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Coolpad 酷派

COOLPAD GROUP LIMITED

酷派集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2369)

Financial advisor to the Company



POSSIBLE VERY SUBSTANTIAL ACQUISITION AND VERY SUBSTANTIAL DISPOSAL RELATING TO THE SHAREHOLDERS' AGREEMENT

SHAREHOLDERS' AGREEMENT

Reference is made to the Company's announcement dated 16 December 2014 in which was announced that the Company, Coolpad E-Commerce and the Investor entered into the Subscription Agreement, pursuant to which the Investor agreed to subscribe and Coolpad E-Commerce agreed to allot and issue the Subscription Shares. On 9 January 2015, the Company, Coolpad E-Commerce and the Investor entered into the Shareholders' Agreement to regulate the respective shareholders' rights of the Company and the Investor in Coolpad E-Commerce. The Shareholders' Agreement provides each of the Company and the Investor an option to purchase another's shares in Coolpad E-Commerce if an initial public offering of the E-Commerce Shares cannot take place within five years and the parties cannot agree on the exit strategy, details of which are set out in the paragraph "Exit Call Option" in this announcement. Further, the Shareholders' Agreement provides that the Company should not conduct business in competition with the business of Coolpad E-Commerce Group, failing which the Investor shall have the right either to purchase the Company's shares in Coolpad E-Commerce or to sell its shares in Coolpad E-Commerce to the Company, details of which are set out in the paragraph "Non-Competition Put and Call Options" in this announcement.

LISTING RULES IMPLICATIONS

Each of the grant of the Exit Call Option and the Non-Competition Call Option by the Company constitutes a possible very substantial disposal of the Company under Chapter 14 of the Listing Rules, whereas the grant of the Non-Competition Put Option by the Company constitutes a possible very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Accordingly, the Company is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

An EGM will be convened by the Company to approve, among other things, the Shareholders' Agreement (including the grant of the Exit Call Option, the Non-Competition Call Option and the Non-Competition Put Option by the Company to the Investor). To the best of the Directors' knowledge, none of the Shareholders is interested in the transactions contemplated under the Shareholders' Agreement and, accordingly, no Shareholder is required to abstain from voting at the EGM.

DESPATCH OF CIRCULAR

A circular containing, among other things, details of the Shareholders' Agreement, a notice of EGM and other information required under the Listing Rules, is expected to be despatched to the Shareholders on or before 17 January 2015.

Reference is made to the Company's announcement dated 16 December 2014 in which it was announced that the Company, Coolpad E-Commerce (a direct wholly-owned subsidiary of the Company) and the Investor entered into the Subscription Agreement, pursuant to which, the Investor agreed to subscribe and Coolpad E-Commerce agreed to allot and issue the Subscription Shares at the total consideration of USD409.05 million (equivalent to approximately HK\$3,170.14 million). Upon Closing, the Company and the Investor will be interested in 55% and 45% of the issued share capital of Coolpad E-Commerce respectively.

THE SHAREHOLDERS' AGREEMENT

As a condition precedent to Closing, the Company, Coolpad E-Commerce and the Investor entered into the Shareholders' Agreement to regulate the respective shareholders' rights of the Company and the Investor in Coolpad E-Commerce on 9 January 2015, with the following major terms:

Exit Call Option

If an initial public offering of the E-Commerce Shares on an internationally recognized stock exchange has not occurred by the fifth anniversary of the date of the Shareholders' Agreement and the Company and the Investor are unable to agree on an exit strategy within six months thereafter ("Discussion Period"), then at any time within one year after the expiration of the Discussion Period, each of the Company and the Investor ("Calling Shareholder") shall have the Exit Call Option (i.e. the right, by serving a written notice, to require another ("Called Shareholder") to sell and transfer all the E-Commerce Shares owned by the Called Shareholder at a price specified by the Calling Shareholder).

Upon receipt of the said written notice, the Called Shareholder can then decide, within 10 business days, either to accept the Exit Call Option (i.e. selling all its E-Commerce Shares to the Calling Shareholders at the price specified by the Calling Shareholder) or to deliver a counter-call notice to the Calling Shareholder requiring it to sell and transfer all the E-Commerce Shares owned by it at a price higher than the price previously offered by the Calling Shareholder. This process shall continue until one of them accepts the Exit Call Option. The closing of the sale and purchase of such E-Commerce Shares shall be done on the 45th day after the final notice, which shall be extended for another 45 days to obtain any regulatory approval or Shareholders' approvals.

