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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Coolpad Group Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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)

(1) MAJOR TRANSACTIONS
DISPOSAL OF CERTAIN INTEREST IN A SUBSIDIARY
ACQUISITION OF INTERNET RELATED BUSINESS
AND
(2) NOTICE OF THE EXTRAORDINARY GENERAL MEETING

A notice convening the extraordinary general meeting (“EGM”) of the Company to be held at Meeting Room of Exhibition Hall in Building 5, Coolpad Information Park, Shenzhen, People’s Republic of China on Tuesday, 23 February 2016 at 11:00 a.m. is set out on pages 58 to 59 of this circular. Whether or not you intend to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the office of the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

31 January 2016

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

“Acquisition”	the acquisition by the Company of Internet Related Business from Coolpad E-Commerce
“Board”	the board of Directors
“Business Adjustment Framework Agreement”	the agreement dated 18 September 2015 entered into between the Company, Tech Time and Coolpad E-Commerce in relation to, among others, the detailed arrangement on the transfer of Internet Related Business
“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
“Completion”	the completion of the Share Adjustment Framework Agreement
“connected person(s)”	has the same meaning ascribed to it under the Listing Rules
“Coolpad E-Commerce”	Coolpad E-Commerce Inc., a company incorporated in the Cayman Islands with limited liability and a joint venture of the Company under relevant accounting standard prior to the Share Adjustment
“Directors”	the directors of the Company
“Disposal”	the disposal of 25.5% of equity interest in Coolpad E-Commerce held by the Company to Coolpad E-Commerce through Share Repurchase
“EGM”	the extraordinary general meeting to be convened by the Company for the purpose of considering, and if thought fit, approving the Share Adjustment Framework Agreement and the transactions contemplated thereunder
“Enlarged Group”	the Group after the completion of the Acquisition
“Exit Call Option”	the “Exit Call Option” as provided in the Shareholders’ Agreement
“Group”	the Company and its subsidiaries

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Valuer”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer
“Internet Related Business”	the target assets of the Acquisition, which are part of the assets injected by the Group into Coolpad E-Commerce as disclosed in the Company’s circular dated 12 February 2015, mainly include (i) all OS systems and their rights of operation for all mobile devices of the Group except for “Dazen” and “QIKU” mobile devices; (ii) all rights of operation for the internet business of the Group except for “Dazen” and “QIKU” mobile internet business; (iii) the domain names and server of the Coolpad website (coolpad.com) and Coolshop (shop.coolpad.com) and their rights of operation and management; (iv) the rights of operation of “Coolyun”; and (v) the rights of operation of “Zuimei Weather” application and related business
“Latest Practicable Date”	29 January 2016, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Non-Competition Obligations”	the “Coolpad Non-Competition Obligation” as provided in the Shareholders’ Agreement
“Non-Competition Put/Call Option”	the option granted or acquired in respect of the Non-Competition Obligations
“PRC”	The People’s Republic of China and for the purpose of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“Put and Call Options”	the “Put and Call Options” as provided in the Shareholders’ Agreement
“Qihoo 360”	Qihoo 360 Technology Co. Ltd., a company whose shares of which are listed on the New York Stock Exchange (stock code: QIHU)

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Share Adjustment”	the share adjustment as a result of the share split and share repurchase by Coolpad E-Commerce of 6,800 shares of Coolpad E-Commerce held by the Company
“Share Adjustment Framework Agreement”	the agreement dated 18 September 2015 entered into between the Company, Tech Time and Coolpad E-Commerce in relation to, among others, the Share Adjustment
“Shareholders”	the holder(s) of the Share(s)
“Shareholders’ Agreement”	the shareholders’ agreement dated 9 January 2015 and entered into among the Company, Coolpad E-Commerce and Tech Time, details of which are set out in the Company’s announcement dated 9 January 2015 and the Company’s circular dated 12 February 2015
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tech Time”	Tech Time Development Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Qihoo 360
“USD” or “US\$”	United States Dollars, the lawful currency of the United States of America
“Valuation Report”	the valuation report prepared by the Independent Valuer in terms of the investment value of the Internet Related Business as at 31 October 2015
“%”	per cent

For ease of reference, the exchange rates between United States dollars and Hong Kong dollars provided in this circular 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

LETTER FROM THE BOARD

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)

Executive Directors:

Mr. Guo Deying
(Chairman and Chief Executive Officer)
Mr. Jiang Chao
Mr. Li Bin
Mr. Jia Yueting
Mr. Liu Hong

Independent non-executive Directors:

Dr. Huang Dazhan
Mr. Xie Weixin
Mr. Chan King Chung

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:*

No. 2 Flat
Coolpad Cyber Park
Mengxi Boulevard
Northern Part of Science
& Technology Park
Nanshan District
Shenzhen

*Principal place of business
in Hong Kong:*

Room 1902, MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

31 January 2016

To the Shareholders

Dear Sir or Madam,

(1) MAJOR TRANSACTIONS
DISPOSAL OF CERTAIN INTEREST IN A SUBSIDIARY
ACQUISITION OF INTERNET RELATED BUSINESS
AND
(2) NOTICE OF THE EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

Reference is made to the Company's announcement dated 18 September 2015 in which it was announced that on 18 September 2015, the Company, Tech Time and Coolpad E-Commerce entered into the Share Adjustment Framework Agreement, pursuant to which the shareholding structure in Coolpad E-Commerce will be adjusted and among others (a) each

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share of the Coolpad E-Commerce held by the Company and Tech Time will be split into 10 shares; and (b) Coolpad E-Commerce agreed to repurchase 6,800 shares of Coolpad E-Commerce held by the Company, and Coolpad E-Commerce as consideration for the repurchase, will enable the Company to retain the full control of the Internet Related Business.

Each of the disposal of interest in the subsidiary and acquisition of the Internet Related Business contemplated under the Share Adjustment constitutes a major transaction of the Company. Accordingly, the Company is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules. The purpose of this circular is to provide you with information in relation to, among other things, (i) details of the Share Adjustment Framework Agreement and the transactions contemplated thereunder; (ii) the financial information of the Group; and (iii) a notice convening the EGM at which ordinary resolution will be proposed to the Shareholders to consider and, if thought fit, approve the Share Adjustment Framework Agreement.

2. THE SHARE ADJUSTMENT FRAMEWORK AGREEMENT

Date

18 September 2015

Parties

- (a) the Company;
- (b) Tech Time, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Qihoo 360; and
- (c) Coolpad E-Commerce, a company incorporated in the Cayman Islands with limited liability and is owned as to 50.5% by the Company and 49.5% by Tech Time respectively as at the date of this circular.

To the best knowledge, information and belief of the Directors, (i) Tech Time is an investment holding company; (ii) for Qihoo 360, its shares are listed on the New York Stock Exchange and it is a leading internet company in China; and (iii) Tech Time¹ and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject Matter

Pursuant to the Share Adjustment Framework Agreement, the shares of Coolpad E-Commerce will be restructured and adjusted as follows:

(a) *Share Split*

Each share of Coolpad E-Commerce held by the Company and Tech Time will be split to 10 shares, whereby after the share split, the Company and Tech Time will each hold 10,100 shares and 9,900 shares of Coolpad E-Commerce, respectively.

¹ Though Tech Time holds 49.5% equity interest in Coolpad E-Commerce as at the Latest Practicable Date, it is not a connected person of the Company according to Rule 14A.09 of the Listing Rules. Therefore neither the Disposal nor the Acquisition constitutes connected transaction of the Company under Chapter 14A of the Listing Rules.

