and pursuant thereto the parties referred to the Investment Cooperation Agreements, the Intention Agreement and the Payment Agreement. The Settlement Agreement stated that as the acquisition of the target company was not successful, the parties agreed that Company B would refund the prepayments of US$120 million together with the interest, to the PRC subsidiary of the Company so as to offset the tripartite liabilities among Company C, Company A and the Company. The payment was required to be settled on or before 31 March 2017.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

1 PREPAYMENTS IN CONNECTION WITH A POTENTIAL ACQUISITION AND INTEREST INCOME RECEIVED AND RECEIVABLE FROM A COMPANY (CONTINUED)

Although we were provided with the above agreements and evidence relating to cash receipts and payments recorded by the Group, and we had obtained audit confirmations from Company A and B, in the course of our audit, we had requested but were not provided with any documentary evidence relating to (i) any internal evaluation, assessment and decision to acquire equities in the target company; (ii) any internal evaluation and assessment of the potential seller, Company C, and verification of Company C's ownership of the target company's equity; (iii) any internal evaluation and assessment on the appointment of Company A to act on the Company's behalf for the negotiation of the potential investment; (iv) any monitoring of Company A's work and the progress of its negotiation; (v) any due diligence and negotiation activities undertaken by Company A; (vi) any internal evaluation and assessment on the subsequent termination of the potential acquisition in 2017; and (vii) the relationships of the parties which entered into the Investment Cooperation Agreements, Intention Agreement, Payment Agreement and Settlement Agreement.

With respect to the termination of the potential acquisition in July 2016 which caused the refund of the 1st Payment of US$50 million and the subsequent resumption of the negotiation in August 2016, we were not provided with any agreements nor other documentary evidence to support the termination and resumption.

Although management represented to us that the prepayments were made for the acquisition of the equity interest in the target company, we were unable to obtain sufficient explanations regarding the involvement of the other parties when the prepayments were made and when the prepayments were refunded, and the different due dates being set out in the Investment Cooperation Agreements.

In this respect, we were unable to obtain sufficient reliable evidence to substantiate the representations made by the management and we could not ascertain the existence of this potential acquisition of equity in the target company that gave rise to the Payments to Company A and the subsequent termination that gave rise to the Subsequent Receipts from Company B. Hence, we were unable to ascertain the nature of the Payments to Company A and the interest income from Company A which were accounted for in the consolidated financial statements for the year ended 31 December 2016, and the Subsequent Receipts from Company B which were accounted for by management as refunds of the prepayments and accrued interest.

Because of the scope limitations as set out above, we were unable to satisfy ourselves as to:

(i) the business rationale and commercial substance, legitimacy, occurrence, accuracy, completeness and presentation of the Payments to Company A of US$170 million, the refund of US$50 million from Company A and the interest income of US$5.08 million received and receivable from Company A included in other income for the year ended 31 December 2016 and the outstanding balance of US$120 million of the Payments to Company A and accrued interest of US$1.49 million included in prepayments, deposits and other receivables as at 31 December 2016;

(ii) whether the effects of these transactions have been properly accounted for and disclosed.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

2 PREPAYMENTS TO TWO NEW SUPPLIERS AND INTEREST INCOME RECEIVED FROM A NEW SUPPLIER

In August 2016, a subsidiary of the Group made aggregate prepayments amounting to RMB300 million (HK$350.76 million) for purchases of mobile phone components pursuant to a purchase framework agreement entered into between that subsidiary and a supplier ("Supplier A"). The agreement was undated. It was agreed by the parties that separate purchase orders would be arranged and the subsequent purchases would be used to offset the prepayments. Supplier A was required to pay interest of 10% per annum to the subsidiary from whom the prepayments were made. The agreement with Supplier A had an expiry date of 25 December 2016.

Such prepayments were accounted for as "prepayments, deposits and other receivables". In December 2016, prior to the expiry of the agreement, the Group received sums in aggregate of RMB300 million from Supplier A. As represented by management to us, the funds received of RMB300 million represented the refund of the prepayment upon the termination of the purchase framework agreement. In addition, Supplier A paid the subsidiary an interest of RMB9.30 million (HK$10.88 million) which was calculated based on the terms as set out in the purchase framework agreement. Accordingly, other income of HK$10.88 million was recorded in profit or loss for the year ended 31 December 2016, and there was no outstanding balance with Supplier A recorded as at 31 December 2016.

In December 2016, the same subsidiary made aggregate prepayment of RMB300 million (HK$335.38 million) to another supplier ("Supplier B") for purchases of mobile phone components. The prepayments were made pursuant to another purchase framework agreement entered into between the subsidiary and Supplier B on 20 December 2016. It was agreed by the parties that separate purchase orders would be arranged and the subsequent purchases would be used to offset the prepayments. Supplier B was required to pay interest of 10% per annum to the subsidiary when the agreement expired. The agreement with Supplier B had an expiry date of 27 March 2017. The prepayments were accounted for as "prepayments, deposits and other receivables". In February and March 2017, the Group received refunds of the prepayment in aggregate of RMB300 million from Supplier B. As represented by management to us, these sums represented the refund of RMB300 million for the termination of the purchase framework agreement. As at 31 December 2016, the Group had an outstanding balance of RMB300 million (HK$335.38 million) which was included in "prepayments, deposits and other receivables" in the consolidated statement of financial position.

Management advised us that both Supplier A and Supplier B were new suppliers introduced to the Group in 2016. However, despite the two purchase framework agreements, there were no purchases made under the purchase framework agreements. There was no documentary evidence to substantiate the Group's internal assessment of these new suppliers and the evaluation of the terms stated in the two purchase framework agreements. In addition, there were no agreements or any other documentary evidence to support the termination of the purchase agreements prior to the respective expiry dates with both suppliers nor any other documentary evidence to substantiate the Group's internal assessment of the terminations.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

2 PREPAYMENTS TO TWO NEW SUPPLIERS AND INTEREST INCOME RECEIVED FROM A NEW SUPPLIER (CONTINUED)

We inquired of management as to why both agreements did not contain details comprising the specifications of the mobile phone component parts, their prices, quantities and delivery schedules of the goods of the purchases. We also inquired of management about the reasons for the subsequent termination of these transactions. We were not provided with sufficient explanations which could satisfy ourselves for the purpose of our audit.

Because of the above scope limitations, we were unable to satisfy ourselves as to

(i) the nature of the prepayments paid to Supplier A and Supplier B, each amounting to RMB300 million during the year and the outstanding prepayment paid to Supplier B amounting to RMB300 million at 31 December 2016 and the interest income received from Supplier A which amounted to RMB9.3 million during the year ended 31 December 2016; and

(ii) whether the effects of the above transactions have been properly accounted for and disclosed in the financial statements.

3 RELATED PARTIES

During the course of our audit, we noted certain associations between the entities indicated below and a related party, 樂視網資訊技術（北京）股份有限公司 ("Leshi Internet"), a PRC listed company which was controlled by Mr. Jia Yueting ("Mr Jia"), during the year ended 31 December 2016. Mr. Jia was the former chairman of the Group and was a director of the Group during the year ended 31 December 2016 and the subsequent period up to his resignation in November 2017. In addition, another director of the Company was also the director of Leshi Internet during the year ended 31 December 2016. Company A and B and Supplier A are the same entities mentioned in points 1 and 2 above.

3.1 Company A

We performed a site visit of Company A in February 2017 based on the address shown on its annual returns and observed that Company A shared the same office premises with Leshi HK. According to the annual returns filed by Leshi HK, the shareholder of Leshi HK was 樂視控股（北京）有限公司. As disclosed in the annual report of Leshi Internet, 樂視控股（北京）有限公司 has the same controlling shareholder as Leshi Internet. In addition, we noted that one of the authorised persons of Company A who signed the Investment Cooperation Agreement was the chairman of the board of supervisors of Leshi Internet.

3.2 Company B

We obtained the correspondence address of Company B, which was located in Beijing, from a public web site in Mainland China and found that the same address was disclosed as the correspondence address in Leshi Internet's annual report.

INDEPENDENT AUDITOR'S REPORT

BASIS FOR DISCLAIMER OF OPINION (CONTINUED)

3 RELATED PARTIES (CONTINUED)

3.3 Supplier A

The contact details of Supplier A included in the purchase framework agreement included its email address which had the same email domain as Leshi Internet and its facsimile number which was the same as the facsimile number of Leshi Internet as stated in Leshi Internet's 2016 annual report.

3.4 Company D

As set out in note 23 to the consolidated financial statements, a loan of HK$223.59 million was due from a limited liability partnership entity established in the PRC ("Company D"). It was disclosed in the 2016 annual report and 2017 interim report of Leshi Internet that Mr. Jia was the controlling shareholder of the general partner in Company D.

Although management represented to us that these entities are not related parties to the Group, given the above observations, we were not able to ascertain whether Company A, Company B, Supplier A and Company D were related parties and whether the transactions with Company A, Company B, Supplier A and Company D should be regarded as related party transactions and disclosed such in the financial statements.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

As disclosed in note 2.1 to the consolidated financial statements, the Group incurred a consolidated net loss of HK$4,401 million and had a net operating cash outflow of approximately HK$911 million during the year ended 31 December 2016. The Group's net current assets had decreased significantly to HK$864 million at 31 December 2016 with trade payables of approximately HK$1,286 million being overdue. Subsequent to 31 December 2016, the Group was unable to renew the majority of its existing banking facilities. In addition, numerous legal claims were filed by its creditors in various cities in Mainland China to demand repayments of the overdue payables from the Group. These conditions, as set forth in note 2.1 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast a significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate certain delayed repayments to financial institutions, which are set out in note 2.1 to the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN (CONTINUED)

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) the successful negotiations with the lenders for the renewal of or extension for repayment of outstanding borrowings; (ii) the successful obtaining of additional new sources of financing as and when needed; (iii) the successful implementation and acceleration of its disposal plan of its property, plant and equipment and leasehold land, including timely execution of definitive sales agreements and timely collection of the disposal proceeds, and the successful deferral of capital expenditures; (iv) the successful implementation of strategic expansion in targeted overseas markets and launch of new mobile phone models with local business partners and the achievement of sales targets; (v) the successful launch of the cost reduction campaign so as to generate operating cash inflows; (vi) the successful negotiation with the Group's existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings in any breach of loan covenants or default; and (vii) the successful maintenance of relationship with the suppliers of the Group, in particular those in relation to the Group's mobile phone business such that no actions will be taken by those suppliers against the Group should the Group not be able to meet all the payment obligations on a timely basis.

The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern and, therefore, do not include any adjustments relating to the realisation and classification of non-current assets and non-current liabilities that may be necessary if the Group is unable to continue as a going concern.

Should the Group fail to realise its plans to improve its financial position, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the consolidated statement of financial position as at 31 December 2016. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matter described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

The engagement partner on the audit resulting in this independent auditor's report is Lau Kin Yu.

Ernst & Young
Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

3 April 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
REVENUE	5	**7,969,477**	14,667,866
Cost of sales		**(7,614,994)**	(13,079,059)
Gross profit		**354,483**	1,588,807
Other income and gains	5	**449,889**	472,999
Gain on loss of control of subsidiaries	35	**154,089**	2,635,391
Loss on disposal of an investment in a joint venture	18	**(1,837,114)**	–
Impairment of investments in associates	18	**(793,445)**	–
Selling and distribution expenses		**(1,009,958)**	(958,838)
Administrative expenses		**(954,989)**	(970,297)
Other expenses		**(324,182)**	(168,581)
Finance costs	7	**(83,995)**	(103,319)
Share of losses of:			
Joint ventures		**(138,969)**	(184,491)
Associates		**(171,877)**	(660)
(LOSS)/PROFIT BEFORE TAX	6	**(4,356,068)**	2,311,011
Income tax expense	10	**(45,352)**	(34,505)
(LOSS)/PROFIT FOR THE YEAR		**(4,401,420)**	2,276,506
OTHER COMPREHENSIVE (EXPENSES)/INCOME			
Other comprehensive expenses to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**(425)**	(377)
Exchange differences on translation of foreign operations		**(132,276)**	(196,905)
Reclassification adjustment for a foreign operation disposed of during the year	35	**19,048**	–
Share of other comprehensive expenses of:			
Joint ventures		**(493)**	(55,318)
Associates		**(28,277)**	–
Other comprehensive expenses to be reclassified to profit or loss in subsequent periods		**(142,423)**	(252,600)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain on property revaluation	13	**37,135**	28,999
Income tax effect	31	**(6,773)**	(3,220)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**30,362**	25,779
OTHER COMPREHENSIVE EXPENSES FOR THE YEAR, NET OF TAX		**(112,061)**	(226,821)
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE YEAR		**(4,513,481)**	2,049,685
(Loss)/profit attributable to:			
Owners of the Company		**(4,379,631)**	2,324,518
Non-controlling interests		**(21,789)**	(48,012)
		(4,401,420)	2,276,506
Total comprehensive (expenses)/income attributable to:			
Owners of the Company		**(4,481,811)**	2,106,449
Non-controlling interests		**(31,670)**	(56,764)
		(4,513,481)	2,049,685
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12	**HK cents**	HK cents (Restated)
Basic		**(89.82)**	46.66
Diluted		**(89.82)**	45.87

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**997,534**	1,001,136
Investment properties	14	**106,427**	110,011
Prepaid land lease payments	15	**348,646**	436,038
Intangible assets	16	**26,451**	102,945
Investments in joint ventures	17	**108,288**	3,748,371
Investments in associates	18	**1,050,857**	197,759
Available-for-sale investments	19	**31,068**	36,916
Loans receivable	23	**25,001**	37,046
Other non-current assets	24	**41,062**	45,106
Deferred tax assets	31	**5,698**	30,000
Total non-current assets		**2,741,032**	5,745,328
CURRENT ASSETS			
Inventories	20	**1,395,870**	1,686,570
Trade receivables	21	**860,599**	1,619,599
Bills receivable	22	**82,491**	129,345
Short-term loans receivable	23	**369,545**	995,513
Prepayments, deposits and other receivables	24	**2,540,530**	979,157
Due from directors	25	**500**	3,282
Due from a joint venture	40	**–**	195,051
Due from associates	40	**11,261**	–
Due from other related parties	40	**182,683**	–
Pledged deposits	26	**361,811**	413,488
Cash and cash equivalents	26	**1,308,082**	2,515,974
Total current assets		**7,113,372**	8,537,979
CURRENT LIABILITIES			
Trade payables	27	**1,784,925**	1,916,195
Bills payable	28	**1,321,077**	1,351,701
Other payables and accruals	29	**1,605,686**	2,081,268
Interest-bearing bank and other borrowings	30	**1,123,095**	1,205,263
Due to associates	40	**268,420**	706
Due to a joint venture	40	**4,406**	2,359
Due to other related party	40	**50,538**	–
Tax payable		**90,734**	84,004
Total current liabilities		**6,248,881**	6,641,496
NET CURRENT ASSETS		**864,491**	1,896,483
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,605,523**	7,641,811

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,605,523**	7,641,811
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*30*	**–**	155,519
Deferred tax liabilities	*31*	**57,493**	53,255
Other non-current liabilities		**9,720**	16,342
Total non-current liabilities		**67,213**	225,116
Net assets		**3,538,310**	7,416,695
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*32*	**50,326**	43,544
Reserves		**3,492,582**	7,283,171
		3,542,908	7,326,715
Non-controlling interests		**(4,598)**	89,980
Total equity		**3,538,310**	7,416,695