In case the Investor exercises the Exit Call Option requiring the Company to sell its E-commerce Shares to the Investor, the Company has discretion to decide whether to accept the Exit Call Option or to deliver a counter-notice to the Investor requiring the Investor to sell its E-commerce Shares to the Company. In this case, in deciding whether to accept the Exit Call Option or to deliver a counter-call notice, the Company will comply with the requirements under Chapter 14 of the Listing Rules and if applicable Chapter 14A of the Listing Rules. Further, the Company will comply with the requirements under Chapter 14 of the Listing Rules and if applicable Chapter 14A of the Listing Rules in deciding whether to exercise the Exit Call Option.

Non-Competition Put and Call Options

The Company undertakes that it shall not conduct any business of the research, development, designing, manufacturing, distribution, marketing and sales of (i) the Internet terminal products under the “大神” (Dazen) brand and (ii) other mobile phones that are distributed through Internet as the primary channel excluding the “Coolpad” series of products developed for mobile network operators and the “IVVI” series of products developed for the open market and the research, development, operating and provision of services for key components and/or application exclusively used for the Internet terminal products described above (“Restricted Business”) other than through Coolpad E-Commerce Group and for so long as the Investor and/or its affiliates hold any E-Commerce Shares, the Company shall not, and shall procure that each of its affiliates will not, without the Investor’s prior written consent:

- (a) directly or indirectly, (i) own any interest in, manage, control, participate in, consult with, render services for or otherwise engage in, or provide assistance to, any business identical or similar to, or competing with the Restricted Business (“Competing Business”) in the PRC, Hong Kong, Taiwan or the United States of America other than through any member of Coolpad E-Commerce Group; (ii) enter into any joint venture or other cooperation arrangement with any competitor of the Investor in connection with any Competing Business; provided that the purchase by any such Investor’s competitor of the Company’s publicly traded shares through open market purchases shall not be deemed as violation;
- (b) enter into any agreement, joint venture or arrangement with any person that involves any issuance of equity securities of the Company and/or its affiliates to any of the Investor’s primary competitor or any acquisition by the Company and/or its affiliates of any equity securities of any of the Investor’s primary competitor; provided that, the purchase by any such Investor’s primary competitor of the Company’s publicly traded shares through open market purchases shall not be deemed as violation; and provided further that in the event any such Investor’s primary competitor becomes an owner of any issued share capital of the Company through open market purchase, the Company and the Investor shall discuss in good faith to explore ways for the Company to avoid a change of control of the Company due to such actions taken by such Investor’s primary competitor.

Upon a breach of the undertakings above, the Investor shall be entitled to elect to exercise:

- (a) the Non-competition Call Option (i.e. an option, by serving a notice, to purchase all E-Commerce Shares held by the Company or its permitted transferees at a price of US\$227,250 per E-Commerce Shares, being 50% of the subscription price under the Share Subscription (subject to appropriate adjustment for share splits, share dividends, combinations, recapitalizations and similar events with respect to such shares)). Such price was arrived at after arm’s length negotiations between the parties with reference to usual practices. The closing of such purchase shall be on the 45th day after the final notice, which shall be extended as necessary to obtain any regulatory approvals. Upon the close of such purchase, the Company will no longer have any shareholding in Coolpad E-Commerce; or

- (b) the Non-competition Put Option (i.e. an option, to require the Company to purchase all E-Commerce Shares held by the Investor and/or its permitted transferees at a price equal to two times of the fair market value of such E-Commerce Shares as of the date of the put notice given by the Investor). The fair market value shall be determined by an appraiser jointly selected by the Company and the Investor. If the Company and the Investor fail to agree on the appraiser within 30 days after the delivery of the put notice, each of them shall select an appraiser and the fair market value shall be determined by the arithmetic average of the two appraisers. Any appraiser to be appointed shall be a top 10 financial institutions measured by the total transaction volume of worldwide merger and acquisition transactions advised by such institutions in the most recent three full calendar years before as reported by Thomson Financial or its successor or if not available, a reputable global investment bank or third party appraiser with office in Hong Kong. Upon the close of such purchase, the Company will hold the entire shareholding in Coolpad E-Commerce, assuming that there is no change in the shareholding in E-Commerce from the date of Closing to the date of exercise of the Non-competition Put Option.