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(b) Disposal through Share Repurchase by Coolpad E-Commerce

The Company agreed to dispose of and Coolpad E-Commerce agreed to repurchase 6,800 shares of Coolpad E-Commerce held by the Company. Upon Completion, the shareholding structure of Coolpad E-Commerce will be as follows:

Shareholders	No. of Shares held	% Shareholding
The Company	3,300	25%
Tech Time	9,900	75%
Total	13,200	100%

Upon Completion, the equity interest held by the Company in Coolpad E-Commerce will be decreased from 50.5% to 25% and the equity interest held by Tech Time in Coolpad E-Commerce will be increased from 49.5% to 75%. Coolpad E-Commerce will no longer be a subsidiary of the Company, and the Company has no plan to further dispose of the remaining 25% shares in Coolpad E-Commerce as at the Latest Practicable Date.

(c) Acquisition of the Internet Related Business

Coolpad E-Commerce will transfer its Internet Related Business to the Company as consideration for the Disposal. Upon completion of the transfer, the Company will regain the full control of the Internet Related Business.

The Internet Related Business, which were previously as part of the assets injected into Coolpad E-Commerce, mainly include (i) all OS systems and their rights of operation for all mobile devices of the Group except for “Dazen” and “QIKU” mobile devices; (ii) all rights of operation for the internet business of the Group except for “Dazen” and “QIKU” mobile internet business; (iii) the domain names and server of the Coolpad website (coolpad.com) and Coolshop (shop.coolpad.com) and their rights of operation and management; (iv) the rights of operation of “Coolyun”; and (v) the rights of operation of “Zuimei Weather” application and related business.

Further details of the Internet Related Business are as follows:

- OS systems and the right of operation of the same actually refers to customizing mobile phone apps, including software basis such as user interface, default presetting, factory settings, etc.
- the right of operation of the internet business mainly refers to continuing interaction and communication with users through smartphones, including services such as advertising and operation of games, non-profitable activities collecting users’ comments on products and improving user experience.
- domain names and server of Coolpad website and Coolshop refer to the domain names and the server previously conferred by the Company to Coolpad E-Commerce, which can be used for product promotion and sale as well as interaction with users, etc.

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- Coolyun and Zuimei Weather are apps developed by the Company and have not been put into the commercial operation. The users of which however have taken up high proportion in the market of apps of cloud storage or weather service, which will improve the reputation of the Company among the users and give rise to possible revenue jointly with other business in the future.

Before completion of the Disposal, Coolpad E-Commerce was 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”) under the brand of Dazen and Qiku, the research, development, operating and provision of services for the key components, software and/or applications of the said Internet terminal products, including the operation of the Internet Related Business under the brands of Dazen, Qiku, Coolpad and ivvi. The Internet terminal products include but not limited to mobile phones, intelligent hardware and accessories. After completion of the Disposal, Coolpad E-Commerce will be engaged in the same businesses like before except for the operation of the Internet Related Business.

The book value of the Internet Related Business in the Coolpad E-Commerce’s unaudited financial statements as at 30 June 2015 was nil due to the nil consideration for the transfer of items to Coolpad E-Commerce and there were no subsequent capitalised costs in connection with the transacted Internet Related Business up to the Latest Practicable Date.

Consideration

The Share Adjustment arrangements were agreed between the parties after their due deliberation taking into account the parties’ assessment of the overall impact of the factors including the value of the assets of Coolpad E-Commerce, the investment value of the Internet Related Business, and the possible future prospect of the business of Coolpad E-Commerce on the Group, Tech Time and Coolpad E-Commerce.

(1) Consideration of the Acquisition

As the Internet Related Business is important to the development of the Company and will, upon completion of the Acquisition, enable the Company to further discuss on future cooperation opportunities with internet companies in mainland China and worldwide, the Acquisition was contemplated and proposed at the consideration estimated by the Board after due and careful consideration to be US\$255,000,000.

The Board has appointed the Independent Valuer to calculate the investment value of the Internet Related Business. According to the Valuation Report issued by the Independent Valuer, the calculated investment value of the Internet Related Business, namely the investment value of 100% interest of the Internet Related Business, is stated at US\$271,660,000. For the avoidance of doubt, the calculation result may differ from the market value due to the special nature of the Internet Related Business rendering the result to be specific to the Group but not to any other market participants.

LETTER FROM THE BOARD

The Valuation Report is prepared by the Independent Valuer after considering all relevant information obtained from the Company and other public sources, including but not limited to background information, financial statements, financial forecast. The financial projection used in the calculation of the investment value is prepared by the management of the Company, considering the estimated operational and financial performance of the Internet Related Business as well as potential synergy of the possible cooperation with internet companies. The calculation of the investment value is based on agreed procedures that rely substantially on the use of numerous assumptions, the background information and relevant data provided by the management of the Company and various factors that are relevant to the operations of the Internet Related Business.

The calculation of the Valuation Report is based on, among others, income approach, which involves the calculation of discounted cash flow based on the financial forecast by considering the appropriate discount rate and a number of factors including the current cost of financing and the relevant risks. Therefore, such valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

The Valuation Report is based on the following key assumptions:

- In order to realise the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For this valuation exercise, the Independent Valuer has assumed that the facilities and systems proposed are sufficient for future expansion;
- The Independent Valuer has assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the investment value of the Internet Related Business;
- The Independent Valuer has assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- The Independent Valuer has been provided with copies of the operating licenses and company incorporation documents. The Independent Valuer has assumed such information to be reliable and legitimate. The Independent Valuer has relied to a considerable extent on such information provided in arriving at its opinion of value;
- The Independent Valuer has assumed the accuracy of the financial and operational information provided to it by the Company relied to a considerable extent on such information in arriving at its opinion of value;
- The Independent Valuer has assumed the capital structure of the investment value of the Internet Related Business will not change; and
- The Independent Valuer has assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, The Independent Valuer has assumed no responsibility for changes in market conditions after 31 October 2015.

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The major assumptions of the Valuation Report are as follows:

Forecast Period

With reference to the financial forecast provided by the Company, the forecast period for this valuation exercise is 4.2 years from 1 November 2015 to 31 December 2019. Beyond this forecast period, we have assumed a terminal growth rate of 3%.

Revenue

With reference to the financial forecast provided by the Company, the revenue projection of the subject is based on the number of the mobile device users who were using the smart phones manufactured by the Company. Also, synergy has been considered adequately, which includes the possible cooperation with internet companies.

As indicated by the management, due to current and future users of smart phones of the Company and the synergy of the possible cooperation with internet companies after the completion of Share Adjustment Framework Agreement mentioned above, the growth rate of the revenue will peak at 2017, which is 52.9%. And then the growth rate will gradually drop down to 11.4% at 2019, which is relatively steady due to the relatively saturated market and the highly competitive environment of mobile internet. Therefore, the revenue for the period 2015 to 2019 is projected as follows:

	2015				
<i>RMB'000</i>	Nov-Dec	2016E	2017E	2018E	2019E
Revenue	84,840	450,000	688,000	925,000	1,030,000
<i>YoY Growth</i>		38.9%	52.9%	34.4%	11.4%

Cost of sales ("COGS")

With reference to the financial forecast provided by the Company, the management believes due to the highly competitive environment of mobile internet, the price of the product provided by the investment value of the Internet Related Business will be lower in the future because of the competitive pressure of competitors. Also, the Company estimates that the low-cost product will be replaced by high-cost product like mobile games gradually from 2016 to 2019. In result, the cost of goods sold may account for increasing proportion of revenue from 10% in the year end of 2015 to 40% in 2018 and be stable since 2018 due to the completion of the product replacement. The COGS for the period 2015 to 2019 are projected as follows:

	2015				
<i>RMB'000</i>	Nov-Dec	2016E	2017E	2018E	2019E
COGS	8,484	90,000	206,400	370,000	412,000
<i>COGS % of Revenue</i>	10.0%	20.0%	30.0%	40.0%	40.0%

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General & Administrative Expenses (“G&A Expenses”)

With reference to the financial forecast provided by the Company, as the revenue grows year on year, G&A Expenses are forecasted to account for decreasing proportion of the revenue from 41% in the year end of 2015 to 29.5% in 2019. The Company estimated that the investment value of the Internet Related Business will forms scale gradually under the support of the Company with current users of smart phones of the Company and the synergy of the possible cooperation with internet companies. G&A Expenses for the period 2015 to 2019 are projected as follows:

	2015				
<i>RMB’000</i>	Nov-Dec	2016E	2017E	2018E	2019E
G&A Expenses	34,784	159,750	209,840	282,273	304,365
<i>G&A Expenses % of Revenue</i>	<i>41.0%</i>	<i>35.5%</i>	<i>30.5%</i>	<i>30.5%</i>	<i>29.5%</i>

Depreciation, amortization and capital expenditure (“CAPEX”)

With reference to the financial forecast provided by the Company, since the investment value of the Internet Related Business has the asset-light strategy, the CAPEX would be utilized to satisfied daily operation, like purchasing computers and servers. The increase of the CAPEX would be consistent with the growth of smart phone users of the company. Therefore, the CAPEX and amortization and depreciation for the period 2015 to 2019 are projected as follows:

	2015				
<i>RMB’000</i>	Nov-Dec	2016E	2017E	2018E	2019E
Depreciation	2,200	10,000	12,000	20,000	30,000
Capital expenditure	2,000	20,000	30,000	45,000	60,000

Change in working capital

With reference to the financial forecast provided by the Company, the estimation on working capital from the period of 2015 to 2019 is based on the day of the receivable, which would be 35 days in 2016 and 2017, 40 days in 2018 and 2019. Therefore, the change in working capital is shown as the following table:

	2015				
<i>RMB’000</i>	Nov-Dec	2016E	2017E	2018E	2019E
Change in Working Capital	1,500	13,750	23,139	35,889	11,838

LETTER FROM THE BOARD

Income tax

With reference to the financial forecast provided by the Company, due to the certificate of the high-tech enterprise, the Company is subject to 15% income tax rate from 2015 to 2019 and thereafter.

Based on the Company's current mobile phone user amount and application user amount, and taking into account reasonable expected speed of business development of the Company and progress of business cooperation to be carried out by the Company, together with other elaboration in this regard as mentioned above, the Directors are of the view that the above assumptions used in the Valuation Report are reasonable.

The full text of the Valuation Report (including details of the major assumptions upon which the Valuation Report was based), a report from the Company's reporting accountants and a letter from the Board for the purpose of Rule 14.62 of the Listing Rules are set out in Appendix IV and Appendix V to this circular, respectively.

Upon completion of the Share Adjustment, the Company expects to reduce its equity interest in Coolpad E-Commerce by 25.5%. Based on the book value of the Group's investment in Coolpad E-Commerce prior to the transaction as at 30 June 2015 amounting to approximately HK\$4,012 million (or US\$517 million)², representing 50.5% equity interest therein, the expected value of the equity interest renounced by the Group, calculated on a pro rata basis, amounted to approximately HK\$2,026 million (or US\$261 million).

Considering the potential growth and great opportunities of the Internet Related Business in future and in light that based on the Valuation Report issued by the Independent Valuer, which set forth the calculated investment value is USD271,660,000, the Directors are of the view that the investment value of the Internet Related Business will be higher than the value of the equity interest given up as a result of the Share Adjustment.

(2) Consideration of the Disposal

To satisfy the consideration of the Acquisition, the Company agreed to dispose of and Coolpad E-Commerce agreed to repurchase 6,800 shares of Coolpad E-Commerce held by the Company, the value of which was determined to be US\$255,000,000 as well.

As disclosed in the circular of the Company dated 12 February 2015, the Company and Tech Time reached the agreed pricing of the entire Coolpad E-Commerce (together with its subsidiaries as "Coolpad E-Commerce Group") before the closing of the subscription by Tech Time of the 900 shares in Coolpad E-Commerce to be US\$500 million. Based on the pre-closing pricing of US\$500 million, the agreed post-closing pricing of Coolpad E-Commerce Group is US\$909.05 million and the Tech Time is entitled to 45% shareholding in Coolpad E-Commerce by injecting US\$409.05 million.

2 The balance of HK\$4,012 million (or US\$517 million) represented the fair value of the Company's remaining interest in Coolpad E-Commerce upon completion of the disposal of the Company's 4.5% equity interest therein as announced on 29 May 2015. As of 30 June 2015, the net asset amount of Coolpad E-Commerce was US\$396.24 million. The excess of the balance of HK\$4,012 million (or US\$517 million) over the Company's share of the net asset amount of Coolpad E-Commerce calculated based on its equity portion amounting to USD200 million represented the goodwill contained in the initial amount of the Company's investment in Coolpad E-Commerce.

LETTER FROM THE BOARD

According to the disposal agreement entered into between the Company, Tech Time and Coolpad E-Commerce dated and announced by the Company on 25 May 2015, 90 shares of Coolpad E-Commerce, representing 4.5% of the issued share capital of Coolpad E-Commerce as at 25 May 2015, were transferred by the Company to Tech Time at a consideration of US\$45 million. Such consideration was arrived at taking into account the parties' assessment on the possible future prospects of the business of Coolpad E-Commerce Group and its expected revenue increase in 2015, which was expected to increase the business value of Coolpad E-Commerce by 10% from US\$909.05 million to approximately US\$1 billion.

As at 30 June 2015, the book value of the Group's investment in Coolpad E-Commerce amounted to approximately HK\$4,012 million (or US\$517 million), representing 50.5% equity interest therein. Accordingly, the entire business value of Coolpad E-Commerce as at 30 June 2015 estimated at US\$1,023.7 million, exceeding the aforesaid expected US\$1 billion. Considering such book value of US\$1,023.7 million, the newly-issued brand of Qiku and the beginning of independent operation of Coolpad E-Commerce together with the slight loss recorded in July and August 2015, being the initial operating period thereof, the Company, Tech Time and Coolpad E-Commerce, when contemplating the Acquisition and the Disposal, agreed that the business value of Coolpad E-Commerce should remain basically the same as that expected for purpose of the disposal agreement announced by the Company on 25 May 2015, being US\$1 billion. Thus, the value of 1% shares in Coolpad E-Commerce was agreed to be US\$10 million. Accordingly, the value of the 6,800 shares of Coolpad E-Commerce, being 25.5% shares in Coolpad E-Commerce, was determined to be US\$255,000,000.

In the view of the Company, the Acquisition and Disposal arrangement would allow the Company to retain the full control of the Internet Related Business which is important to the development of the Company and enables further discussion on future cooperation opportunities with internet companies in mainland China and worldwide. Taking into account the high profitability of the Internet Related Business in the Group's history, the Board expected that the Group would benefit from such transactions from a long run perspective and the transactions were in the interest of the Company and its shareholders as a whole.

Conditions Precedent

The Share Adjustment is subject to the following condition precedents:

- (a) All parties having obtained the necessary board and shareholders' approvals and official approvals from the relevant regulatory authorities; and
- (b) Other conditions as required in similar transaction (without violating the requirements of the regulatory authorities in Hong Kong), which refer to other customary conditions that are commonly required in similar acquisition and disposal transactions, including among others, (i) updated register of members; and (ii) updated register of directors.