Jiang Chao
Director

Leung Siu Kee
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to owners				
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000
At 1 January 2016		43,544	516,331	390	131,173	(2,266)
Loss for the year		–	–	–	–	–
Other comprehensive (expenses)/income for the year:						
Gain on property revaluation, net of tax		–	–	–	30,362	–
Changes in fair value of available-for-sale investments	19	–	–	–	–	(425)
Exchange differences related to foreign operations		–	–	–	–	–
Reclassification adjustment for a foreign operation disposed of during the year	35	–	–	–	–	–
Share of other comprehensive expenses of:						
Joint ventures		–	–	–	–	–
Associates		–	–	–	–	–
Total comprehensive (expenses)/income for the year		–	–	–	30,362	(425)
Issue of shares upon rights issue	32	6,532	691,471	–	–	–
Issue of shares upon exercise of share options	33	250	27,401	–	–	–
Equity-settled share option arrangements	33	–	–	–	–	–
Appropriation to statutory reserve		–	–	–	–	–
Acquisition of a subsidiary	34	–	–	–	–	–
Capital contribution by non-controlling interests		–	–	–	–	–
Acquisition of non-controlling interests		–	–	–	–	–
At 31 December 2016		50,326	1,235,203*	390*	161,535*	(2,691)*

* These reserve accounts comprise the consolidated reserves of HK$3,492,582,000 (2015: HK$7,283,171,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

of the Company									
Statutory reserve HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Capital redemption reserve HK$'000	Other reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
188,482	122,167	43,564	1,870	1,743,603	24,573	4,513,284	7,326,715	89,980	7,416,695
–	–	–	–	–	–	(4,379,631)	(4,379,631)	(21,789)	(4,401,420)
–	–	–	–	–	–	–	30,362	–	30,362
–	–	–	–	–	–	–	(425)	–	(425)
–	–	–	–	–	(122,395)	–	(122,395)	(9,881)	(132,276)
–	–	–	–	–	19,048	–	19,048	–	19,048
–	–	–	–	–	(493)	–	(493)	–	(493)
–	–	–	–	–	(28,277)	–	(28,277)	–	(28,277)
–	–	–	–	–	(132,117)	(4,379,631)	(4,481,811)	(31,670)	(4,513,481)
–	–	–	–	–	–	–	698,003	–	698,003
–	(9,055)	–	–	–	–	–	18,596	–	18,596
–	41,145	–	–	–	–	–	41,145	–	41,145
10,748	–	–	–	–	–	(10,748)	–	–	–
–	–	–	–	–	–	–	–	4,504	4,504
–	–	–	–	–	–	–	–	4,498	4,498
–	–	–	–	(59,740)	–	–	(59,740)	(71,910)	(131,650)
199,230*	154,257*	43,564*	1,870*	1,683,863*	(107,544)*	122,905*	3,542,908	(4,598)	3,538,310

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

		Attributable to owners				
	Notes	Issued capital HK$'000	Share premium account HK$'000	Contributed surplus HK$'000	Asset revaluation reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000
At 1 January 2015		42,950	414,832	390	105,394	(1,889)
Profit/(loss) for the year		–	–	–	–	–
Other comprehensive income for the year:						
Gain on property revaluation, net of tax		–	–	–	25,779	–
Changes in fair value of available-for-sale investments	*19*	–	–	–	–	(377)
Exchange differences on translation of foreign operations		–	–	–	–	–
Share of other comprehensive loss of a joint venture		–	–	–	–	–
Total comprehensive income/(expense) for the year		–	–	–	25,779	(377)
Issue of shares upon exercise of share options	*32*	594	101,499	–	–	–
Equity-settled share option arrangements	*33*	–	–	–	–	–
Appropriation to statutory reserve		–	–	–	–	–
Capital contribution by non-controlling interests		–	–	–	–	–
Partial disposal of an interest in a subsidiary without loss of control	*18*	–	–	–	–	–
Disposal of a subsidiary	*35*	–	–	–	–	–
At 31 December 2015		43,544	516,331	390	131,173	(2,266)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2016

of the Company

Statutory reserve HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Capital redemption reserve HK$'000	Other reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
160,023	100,918	43,564	1,870	–	268,044	2,217,225	3,353,321	6,595	3,359,916
–	–	–	–	–	–	2,324,518	2,324,518	(48,012)	2,276,506
–	–	–	–	–	–	–	25,779	–	25,779
–	–	–	–	–	–	–	(377)	–	(377)
–	–	–	–	–	(188,153)	–	(188,153)	(8,752)	(196,905)
–	–	–	–	–	(55,318)	–	(55,318)	–	(55,318)
–	–	–	–	–	(243,471)	2,324,518	2,106,449	(56,764)	2,049,685
–	(28,342)	–	–	–	–	–	73,751	–	73,751
–	49,591	–	–	–	–	–	49,591	–	49,591
28,459	–	–	–	–	–	(28,459)	–	–	–
–	–	–	–	–	–	–	–	122,889	122,889
–	–	–	–	1,743,603	–	–	1,743,603	1,426,584	3,170,187
–	–	–	–	–	–	–	–	(1,409,324)	(1,409,324)
188,482	122,167	43,564	1,870	1,743,603	24,573	4,513,284	7,326,715	89,980	7,416,695

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(4,356,068)**	2,311,011
Adjustments for:			
Bank and other interest income	*5*	**(92,137)**	(103,108)
Finance costs	*7*	**83,995**	103,319
Share of losses of joint ventures		**138,969**	184,491
Share of losses of associates		**171,877**	660
Elimination of unrealised profits on transactions with associates and a joint venture		**5,230**	25,741
Realisation of unrealised profits on transactions with a joint venture		**(25,741)**	–
Depreciation	*6*	**72,726**	88,015
Changes in fair value of investment properties	*5*	**(3,549)**	(3,734)
Amortisation of patents, licences and computer software	*6*	**3,486**	6,280
Amortisation of product development costs	*6*	**94,387**	65,131
Amortisation of prepaid land lease payments	*6*	**7,773**	7,658
Loss/(gain) on disposal of items of property, plant and equipment	*6*	**9,653**	(1,118)
Gain recognised for the contribution of certain buildings and a parcel of land as the investment in a joint venture	*5*	**(15,321)**	–
Gain on loss of control of subsidiaries	*35*	**(154,089)**	(2,635,391)
Loss on disposal of certain interests in a joint venture	*17*	**1,837,114**	–
Gain on disposal of available-for-sale investments	*5*	**(33,013)**	–
Impairment of trade receivables	*6*	**249,558**	12,840
Impairment of investments in associates	*6*	**793,445**	–
Impairment of inventories to net realisable value	*6*	**94,388**	198,519
Impairment of an unlisted available-for-sale investment	*6*	**2,365**	16,169
Equity-settled share option expense	*6*	**41,145**	49,591
		(1,073,807)	326,074
Increase in other non-current assets		**(2,931)**	(2,842)
Decrease in inventories		**116,208**	741,545
Decrease in trade receivables		**468,921**	1,360,319
Decrease in bills receivable		**46,319**	406,604
Decrease/(increase) in loans receivable		**598,811**	(791,269)
Increase in prepayments, deposits and other receivables		**(834,320)**	(9,744)
Decrease/(increase) in amounts due from directors		**2,760**	(3,314)
Increase in amounts due from associates		**(11,434)**	–
Increase in amounts due from other related parties		**(182,683)**	–
Decrease in trade payables		**(90,670)**	(174,093)
Decrease in bills payable		**(1,021)**	(805,424)
Decrease in other payables and accruals		**(449,085)**	(707,873)
Increase/(decrease) in amounts due to associates		**271,852**	(3,101)
Increase in an amount due to a joint venture		**194,290**	70,501
Increase in an amount due to other related party		**51,316**	–
Decrease in other non-current liabilities		**(3,174)**	(17,303)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash (used in)/generated from operations		**(898,648)**	390,080
Tax paid		**(12,685)**	(41,920)
Net cash flows (used in)/from operating activities		**(911,333)**	348,160
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**92,137**	103,108
Purchases of items of property, plant and equipment		**(135,527)**	(139,409)
Proceeds from disposal of items of property, plant and equipment		**9,773**	4,932
Proceeds from partial disposal of interests in subsidiaries without loss of control		**–**	3,170,187
Decrease in an amount due to a joint venture		**–**	(2,048,372)
Net inflow/(outflow) of cash in respect of the disposal of subsidiaries	*35*	**119,361**	(866,635)
Net inflow of cash in respect of the acquisition of a subsidiary	*34*	**2,362**	–
Additions to product development costs	*16*	**(24,696)**	(67,328)
Additions to prepaid land lease payments		**(4,220)**	(255,308)
Additional investments in associates		**(41,651)**	(149,446)
Purchases of available-for-sale investments		**–**	(918)
Withdrawal of an available-for-sale investment		**6,751**	1,188
Acquisition of non-controlling interests	*18*	**(75,853)**	–
Cash transferred to restricted bank deposits		**(1,322,243)**	(1,848,391)
Cash transferred from restricted bank deposits		**1,348,865**	2,047,698
Prepayment for a potential equity investment	*24(i)*	**(930,610)**	–
Net cash used in investing activities		**(955,551)**	(48,694)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	*32*	**716,599**	73,751
Contribution from non-controlling interests		**4,498**	122,889
New bank and other loans		**2,507,884**	5,946,662
Repayment of bank and other loans		**(2,453,644)**	(6,777,090)
Interest paid		**(83,995)**	(75,524)
Net cash flows generated from/(used in) financing activities		**691,342**	(709,312)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,175,542)**	(409,846)
Cash and cash equivalents at beginning of year		**2,515,974**	2,959,143
Effect of foreign exchange rate changes, net		**(32,350)**	(33,323)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,308,082**	2,515,974
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*26*	**1,308,082**	2,515,974

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE AND GROUP INFORMATION

Coolpad Group Limited is a limited liability company incorporated in the Cayman Islands. The registered address of the Company is Royal Bank House – 3rd Floor, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands.

The Company and its subsidiaries (collectively referred to as the "Group") are wireless solution and equipment providers in Mainland China. During the year, the Group continued to focus on the production and sale of smartphones, the provision of wireless application services and financing services.

INFORMATION ABOUT SUBSIDIARIES

Particulars of the Company's subsidiaries are as follows:

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Yulong Infotech Inc.	The British Virgin Islands ("BVI")/ Mainland China	US$50,000	100	–	Investment holding
Digital Tech Inc.	BVI/ Mainland China	US$10	100	–	Investment holding
Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. ("Yulong Shenzhen")*	The People's Republic of China ("PRC")/ Mainland China	RMB503,000,000	–	100	Sale of mobile phones
Coolpad Software Tech (Shenzhen) Co., Ltd. ("Shenzhen Coolpad")*	PRC/ Mainland China	HK$10,000,000	–	100	Provision of product design and software development for mobile handsets
Dongguan Yulong Telecommunication Tech Co., Ltd. ("Dongguan Yulong")**	PRC/ Mainland China	RMB120,000,000	–	100	Manufacture of mobile phones
Xi'an Coolpad Software Tech Co., Ltd. ("Xi'an Coolpad")**	PRC/ Mainland China	RMB8,000,000	–	100	Provision of product design and software development for mobile handsets

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1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows (continued):

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Coolpad Overseas Limited	Hong Kong	US$1,550,000	–	60	Sale of mobile phones
Coolpad Technologies Inc.	United States	US$2,300,000	–	100	Sale of mobile phones
Shenzhen Coolpad Technologies Co., Ltd. ("SZ Coolpad Technologies")**	PRC/ Mainland China	RMB100,000,000	–	100	Provision of product design and software development for mobile handsets
Coolpad France	France	EUR197,000	–	100	Sale of mobile phones
Yulong Technologies (Hong Kong) Co., Limited	Hong Kong	US$1,000,000	–	100	Sale of mobile phones
China Wireless Technologies Limited	Cayman Islands	US$1	–	100	Investment holding
China Wireless Technologies Limited	Hong Kong	HK$1,000	–	100	Investment holding
Xi'an Coolpad Telecommunications Equipment Co., Ltd.**	PRC/ Mainland China	RMB300,000,000	–	100	Production of mobile phones
Nanjing Coolpad Software Tech Co., Ltd. ("Nanjing Coolpad")**	PRC/ Mainland China	RMB100,000,000	–	100	Provision of product design and software development for mobile handsets
Shenzhen Huiying Finance Co., Ltd. ("Huiying")***	PRC/ Mainland China	RMB300,000,000	–	100	Provision of micro-credit financing service
Coolpad Telecommunication Scientific (Zhengzhou) Co., Ltd. ("Coolpad Telecommunication Zhengzhou")*	PRC/ Mainland China	HK$50,000,000	–	100	Provision of product design and software development, manufacture and sale of mobile phones

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1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows (continued):

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhengzhou Coolpad Software Tech Co., Ltd. ("Zhengzhou Coolpad Software")**	PRC/ Mainland China	RMB80,000,000	–	100	Provision of product design and software development for mobile handsets
Zhengzhou Yulong Investment Management Co., Ltd.**	PRC/ Mainland China	RMB100,000	–	60	Investment holding and property development
Nanjing Yulong Investment Management Co., Ltd.***	PRC/ Mainland China	RMB100,000,000	–	100	Investment holding and property development
Zhengzhou Coolpad Properties Co., Ltd.**	PRC/ Mainland China	RMB100,000	–	60	Investment holding and property development
Dongguan Coolpad Software Tech Co., Ltd. ("Dongguan Coolpad Software")**	PRC/ Mainland China	RMB100,000,000	–	100	Provision of product design and software development for mobile handsets
Shenzhen Huihengying Investment Management Co., Ltd.***	PRC/ Mainland China	RMB250,000	–	100	Investment holding
Shenzhen Juhechengzhang Investment Partnership Co., Ltd. ("Shenzhen Juhechengzhang")**	PRC/ Mainland China	RMB2,300,000	–	100	Investment holding
Hunan Helongsheng Trading Co., Ltd.**	PRC/ Mainland China	RMB10,000,000	–	60	Sale of mobile phones
Fujian Helongsheng Telecommunication Scientific Co., Ltd.**	PRC/ Mainland China	RMB4,700,000	–	80	Sale of mobile phones

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1. CORPORATE AND GROUP INFORMATION (CONTINUED)

INFORMATION ABOUT SUBSIDIARIES (CONTINUED)

Particulars of the Company's subsidiaries are as follows (continued):

Company	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Liaoning Hekusheng Scientific Co., Ltd.**	PRC/ Mainland China	RMB6,300,000	–	55	Sale of mobile phones
Coolpad Information Technologies Research Institute (Shenzhen) Co., Ltd.***	PRC/ Mainland China	RMB15,000,000	–	100	Product design and software development

* The subsidiaries were registered as wholly-owned foreign enterprises under the PRC law.

** The subsidiaries were registered as co-operative joint ventures under the PRC law.

*** The subsidiaries were registered as limited liability companies under the PRC law.

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 the 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.