Likewise, under the Shareholders' Agreement, the Investor provides a similar non-competition undertakings to the Company and in case of any such breach, the Company is entitled to purchase all E-Commerce Shares held by the Investor or its permitted transferee at a price of US\$227,250 per E-Commerce Shares, being 50% of the subscription price under the Share Subscription (subject to appropriate adjustment for share splits, share dividends, combinations, recapitalizations and similar events with respect to such shares). Such price was arrived at after arm's length negotiations between the parties with reference to usual practices. The closing of such purchase shall be on the 45th day after the final notice, which shall be extended as necessary to obtain any regulatory approvals. The Company is only granted a call option but not a put option in case the Investor breaches its non-competition undertaking. This was agreed by the parties after arms' length negotiation taking into account that (i) the Company will have a controlling stake in Coolpad E-Commerce Group and (ii) the Company only injected non-cash assets to Coolpad E-Commerce Group. As the exercise of this option is at the discretion of the Company, the Company will comply with Rule 14.75(2) in case it exercises such option.

Board Composition

The initial number of directors of Coolpad E-Commerce shall be five with three nominees from the Company and two nominees from the Investor.

Other rights

The Shareholders' Agreement also contains provisions which give each of the Company and the Investor (i) the first right of refusal over sales of E-Commerce Shares by other shareholders; and (ii) the pre-emptive rights to participate in further issue of E-Commerce Shares in portion to its shareholding.

INFORMATION ABOUT THE COOLPAD E-COMMERCE GROUP

Coolpad E-Commerce Inc. is an investment holding company incorporated in the Cayman Islands with limited liability in September 2014. It is intended that Coolpad E-Commerce Group will principally be engaged in the research, development, designing, manufacturing, distribution, marketing and sales of Internet and other terminal products that are distributed through Internet as the primary channel ("Internet terminal products") and the research, development, operating and provision of services for the key components and/or applications of the said Internet terminal products.

INFORMATION ABOUT THE INVESTOR

To the best knowledge, information and belief of the Directors, (i) the Investor is an investment holding company; and (ii) for Qihoo 360, its shares are listed on the New York Stock Exchange and it is a leading Internet company in China.

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, the Investor and its ultimate beneficial substantial owners are third parties independent of the Company and its connected persons.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SHAREHOLDERS' AGREEMENT

The Group is principally engaged in developing wireless telecommunications technological know-how in wireless telecommunications across multiple wireless telecommunications network standards and providing integrated solutions for smartphone sets, mobile data platform system, and value-added business operations.

It is one of the conditions precedent to Closing for the Company and the Investor to enter into the Shareholders' Agreement to regulate the respective shareholders' rights in Coolpad E-Commerce. The grant of Exit Call Option under the Shareholders' Agreement is mutual to both shareholders and it provides a way for the parties to exit in case an initial public offering of the E-Commerce Shares cannot be done as intended and the parties cannot otherwise agree on an exit strategy.

Each of the Company and the Investor gives similar non-competition undertakings to another such that each of them shall not conduct business in competition with Coolpad E-Commerce Group which shall be in the best interest for the development of Coolpad E-Commerce Group. The Non-Competition Call Option and the Non-Competition Put Option can only be exercised by the Investor in the case the Company breaches its non-competition undertakings.

Based on the above, the Directors considered that the Shareholders' Agreement (including the grant of the Exit Call Option, the Non-Competition Call Option and the Non-Competition Put Option by the Company to the Investor) is in the interest of the Company and the Shareholders taken as a whole. The terms of the Shareholders' Agreement are fair and reasonable and the Shareholders' Agreement was entered into on normal commercial terms.

The Directors are of the view that even if the Group disposes of the entire shareholding in Coolpad E-Commerce Group due to the exercise of the Exit Call Option or the Non-competition Call Option, the remaining business of the Group still constitutes sufficient level of operations as required under Rule 13.24 of the Listing Rules as (a) as the business to be undertaken by the Coolpad E-Commerce Group only commenced in 2014, such business has no contribution to the Group's revenue or profit for the year ended 31 December 2013; (b) based on the operating segment information set out in the Company's annual report 2013, (i) the Group's business of 3G and 4G Coolpad smartphones ("Coolpad Smartphone Business"), which will not be injected into Coolpad E-Commerce Group, accounts for 99.9% of the Group's total revenue for the year ended 31 December 2013; (ii) all the profit of the Group for the year ended 31 December 2013 was attributable to the Coolpad Smartphone Business; (iii) the assets for the Coolpad Smartphone Business accounted for 96.9% of the Group's total assets for the year ended 31 December 2013.