Completion

The Completion shall take place within 2 months after obtaining the shareholders' approval at the EGM for the transactions contemplated under the Share Adjustment Framework Agreement, but in any event within 12 months after the date of the Share Adjustment Framework Agreement.

LETTER FROM THE BOARD

Other terms

(a) Pre-emptive rights and restrictions of transfer

Pursuant to the Share Adjustment Framework Agreement, the Company and Tech Time enjoy pre-emptive rights to purchase any shares offered for sale by the other parties and all or part of the shares of Coolpad E-Commerce hold by either parties shall not be transferred to the main competitors of the other parties without prior consent.

(b) Amendments to the Shareholders Agreement

The parties agreed that upon Completion, certain provisions in the Shareholders Agreement regarding (i) the Non-Competition Obligations, Exit Call Options and the Put and Call Options; (ii) restrictions on transfer of shares in Coolpad E-Commerce; and (iii) information sharing obligation, will no longer be effective and will be deleted in the amended and restated shareholders agreement.

The Company has notified Tech Time that upon Completion, the Company will irrevocably give up exercising the Exit Call Option and Non-competition Call Option granted by Tech Time to the Company. Meanwhile, Tech Time has notified the Company that upon Completion, Tech Time will irrevocably give up exercising the Exit Call Option, Non-competition Call Option and Non-competition Put Option granted by the Company to Tech Time.

In light of the above, the Board considers that the removal of the provisions in respect of Non-Competition Obligations, Exit Call Options and the Put and Call Options in the Shareholders Agreement is non-exercise of options in nature and thus does not constitute notifiable transactions under Chapter 14 of the Listing Rules. Nevertheless, the Board has complied with Rule 14.77 of the Listing Rules and made disclosure regarding aforesaid non-exercise of options in a timely manner.

(c) Sales Discount and Share Transfer

According to the Share Adjustment Framework Agreement and confirmation by Tech Time, Tech Time has granted a share adjustment option to the Company pursuant to which, the Company is entitled to decide on its own discretion according to specific conditions such as the sales volume and type of products (i) whether to grant a sales discount to Coolpad E-Commerce; and (ii) the amount of sales discount within 36 months since the execution date of the Share Adjustment Framework Agreement. Each discount amount given shall not exceed 50% of the total purchase value of each outsourcing order. The Company is entitled to grant a maximum total sales discount of USD22.5 million to Coolpad E-Commerce. Accordingly Coolpad E-Commerce shall transfer at most 297 shares in Coolpad E-Commerce to the Company for nil consideration.

The detailed share adjustment procedures are as follows:

- (1) Within 36 months since the execution date of the Share Adjustment Framework Agreement, if the aforesaid sales discounts have been fully granted, Tech Time shall transfer 297 of its shares in Coolpad E-Commerce to the Company for free within 1 month after the corresponding deduction is completed;

LETTER FROM THE BOARD

- (2) If the sales discount were not fully granted within 36 months from the execution date of the Share Adjustment Framework Agreement, the amount of shares in Coolpad E-Commerce to be transferred by Tech Time for free will be adjusted proportionately (If sales discount of USD22.5 million is granted, 297 shares in Coolpad E-Commerce shall be transferred. Adjustment to the number of shares to be transferred shall be calculated by such analogy) and such transfer will be made within 1 month after the expiry of the aforesaid 36 months;
- (3) If the transfer of shares in Coolpad E-Commerce by Tech Time to the Company cannot be effected in whole or in part due to obstacles arising from any laws, regulations of listed companies or any objective reasons, Tech Time shall refund the sales discount granted by Company to Coolpad E-Commerce within 1 month after the occurrence of such obstacles;
- (4) For avoidance of doubt, despite the above arrangements, the Company shall be entitled to reject Tech Time's transfer of shares in Coolpad E-Commerce to it, under which circumstances Tech Time shall refund the sales discount granted by Company to Coolpad E-Commerce within 1 month after such rejection.

Assuming 297 shares are fully transferred pursuant to the above arrangement and there is no change of shareholding structure since Completion, the shareholding structure of Coolpad E-Commerce will be as follows:

Shareholders	No. of Shares hold	% Shareholding
The Company	3,597	27.25%
Tech Time	9,603	72.75%
Total	13,200	100%

The Company confirms that it has not provided any sales discount to Coolpad E-Commerce as of the Latest Practical Date.

Pursuant to the disposal agreement entered into between the Company, Tech Time and Coolpad E-Commerce dated and announced by the Company on 25 May 2015, 90 shares of Coolpad E-Commerce, representing 4.5% of the issued share capital of Coolpad E-Commerce as at 25 May 2015, were transferred by the Company to Tech Time at a consideration of US\$45 million. Accordingly, the Company expects the value amount of 297 shares of Coolpad E-Commerce, representing 2.25% of the issued share capital of Coolpad E-Commerce upon Completion, to be approximately US\$22.5 million. Taking into account the aforesaid estimated value of 297 shares of Coolpad E-Commerce, the discretion of the Company to choose between acquiring shares and getting the sales discounted granted by it refunded, and taking the provision of sales discount and share transfer as a whole, the value of maximum 297 shares to be transferred is expected to be higher than the total cash value of the sales discount provided by the Company of US\$22.5 million. Therefore, the Company is of the view that the sales discount provided by the Company is fair and reasonable, made on normal commercial terms and in the interest of the Company and its shareholders as a whole.

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As the Company has the discretion to choose between acquiring shares and getting the sales discounted granted by it refunded, such arrangement constitutes an option under Chapter 14 of the Listing Rules. The Company will comply with the Listing Rules and make appropriate disclosure if necessary should the Company exercise such option and the shares of Coolpad E-Commerce be transferred to the Company. Though Tech Time holds 49.5% equity interest in Coolpad E-Commerce as at the Latest Practicable Date, it is not a connected person of the Company according to Rule 14A.09 of the Listing Rules. Hence neither the exercise nor the non-exercise constitutes connected transactions under Chapter 14A of the Listing Rules.

The Company will consider exercising such option subject to the value of the aforesaid 297 shares of Coolpad E-Commerce, after taking into account the then comparable market price of such shares, the market position and profitability of Coolpad E-Commerce, the price of the shares in Coolpad E-Commerce to be paid by other purchasers (if any) as well as the valuation conducted by independent third parties in this regard, being higher than US\$22.5 million.

(d) Management

The parties agreed that the number of members of the board of directors of Coolpad E-Commerce will become 4 upon Completion, of which Tech Time is entitled to appoint 3 directors and the Company is entitled to appoint one (1) director to the board of directors of Coolpad E-Commerce.

Other Agreements

The parties have also entered into the Business Adjustment Framework Agreement to reflect the details of the business adjustment according to the arrangement under the Share Adjustment Framework Agreement including, among others, business cooperation regarding propelling/pre-installation of mobile phone OTA and production outsourcing of mobile phones, online business transition arrangements, historical inventory treatment, personnel adjustment, intellectual property, laboratory resources and arrangements of remaining expenses. The Share Adjustment Framework Agreement gave rise to the Business Adjustment Framework Agreement by taking into account the business adjustments to take place subsequent to the transactions under the Share Adjustment Framework Agreement. The Business Adjustment Framework Agreement involves no transactions under the Listing Rules and will not lay material impact on the Company. The parties will enter into the amended and restated shareholders agreement to give effect to the Share Adjustment Framework Agreement.

3. REASONS FOR AND BENEFITS OF ENTERING INTO THE SHARE ADJUSTMENT FRAMEWORK 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.