GOING CONCERN BASIS

The Group reported a consolidated net loss of HK$4,401 million and a net operating cash outflow of approximately HK$911 million for the year ended 31 December 2016. The unrestricted cash and cash equivalent balance decreased by HK$1,208 million from HK$2,516 million as at 31 December 2015 to HK$1,308 million as at 31 December 2016.

As at 31 December 2016, the Group recorded a net current asset position of HK$864 million. The Group continued suffering significant operating losses subsequent to 31 December 2016 and its liquidity position continued to deteriorate. Certain lenders did not renew the banking facilities with the Group upon the expiry of the loan agreements (note 45) and certain vendors had filed lawsuits against the Group or requested immediate repayments (note 37).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.1 BASIS OF PREPARATION (CONTINUED)

GOING CONCERN BASIS (CONTINUED)

The circumstances stated above have indicated the existence of material uncertainties which gave rise to a significant concern on the Group's ability to continue as a going concern such that it may not be able to realise its assets and discharge its liabilities in the normal course of business.

In light of the aforementioned circumstances, the Board has contemplated the Group's available sources of funding and the liquidity position in the coming future and the possibility to improve the Group's performance so as to evaluate whether the Group would have sufficient financial resources to continue its business as a going concern. Certain measures have been taken to mitigate the liquidity pressure and to improve the Group's financial position which include, but not limited to, the following:

(i) The Group has been actively negotiating with the banks to secure the renewals of the Group's short term bank loans and long term bank loans when due to meet its liabilities when fall due. In 2017, one PRC bank had confirmed to the Group in writing regarding their agreements to renew the short-term bank loans with the Group totalling HK$452 million.

(ii) The Group is identifying various options for financing the Group's working capital and commitments in the foreseeable future by issuance of shares and debt instruments. On 17 October 2017, the Group entered into the agreement with the subscriber in respect of the issue of the convertible bonds with the nominal value of HK$582 million. On 19 October 2017, the Group received a deposit from the bond subscriber amounting to HK$58 million and expected to receive the funds in full upon the resumption of the trading of the Company's shares.

(iii) The Group has accelerated its disposal plan of its property, plant and equipment and leasehold land ("Group Properties"). On 31 October 2017, the Group has successfully entered into an agreement to dispose of a piece of leasehold land and received cash of HK$46 million. Apart from selling the Group Properties, the Group entered into a cooperative development agreement with a third party real estate development company to jointly develop the first, second and third phases of urban renovation project of Coolpad Information Harbour, which are expected to save the Group's capital expenditures in 2018.

(iv) The Group will revisit its operating strategies and shift its sales effort and focuses to the high growth overseas markets and expand the cooperation with local business partners and continue to take measures to tighten cost controls over various production costs and expenses with the aim to attain profitable and positive cash flow operations, including scaled down the operation, human resources optimisation and containment of capital expenditures.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.1 BASIS OF PREPARATION (CONTINUED)

GOING CONCERN BASIS (CONTINUED)

Notwithstanding the above, significant multiple uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above. Whether the Group will be able to continue as a going concern would depend upon the Group's ability to generate adequate financing and operating cash flows through:

(i) the successful negotiations with the lenders for the renewal of or extension for repayment of outstanding borrowings; (ii) the successful obtaining of additional new sources of financing as and when needed; (iii) the successful implementation and acceleration of its disposal plan of the Group Properties, including timely execution of definitive sales agreements and timely collection of the disposal proceeds, and the successful deferral of capital expenditures; (iv) the successful implementation of strategic expansion in targeted overseas markets and launch of new mobile phone models with local business partners and the achievement of sales targets; (v) the successful launch of the cost reduction campaign so as to generate operating cash inflows; (vi) the successful negotiation with the Group's existing lenders such that no action will be taken by the relevant lenders to demand immediate repayment of the borrowings in any breach of loan covenants or default; and (vii) the successful maintenance of relationship with the suppliers of the Group, in particular those in relation to the Group's mobile phone business such that no actions will be taken by those suppliers against the Group should the Group not be able to meet all the payment obligations on a timely basis.

Should the Group fail to realise its plans to improve its financial position, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those currently recorded in the consolidated statement of financial position as at 31 December 2016. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in these consolidated financial statements.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.1 BASIS OF PREPARATION (CONTINUED)

BASIS OF CONSOLIDATION (CONTINUED)

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 above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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 new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to numbers of HKFRSs*

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

NOTES TO FINANCIAL STATEMENTS

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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.

Amendments to HKFRS 2	*Clarifications and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]
HK (IFRIC) – 22	*Foreign Currency Transactions and Advance Consideration*[2]
HK (IFRIC) – 23	*Uncertainty over Income Tax Treatments*[3]
Amendment to HKAS 40	*Transfers of Investment Property*[2]
Amendments to HKFRS 1 included in Annual Improvements 2014-2016 Cycle	*First-time Adoption of Hong Kong Financial Reporting Standards*[2]
Amendments to HKFRS 12 included in Annual Improvements 2014-2016 Cycle	*Disclosure of interests in Other Entities*[1]
Amendments to HKAS 28 included in Annual Improvements 2014-2016 Cycle	*Investments in Associates and Joint Ventures*[2]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Other than as further explained below, the directors do not anticipate that the application of the new and revised HKFRSs above will have a material effect on the Group's consolidated financial statements and the disclosure.

NOTES TO FINANCIAL STATEMENTS

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKFRS 4 address issues arising from the different effective dates of HKFRS 9 and the upcoming new insurance contracts standard. The amendments introduce two alternative options that allow entities issuing contracts within the scope of HKFRS 4 for the adoption of HKFRS 9, notably a temporary exemption and an overlay approach. The temporary exemption enables entities whose activities are predominantly connected with insurance to defer the implementation date of HKFRS 9 until the earlier of the effective date of the new insurance contracts standard and annual reporting periods beginning on or after 1 January 2021. The overlay approach allows entities applying HKFRS 9 from 2018 onwards to remove from profit or loss the effects arising from the adoption of HKFRS 9 and reclassify the amounts to other comprehensive income for designated financial assets. The Group expects to adopt the amendments from 1 January 2018.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard.

NOTES TO FINANCIAL STATEMENTS

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material.

The Group's principal activities consist of the production and sale of smartphones, the provision of wireless application services and financing services. Based on the assessment performed, the adoption of HKFRS 15 has no significant impact on the Group.

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group will adopt the amendments from 1 January 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group will adopt the amendments from 1 January 2017.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures are included in profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associates or the joint ventures, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or the joint ventures, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENT

The Group measures its investment properties, certain buildings classified as property, plant and equipment and certain available-for-sale investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-FINANCIAL ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, investment properties and certain buildings classified as property, plant and equipment), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset and other comprehensive income in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (CONTINUED)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss and other comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss and other comprehensive income. Any subsequent revaluation surplus is credited to profit or loss and other comprehensive income to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of the previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4.5%
Leasehold improvements	Over the shorter of the lease terms and 20%
Furniture, fixtures and equipment	18% to 30%
Motor vehicles	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss and other comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress mainly represents buildings and manufacturing plants under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost mainly comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENT PROPERTIES

Investment properties are interests in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

INTANGIBLE ASSETS (OTHER THAN GOODWILL)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Product development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products from two to five years, commencing from the date when the products are put into commercial production.

Patents and licences

Purchased patents and licences are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives ranging from three to five years.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

OPERATING LEASES

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

INVESTMENTS AND OTHER FINANCIAL ASSETS

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS AND OTHER FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial investments (continued)

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss and other comprehensive income in other gains or losses. Interest earned whilst holding the available-for-sale financial investment is reported as interest income and is recognised in the statement of profit or loss and other comprehensive income as other income in accordance with the policy set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss and other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Financial assets carried at amortised cost (continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance amount. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

Available-for-sale financial investments (continued)

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

FINANCIAL LIABILITIES

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings and amounts due to associates, a joint venture and other related party.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss and other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

CASH AND CASH EQUIVALENTS

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss and other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROVISIONS (CONTINUED)

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

INCOME TAX

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX (CONTINUED)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

GOVERNMENT GRANTS AND SUBSIDIES

Grants and subsidies are recognised at their fair value where there is reasonable assurance that the grants or subsidies will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant or subsidy relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) service income is derived principally from the installation of mobile phone applications, which is recognised in the period in which the service is performed, provided that no significant obligations remain with the Group and the collection of the receivables is reasonably assured;

(c) rental income, on a time proportion basis over the lease terms; and

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENTS

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. For grant of share options, the fair value is determined by an external valuer using a binomial model. For grant of award shares, the fair value is determined by the market price of the Company's shares at the grant date.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SHARE-BASED PAYMENTS (CONTINUED)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

OTHER EMPLOYEE BENEFITS

Pension scheme

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

BORROWING COSTS

Borrowing costs are expensed in the period in which they are incurred.

DIVIDENDS

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCIES

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of the subsidiaries in Mainland China is Renminbi ("RMB"). As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates prevailing at the end of the reporting period and profit or loss and other comprehensive income are translated into Hong Kong dollars at the weighted average exchange rate for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of the subsidiaries in Mainland China are translated into Hong Kong dollars at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of the subsidiaries in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rate for the year.

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Income tax

Deferred tax is provided using the liability method, on all temporary differences as at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities have been established for withholding tax that would be payable on certain profits of the subsidiaries in the PRC to be repatriated and distributed by way of dividends as the directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. If these undistributed earnings of subsidiaries in the PRC are considered to be repatriated and distributed by way of dividends, the deferred tax charge and deferred tax liabilities would have been increased by the same amount of approximately HK$337,155,000 (2015: HK$357,756,000) (note 31).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

JUDGEMENTS (CONTINUED)

Investment properties

The Group's investment properties at fair value are all held to earn rental income and/or for capital appreciation and they are considered to be held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Accordingly, deferred tax on the Group's investment properties at fair value is measured to reflect the tax consequences of recovering the carrying amounts of the investment properties through use.

Loss of control over a former subsidiary

As stated in note 18 to the financial statements, the Group entered into several equity disposal transactions with an independent party, as a result of which, the Group lost its control over a former subsidiary. In the view of management, terms and conditions of each equity transaction were contemplated individually taking into the account the then circumstances surrounding the market and in the best interest of the shareholders. Each transaction itself was economically justified. As such, those equity transactions were accounted for as a separate transaction as part of the transaction in which the loss of control occurred.

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Going concern consideration

In the process of applying the Group's accounting policies, apart from those involving estimations, management has prepared the consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the coming year, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors consider that the Group has the capability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast a significant doubt upon the going concern assumption are set out in note 2.1 to the consolidated financial statements.

Provision for product warranty

The Group provides one-year warranty on its products sold to its customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate. At 31 December 2016, the best estimate of the carrying amount of provision for product warranty was HK$34,398,000 (2015: HK$43,941,000) (note 29).

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2016, the best estimate of the carrying amount of capitalised product development costs was HK$18,551,000 (2015: HK$90,951,000) (note 16).

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the estimated net realisable value of the inventories. The determination of the written-down amount involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimates, such differences will have an impact on the carrying amounts of inventories and the write-down/write-back in the period in which such estimate has been changed. At 31 December 2016, the carrying amount of inventories was approximately HK$1,395,870,000 (2015: HK$1,686,570,000) after netting off the allowance for inventories of approximately HK$257,933,000 (2015: HK$304,529,000).

Impairment of trade receivables

The provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectibility and ageing analysis of the outstanding receivables and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. At 31 December 2016, the provision recognised for trade receivables was HK$267,597,000 (2015: HK$19,250,000) (note 21).

Deferred tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of accumulated unrecognised tax losses at 31 December 2016 was HK$289,971,000 (2015: HK$307,529,000). Further details are set out in note 31 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

ESTIMATION UNCERTAINTY (CONTINUED)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions at arm's length of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate to calculate the present values of those cash flows. Further details are set out in note 18 to the financial statements.

4. 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 the 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 financing 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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss, which is a measure of adjusted (loss)/profit before tax. The adjusted (loss)/profit before tax is measured consistently with the Group's (loss)/profit before tax except that interest income, gain on loss of control of subsidiaries, loss on disposal of an investment in a joint venture, impairment of investments in associates, finance costs and share of losses of associates and joint ventures 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, amounts due from directors, an amount due from a joint venture, amounts due from associates, amounts due from other related parties, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2016

	Mobile phone HK$'000	Property investment HK$'000	Financing service HK$'000	Total HK$'000
Sales to external customers	7,864,075	–	105,402	7,969,477
Other revenue and gains	346,301	11,451	–	357,752
Total	8,210,376	11,451	105,402	8,327,229
Segment results	(1,637,221)	10,503	63,897	(1,562,821)
Reconciliation:				
Interest income				92,137
Gain on loss of control of a subsidiary				154,089
Loss on disposal of an investment in a joint venture				(1,837,114)
Impairment of investments in associates				(793,445)
Finance costs				(83,995)
Share of losses of joint ventures				(138,969)
Share of losses of associates				(171,877)
Corporate and other unallocated expenses				(14,073)
Loss before tax				(4,356,068)
Segment assets	6,194,969	109,054	490,133	6,794,156
Reconciliation:				
Investments in joint ventures				108,288
Investments in associates				1,050,857
Corporate and other unallocated assets				1,901,103
Total assets				9,854,404
Segment liabilities	4,719,120	1,619	500	4,721,239
Reconciliation:				
Corporate and other unallocated liabilities				1,594,855
Total liabilities				6,316,094
Other segment information:				
Impairment of trade receivables	249,558	–	–	249,558
Write-down of inventories to net realisable value	94,388	–	–	94,388
Fair value gain on investment properties	–	3,549	–	3,549
Product warranty provision	73,423	–	–	73,423
Depreciation and amortisation	177,995	–	377	178,372
Capital expenditure*	177,139	–	–	177,139

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2015

	Mobile phone HK$'000	Property investment HK$'000	Financing 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)
Reconciliation:				
Interest income				103,108
Gain on loss of control of a subsidiary				2,635,391
Finance costs				(103,319)
Share of loss of a joint venture				(184,491)
Share of losses of associates				(660)
Corporate and other unallocated expenses				(13,673)
Profit before tax				2,311,011
Segment assets	5,938,514	111,685	1,092,267	7,142,466
Reconciliation:				
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
Reconciliation:				
Corporate and other unallocated liabilities				1,346,392
Total liabilities				6,866,612
Other segment information:				
Impairment of trade receivables	12,840	–	–	12,840
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.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

4. OPERATING SEGMENT INFORMATION (CONTINUED)

GEOGRAPHICAL INFORMATION

(a) *Revenue from external customers*

	2016 HK$'000	2015 HK$'000
Mainland China	**5,379,788**	12,463,504
Overseas	**2,589,689**	2,204,362
	7,969,477	14,667,866

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

(b) *Non-current assets*

	2016 HK$'000	2015 HK$'000
Mainland China	**2,664,675**	5,633,144
Overseas	**14,590**	8,222
	2,679,265	5,641,366

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

Revenue from a major customer individually amounted to 10% or more of the Group's revenue is as follows (2015: Nil):

	Operating segment	2016 HK$'000
Customer A	Mobile phone	**1,038,170**

NOTES TO FINANCIAL STATEMENTS

31 December 2016

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Notes	**2016 HK$'000**	2015 HK$'000
Revenue			
Sale of mobile phones and related accessories		**7,661,734**	14,404,768
Wireless application service income		**202,341**	235,990
Financing service income		**105,402**	27,108
		7,969,477	14,667,866
Other income			
Bank interest income		**41,897**	103,108
Other interest income*		**50,240**	–
Total bank and other interest income		**92,137**	103,108
Government grants and subsidies**		**250,314**	279,934
Gross rental income		**7,902**	8,614
Others		**47,653**	76,491
		398,006	468,147
Gains			
Fair value gain on investment properties	*14*	**3,549**	3,734
Gain on disposal of items of property, plant and equipment		**–**	1,118
Gain recognised for the contribution of certain buildings and a parcel of land as the investment in a joint venture	*17*	**15,321**	–
Gain on disposal of an available-for-sale investment		**33,013**	–
		51,883	4,852
		449,889	472,999

* Other interest income comprised a sum of interest surcharge of HK$39,363,000 in connection with certain prepayments for a potential equity investment (note 24 (i)). Details of the prepayments are set out in note 24 (i) to the financial statements.