LISTING RULES IMPLICATIONS

Each of the grant of the Exit Call Option and the Non-Competition Call Option by the Company constitutes a possible very substantial disposal of the Company under Chapter 14 of the Listing Rules, whereas the grant of the Non-Competition Put Option by the Company constitutes a possible very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Accordingly, the Company is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

An EGM will be convened by the Company to approve, among other things, the Shareholders' Agreement (including the grant of the Exit Call Option, the Non-Competition Call Option and the Non-Competition Put Option by the Company to the Investor). To the best of the Directors' knowledge, none of the Shareholders is interested in the transactions contemplated under the Shareholders' Agreement and, accordingly, no Shareholder is required to abstain from voting at the EGM.

DESPATCH OF CIRCULAR

A circular containing, among other things, details of the Shareholders' Agreement (including the grant of the Exit Call Option, the Non-Competition Call Option and the Non-Competition Put Option), a notice of EGM and other information required under the Listing Rules, is expected to be despatched to the Shareholders on or before 17 January 2015.

DEFINITIONS

“Board”	the board of Directors
“BVI”	British Virgin Islands
“Closing”	the closing of the subscription by the Investor of the Subscription Shares pursuant to the Subscription Agreement
“Company”	Coolpad Group Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2369)
“Coolpad E-Commerce”	Coolpad E-Commerce Inc., a company incorporated in the Cayman Islands with limited liability
“Coolpad E-Commerce Group”	Coolpad E-Commerce and its subsidiaries upon consummation of the Restructuring
“Directors”	directors of the Company
“E-Commerce Shares”	shares in Coolpad E-Commerce
“EGM”	the extraordinary general meeting of the Company to be convened to approve, among other things, the Shareholders' Agreement (including the grant of the Exit Call Option, the Non-Competition Call Option and the Non-Competition Put Option by the Company to the Investor)

“Exit Call Option”	the exit call option under the Shareholders’ Agreement, details of which are set out in the paragraph headed “Exit Call Option” in this announcement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Investor”	Tech Time Development Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of Qihoo 360
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Non-Competition Call Option”	the non-competition call option granted by the Company to the Investor, details of which are set out in the paragraph headed “Non-Competition Put and Call Options” in this announcement
“Non-Competition Put Option”	the non-competition put option granted by the Company to the Investor, details of which are set out in the paragraph headed “Non-Competition Put and Call Options” in this announcement
“PRC”	the People’s Republic of China, excluding, for the purpose of this announcement, Taiwan, Hong Kong and Macau
“Qihoo 360”	Qihoo 360 Technology Co. Ltd., a company whose shares of which are listed on the New York Stock Exchange (stock code: QIHU)
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholders”	holders of Shares
“Shareholders’ Agreement”	the shareholders’ agreement dated 9 January 2015 and entered into between the Company, Coolpad E-Commerce and the Investor to regulate the shareholders’ rights of the Company and the Investor in Coolpad E-Commerce
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company
“Share Subscription”	the subscription by the Investor of the Subscription Shares pursuant to the Subscription Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Subscription Agreement”	the share subscription agreement dated 16 December 2014 and entered into among the Company, Coolpad E-Commerce and the Investor in relation to, among other things, the subscription of the Subscription Shares by the Investor
“Subscription Shares”	900 ordinary shares of USD0.01 each in the share capital of Coolpad E-Commerce, representing 45% of its enlarged issued share capital upon Closing
“USD”	United States Dollars, the lawful currency of the United States of America
“%”	per cent

For ease of reference, the exchange rates between United States dollars and Hong Kong dollars provided in this announcement are USD1.00=HK\$7.75 respectively. The provision of such exchange rates do not mean that Hong Kong dollars could be converted into United States dollars based on such exchange rates.

By order of the Board
COOLPAD GROUP LIMITED
GUO DEYING
Chairman

Hong Kong, 9 January 2015

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