The Share Adjustment would allow the Company to regain full control of the Internet Related Business which is important to the development of the Company and enables further discussion on future cooperation opportunities with internet company in mainland China and worldwide. The Company hasn't identified any internet companies for cooperation as of the Latest Practicable Date.

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Based on the above, the Board (including the independent non-executive Directors), considers the terms of the Share Adjustment Framework Agreement are fair and reasonable, the transactions under the Share Adjustment Framework Agreement are on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

None of the Directors have a material interest in the transactions contemplated under the Share Adjustment Framework Agreement and therefore none of the Directors have abstained from voting on the board resolution approving the Share Adjustment Framework Agreement.

4. FINANCIAL EFFECTS ON THE COMPANY

The Share Adjustment is a non-cash transaction that the Company decreased its equity interest in Coolpad E-Commerce from 50.5% to 25% through the repurchase of 6,800 shares by Coolpad E-Commerce and received the Internet Related Business. Upon completion of the transaction, it would allow the Group to regain the full control of the Internet Related Business.

Based on the unaudited pro forma financial information in Appendix III to this circular, on the basis of the statement of assets and liabilities of the Group as of 30 June 2015 and assuming that the Share Adjustment transaction had been completed as at 30 June 2015, the Group's total assets as at 30 June 2015 of approximately HK\$16,372 million would decrease to approximately HK\$14,346 million taking into account the disposal of the Company's 25.5% equity interest amounting to approximately HK\$2,026 million and the nil amount recognised in connection with the items in the transactions. The Group's total liabilities as at 30 June 2015 of approximately HK\$8,375 million would remain unchanged. The net assets of the Group of approximately HK\$7,997 million would decrease to approximately HK\$5,971 million taking into account the expected loss of approximately HK\$2,026 million recorded in the profit or loss. Further information on the effects of the Share Adjustment transaction on the statement of assets and liabilities of the Group is set out in Appendix III to this circular.

The Company expected to record a loss of HK\$2,026 million from the transaction contemplated under the Share Adjustment Framework Agreement by taking into account: (i) the transfer of the Internet Related Business, which itself did not constitute a business; (ii) the book value of the items contained in the Internet Related Business under the Share Adjustment is nil as those items were internally generated with zero amount when they were in the Company or when they were transferred to Coolpad E-Commerce in the deemed disposal of equity transaction as disclosed in the Company's circular dated 12 February 2015. There were no expenses capitalised for such items in the history. Therefore, they were not recognised as intangible assets in accordance with Hong Kong Financial Reporting Standards; (iii) the loss based on the expected value of the equity interest renounced by the Group amounting to approximately HK\$2,026 million (or US\$261 million) which was determined on a pro rata basis by reference to the value of the Group's investment in Coolpad E-Commerce as at 30 June 2015 prior to the transaction amounting to approximately HK\$4,012 million (or US\$517 million). Upon completion of Share Adjustment, the equity interest held by the Company in Coolpad E-Commerce will be decreased from 50.5% to 25% which would result in the change of Coolpad E-Commerce as a joint venture of the Company to as an associate.

The consideration for the Disposal calculated on a pro rata basis based on the book value of the Group's equity interest in Coolpad E-Commerce as of 30 June 2015 represented a deficit of HK\$2,026 million under the value of the equity interest of Coolpad E-Commerce to be repurchased.

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Revenue of the Internet Related Business and other wireless application service was described as “Wireless application service income” and included in the mobile segment in the annual report of the Company. Contributions from the entire wireless application service for the years ended 31 December 2014 and 2013 to the Group as extracted from the Appendix II to this Circular are set out below:

	2014		2013	
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
	Revenue	Net profits³	Revenue	Net profits³
Wireless application service income	349	251	106	65
The Group’s consolidated results	24,900	607	19,624	437
%	1%	41%	1%	15%

For the years ended 31 December 2014 and 2013, the wireless application service income was HK\$349 million and HK\$106 million, respectively.

In the first transaction with Qihoo 360 announced on 16 December 2014 and 9 January 2015, the Group committed an undertaking and agreed that the Internet Related Business and other wireless application service would be conducted through Coolpad E-Commerce, which became effective from May 2015.

The entire wireless application service provided by the Group or by Coolpad E-Commerce mainly include the Internet Related Business, Dazen and Qiku. Dazen was launched in year 2014 and Qiku was launched after May 2015. Since the Group or Coolpad E-Commerce managed the wireless application service through internet terminals (i.e. mobile phone) as a whole, it was impractical to separate the financial information related to the Internet Related Business from that related the wireless application service. Therefore, besides the Internet Related Business, the financial information of the entire wireless application service provided by the Group or by Coolpad E-Commerce from 2014 onwards also included the wireless application service income contributed by Dazen, and after May 2015 also included the wireless application service income contributed by Qiku. Nevertheless, the Internet Related Business formed a substantial part of the entire wireless application service and thus the financial information of the entire wireless application service as presented herein materially represented the financial information of the Internet Related Business.

³ No income tax expense was considered for the purpose of presenting the net profits since the Internet Related Business was not separately maintained under a legal entity.

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Based on the management accounts of the Group, service income of the Internet Related Business and other wireless application income in aggregate (inclusive of Dazen) recorded in the Group for the four months ended 30 April 2015 was HK\$226 million. And based on the management accounts of Coolpad E-Commerce for the period from May to October 2015, the service income of the Internet Related Business and other wireless application income in aggregate (inclusive of Dazen and Qiku) was HK\$131 million. Coolpad E-Commerce became the joint venture of the Group upon the completion of the second transaction with Qihoo 360 as announced on 29 May 2015. Up to 31 October 2015, based on the management accounts, the Group had shared the loss from Coolpad E-Commerce amounting to HK\$119 million.

The revenue and operating results saw considerable declines which was mainly attributable to the pricing strategies and the operation model adopted by Coolpad E-Commerce. Should the Share Adjustment was voted down by Shareholders, the Group would continue to share the operating results from Coolpad E-Commerce based on its incumbent equity interest portion therein, which, taking into account the performance in the recent months, it might result in material adverse impact on the Company's operation.

If the Share Adjustment Framework Agreement and the Share Adjustment contemplated thereunder are approved, it would enable the Company to conduct broader cooperation with leading enterprises in the industry. Considering the contribution of the Internet Related Business to the Group in the history, the Board believed that the Group would benefit from its high profitability and reduce the vulnerability to the operation risks of Coolpad E-Commerce.

Therefore, the Board urges the Shareholders to vote in favor of the Share Adjustment at the EGM.

5. LISTING RULES IMPLICATIONS

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules are above 25% but less than 75%, the disposal of certain interests in the subsidiary contemplated under the Share Adjustment constitutes a major transaction of the Company. Accordingly, the Company is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

As the applicable percentage ratios calculated pursuant to Rule 14.07 of the Listing Rules are above 25% but less than 100%, the Acquisition contemplated under the Share Adjustment constitutes a major transaction of the Company. Accordingly, the Company is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

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6. GENERAL INFORMATION

Information about the Company

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.

Information about the Coolpad E-Commerce

Coolpad E-Commerce is an investment holding company incorporated in the Cayman Islands with limited liability established by the Company in September 2014. Coolpad E-Commerce is principally 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, software and/or applications of the said Internet terminal products.