The remaining interest income of HK$10,877,000 represented the surcharge pertaining to a prepayment of RMB300 million (HK$350,757,000) made to a vendor for the procurement of mobile phone components in August 2016. The procurement arrangement was subsequently cancelled in December 2016 and the prepayment was accordingly refunded to the Group in the same month.

** 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.

NOTES TO FINANCIAL STATEMENTS

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6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold		**7,520,606**	12,880,540
Depreciation	*13*	**72,726**	88,015
Amortisation of patents, licences and computer software*	*16*	**3,486**	6,280
Amortisation of prepaid land lease payments	*15*	**7,773**	7,658
Research and development costs*:			
Product development costs amortised	*16*	**94,387**	65,131
Current year expenditure		**458,417**	523,273
		552,804	588,404
Operating lease rental		**21,974**	31,851
Auditor's remuneration		**5,783**	4,532
Employee benefit expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**560,650**	726,534
Staff welfare expenses		**43,756**	56,377
Pension scheme contributions (defined contribution scheme)		**52,307**	63,879
Equity-settled share option expense	*33*	**41,145**	49,591
		697,858	896,381
Loss on disposal of certain interests in a joint venture	*18*	**1,837,114**	–
Impairment of trade receivables#	*21*	**249,558**	12,840
Impairment of an unlisted available-for-sale investment#	*19*	**2,365**	16,169
Impairment of investments in associates#	*18*	**793,445**	–
Loss/(gain) on disposal of items of property, plant and equipment#		**9,653**	(1,118)
Write-down of inventories to net realisable value&		**94,388**	198,519
Direct operating expenses arising on rental-earning investment properties		**948**	1,034
Product warranty provision&	*29*	**73,423**	76,241
Foreign exchange differences, net#		**21,769**	137,076

* Included in "Administrative expenses" in profit or loss and other comprehensive income

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

Included in "Other expenses" in profit or loss and other comprehensive income

NOTES TO FINANCIAL STATEMENTS

31 December 2016

7. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on:		
Bank and other borrowings	**57,435**	102,047
Discounted bills receivable	**26,560**	1,272
	83,995	103,319

There were no capitalised interest expenses during the year (2015: Nil).

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2016 HK$'000	2015 HK$'000
Fees	**380**	391
Other emoluments:		
Salaries, allowances and benefits in kind	**12,787**	12,033
Performance related bonuses	**1,505**	1,444
Equity-settled share option expense	**11,775**	3,463
Pension scheme contributions	**82**	103
	26,149	17,043
	26,529	17,434

In prior years, certain directors were granted options in respect of their services to the Group under the share option scheme of the Company, further details of which are set out in note 33 to the financial statements. The fair value of such options, which has been recognised in profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

8. DIRECTORS' REMUNERATION (CONTINUED)

(A) INDEPENDENT NON-EXECUTIVE DIRECTORS

The fees paid to the Group's independent non-executive directors during the year were as follows:

	Fees HK$'000	Equity-settled share option expense HK$'000	Total remuneration HK$'000
2016			
Dr. HUANG Dazhan	**120**	**–**	**120**
Mr. XIE Weixin	**140**	**–**	**140**
Mr. CHAN King Chung	**120**	**–**	**120**
	380	**–**	**380**
2015			
Dr. HUANG Dazhan	120	–	120
Mr. XIE Weixin	151	–	151
Mr. CHAN King Chung	120	–	120
	391	–	391

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

(B) EXECUTIVE DIRECTORS

	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2016					
Mr. GUO Deying*	**3,245**	**–**	**–**	**14**	**3,259**
Mr. JIANG Chao	**2,806**	**488**	**–**	**21**	**3,315**
Mr. LI Bin&	**3,060**	**1,017**	**11,775**	**35**	**15,887**
Mr. JIA Yueting&&&/***	**1,169**	**–**	**–**	**–**	**1,169**
Mr. LIU Hong&&&/****	**1,169**	**–**	**–**	**–**	**1,169**
Mr. LIU Jiangfeng**/#	**900**	**–**	**–**	**12**	**912**
Mr. Abulikemu Abulimiti**/#	**438**	**–**	**–**	**–**	**438**
	12,787	**1,505**	**11,775**	**82**	**26,149**

NOTES TO FINANCIAL STATEMENTS

31 December 2016

8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS (CONTINUED)

	Salaries, allowances and benefits in kind HK$'000	Performance related bonuses HK$'000	Equity-settled share option expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
2015					
Mr. GUO Deying	5,228	–	–	32	5,260
Mr. JIANG Chao	2,987	563	–	31	3,581
Mr. LI Wang[&&]	747	318	623	9	1,697
Mr. LI Bin	2,241	563	2,840	31	5,675
Mr. JIA Yueting	415	–	–	–	415
Mr. LIU Hong	415	–	–	–	415
	12,033	1,444	3,463	103	17,043

Resigned as executive directors on 31 August 2017

* Resigned as an executive director and the chairman on 5 August 2016

** Appointed as executive directors on 16 August 2016

*** Appointed as the chairman on 5 August 2016 and resigned as an executive director on 17 November 2017

**** Appointed as the chairman on 17 November 2017, resigned as an executive director on 19 January 2018 and resigned as a director on 3 April 2018

& Resigned as an executive director on 1 March 2017

&& Resigned as an executive director on 18 January 2016

&&& Appointed as executive directors on 17 August 2015

NOTES TO FINANCIAL STATEMENTS

31 December 2016

8. DIRECTORS' REMUNERATION (CONTINUED)

(B) EXECUTIVE DIRECTORS (CONTINUED)

Mr. Zhang Wei was appointed as an executive director on 20 March 2017 and resigned as an executive director on 5 January 2018. There was no remuneration paid to Mr. Zhang Wei by the Group during the year ended 31 December 2016 (2015: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2015: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2015: three directors), details of whose remuneration is set out in note 8 above. Details of the remuneration for the year of the remaining four (2015: two) highest paid employees who are neither director nor chief executive of the Company are as follows:

	Group	
	2016	2015
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**6,851**	2,388
Performance related bonuses	**1,370**	1,005
Equity-settled share option expense	**12,450**	1,752
Pension scheme contributions	**167**	38
	20,838	5,183

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	2016	2015
	HK$'000	HK$'000
HK$2,500,000 – HK$3,000,000	**–**	2
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**–**	–
HK$4,000,001 – HK$4,500,000	**1**	–
HK$4,500,001 – HK$5,000,000	**–**	–
HK$5,000,001 – HK$5,500,000	**1**	–
HK$5,500,001 – HK$6,000,000	**2**	–
	4	2

NOTES TO FINANCIAL STATEMENTS

31 December 2016

10. 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 (2015: 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.

	2016	2015
	HK$'000	HK$'000
Current		
Charge for the year	**17,723**	43,067
Underprovision in prior years	**3,552**	6,522
Deferred *(note 31)*	**24,077**	(15,084)
Total tax charge for the year	**45,352**	34,505

A reconciliation of the tax expense applicable to (loss)/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:

	2016	2015
	HK$'000	HK$'000
(Loss)/profit before tax	**(4,356,068)**	2,311,011
Tax at the statutory tax rate	**(1,089,017)**	577,753
Effect of different tax rates for certain group entities	**308,693**	(196,037)
Adjustments in respect of current tax of previous periods	**3,552**	6,522
Losses attributable to joint ventures	**27,770**	30,441
Losses attributable to associates	**23,180**	99
Income not subject to tax	**(10,886)**	(434,839)
Expenses not deductible for tax	**441,053**	8,634
Additional deduction of research and development expenses	**(22,736)**	(28,611)
Temporary differences not recognised	**(52,200)**	(78,523)
Tax losses utilised from prior periods	**(1,879)**	–
Tax losses not recognised	**417,822**	149,066
Tax charge at the Group's effective rate	**45,352**	34,505
The Group's effective income tax rate	**(1.0%)**	1.5%

NOTES TO FINANCIAL STATEMENTS

31 December 2016

10. INCOME TAX EXPENSE (CONTINUED)

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) 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% (2015: 15%) for the year ended 31 December 2016.

(b) Yulong Shenzhen, the Company's wholly-owned subsidiary, was recognised as a high-technology enterprise in October 2014 and is subject to CIT at a rate of 15% for three years till October 2017. Therefore, Yulong Shenzhen was subject to CIT at a rate of 15% (2015: 15%) for the year ended 31 December 2016.

(c) 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 the three years from 2015 to 2017. Therefore, Xi'an Coolpad was subject to CIT at a rate of 15% (2015: 15%) for the year ended 31 December 2016.

(d) Shenzhen Coolpad Technologies Co., Ltd. ("SZ Coolpad Technologies"), the Company's wholly-owned subsidiary, was 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 was subject to CIT at a rate of 12.5% (2015: 12.5%) for the year ended 31 December 2016.

(e) Nanjing Coolpad Software Tech Co., Ltd. ("Nanjing Coolpad"), the Company's wholly-owned subsidiary, was established in 2014 and 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 in that year. In this regard, Nanjing Coolpad was exempted from CIT for the years ended 31 December 2016 and 2015.

11. DIVIDEND

The directors did not recommend the payment of final dividends for the years ended 31 December 2016 and 2015.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

12. (LOSS)/EARNINGS 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 year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 4,876,031,862 (2015: 4,981,998,098 (restated)) in issue during the year.

The calculation of the diluted loss per share amount is based on the loss 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.

No adjustment has been made to the basic loss per share amount presented for the year ended 31 December 2016 in respect of a dilution as the impact of the share options outstanding had no dilution effect on the basic loss per share amount presented.

The calculations of basic and diluted earnings per share for the year ended 31 December 2015 were based on:

	HK$'000
Earnings	
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	2,324,518

	Number of shares (Restated)*
Shares	
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations	4,981,998,098
Effect of dilution – weighted average number of ordinary shares:	
Share options and awarded shares	85,366,737
	5,067,364,835

* The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share for the year ended 31 December 2015 has been restated to reflect the impact of the rights issue of the Company on 9 March 2016. Further details are set out in note 32 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2016						
Cost or valuation:						
At 1 January 2016	619,986	21,115	272,110	27,472	341,273	1,281,956
Additions	–	–	18,854	–	133,589	152,443
Surplus on revaluation	37,135	–	–	–	–	37,135
Disposals	(2,195)	–	(11,887)	(6,692)	(12,732)	(33,506)
Contribution as investment in a joint venture*	–	–	–	–	(36,574)	(36,574)
Transfers	13,997	–	2,369	–	(16,366)	–
Exchange realignment	(41,468)	(1,339)	(17,574)	(1,439)	(24,625)	(86,445)
At 31 December 2016	627,455	19,776	263,872	19,341	384,565	1,315,009
Accumulated depreciation:						
At 1 January 2016	92,773	20,053	153,243	14,751	–	280,820
Depreciation provided during the year	29,796	29	39,713	3,188	–	72,726
Disposals	–	–	(8,579)	(5,501)	–	(14,080)
Exchange realignment	(7,191)	(2,301)	(11,674)	(825)	–	(21,991)
At 31 December 2016	115,378	17,781	172,703	11,613	–	317,475
Net book value:						
At 31 December 2016	512,077	1,995	91,169	7,728	384,565	997,534

* Certain buildings under construction with a net book value of HK$36,574,000 were contributed by the Group as part of the investment in a joint venture. Details of the arrangement are set out in note 17 to the financial statements.

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13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2015						
Cost or valuation:						
At 1 January 2015	623,267	22,507	259,803	25,742	187,138	1,118,457
Additions	–	–	34,316	3,340	179,512	217,168
Surplus on revaluation	28,999	–	–	–	–	28,999
Disposals	–	–	(7,138)	–	(506)	(7,644)
Transfers	5,525	(80)	1,430	–	(6,875)	–
Exchange realignment	(37,805)	(1,312)	(16,301)	(1,610)	(17,996)	(75,024)
At 31 December 2015	619,986	21,115	272,110	27,472	341,273	1,281,956
Accumulated depreciation:						
At 1 January 2015	70,123	14,838	115,181	12,309	–	212,451
Depreciation provided during the year	27,889	6,342	50,516	3,268	–	88,015
Disposals	–	–	(3,830)	–	–	(3,830)
Exchange realignment	(5,239)	(1,127)	(8,624)	(826)	–	(15,816)
At 31 December 2015	92,773	20,053	153,243	14,751	–	280,820
Net book value:						
At 31 December 2015	527,213	1,062	118,867	12,721	341,273	1,001,136

At 31 December 2016, the Group had yet to obtain building ownership certificates for certain buildings with a net book value of approximately HK$52,702,000 (2015: HK$55,292,000).

The Group's buildings were revalued individually at the end of the reporting period by Debenham Tie Leung Limited, independent professionally qualified valuers, at an aggregate open market value of HK$496,438,000 (2015: HK$523,892,000) as at 31 December 2016 based on their existing use. A revaluation surplus of HK$37,135,000 (2015: HK$28,999,000), resulting from the above valuations, has been credited to other comprehensive income.

At 31 December 2016, certain of the Group's buildings with a net carrying amount of approximately HK$200,786,000 (2015: HK$210,890,000) were pledged to secure general banking facilities granted to the Group (note 30).

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31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

FAIR VALUE HIERARCHY

The following table illustrates the fair value measurement hierarchy of the Group's buildings stated at revalued amounts:

	Fair value measurement at 31 December 2016 using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Recurring fair value measurement for:				
Industrial properties	**–**	**–**	**496,438**	**496,438**

	Fair value measurement at 31 December 2015 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Industrial properties	–	–	523,892	523,892

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Industrial properties	
	2016 HK$'000	2015 HK$'000
Carrying amount at 1 January	**523,892**	550,383
Transfer from construction in progress	**594**	4,605
Disposal	**(2,195)**	–
Depreciation provided during the year	**(29,497)**	(27,722)
Surplus on revaluation recognised in other comprehensive income	**37,135**	28,999
Exchange realignment	**(33,491)**	(32,373)
Carrying amount at 31 December	**496,438**	523,892

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31 December 2016

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

Below is a summary of the valuation technique used and the key inputs to the valuation of buildings:

	Valuation technique	Significant unobservable inputs	Range weighted average 2016	Range weighted average 2015
Industrial properties	Depreciated replacement cost ("DRC") approach	a. Construction cost (RMB/sq.m.)	**a. 1,036 to 5,928**	a. 1,013 to 5,934
		b. Administrative expense rate	**b. 3%**	b. 3%
		c. Unpredictable expense rate	**c. 3%**	c. 3%
		d. Rate of newness	**d. 88% to 100%**	d. 88% to 100%

The Group has determined that the highest and best use of the buildings at the measurement date would be to convert those properties for residential purposes. For strategic reasons, the properties are not being used in this manner.