The net profits (both before and after taxation and extraordinary items) attributable to shareholders of Coolpad E-Commerce for the periods immediately preceding the Share Adjustment are as follows:

Shareholders	For the six months ended 30 June 2015 (unaudited) <i>USD million</i>	For the year ended 31 December 2014 (audited) <i>USD million</i>
Net profit before tax and extraordinary items	-13.78	–
Net profit after tax and extraordinary items	-13.78	–

As Coolpad E-Commerce was established in September 2014, there is no applicable net profit figure for the year ended 31 December 2013.

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The audited total assets and net assets of Coolpad E-Commerce was both USD11, as at 31 December 2014. The unaudited total assets and net assets of Coolpad E-Commerce was approximately USD486.72 million and USD396.24 million, respectively, as at 30 June 2015. Increase in the total assets and net assets balances was primarily because of the capital contribution of US\$409.05 million from Qihoo 360 in April 2015 as a result of the deemed disposal of equity transaction as disclosed in the announcements of the Company dated 16 December 2014 and 10 March 2015 and the circular of the Company dated 12 February 2015. The composition of the aforesaid total assets and net assets is as below:

	<i>US\$'million</i>
Cash and cash equivalents	176.97
Prepayments	253.72
Inventories	47.17
Other assets	8.86
	<hr/>
Total assets	486.72
	<hr/> <hr/>
less:	
Trade payables	84.56
Other payables and accruals	5.92
	<hr/>
Total liabilities	90.48
	<hr/> <hr/>
Net assets	396.24
	<hr/> <hr/>

Information about Tech Time

Tech Time is a wholly-owned subsidiary of Qihoo 360 and Qihoo 360 is principally engaged in providing internet and mobile security products in China. To the best of the Director's knowledge, information and belief after having made all reasonable enquiries, Tech Time and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

7. EGM

The EGM will be held by the Company at Meeting Room of Exhibition Hall in Building 5, Coolpad Information Park, Shenzhen, People's Republic of China on Tuesday, 23 February 2016 at 11:00 a.m. for the Shareholders to consider, and if thought fit, passing the resolution to approve the Share Adjustment Framework Agreement and the transactions contemplated thereunder.

A proxy form for use at the EGM is enclosed herewith. Whether or not you are able to attend the EGM, you are requested to complete the proxy form and return it to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at

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17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the EGM or any adjourned meeting should you so wish.

According to Rule 13.39(4) of the Listing Rules, any vote of the Shareholders at the EGM will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands and an announcement on the results of the poll will be made after the EGM pursuant to Rule 13.39(5) of the Listing Rules.

Any Shareholder with a material interest in the proposed resolution and his close associates will abstain from voting on the relevant resolution. To the best of the Directors' knowledge, none of the Shareholders has material interest in the Share Adjustment Framework Agreement which is different from that of the other Shareholders and Tech Time and/or its beneficial owners are not interested in the Company's shares, accordingly, no Shareholder is required to abstain from voting at the EGM.

8. RECOMMENDATION

The Board considers that the Share Adjustment Framework Agreement which contains the disposal of certain interest in the subsidiary and the Acquisition was entered into on normal commercial terms after arm's length negotiation and the terms of the Share Adjustment Framework Agreement and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends the Shareholders to vote in favour of the proposed ordinary resolution to approve the Share Adjustment Framework Agreement and the transactions contemplated thereunder at the EGM.

9. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
COOLPAD GROUP LIMITED
Guo Deying
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the three financial years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015 are disclosed in the following documents which have been published on both the website of the Stock Exchange (<http://www.hkex.com.hk>) and the website of the Company (<http://www.coolpad.com.hk>):

- pages 42 to 126 of the annual report of the Company for the year ended 31 December 2012 published on 8 April 2013 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2013/0408/LTN20130408605.pdf>);
- pages 42 to 138 of the annual report of the Company for the year ended 31 December 2013 published on 15 April 2014 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2014/0415/LTN20140415043.pdf>);
- pages 42 to 140 of the annual report of the Company for the year ended 31 December 2014 published on 17 April 2015 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0417/LTN20150417009.pdf>); and
- pages 21 to 44 of the interim report of the Company for the six months ended 30 June 2015 published on 7 September 2015 (available on: <http://www.hkexnews.hk/listedco/listconews/SEHK/2015/0907/LTN20150907043.pdf>).

2. INDEBTEDNESS

As at the close of business on 30 November 2015, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had borrowings amounting to approximately HK\$1,384 million. The following table illustrates the Group's indebtedness as at the close of business on 30 November 2015:

	<i>HK\$'000</i>
<i>Current</i>	
Bank loans – secured	310,000
Bank loans – unsecured	549,270
Other borrowings – unsecured	244,120
<i>Non-current</i>	
Bank loans – secured	280,738
	<hr/>
Total borrowings	<u><u>1,384,128</u></u>

As at 30 November 2015, the following assets of the Group were pledged for certain bank borrowings: certain properties and plants of the Group located in mainland China, the total book value of which were approximately HK\$207.8 million; and the Group's time deposits of

approximately HK\$69.0 million were also used to secure bank loans. As at 30 November 2015, the Group's time deposits of approximately HK\$281.6 million were used to secure bills payable; HK\$12.2 million were used as a security for the banks to provide a performance guarantee.

Save as disclosed above and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, the Group did not have any loan capital issued and outstanding or agreed to be issued, or any outstanding debt securities, bank overdrafts and liabilities under acceptances or acceptance credits or other similar borrowings, indebtedness, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities as at the close of business on 30 November 2015.

The Directors are not aware of any material adverse changes in the Group's indebtedness position and contingent liabilities since 30 November 2015.

3. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into account the internal financial resources available to the Group, the Group has sufficient working capital for its present requirements in the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

Up to and including the Latest Practicable Date, the Directors confirm that there is no material adverse change in the financial or trading position of the Group since 31 December 2014, being the date to which the latest published audited financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS

Looking forward, the Group will continue to leverage innovation and expertise to satisfy diverse user needs, enhance core competitive strengths and the user experience of the products in the rapidly evolving global smartphone industry. Even though the environment of the smartphone market will be volatile, the Group will further consolidate its domestic 4G smartphone market and expand the overseas market aggressively, depending on the four BUs and the coming more powerful ecosystem. The Group believes that the 4G smartphone market and the fast growth of the mobile internet market will bring it much more opportunities in the year of 2015. The Group should work hard to strive for more chances of the markets' development and sustained growth with the notion of opening and sharing, through the innovative technologies, the hard-working philosophy, the quick-responded capabilities to the market demands, and the differentiated product positioning.

Through the transactions described in this circular the Group will regain full control of the Internet Related Business which is important to the development of the Company and enables further discussion on future cooperation opportunities with internet company in mainland China and worldwide.

The Internet Related Business, together with Dazen and Qiku, form the main part of the entire wireless application service provided by the Group or by Coolpad E-Commerce. Dazen was launched in year 2014 and Qiku was launched after May 2015. Since the Group or Coolpad E-Commerce managed the wireless application service through internet terminals (i.e. mobile phone) as a whole, it was impractical to separate either the management discussion and analysis or the financial information related to the Internet Related Business from the entire wireless application service. Therefore, besides the Internet Related Business, the financial information of the entire wireless application service provided by the Group or by Coolpad E-Commerce from 2014 onwards also included the wireless application service income contributed by Dazen, and after May 2015 also included the wireless application service income contributed by Qiku. Nevertheless, the Internet Related Business formed a substantial part of the entire wireless application service and thus the financial information of the entire wireless application service as presented herein materially represented the financial information of the Internet Related Business. The accounting policy applied for the purpose of the financial information in relation to the Internet Related Business in this appendix is in line with that adopted by the Company.

1. FINANCIAL INFORMATION IN RELATION TO THE INTERNET RELATED BUSINESS

The Directors considered that the Share Adjustment was a commercial arrangement that allow the Group to regain the full control of the Internet Related Business. In accordance with the relevant accounting standards, the arrangement was not considered to involve any acquisition of business. In addition, the book value of the items contained in the Internet Related Business under the Share Adjustment is nil.

In order to enable the shareholders of the Company to understand the relevant financial information of the Internet Related Business and for the purpose of this circular, the Company refers to the disclosure requirement under Rule 14.67 (6) (b) (i) of the Listing Rules (the “Relevant Rule”) and set out the profit and loss statements for the three preceding financial years and for the ten months ended 31 October 2015 below prepared by the Directors based on the historically published financial statements and management accounts of the Group and Coolpad E-Commerce.

	Year ended 31 December			Ten months ended
	2012	2013	2014	31 October 2015 [#]
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue (<i>note 1</i>)	31,336.0	106,192.0	349,143.0	356,831.2
Direct costs (<i>note 2</i>):				
Cost of services	–	–	(2,076.0)	(20,393.0)
Selling and marketing expenses	–	–	(1,289.3)	(23,355.6)
Administrative expenses	<u>(17,515.9)</u>	<u>(40,928.7)</u>	<u>(94,656.7)</u>	<u>(88,139.3)</u>
	(17,515.9)	(40,928.7)	(98,022.0)	(131,887.9)
Net profits ⁴	<u>13,820.1</u>	<u>65,263.3</u>	<u>251,121.0</u>	<u>224,943.3</u>

[#] The Internet Related Business was conducted by the Group for the years ended 31 December 2012, 2013 and 2014 and the four months period ended 30 April 2015. For the period from May 2015 to October 2015, the Internet Related Business was conducted by Coolpad E-Commerce.

Notes:

- The Revenue mainly represented the service income from installation and promotion of mobile applications (“mobile apps”), net of VAT and other sales taxes. The Group offers a range of support options to install and promote the mobile apps provided by independent third-party app producers into the smartphones. Depending on the terms of the service contracts, the Group is entitled to receive service income from these apps producers upon installation, activation or usage of these mobile apps.
- The cost of services, selling and marketing expenses and administration expenses (collectively “direct costs”) mainly represented the development costs paid to the third-party partners, the salaries and benefits of personnel in relation to the Internet Related Business, like software engineers, online shop operators, customer relationship personnel, internet services marketing personnel and administrative personnel. The Group started to commence the install mobile apps service in the year 2012. At the first beginning of the operation for the business, except for the administrative and research and development personnel, no marketing personnel and no third-party partners were involved in operating and promoting the business, therefore, the cost of services and selling and marketing expenses were disclosed as nil in the financial information of the Interest Related Business for the years ended 31 December 2012 and 2013.

In accordance with the Listing Rules, the Company has engaged Ernst & Young, the auditors of the Company, to perform certain factual finding procedures on the above financial information of the Internet Related Business in accordance with Hong Kong Standard on Related Services 4400 Engagements to Perform Agreed Upon Procedures Regarding Financial Information issued by the Hong Kong Institute of Certified Public Accountants. In respect of the revenue, the auditors have inquired the Directors the nature of the services, agreed the total revenue amount to the annual reports and the management accounts of the Group and Coolpad E-Commerce, selected transactions over the agreed threshold to the relevant source agreements

⁴ No income tax expense was considered for the purpose of presenting the net profits of since the Internet Related Business was not separately maintained under a legal entity.

and those amounts in the accounting books and recalculated the revenue items contained in the schedule provided by the Company. In respect of the direct costs, the auditors have inquired the Directors the scope of direct costs included for the purpose of the profit or loss statement, agreed to the cost amount of selected transactions over the agreed threshold to the relevant vendor agreements and those amount in the accounting books, agreed the selected salary amounts over the agreed threshold to the relevant payment slips and recalculated the total direct cost items contained in the schedule provided by the Company. Based on the information and documents made available to the auditors of the Company, their findings are:

- (a) The auditors of the Company compared the revenue amount with the annual reports and the management accounts of the Group and Coolpad E-Commerce and found the amounts to be in agreement;
- (b) The auditor of the Company compared the selected transactions of the revenue and the direct costs with the relevant accounting books of the Group and Coolpad E-Commerce and found the amounts to be in agreement; and
- (c) The auditors of the Company recalculated the revenue items and the direct cost items contained in the schedules provided by the Company and found the amounts to be arithmetically accurate.

Pursuant to the terms of the Engagement Letter between the Company and the auditors, the reported factual findings should not be used or relied upon by any other parties for any purposes. And because the agreed-upon procedures do not constitute an assurance engagement made in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements, the auditors did not express any assurance on the above financial information. The sufficiency of the agreed-upon procedures was determined by the Company alone. The auditors made no representation, and provided no assurance, as to the sufficiency of the agreed-upon procedures for the Company's intended purposes or for any other purpose. Had the auditors performed additional procedures or had they performed an assurance engagement of the financial information in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institution of Certified Public Accountants, other matters might have come to their attention that would have been reported to the Company.

VALUATION OF INVESTMENT VALUE OF THE INTERNET RELATED BUSINESS

For the purpose to understand the investment value of the Internet Related Business in future, the Group has engaged an independent valuer to prepare a valuation report in connection with the investment value of the Internet Related Business. Details of the valuation report have been disclosed in Appendix IV of this circular.

**2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE RESULTS OF
INTERNET RELATED BUSINESS****Financial Year ended 31 December 2014 compared with Financial Year ended 31
December 2013*****Revenue***

Revenue increased by approximately HK\$243 million, or approximately 229%, from approximately HK\$106 million for the year ended 31 December 2013 to approximately HK\$349 million for the year ended 31 December 2014, attributable to an increase of the volume of Coolpad smartphone users.

Direct Costs

Direct costs increased by approximately HK\$57 million, or approximately 139.5%, from approximately HK\$41 million for the year ended 31 December 2013 to approximately HK\$98 million for the year ended 31 December 2014. This increase was primarily due to (i) the increase of the number of the employees; (ii) the increase of the expense of the research and development, and (iii) the cost paid to the third-party partners.

Net profits

Net profits increased by approximately HK\$186 million or approximately 284.8% from approximately HK\$65 million for the year ended 31 December 2013 to approximately HK\$251 million for the year ended 31 December 2014. The increase in profit was primarily due to the increase of the revenue of the Internet Related Business and the increase of the smartphone shipments scale of the Company.

**Financial Year ended 31 December 2013 compared with Financial Year ended 31
December 2012*****Revenue***

Revenue increased by approximately HK\$75 million, or approximately 238.9%, from approximately HK\$31 million for the year ended 31 December 2012 to approximately HK\$106 million for the year ended 31 December 2013. This increase was primarily due to the increase of the smartphone shipments scale of the Company and the more focuses on the operations of the Internet Related Business.

Direct Costs

Direct cost increased by approximately HK\$23 million, or approximately 133.7%, from approximately HK\$18 million for the year ended 31 December 2012 to approximately HK\$41 million for the year ended 31 December 2013. This increase was primarily due to due to (i) the increase of the number of the employees; and (ii) the increase of the expense of the research and development.

Net profits

Net profits increased by approximately HK\$51 million, or approximately 372.2% from approximately HK\$14 million for the year ended 31 December 2012 to approximately HK\$65 million for the year ended 31 December 2013. The increase in profit was primarily due to the increase of the revenue of the Internet Related Business and the smartphone shipments scale of the Company.

Material acquisition and disposals

The Interest Related Business was agreed to be conducted through Coolpad E-Commerce with effect from 1 May 2015.