The DRC approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures from which deductions are then made to allow for the age, condition and functional obsolescence.

14. INVESTMENT PROPERTIES

	Note	**2016 HK$'000**	2015 HK$'000
Carrying amount at 1 January		**110,011**	113,029
Net gain from a fair value adjustment recognised in profit or loss	*5*	**3,549**	3,734
Exchange realignment		**(7,133)**	(6,752)
Carrying amount at 31 December		**106,427**	110,011

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14. INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties consist of certain commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2016 based on valuations performed by Debenham Tie Leung Limited, independent professionally qualified valuers, at HK$106,427,000. Each year, the Group's property manager and the chief financial officer decide on the appointment of an external valuer for the valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results once a year when the valuation is performed for annual financial reporting.

FAIR VALUE HIERARCHY

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement at 31 December 2016 using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Recurring fair value measurement for:				
Commercial properties	**–**	**–**	**106,427**	**106,427**

	Fair value measurement at 31 December 2015 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	–	–	110,011	110,011

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2015: Nil).

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14. INVESTMENT PROPERTIES (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties HK$'000
Carrying amount at 1 January 2015	113,029
Net gain from a fair value adjustment recognised in profit or loss	3,734
Exchange realignment	(6,752)
Carrying amount at 31 December 2015 and 1 January 2016	**110,011**
Net gain from a fair value adjustment recognised in profit or loss	**3,549**
Exchange realignment	**(7,133)**
Carrying amount at 31 December 2016	**106,427**

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range weighted average 2016	Range weighted average 2015
Commercial properties	Direct comparison approach	a. Market monthly rental (RMB/sq.m.)	**a. 148**	a. 140
		b. Discounted rate	**b. 5.0% to 5.5%**	b. 5.0% to 5.5%
		c. Market unit sale rate (RMB/sq.m.)	**c. 26,500 to 28,600**	c. 26,500 to 28,000

The direct comparison approach requires a valuation by making reference to comparable sales evidence as available in the relevant market, and, where appropriate, using the investment method by capitalising the net rental income derived from the existing tenancies with due allowance for the reversionary potential of the respective properties.

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15. PREPAID LAND LEASE PAYMENTS

	2016 **HK$'000**	2015 HK$'000
Carrying amount at 1 January	**445,578**	274,211
Additions	**–**	195,861
Recognised during the year (note 6)	**(7,773)**	(7,658)
Contribution as investment in a joint venture*	**(55,782)**	–
Exchange realignment	**(25,469)**	(16,836)
Carrying amount at 31 December	**356,554**	445,578
Current portion included in prepayments, deposits and other receivables (note 24)	**(7,908)**	(9,540)
Non-current portion	**348,646**	436,038

* A parcel of land with a net book value of HK$55,782,000 was contributed by the Group as part of the investment in a joint venture. Details of this arrangement are set out in note 17 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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16. INTANGIBLE ASSETS

	Product development costs HK$'000	Patents and licences HK$'000	Computer software HK$'000	Total HK$'000
31 December 2016				
Cost:				
At 1 January 2016	**435,420**	**125,124**	**12,735**	**573,279**
Additions	**24,696**	**–**	**–**	**24,696**
Exchange realignment	**(27,727)**	**(7,935)**	**(808)**	**(36,470)**
At 31 December 2016	**432,389**	**117,189**	**11,927**	**561,505**
Accumulated amortisation:				
At 1 January 2016	**344,469**	**122,175**	**3,690**	**470,334**
Provided during the year	**94,387**	**1,563**	**1,923**	**97,873**
Exchange realignment	**(25,018)**	**(7,817)**	**(318)**	**(33,153)**
At 31 December 2016	**413,838**	**115,921**	**5,295**	**535,054**
Net carrying amount:				
At 31 December 2016	**18,551**	**1,268**	**6,632**	**26,451**
31 December 2015				
Cost:				
At 1 January 2015	392,902	132,882	13,524	539,308
Additions	67,328	–	–	67,328
Exchange realignment	(24,810)	(7,758)	(789)	(33,357)
At 31 December 2015	435,420	125,124	12,735	573,279
Accumulated amortisation:				
At 1 January 2015	298,549	124,709	2,564	425,822
Provided during the year	65,131	4,950	1,330	71,411
Exchange realignment	(19,211)	(7,484)	(204)	(26,899)
At 31 December 2015	344,469	122,175	3,690	470,334
Net carrying amount:				
At 31 December 2015	90,951	2,949	9,045	102,945

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17. INVESTMENTS IN JOINT VENTURES

	2016 HK$'000	2015 HK$'000
Share of net assets	**99,970**	1,320,916
Goodwill	**8,318**	2,427,455
	108,288	3,748,371

Particulars of the Group's material joint venture as at 31 December 2016 is as follows:

Name	Place of registration and business	Fully paid-up capital	Percentage of ownership interest attributable to the Group	Principal activity
Dongguan Coolpad Tian'an Investment Development Co., Ltd. ("Dongguan Tian'an")	PRC	RMB136,000,000	50	Investment holding and property development

On 21 June 2016, the Group established Dongguan Tian'an with an independent third party whereby the Group and the independent third party each owns a 50% equity interest in Dongguan Tian'an. Certain assets, including a parcel of land and certain buildings under construction, were contributed by the Group as its investment in Dongguan Tian'an, of which, a gain of HK$15,321,000 was recognised as a result of the contribution. The gain was eliminated to the extent of the Group's relevant interest in the joint venture.

The Group's shareholding in this joint venture is held through a wholly-owned subsidiary of the Company.

Dongguan Tian'an is engaged in investment holding and property development. Dongguan Tian'an is considered a material joint venture of the Group and is accounted for using the equity method.

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17. INVESTMENTS IN JOINT VENTURES (CONTINUED)

The following table illustrates the summarised financial information in respect of Dongguan Tian'an adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	31 December 2016 HK$'000
Cash and cash equivalents	5,937
Inventories	24,023
Other current assets	40,431
Current assets	70,391
Non-current assets	123,399
Other payables and accruals	(2,583)
Other current liabilities	(79)
Current liabilities	(2,662)
Net assets	191,128
Reconciliation to the Group's interest in the joint venture:	
Proportion of the Group's ownership	50%
Group's share of net assets of the joint venture	95,564
Goodwill	8,318
Carrying amount of the investment	103,882

	Period from 21 June 2016 to 31 December 2016 HK$'000
Revenue	–
Loss for the year	(5,886)
Other comprehensive loss for the year	(11,009)
Total comprehensive loss for the year	(16,895)

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17. INVESTMENTS IN JOINT VENTURES (CONTINUED)

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

	2016 HK$'000	2015 HK$'000
Share of the joint ventures' loss and total comprehensive loss for the year	–	–
Carrying amount of the Group's investment in the joint venture	4,406	4,891

Coolpad E-commerce Inc. ("Coolpad E-commerce") is an investment holding company and its subsidiaries (collectively, the "Coolpad E-commerce Group") are engaged in the research, development, designing, manufacture, 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 was a material joint venture as at 31 December 2015. Certain equity interest in Coolpad E-commerce was disposed of in 2016. Following the disposal of partial interest, Coolpad E-commerce became a material associate to the Group as at 31 December 2016. Detailed information about the transaction and the financial information of Coolpad E-commerce are disclosed in note 18 to the financial statements.

The Group's trade receivable and payable balances with the joint ventures are disclosed in note 40(a) to the financial statements.

18. INVESTMENTS IN ASSOCIATES

	2016 HK$'000	2015 HK$'000
Share of net assets	642,592	197,759
Goodwill	1,201,710	–
	1,844,302	197,759
Impairment*	(793,445)	–
	1,050,857	197,759

* The estimated recoverable amount of the Group's investments in Coolpad E-commerce was determined with reference to the cash flows expected to be generated by Coolpad E-commerce. Based on the Group's cash flow projection of Coolpad E-commerce, an impairment of HK$760,967,000 was provided for the year. The pre-tax discount rate applied to the cash flow projection of Coolpad E-commerce was 22.76%.

An impairment of HK$32,478,000 to investments in other associates was provided as at 31 December 2016 based on the recoverable amount of the investments.

The Group's trade receivable balance with associates is disclosed in note 40(A) to the financial statements.

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18. INVESTMENTS IN ASSOCIATES (CONTINUED)

Particulars of the Group's material associates are as follows:

Name	Place of registration and business	Fully paid-up capital	Percentage of ownership interest attributable to the Group	Principal activity
Coolpad E-commerce	Cayman Islands	US$20	25	Investment holding
Shenzhen Coolpad Mobile Tech Co., Ltd. ("Coolpad Mobile")	PRC	RMB238,000,000	20	Sale of mobile phones

The Group's shareholdings in the associates are held through a wholly-owned subsidiary of the Company.

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 BVI with limited liability and a wholly-owned subsidiary of Qihoo 360 Technology Co., Ltd. ("Qihoo"), to allot certain shares of 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 a 4.5% 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 35).

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 the Share Adjustment Agreement) of Coolpad E-commerce held by the Company, representing a 25.5% equity interest (the "Disposal Interest") therein (the "Third Transaction"). As a consideration for the repurchase, Coolpad E-commerce was required to transfer certain intellectual property items to the Group so as to allow the Group to regain full control of the operation of its internet related business.

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18. INVESTMENTS IN ASSOCIATES (CONTINUED)

Upon completion of the Third Transaction on 22 April 2016, the Group's equity interest in Coolpad E-commerce was reduced from 50.5% to 25%, and Coolpad E-commerce was changed from a joint venture to an associate of the Group and is accounted for using the equity method. Since the above transfer of certain intellectual property items to the Group did not result in the recognition of a business or an asset, the Group recorded a loss of HK$1,837,114,000 as a result of the Third Transaction.

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

	31 December 2016 HK$'000	31 December 2015 HK$'000
Cash and cash equivalents	**1,526,391**	2,576,539
Pledged deposits	**271,986**	–
Other current assets	**767,431**	707,840
Current assets	**2,565,808**	3,284,379
Non-current assets	**38,772**	42,947
Trade payables	**(301,930)**	(462,703)
Other current liabilities	**(552,169)**	(168,146)
Current liabilities	**(854,099)**	(630,849)
Non-current liabilities	**(28,549)**	(39,515)
Net assets	**1,721,932**	2,656,962
Reconciliation to the Group's interest in Coolpad E-commerce:		
Proportion of the Group's ownership	**25.0%**	50.5%
Group's share of net assets of Coolpad E-commerce	**430,483**	1,341,766
Unrealised profits on the transactions with Coolpad E-commerce Group	**–**	(25,741)
Goodwill	**1,201,710**	2,427,455
Impairment	**(760,967)**	–
Carrying amount of the investment	**871,226**	3,743,480

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18. INVESTMENTS IN ASSOCIATES (CONTINUED)

	Year ended 31 December 2016 HK$'000	Period from 29 May 2015 to 31 December 2015 HK$'000
Revenue	**2,769,128**	1,633,770
Loss for the year/period	**(831,478)**	(365,327)
Other comprehensive loss for the year/period	**(103,552)**	(109,541)
Total comprehensive loss for the year/period	**(935,030)**	(474,868)

Coolpad Mobile and its subsidiaries (collectively, "Coolpad Mobile Group") are engaged in mobile phone trading, the provision of product design and software development for mobile handsets. Coolpad Mobile Group was a then subsidiary of the Company.

On 11 October 2016, the Group entered into a sale and purchase agreement with the then non-controlling shareholder of Coolpad Mobile to acquire its 40% equity interest in Coolpad Mobile at a cash consideration of RMB65,800,000 (equivalent to HK$75,853,000). The change in the ownership interest in Coolpad Mobile was accounted for as an equity transaction.

On 12 December 2016, the Group disposed of its 80% equity interest in Coolpad Mobile to an independent third party for a cash consideration of RMB272,000,000 (equivalent to HK$304,077,000). As a result, the Group lost its control over Coolpad Mobile and accounted for it as an associate thereafter. Coolpad Mobile is considered to be a material associate of the Group and is accounted for using the equity method.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

18. INVESTMENTS IN ASSOCIATES (CONTINUED)

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

	31 December 2016 HK$'000
Cash and cash equivalents	**162,197**
Other current assets	**626,475**
Current assets	**788,672**
Non-current assets	**5,243**
Other payables and accruals	**(396,990)**
Other current liabilities	**(232,406)**
Current liabilities	**(629,396)**
Non-current liabilities	**(10,951)**
Net assets	**153,568**
Reconciliation to the Group's interest in the associate:	
Proportion of the Group's ownership	**20%**
Group's share of net assets of the associate	**30,714**
Unrealised profits on the transactions with Coolpad Mobile Group	**(22)**
Carrying amount of the investment	**30,692**

	Period from 12 December 2016 to 31 December 2016 HK$'000
Revenue	52,851
Loss for the period	(10,564)
Other comprehensive income for the period	457
Total comprehensive loss for the period	(10,107)

NOTES TO FINANCIAL STATEMENTS

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18. INVESTMENTS IN ASSOCIATES (CONTINUED)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2016 HK$'000	2015 HK$'000
Share of associates' losses and total comprehensive losses for the year	(29,234)	(660)
Aggregate carrying amount of the Group's investments in associates	148,939	197,759

19. AVAILABLE-FOR-SALE INVESTMENTS

	2016 HK$'000	2015 HK$'000
Listed equity investments, at fair value:	2,358	2,782
Unlisted equity investments, at cost	47,244	50,303
Impairment	(18,534)	(16,169)
	28,710	34,134
	31,068	36,916

During the year, the net loss in respect of the Group's available-for-sale investments recognised in other comprehensive loss amounted to HK$425,000 (2015: HK$377,000).

The above equity investments are designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2016, certain unlisted equity investments with a carrying amount of HK$28,710,000 (2015: HK$34,134,000) were stated at cost less impairment because the variability in the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair values cannot be measured reliably. The Group does not intend to dispose of these investments in the near future.

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20. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	709,982	817,603
Work in progress	259,953	355,040
Finished goods	425,935	513,927
	1,395,870	1,686,570

21. TRADE RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	1,128,196	1,638,849
Impairment	(267,597)	(19,250)
	860,599	1,619,599

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 transaction date, is as follows:

	2016 HK$'000	2015 HK$'000
Within 3 months	778,273	1,373,110
4 to 6 months	38,942	225,445
7 to 12 months	153,962	32,282
Over 1 year	157,019	8,012
	1,128,196	1,638,849
Less: Impairment	(267,597)	(19,250)
	860,599	1,619,599

NOTES TO FINANCIAL STATEMENTS

31 December 2016

21. TRADE RECEIVABLES (CONTINUED)

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

	2016	2015
	HK$'000	HK$'000
At 1 January	**19,250**	6,850
Impairment losses recognised *(note 6)*	**249,558**	12,840
Amounts written off as uncollectible	**(44)**	(21)
Exchange realignment	**(1,167)**	(419)
	267,597	19,250

Included in the above provision for impairment of trade receivables is the provision for individually impaired trade receivables of HK$267,597,000 (2015: HK$19,250,000) with a carrying amount before provision of HK$571,475,000 (2015: HK$141,906,000).

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

	2016	2015
	HK$'000	HK$'000
Neither past due nor impaired	**487,547**	1,332,204
Less than 3 months past due	**17,191**	138,776
More than 3 months past due	**51,983**	25,963
	556,721	1,496,943

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.

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31 December 2016

22. 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:

	2016	2015
	HK$'000	HK$'000
More than 3 months past due	**82,491**	129,345

Bills receivable are non-interest-bearing.

At 31 December 2016 and 2015, the Group did not have any past due or impaired bills receivable.

TRANSFERRED FINANCIAL ASSETS THAT ARE DERECOGNISED IN THEIR ENTIRETY

At 31 December 2016, 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 RMB51,514,000 (equivalent to HK$57,589,000). 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 2016, 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.

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23. LOANS RECEIVABLE

	2016 HK$'000	2015 HK$'000
Loans receivable	**394,546**	1,032,559
Non-current portion	**(25,001)**	(37,046)
Short-term loans receivable	**369,545**	995,513

Huiying, a wholly-owned subsidiary of the Group, was established in 2014 and engaged in the provision of financing service. Those loans receivable bore interest at rates ranging from 5.6% to 18% per annum (2015: 8% to 15%). The grants of these loans were approved and monitored by the Group's management.

Except for loans receivable with an aggregate carrying amount of HK$60,993,000 (2015: HK$145,840,000) as at 31 December 2016, which were secured by the pledge of collateral and guarantees by certain independent third parties, the remaining loans receivable as at 31 December 2016 were unsecured. The directors of the Company are of the opinion that no provision for impairment is necessary in respect of those loans receivable without the pledge of collateral and guarantees taking into account of the financial positions of the corresponding borrowers and their good track record of the related interest collections.

An aging analysis of loans receivable, determined based on the age of the loans receivable since the effective draw-down date of the loans, as at the end of the reporting period is as follows:

	2016 HK$'000	2015 HK$'000
Within 3 months	**77,608**	981,500
4 to 6 months	**13,939**	12,924
7 to 12 months	**12,186**	32,298
Over 1 year	**290,813**	5,837
	394,546	1,032,559

All of the loans receivable are neither past due nor impaired. These loans were made to a number of diversified borrowers for whom there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS

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24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepayment for a potential equity investment (i)	**930,610**	–
Accrued interest receivable (i)	**11,503**	–
Prepayment for inventory procurement (ii)	**335,379**	–
Prepayments for other suppliers	**30,030**	30,614
Deposits and other receivables	**140,501**	174,545
Deductible input VAT	**1,120,950**	804,384
Prepaid expenses	**4,711**	5,180
Current portion of prepaid land lease payments *(note 15)*	**7,908**	9,540
	2,581,592	1,024,263
Non-current portion	**(41,062)**	(45,106)
	2,540,530	979,157

Notes:

(i) The balance represents a sum of prepayments paid to a company ("Company A") in connection with a potential equity investment in a company (the "Target Company") incorporated in the United States of America with its principal activities engaging in manufacture of electric vehicles. Up to 31 December 2016, the cumulative outstanding balance of prepayments paid to Company A was US$120 million (equivalent to HK$930,610,000).

For the purpose of the potential investment, the Group entered into three investment cooperation agreements with Company A during the year 2016, pursuant to which, the Group authorised Company A to act on its behalf in procuring certain equity interest of the Target Company and undertake the due diligence work and the negotiation of the consideration. Should Company A fail to complete the due diligence and the negotiation of the consideration by the agreed due date as prescribed in the investment cooperation agreements, Company A was contractually required to repay the prepayments and the associating interests to the Group. Prepayments to Company A comprising US$50 million, US$90 million and US$30 million, respectively, were made in June, August and September 2016. The interest of the payment on US$50 million was charged at a fixed amount representing 1% and a variable interest of 0.1% per day, and the interest of payments on US$90 million and US$30 million was charged at 10% per annum, respectively.

By 8 July 2016, being the prescribed due date for the first investment cooperation agreement, Company A failed to perform its obligation for the agreement. The Group was advised by Company A that the seller of the potential investment (the "Seller") considered the prepayment amount failed to meet its expectation and was not sufficient for the purpose of the intended transfer. The Group later received a refund of US$50 million together with interest of US$550,000 (HK$4,267,000) in July 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2016

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (CONTINUED)

In August and September 2016, the Group further made the second and the third prepayments of US$90 million and US$30 million to Company A. Pursuant to the respective investment cooperation agreements, the due dates were 25 December 2016 and 31 October 2016.

By 31 October 2016 and 25 December 2016, being the respective prescribed due dates for the third and the second agreements, Company A was unable to complete the agreed work for the Group. In this regard, Company A was required to refund the prepayments and pay the relevant interest. By 31 December 2016, Company A had paid a sum of interest of US$3.59 million (HK$27,860,000) to the Group but failed to repay the prepayment. The Group accrued an interest receivable of US$1.49 million (equivalent to HK$11,503,000) from Company A by 31 December 2016. In this regard, the Group recorded the outstanding prepayments of US$120 million (equivalent to HK$930,610,000) in aggregate and an interest receivable of US$1.49 million (equivalent to HK$11,503,000) in "Prepayments, deposits and other receivables" under the current assets in the consolidated statement of financial position.

Subsequent to the year end, the Group was informed by Company A that the seller owning the equity interest of the Target Company decided to cancel the transaction. As a result, the Group requested Company A to repay the outstanding prepayments immediately and together with the relevant interest.

On 5 January 2017, the Company, Dongguan Yulong, Company A, Company B, a private company established in the PRC and the seller, a company incorporated in Hong Kong, entered into a repayment agreement, pursuant to which, with unanimous consents of all contractual parties, Company B agreed to settle the above outstanding prepayments in aggregate amounting to US$120 million and the outstanding interest as calculated based on the investment cooperation agreements in Mainland China using equivalent amount of RMB before 31 March 2017 on behalf of Company A. The Group was advised that Company A, Company B and the seller were all beneficially owned by an individual ("Individual A"). And Individual A was not a related party to the Group.

In March 2017, the Group received sums in aggregate of RMB840 million (equivalent to HK$947.10 million), and in July 2017, received another sum of RMB10.57 million (equivalent to HK$12.20 million), all from Company B. These subsequent payments from Company B were accounted for as repayments to offset in full the outstanding balance of the prepayments to Company A and the interest receivable, and the excessive portion as "other income" in the subsequent management accounts.

(ii) The balance represents a prepayment of RMB300 million (equivalent to HK$335,379,000) to a vendor in connection with the procurement of mobile phone components. The procurement arrangement was cancelled subsequently and the Group received the refund of the prepayment in full during February and March 2017.

In March 2017, the Group made another sum of advances amounting to RMB240 million (equivalent to HK$270.19 million) to three entities which were the affiliates of the vendor stated in the preceding paragraph. These advances were interest-bearing at a rate of 10% per annum, non-secured and repayable within one year. In July 2017, the Group received the refund of the advances in full.

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25. DUE FROM DIRECTORS

Particulars of the amount due from directors are as follows:

Name	**At 31 December 2016 HK$'000**	Maximum amount outstanding during the year HK$'000	At 31 December 2015 and 1 January 2016 HK$'000	Maximum amount outstanding during the prior year HK$'000
Mr. JIANG Chao	**500**	500	–	–
Mr. GUO Deying*	**–**	3,282	3,282	3,282
	500	3,782	3,282	3,282

* Mr. GUO Deying resigned as an executive director and the chairman of the Group on 5 August 2016.

The amounts due from directors mainly represents advances to the directors which are unsecured, interest-free and have no fixed terms of repayment.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 HK$'000	2015 HK$'000
Cash and bank balances	**1,308,082**	2,515,974
Time deposits	**361,811**	413,488
	1,669,893	2,929,462
Less: pledged deposits for:		
– Bills payable (*note 28*)	**(296,842)**	(321,687)
– Issuance of letters of credit	**(41,922)**	(79,376)
– A performance guarantee provided by a bank	**(23,047)**	(12,425)
	(361,811)	(413,488)
Cash and cash equivalents	**1,308,082**	2,515,974

At the end of the reporting period, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$962,538,000 (2015 : HK$2,238,514,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS

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26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

27. 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:

	2016	2015
	HK$'000	HK$'000
Within 3 months	**1,181,752**	1,778,233
4 to 6 months	**405,151**	22,858
7 to 12 months	**118,855**	28,098
Over 1 year	**79,167**	87,006
	1,784,925	1,916,195

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

28. 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:

	2016	2015
	HK$'000	HK$'000
Within 3 months	**862,726**	1,351,701
Over 3 months	**458,351**	–
	1,321,077	1,351,701

At 31 December 2016, the Group's bills payable were secured by time deposits of HK$296,842,000 (2015: HK$321,687,000) (note 26).

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29. OTHER PAYABLES AND ACCRUALS

	Note	2016 HK$'000	2015 HK$'000
Accrued royalties		**420,988**	708,092
Advances from customers		**247,995**	211,545
Product warranty provision	*(a)*	**34,398**	43,941
Accrued sales incentives		**127,934**	395,008
Other accruals		**153,564**	21,718
Other payables		**620,807**	700,964
		1,605,686	2,081,268

Other payables are non-interest-bearing and have no fixed terms of repayment.

Note:

(a) The movements in the product warranty provision are as follows:

	Note	2016 HK$'000	2015 HK$'000
At 1 January		**43,941**	95,654
Additional provision	6	**73,423**	76,241
Amounts utilised during the year		**(81,024)**	(129,929)
Exchange realignment		**(1,942)**	1,975
At 31 December		**34,398**	43,941

The Group provides one-year warranty for its products sold to customers, under which faulty products are repaired or replaced. The amount of the warranty provision is estimated based on the sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised, where appropriate.

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30. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2016			2015		
	Effective interest rate (%)	**Maturity**	**HK$'000**	Effective interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**4.75-6.00**	**2017**	**145,331**	4.75-6.00	2016	119,363
Bank loans – unsecured	**4.57-4.97**	**2017**	**760,193**	4.26-5.04	2016	537,134
Bank loans – import and trust receipt loans	**1.19**	**2017**	**217,246**	0.84	2016	310,040
Other borrowings-unsecured	**4.75**	**2017**	**325**	–	2016	238,726
			1,123,095			1,205,263
Non-current						
Bank loans – secured			**–**	4.75-6.00	2017	155,172
Other borrowings – unsecured			**–**	4.75	2017	347
			–			155,519
			1,123,095			1,360,782
Analysed into bank and other loans repayable:						
Within one year or on demand			**1,123,095**			1,205,263
In the second year			**–**			155,519
			1,123,095			1,360,782

Notes:

(a) At 31 December 2016, certain of the Group's bank borrowings with an aggregate amount of HK$145,331,000 were secured by the pledge of the Group's buildings situated in Mainland China, with an aggregate carrying value at 31 December 2016 of approximately HK$200,786,000 (2015: HK$210,890,000) (note 13).

(b) At 31 December 2016, the Group's bank and other borrowings of HK$977,764,000 (2015: HK$608,793,000) and HK$145,331,000 (2015: HK$513,261,000) bore interest at fixed rates and floating rates, respectively.

(c) At 31 December 2016, the Group's bank borrowings of HK$905,849,000 (2015: HK$1,050,742,000) and HK$217,246,000 (2015: HK$310,040,000) were denominated in RMB and United States dollars ("USD"), respectively.

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31. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

DEFERRED TAX LIABILITIES

	Revaluation of buildings HK$'000	Withholding taxes HK$'000	Unrealised profit HK$'000	Total HK$'000
At 1 January 2015	43,864	8,209	2,766	54,839
Charged to equity during the year	3,220	–	–	3,220
Charged/(credited) to profit or loss for the year (*note 10*)	683	–	(2,766)	(2,083)
Exchange differences	(2,721)	–	–	(2,721)
At 31 December 2015 and 1 January 2016	**45,046**	**8,209**	**–**	**53,255**
Charged to equity during the year	**6,773**	**–**	**–**	**6,773**
Charged to profit or loss for the year (*note 10*)	**648**	**–**	**–**	**648**
Exchange differences	**(3,183)**	**–**	**–**	**(3,183)**
At 31 December 2016	**49,284**	**8,209**	**–**	**57,493**

DEFERRED TAX ASSETS

	Deductible amortisation allowance HK$'000
At 1 January 2015	18,620
Credited to profit or loss for the year (*note 10*)	13,001
Exchange differences	(1,621)
At 31 December 2015 and 1 January 2016	**30,000**
Charged to profit or loss for the year (*note 10*)	**(23,429)**
Exchange differences	**(873)**
At 31 December 2016	**5,698**

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31. DEFERRED TAX (CONTINUED)

DEFERRED TAX LIABILITIES NOT RECOGNISED

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by the PRC subsidiaries in respect of their earnings generated from 1 January 2008.

At 31 December 2016, the Group has not recognised deferred tax liabilities of HK$337,155,000 (2015: HK$357,756,000) in respect of temporary differences relating to the undistributed profits of subsidiaries, amounting to HK$3,371,548,000 (2015: HK$3,577,558,000), that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and determines that it is not probable that these profits will be distributed in the foreseeable future.

DEFERRED TAX ASSETS NOT RECOGNISED

Deferred tax assets have not been recognised in respect of the following items:

	2016 **HK$'000**	2015 HK$'000
Tax losses	**289,971**	307,529
Deductible temporary differences	**887,859**	1,252,222
	1,177,830	1,559,751

The Group had total accumulated tax losses arising in Mainland China and Hong Kong of HK$289,971,000 (2015: HK$307,529,000) for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that sufficient taxable profits will be available against which the above items can be utilised.

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32. SHARE CAPITAL

	2016 **HK$'000**	2015 HK$'000
Authorised:		
20,000,000,000 (2015: 20,000,000,000) ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
5,032,607,480 (2015:4,354,393,200) ordinary shares of HK$0.01 each	**50,326**	43,544

A summary of the transactions during the year with reference to the movements in the Company's issued share capital is as follows:

	Notes	**Number of shares in issue**	**Issued capital** HK$'000	**Share premium account** HK$'000	**Total** HK$'000
At 1 January 2015		4,295,027,200	42,950	414,832	457,782
Issue of shares upon exercise of share options		59,366,000	594	101,499	102,093
At 31 December 2015 and 1 January 2016		**4,354,393,200**	**43,544**	**516,331**	**559,875**
Issue of shares upon rights issue	*(a)*	**653,189,580**	**6,532**	**691,471**	**698,003**
Issue of shares upon exercise of share options	*(b)*	**25,024,700**	**250**	**27,401**	**27,651**
At 31 December 2016		**5,032,607,480**	**50,326**	**1,235,203**	**1,285,529**

Details of the Company's share option scheme and the share options issued under the scheme are included in note 33 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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32. SHARE CAPITAL (CONTINUED)

During the year, the movements in issued share capital were as follows:

(a) On 9 March 2016, 653,189,580 shares (the "Rights Shares") were issued at the subscription price of HK$1.10 per share on the basis of three Rights Shares for every twenty existing ordinary shares of the Company (the "Rights Issue"), resulting in an increase of share capital and share premium of HK$6,532,000 and HK$691,471,000, respectively. All the considerations for the Rights Issue were received in cash of HK$698,003,000, after deduction of the related expenses, including underwriting commission and other professional fees.

(b) The movements in share capital due to share options exercised:

	Number of the shares issued due to share options exercised (par value per share of HK$0.01)	Exercise price	Total cash consideration (before expenses)
		HK$	HK$'000
	6,000,000	0.199	1,194
	584,000	1.492	871
	600,000	0.337	202
	13,932,700	0.839	11,690
	3,692,000	1.164	4,297
	96,000	1.540	148
	120,000	1.620	194
Total	25,024,700		18,596

33. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's non-executive directors, including independent non-executive directors, employees, consultants, advisers, customers and any shareholder of any member of the Group. The Company's first share option scheme with a valid period of 10 years became effective on 21 November 2004 and was terminated on 23 May 2014 since this scheme would be due to expire on 21 November 2014. A new share option scheme was adopted by the Company and became effective on 23 May 2014 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Group is an amount equivalent, upon their exercise, to 10% of the shares in issue at the time dealings in the shares first commence on the Stock Exchange. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

NOTES TO FINANCIAL STATEMENTS

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33. SHARE OPTION SCHEME (CONTINUED)

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of the shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	2016		2015	
	Weighted average exercise price HK$ per share	**Number of options '000**	Weighted average exercise price HK$ per share	Number of options '000
At 1 January	1.4878	436,097	1.2874	231,945
Granted during the year	–	–	1.5814	301,696
Exercised during the year	0.7431	(25,025)	1.2423	(59,366)
Forfeited during the year	1.5523	(96,189)	1.3877	(37,538)
Expired during the year	1.5981	(9,140)	1.6200	(640)
At 31 December	1.5252	305,743	1.4878	436,097

The weighted average share price at the date of exercise for share options exercised during the year was HK$1.440 per share (2015: HK$1.773 per share).

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31 December 2016

33. SHARE OPTION SCHEME (CONTINUED)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2016

Number of options '000	Exercise price HK$ per share	Exercise period
3,564	0.337	20-05-14 to 19-05-18
8,000	1.620	28-06-14 to 27-06-18
13,448	1.620	28-06-13 to 27-06-17
11,000	1.620	28-06-14 to 27-06-18
336	0.839	12-07-14 to 11-07-18
4,000	1.164	27-12-15 to 27-12-19
23,819	1.164	27-12-13 to 27-12-17
4,656	1.164	27-12-15 to 27-12-19
28,576	1.540	10-01-15 to 10-01-19
2,000	1.540	10-01-17 to 10-01-21
45,448	1.492	22-01-16 to 22-01-20
8,416	1.492	22-01-17 to 22-01-21
46,000	1.620	16-10-17 to 16-10-21
46,480	1.620	16-10-16 to 16-10-20
60,000	1.620	16-10-17 to 16-10-21
305,743		

NOTES TO FINANCIAL STATEMENTS

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33. SHARE OPTION SCHEME (CONTINUED)

2015

Number of options '000	Exercise price HK$ per share	Exercise period
4,364	0.337	20-05-14 to 19-05-18
6,000	0.199	27-02-13 to 26-02-17
8,000	1.620	28-06-14 to 27-06-18
8,884	1.620	28-06-12 to 27-06-16
14,288	1.620	28-06-13 to 27-06-17
13,504	1.620	28-06-14 to 27-06-18
2,800	0.839	12-07-12 to 11-07-16
11,389	0.839	12-07-12 to 11-07-16
336	0.839	12-07-14 to 11-07-18
4,000	1.164	27-12-15 to 27-12-19
31,212	1.164	27-12-13 to 27-12-17
5,952	1.164	27-12-15 to 27-12-19
40,360	1.540	10-01-15 to 10-01-19
2,000	1.540	10-01-17 to 10-01-21
67,744	1.492	22-01-16 to 22-01-20
10,432	1.492	22-01-17 to 22-01-21
46,000	1.620	16-10-17 to 16-10-21
82,832	1.620	16-10-16 to 16-10-20
76,000	1.620	16-10-17 to 16-10-21
436,097		

The Group recognised a share option expense of HK$41,145,000 (2015: HK$49,591,000) during the year ended 31 December 2016 (note 6).

The 25,025,000 share options exercised during the year resulted in the issue of 25,025,000 ordinary shares of the Company giving rise to the addition of new share capital of HK$250,000 and the share premium of HK$27,401,000 (before issue expenses), as further detailed in note 32 to the financial statements.

At the end of the reporting period, the Company had 305,743,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 305,743,000 additional ordinary shares of the Company and additional share capital of HK$3,057,000 and share premium of HK$463,262,000 (before issue expenses).

Subsequent to the end of the reporting period, a total of 800,000 share options were exercised, resulting in the issue of 800,000 ordinary shares of the Company, with 120,630,000 share options being forfeited.

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31 December 2016

33. SHARE OPTION SCHEME (CONTINUED)

At the date of approval of these financial statements, the Company had 147,046,000 share options outstanding under the Scheme, which represented approximately 3% of the Company's shares in issue as at that date.

34. BUSINESS COMBINATION

On 27 October 2015, the Group formed an associate, namely Hunan Helongsheng Trading Co., Ltd. ("Hunan Helongsheng"), with other independent third parties and the Group owned a 30% equity interest therein. The principal activity of Hunan Helengsheng is the sale of mobile phones. On 23 September 2016, as a result of the dilution of equity interests owned by the other investors because of capital withdrawal, the Group's equity interest in Hunan Helongsheng increased from 30% to 60%. As a result, the Group controlled the board of directors of Hunan Helongsheng after capital withdrawal by other investors. Therefore, Hunan Helongsheng became a subsidiary of the Group on 23 September 2016.

The fair values of the identifiable assets and liabilities of Hunan Helongsheng as at the date of acquisition were as follows:

	Hunan Helongsheng HK$'000
Prepayments and other receivables	7,348
Inventories	736
Trade receivables	805
Cash and cash equivalents	2,362
Non-current asset	41
Other payables and accruals	(30)
Non-controlling interests	(4,504)
Total identifiable net assets at fair value to the Group	6,758
Satisfied by:	
Investment in an associate	6,758
Cash	–

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

Cash consideration	–
Cash and bank balances acquired	2,362
Net inflow of cash and cash equivalents included in cash flows from investing activities	2,362

Since the acquisition, Hunan Helongsheng contributed HK$2,100,000 to the Group's revenue and a loss of HK$2,419,000 to the consolidated loss for the year ended 31 December 2016.

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35. DISPOSAL OF SUBSIDIARIES

DISPOSAL OF COOLPAD MOBILE

On 12 December 2016, the Group disposed of its 80% equity interest in Coolpad Mobile to an independent third party for a cash consideration of RMB272,000,000 (equivalent to HK$304,077,000). As a result, the Group lost its control over Coolpad Mobile and has accounted for it as an associate subsequently.

	Coolpad Mobile Group HK$'000
Net assets disposed of:	
Prepayments and other receivables	211,172
Inventories	24,015
Trade receivables	27,902
Cash and bank balances	184,716
Non-current asset	5,091
Bank and other loans	(223,586)
Advance from customers	(11,510)
Other payables and accruals	(50,939)
Non-current liability	(3,186)
	163,675
Proportion of the Group's ownership on 12 December 2016	100%
Proportion of the net assets attributable to the Group on 12 December 2016	163,675
Reclassification of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary	19,048
Fair value of the equity interests retained in Coolpad Mobile on 12 December 2016	(32,735)
Gain on loss of control of a subsidiary	154,089
	304,077
Satisfied by:	
Cash	304,077

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

	Coolpad Mobile Group HK$'000
Cash consideration	304,077
Cash and cash equivalents disposed of	(184,716)
Net inflow of cash and cash equivalents in respect of the loss of control of a subsidiary	119,361

NOTES TO FINANCIAL STATEMENTS

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35. DISPOSAL OF SUBSIDIARIES (CONTINUED)

DISPOSAL OF COOLPAD E-COMMERCE

As detailed in note 18 to the financial statements, 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%. As a result, the Group lost its control over Coolpad E-commerce and accounted for it as a joint venture subsequently.

	Coolpad E-commerce Group HK$'000
Net assets disposed of:	
Prepayments and other receivables	1,784,737
Inventories	138,814
Trade receivables	5,364
Bills receivable	14,483
Cash and cash equivalents	1,215,502
Other payables and accruals	(27,070)
	3,131,830
Proportion of the Group's ownership on 29 May 2015	55%
Proportion of the net assets attributable to the Group on 29 May 2015	1,722,506
Fair value of the equity interests retained in Coolpad E-commerce on 29 May 2015	(4,009,030)
Gain on loss of control of a subsidiary	2,635,391
	348,867
Satisfied by:	
Cash	348,867

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

	Coolpad E-commerce Group HK$'000
Cash consideration	348,867
Cash and cash equivalents disposed of	(1,215,502)
Net outflow of cash and cash equivalents in respect of the loss of control of a subsidiary	(866,635)

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36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) MAJOR NON-CASH TRANSACTION

As detailed in note 17 to the financial statements, certain assets, including a parcel of land, amounting to HK$55,782,000, and certain buildings under construction, amounting to HK$36,574,000, were contributed by the Group as its investment in Dongguan Tian'an.

37. CONTINGENCY

(A) LITIGATION WITH THE CUSTOMERS

A subsidiary of the Group is currently a plaintiff in a lawsuit with two customers in the United States of America, who refused to settle trade receivables of approximately USD25,000,000 (equivalent to HK$199,405,000).

In preparing these consolidated financial statements, the directors, have sought legal advice from the legal counsel, based on which, believe that as the litigation is still ongoing, they are not currently in a position to estimate the final results relating to the litigation.

(B) LITIGATIONS WITH THE SUPPLIERS

The Group received several civil complaints in 2017 and 2018 from the suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB228 million (equivalent to HK$282 million). The arbitration procedures of the civil complaints were still in progress as at the date of approval of the consolidated financial statements.

38. OPERATING LEASE ARRANGEMENTS

(A) AS LESSOR

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to nine years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**13,587**	5,547
In the second to fifth years, inclusive	**28,672**	23,402
After five years	**14,962**	11,097
	57,221	40,046

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38. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(B) AS LESSEE

The Group leases certain of its warehouses and office premises under operating lease arrangements for lease terms ranging from one to five years. The total future minimum lease payments under non-cancellable operating leases committed at the end of the reporting period to be made by the Group were as follows:

	2016 **HK$'000**	2015 HK$'000
Within one year	**6,465**	13,960
In the second to fifth years, inclusive	**3,769**	9,253
	10,234	23,213

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(B) above, the Group had the following capital commitments at the end of the reporting period:

	2016 **HK$'000**	2015 HK$'000
Contracted, but not provided for buildings	**592,533**	208,528
Capital contributions payable to a joint venture	**109,557**	–
Capital contributions payable to associates	**31,414**	31,751
	733,504	240,279

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40. RELATED PARTY TRANSACTIONS

(A) BALANCES WITH RELATED PARTIES:

	2016 HK$'000	2015 HK$'000
Due from a joint venture	–	195,051
Due from associates	11,261	–
Due from other related parties (*note*)	182,683	–
	193,944	195,051

	2016 HK$'000	2015 HK$'000
Due to associates	268,420	706
Due to a joint venture	4,406	2,359
Due to other related party (*note*)	50,538	–
	323,364	3,065

Note:

Amounts due from/to other related parties represented trade receivables and trade payables due from/to companies under the control of a then director of the Group. The above balances with those related parties are unsecured, non-interest-bearing and have no fixed terms of repayment.

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40. RELATED PARTY TRANSACTIONS (CONTINUED)

(B) TRANSACTIONS WITH RELATED PARTIES:

	2016 HK$'000	2015 HK$'000
Associates:		
Sale of products	**372,343**	–
Purchase of raw materials	**34,931**	10,884
Rental	**475**	415
Sale of assets	**377**	–
Service income	**17,597**	–

	2016 HK$'000	2015 HK$'000
A joint venture:		
Sale of products	**360,947**	1,882,493
Purchase of raw materials	**–**	10,157
Purchase of assets	**1,102**	–
Sale of assets	**–**	4,427
Service income	**13,003**	–
Rental	**5**	1,441

	2016 HK$'000
Other related parties:	
Sale of products	106,996
Provision of services related to membership promotion, pre-installation promotion and advertisement promotion	56,485
Purchase of raw materials	192,774
Purchase of service related to membership benefits	52,858

The above transactions with related parties were made based on mutually agreed terms.

The related party transactions with other related parties were in respect of items with the companies under the control of a then director of the Group, which constitute connected transactions or continuing connected transactions ("CCTs") as defined in Chapter 14A of the Listing Rules. Further details about the CCTs are set out in the announcements of the Company dated 5 August 2016, 8 September 2016, 22 September 2016 and 28 October 2016.

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40. RELATED PARTY TRANSACTIONS (CONTINUED)

(B) TRANSACTIONS WITH RELATED PARTIES (CONTINUED):

As part of the Group's efforts in maintaining complete and accurate account records of the transactions with the related parties, the Group would perform reconciliations with the counterparties on a regular basis. During the year ended 31 December 2016, other than the above transactions as disclosed, an unreconciled advertising fee of RMB13 million (HK$15 million) was claimed by a subsidiary of 樂視網資訊技術（北京）股份有限公司 ("Leshi Internet"). The Group's transactions with Leshi Internet were also disclosed in Leshi Internet's publicly accessible financial information. In view of the Directors, the Group had properly and completely recorded its transactions with its related parties and disclosed in the financial statements and had never entered into any contractual arrangements with any party in connection with the aforementioned advertising services. In June 2017, the Group had obtained a clarification letter from Leshi Internet, pursuant to which, Leshi Internet had acknowledged and confirmed the accuracy of the Group's records.

(C) COMPENSATION OF KEY MANAGEMENT PERSONNEL OF THE GROUP

In addition to the amounts paid to the Company's directors as disclosed in note 8 to the financial statements, compensation of other key management personnel of the Group is set out below:

	Group	
	2016	2015
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**17,629**	21,712
Pension scheme contributions	**427**	503
Equity-settled share option expense	**24,340**	10,377
Total compensation paid to other key management personnel	**42,396**	32,592

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41. OFFSETTING OF FINANCIAL INSTRUMENTS

The Group entered into a series of set-off arrangements in respect of its restricted time deposits and interest-bearing bank loans in 2015. The agreements provided the Group conditional rights to set-off that are enforceable and exercisable. There were no financial instrument offsetting arrangements for the year ended.

Financial instruments subject to offsetting, enforceable master netting arrangements and similar agreements for the year ended 31 December 2015 were set out below:

31 December 2015

	Gross amounts of recognised financial asset/ (liability)	Gross amounts of recognised financial (asset)/ liability set off in the statement of financial position	Net amounts of financial asset represented in the statement of financial position	Related amounts not set off in the statement of financial position		
				Financial instruments	Cash collateral received	Net amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Restricted time deposits	323,320	(323,320)	–	–	–	–
Interest-bearing bank loans	(323,320)	323,320	–	–	–	–

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42. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

FINANCIAL ASSETS

	2016			2015		
	Loans and receivables HK$'000	**Available-for-sale financial assets HK$'000**	**Total HK$'000**	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Available-for-sale Investments	**–**	**31,068**	**31,068**	–	36,916	36,916
Trade receivables	**860,599**	**–**	**860,599**	1,619,599	–	1,619,599
Bills receivable	**82,491**	**–**	**82,491**	129,345	–	129,345
Loans receivable	**394,546**	**–**	**394,546**	1,032,559	–	1,032,559
Financial assets included in prepayments, deposits and other receivables	**1,396,661**	**–**	**1,396,661**	191,587	–	191,587
Due from directors	**500**	**–**	**500**	3,282	–	3,282
Due from a joint venture	**–**	**–**	**–**	195,051	–	195,051
Due from associates	**11,261**	**–**	**11,261**	–	–	–
Due from other related parties	**182,683**	**–**	**182,683**	–	–	–
Pledged deposits	**361,811**	**–**	**361,811**	413,488	–	413,488
Cash and cash equivalents	**1,308,082**	**–**	**1,308,082**	2,515,974	–	2,515,974
	4,598,634	**31,068**	**4,629,702**	6,100,885	36,916	6,137,801

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42. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

FINANCIAL LIABILITIES

	2016 Financial liabilities at amortised cost HK$'000	2015 Financial liabilities at amortised cost HK$'000
Trade payables	**1,784,925**	1,916,195
Bills payable	**1,321,077**	1,351,701
Financial liabilities included in other payables and accruals	**1,064,303**	1,478,151
Interest-bearing bank and other borrowings	**1,123,095**	1,360,782
Due to associates	**268,420**	706
Due to a joint venture	**4,406**	2,359
Due to other related party	**50,538**	–
	5,616,764	6,109,894

43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		**Fair values**	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Financial assets				
Available-for-sale investments – listed	**2,358**	2,782	**2,358**	2,782
Financial liabilities				
Interest-bearing bank and other borrowings	**1,123,095**	1,360,782	**1,123,095**	1,360,782

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Management has assessed that the fair values of unlisted available-for-sale investments, trade and bills receivables, financial assets included in prepayments, deposits and other receivables, loans receivable, amounts due from directors, an amount due from a joint venture, amounts due from associates, amounts due from other related parties, pledged deposits, cash and cash equivalents, trade and bills payables, financial liabilities included in other payables and accruals, an amount due to a joint venture, amounts due to associates and an amount due to other related party approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The valuation process and results are discussed with the chief financial officer twice a year for interim and annual financial reporting.

The fair values of the interest-bearing bank and other loans have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other loans as at 31 December 2016 was assessed to be insignificant.

FAIR VALUE HIERARCHY

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Available-for-sale investments – listed	**2,358**	**–**	**–**	**2,358**

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

Assets measured at fair value (continued):

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Available-for-sale investments – listed	2,782	–	–	2,782

Liabilities for which fair values are disclosed:

As at 31 December 2016

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	**Significant observable inputs (Level 2) HK$'000**	**Significant unobservable inputs (Level 3) HK$'000**	**Total HK$'000**
Interest-bearing bank and other borrowings	**–**	**1,123,095**	**–**	**1,123,095**

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43. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE HIERARCHY (CONTINUED)

Liabilities for which fair values are disclosed (continued):

As at 31 December 2015

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Interest-bearing bank and other borrowings	–	1,360,782	–	1,360,782

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2015: Nil).

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables, loans receivable, amounts due from directors, an amount due from a joint venture, an amount due from associates, amounts due from other related parties, trade and bills payables, an amount due from/to a joint venture, amounts due from/to associates and amounts due from/to other related parties, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing these risks and they are summarised below.

INTEREST RATE RISK

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings which bear interest at floating rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 30 to the financial statements.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax HK$'000
2016		
RMB	**100**	**(1,453)**
RMB	**(100)**	**1,453**
2015		
RMB	100	(5,133)
RMB	(100)	5,133

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue, cost of sales and a certain portion of the bank and other loans are denominated in USD and Euro ("EUR"). The Group is exposed to foreign exchange risk with respect mainly to USD and EUR. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and the amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and EUR exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). Other components of equity would have no change.

	Increase/ (decrease) in USD %	Increase/ (decrease) in profit before tax HK$'000
2016		
If RMB weakens against USD	**5**	**1,654**
If RMB strengthens against USD	**(5)**	**(1,654)**
2015		
If RMB weakens against USD	5	(11,059)
If RMB strengthens against USD	(5)	11,059

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

FOREIGN CURRENCY RISK (CONTINUED)

	Increase/ (decrease) in EUR %	Increase/ (decrease) in profit before tax HK$'000
2016		
If RMB weakens against EUR	**5**	**1,773**
If RMB strengthens against EUR	**(5)**	**(1,773)**
If HK$ weakens against EUR	**5**	**810**
If HK$ strengthens against EUR	**(5)**	**(810)**
2015		
If RMB weakens against EUR	5	92
If RMB strengthens against EUR	(5)	(92)
If HK$ weakens against EUR	5	2,252
If HK$ strengthens against EUR	(5)	(2,252)

CREDIT RISK

Credit risk for sales of mobile phones

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, bills receivable, deposits and other receivables, amounts due from directors, an amount due from a joint venture, amounts due from other related parties, available-for-sale instruments and loans receivable, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. At the end of the reporting period, the Group had concentrations of credit risk as 74% (2015: 75%) of the Group's trade receivables were due from the Group's five largest customers.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CREDIT RISK (CONTINUED)

Credit risk for sales of mobile phones (continued)

The credit risk for pledged deposits and cash and bank balances is considered minimal as such amounts are placed with banks with good credit standing. Further quantitative data in respect of the Group's exposure to credit risk from trade receivables are disclosed in note 21 to the financial statements.

Credit risk for financing service

The credit risk for financing service arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments under the loans the Group provided. Credit risk is primarily attributable to unexpired loans receivable. The maximum exposure to credit risk is represented by the net carrying amount of each type of financial assets as at the end of the reporting period.

The Group has taken measures to identify credit risks arising from the finance service business. The Group manages credit risk at every stage of the risk management system, including pre-approval, review and credit approval and post-transaction monitoring processes. The Group conducts customer acceptance and due diligence by the business department and risk management department during the pre-approval process. During the post-transaction monitoring process, the Group conducts on-site inspection and ongoing post-transaction reviews focusing on various aspects, including but not limited to customers' product markets, operating income, assets and liabilities and cash flows from operating activities to detect potential risks.

LIQUIDITY RISK

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade and bills receivables) and projected cash flows from operations.

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

LIQUIDITY RISK (CONTINUED)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2016		
	On demand and less than 1 year HK$'000	**1 to 5 years HK$'000**	**Total HK$'000**
Trade payables	**1,784,925**	**–**	**1,784,925**
Bills payable	**1,321,077**	**–**	**1,321,077**
Financial liabilities included in other payables and accruals	**1,064,303**	**–**	**1,064,303**
Interest-bearing bank and other borrowings	**1,134,594**	**–**	**1,134,594**
Due to a joint venture	**4,406**	**–**	**4,406**
Due to associates	**268,420**	**–**	**268,420**
Due to other related party	**50,538**	**–**	**50,538**
	5,628,263	**–**	**5,628,263**

	2015		
	On demand and less than 1 year HK$'000	1 to 5 years HK$'000	Total HK$'000
Trade payables	1,916,195	–	1,916,195
Bills payable	1,351,701	–	1,351,701
Financial liabilities included in other payables and accruals	1,478,151	–	1,478,151
Interest-bearing bank and other borrowings	1,223,813	163,537	1,387,350
Due to a joint venture	2,359	–	2,359
Due to an associate	706	–	706
	5,972,925	163,537	6,136,462

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44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable, other payables and accruals, amounts due to associates, an amount due to a joint venture and an amount due to other related party, less cash and cash equivalents. Capital represents equity attributable to owners of the Company. The gearing ratios at the end of the reporting period were as follows:

	2016 **HK$'000**	2015 HK$'000
Interest-bearing bank and other borrowings	**1,123,095**	1,360,782
Trade payables	**1,784,925**	1,916,195
Bills payable	**1,321,077**	1,351,701
Other payables and accruals	**1,605,686**	2,081,268
Due to associates	**268,420**	706
Due to a joint venture	**4,406**	2,359
Due to other related party	**50,538**	–
Less: Cash and cash equivalents	**(1,308,082)**	(2,515,974)
Net debt	**4,850,065**	4,197,037
Equity attributable to owners of the Company	**3,542,908**	7,326,715
Capital and net debt	**8,392,973**	11,523,752
Gearing ratio	**58%**	36%

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45. EVENTS AFTER THE REPORTING PERIOD

a) Other than those advances stated in note 24, in March 2017, the Group made another sum of advances amounting to RMB165 million (equivalent to HK$186.22 million) to three entities and a prepayment of RMB80 million (equivalent to HK$90.26 million) to an advertising agent in respect of outdoor advertising services for the period from October 2017 to April 2018.

In the view of the Directors, the above entities were independent to the Group. Those advances were interest-bearing at a rate of 10% per annum, non-secured and repayable within one year. In July 2017, the Group received the refund of the advances in full. In October 2017, the advertising agent has default in delivering the services to the Group. Up to the date of this report, negotiation with the advertising agent in recovering the prepayment was still ongoing.

b) On 11 July 2017, the Group received a civil complaint from Ping An Bank Co., Ltd. Shenzhen Branch about a borrowing of RMB80 million (equivalent to HK$89 million) as at 31 December 2016 to request for the immediate repayment of all principals and interest of the borrowing. The maturity date in connection with the loan was 15 August 2017. On 22 August 2017, the Group settled the amount in full.

c) On 25 July 2017, the Group received another civil complaint from Bank of Ningbo Co., Ltd. Shenzhen Branch (“Bank of Ningbo SZ”) regarding certain bank acceptance drafts of RMB70 million (equivalent to HK$78 million) (collectively, the “Bank Acceptance Drafts A”) as at 31 December 2016. The Group drew down the facilities under a bank acceptance agreement signed with Bank of Ningbo SZ in November 2016, the term of which would expire on 7 November 2017. For the purpose of the Bank Acceptance Agreement, the Group made a deposit of RMB21 million (equivalent to HK$23 million). Pursuant to the civil complaint, Bank of Ningbo SZ claimed that due to the fact that the Group had involved in litigation and faced difficulties in the operating activities which was deemed to be a breach of the covenants in the Bank Acceptance Agreement, Bank of Ningbo SZ as plaintiff demanded the priority claim to the security deposit of RMB21 million (equivalent to HK$23 million) and requested the Group to immediately repay the difference between the face amount of the Bank Acceptance Bills A and the security deposit of RMB49 million (equivalent to HK$55 million) together with the relevant interest up to the repayment date. On 22 September 2017, the court made a verdict according to law to approve the application by the plaintiff to withdraw the civil complaint. On 7 November 2017, the Group settled the amount in full.

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45. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

d) On 28 July 2017, the Group received a civil complaint from Shanghai Pudong Development Bank Co., Ltd. Shenzhen Branch ("Pudong Bank SZ") regarding certain bank acceptance billings of HK$151 million (equivalent to RMB129 million) (collectively, the "Bank Acceptance Drafts B"). The Group drew down the facilities under a Financing Limit Agreement signed with Pudong Bank SZ in July 2017, the term of which will expire in January 2018. For the purpose of the financing limit agreement, the Group deposited an amount of HK$45 million (equivalent to RMB39 million) with Pudong Bank SZ as a security. Pursuant to the civil complaint, Pudong Bank SZ claimed that the fact that the Group has been involved in litigations and certain assets of the Group had been frozen and locked up by the court constitute a breach of the covenants in the Financing Limit Agreement. Pudong Bank SZ, as a plaintiff, demanded the Group to immediately make up for the shortfall of the security deposit of the Bank Acceptance Drafts B amounting to HK$106 million (equivalent to RMB90 million). On 12 January and 15 January 2018, the Group had paid the bank acceptance drafts amounting to RMB66 million and RMB63 million, respectively.

e) On 17 October 2017, the Group entered into a subscription agreement with an independent third party in respect of the issue of convertible bonds with a nominal value of HK$581,948,000. Details of the bond issuance are set out in the announcement of the Group dated 17 October 2017. On 19 October 2017, the Group received a deposit from the bond subscriber amounting to HK$58,195,000.

f) On 17 October 2017, the Group entered into a cooperative development agreement with an independent third party in respect of the joint development of the first, second and third phases of the urban renovation project of Coolpad Information Harbour. Details of the development project are set out in the announcement of the Group dated 17 October 2017.

g) On 4 January 2018, Leview Mobile HK Limited has sold and a purchaser has purchased 897,437,000 shares of the Group at HK$0.9 per share in cash, representing a total consideration of HK$807,693,300.00. Accordingly, Leview Mobile HK Limited ceased to be the single largest shareholder of the Group and the purchaser has become the single largest shareholder of the Group. Details of the transaction are set out in the announcement of the Group dated 4 January 2018.

h) On 11 January 2018, Leview Mobile HK Limited has sold and a purchaser had purchased 551,367,386 shares of the Group. Accordingly, Leview Mobile HK Limited ceased to be the shareholder of the Group and the purchaser has become a substantial shareholder of the Group. Details of the transaction are set out in the announcement of the Group dated 11 January 2018.

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46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2016	2015
	HK$'000	HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**–**	52
Investments in subsidiaries	**278,953**	249,583
Available-for-sale investment	**2,358**	2,782
Total non-current assets	**281,311**	252,417
CURRENT ASSETS		
Due from subsidiaries	**731,764**	934,403
Due from directors	**500**	–
Prepayments, deposits and other receivables	**944,245**	70
Cash and cash equivalents	**121,270**	157,088
Total current assets	**1,797,779**	1,091,561
CURRENT LIABILITIES		
Due to subsidiaries	**59,684**	8,050
Other payables and accruals	**169**	805
Interest-bearing bank borrowings	**217,246**	310,040
Total current liabilities	**277,099**	318,895
NET CURRENT ASSETS	**1,520,680**	772,666
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,801,991**	1,025,083
Net assets	**1,801,991**	1,025,083
EQUITY		
Issued capital	**50,326**	43,544
Reserves *(Note)*	**1,751,665**	981,539
Total equity	**1,801,991**	1,025,083

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46. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Share award reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Capital redemption reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2015	414,832	44,992	100,918	43,564	(1,889)	1,870	388	(24,098)	580,577
Total comprehensive (expense)/income for the year	–	–	–	–	(377)	–	–	278,591	278,214
Issue of shares upon exercise of share options	101,499	–	(28,342)	–	–	–	–	–	73,157
Equity-settled share option arrangements	–	–	49,591	–	–	–	–	–	49,591
At 31 December 2015 and 1 January 2016	516,331	44,992	122,167	43,564	(2,266)	1,870	388	254,493	981,539
Total comprehensive (expense)/income the year	–	–	–	–	(425)	–	–	19,589	19,164
Issue of shares upon completion of the Rights Issue	691,471	–	–	–	–	–	–	–	691,471
Issue of shares upon exercise of share options	27,401	–	(9,055)	–	–	–	–	–	18,346
Equity-settled share option arrangements	–	–	41,145	–	–	–	–	–	41,145
At 31 December 2016	1,235,203	44,992	154,257	43,564	(2,691)	1,870	388	274,082	1,751,665

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 3 April 2018.