Contingent Liabilities

There were not any significant contingent liabilities in relation to the Interest Related Business under the Share Adjustment as at 31 October 2015.

Human Resources

As at 31 December 2012, 2013 and 2014, there were a total of 102, 240 and 279 employees in relation to the Interest Related Business then operated by the Group, respectively. During the years ended 31 December 2012, 2013 and 2014, the total staff costs, were approximately HK\$13 million, HK\$24 million, and HK\$61 million, respectively.

**1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF
THE GROUP AFTER TAKING INTO ACCOUNT THE SHARE ADJUSTMENT
AND THE ACQUISITION****Introduction**

The following unaudited pro forma statement of assets and liabilities of the Group (the “Unaudited Pro Forma Financial Information”) has been prepared on the basis of the notes set out below for the purposes of illustrating the effects on the assets and liabilities of the Group as if the Share Adjustment and Acquisition (collectively, the “Share Adjustment Arrangements”) had been completed on 30 June 2015.

The Unaudited Pro Forma Financial Information of the Group as at 30 June 2015 has been prepared based on (i) the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015 as set out in its published interim report for the six months ended 30 June 2015; and (ii) the pro forma adjustments prepared to reflect the effects of the Share Adjustment Arrangements as explained in the notes set out below that are directly attributable to the Share Adjustment Arrangements and not relating to future events or decisions and are factually supportable.

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the financial information of the Group as set out in its published interim report for the six months ended 30 June 2015, and other financial information contained in this circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors for illustrative purposes only and is based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not give a true picture of the financial position of the Group had the Share Adjustment Arrangements been completed as at 30 June 2015 or any future date.

**UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE
GROUP AS AT 30 JUNE 2015**

	The Group as at 30 June 2015 <i>HK\$'000</i> (<i>Note 1</i>)	Pro forma adjustment <i>HK\$'000</i> (<i>Note 2</i>)	Unaudited pro forma Group as at 30 June 2015 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	1,052,835	–	1,052,835
Investment properties	112,810	–	112,810
Prepaid land lease payments	361,123	–	361,123
Intangible assets	100,842	–	100,842
Investments in a joint venture/an associate	4,012,151	(2,025,937)	1,986,214
Investments in associates	58,020	–	58,020
Available-for-sale investments	55,201	–	55,201
Other non-current assets	80,152	–	80,152
Deferred tax assets	18,507	–	18,507
	<u>5,851,641</u>	<u>(2,025,937)</u>	<u>3,825,704</u>
Total non-current assets			
CURRENT ASSETS			
Inventories	2,229,652	–	2,229,652
Trade receivables	2,924,732	–	2,924,732
Bills receivable	193,003	–	193,003
Loans receivable	213,017	–	213,017
Prepayments, deposits and other receivables	672,077	–	672,077
Pledged time deposits	342,712	–	342,712
Cash and cash equivalents	3,945,570	–	3,945,570
	<u>10,520,763</u>	<u>–</u>	<u>10,520,763</u>
Total current assets			

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE
GROUP AS AT 30 JUNE 2015 (continued)

	The Group as at 30 June 2015	Pro forma adjustment	Unaudited pro forma Group as at 30 June 2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>	
CURRENT LIABILITIES			
Trade payables	1,976,580	–	1,976,580
Bills payable	1,138,507	–	1,138,507
Other payables and accruals	2,708,492	–	2,708,492
Due to a joint venture/an associate	1,213,117	–	1,213,117
Tax payable	42,010	–	42,010
	<u>7,078,706</u>	<u>–</u>	<u>7,078,706</u>
Total current liabilities			
Net current assets	<u>3,442,057</u>	<u>–</u>	<u>3,442,057</u>
Total assets less current liabilities	<u>9,293,698</u>	<u>(2,025,937)</u>	<u>7,267,761</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	1,209,912	–	1,209,912
Deferred tax liabilities	54,216	–	54,216
Other non-current liabilities	32,485	–	32,485
	<u>1,296,613</u>	<u>–</u>	<u>1,296,613</u>
Total non-current liabilities			
Net assets	<u><u>7,997,085</u></u>	<u><u>(2,025,937)</u></u>	<u><u>5,971,148</u></u>

Notes:

- The balances have been extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2015 as set out in its published interim report for the six months ended 30 June 2015.
- The adjustment reflects the Share Adjustment Arrangements that the Company reduced its equity interest in Coolpad E-Commerce from 50.5% to 25% through the repurchase of 6,800 shares by Coolpad E-Commerce and regained the full control of the Internet Related Business. Therefore, the Group would proportionately adjust its equity interest in Coolpad E-Commerce in a way of derecognising the balance of investment in joint venture in its entirety amounting to HK\$4,012 million and recognising an investment in associate amounting to HK\$1,986 million. Since the Share Adjustment Arrangements were a commercial arrangement purporting to allow the Group to regain the full control of the Internet Related Business, and the items, with nil booking values in Coolpad E-Commerce, named as the “operating rights” transferred back to the Group under the Share Adjustment Arrangements were not considered to be qualified as a business or an asset in accordance with the relevant accounting standards. In this regard, the Company recorded a loss of HK\$2,026 million, equivalent to US\$261 million, arising from this transaction which represented the cost arising from the renunciation of the partial equity interest in Coolpad E-Commerce.

**2. REPORT FROM REPORTING ACCOUNTANTS ON THE COMPILATION OF
UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular.



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Central, Hong Kong

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31 January 2016

The Directors
Coolpad Group Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Coolpad Group Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2015 and related notes set out on page 29 of the circular dated 31 January 2016 (the “Circular”) issued by the Company (the “Unaudited Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on page 29 of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Company’s disposal of certain interest in Coolpad E-Commerce Inc. and acquisition of Internet Related Business as defined in the Circular (the “Share Adjustment Arrangements”) on the Group’s financial position as at 30 June 2015 as if the Share Adjustment Arrangements had taken place at 30 June 2015. As part of this process, information about the Group’s assets and liabilities has been extracted by the Directors from the Group’s financial statements for the six months ended 30 June 2015, on which no audit or review report has been published.

Directors’ responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Share Adjustment Arrangements on unadjusted financial information of the Group as if the Share Adjustment Arrangements had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Share Adjustment Arrangements would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the Share Adjustment Arrangements, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the Share Adjustment Arrangements in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

25 January 2016
The Board of Directors
Coolpad Group Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Dear Sirs,

In accordance with your instructions, we have undertaken a valuation exercise which requires us to express an independent opinion on the investment value of the Internet Related Business (the “Subject”) belonging to Coolpad E-Commerce Inc. as at 31 October 2015 (the “Valuation Date”). The report is dated 25 January 2016 (the “Report Date”).

The purpose of this valuation is to provide internal reference for the company.

Our valuation is carried out on an investment value basis. Investment value is defined as *“the value of an asset to the owner or a prospective owner for individual investment or operational objectives”*.

INTRODUCTION

In accordance with the instructions received from Coolpad Group Limited (the “Company” or “Coolpad”), we have undertaken a valuation exercise which requires Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”) to express an independent opinion on the investment value of the Internet Related Business (the “Subject”) belonging to Coolpad E-Commerce Inc. as defined in the Share Adjustment Framework Agreement as at 31 October 2015 (the “Valuation Date”). The report which follows is dated 25 January 2016 (the “Report Date”).

BACKGROUND

Coolpad Group Limited, formerly known as China Wireless Technologies Limited, 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.

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

On 29 May 2015, Coolpad E-Commerce Inc. became a 50.5:49.5 joint venture between the Company and Tech Time Development Limited (“Tech Time”), and ceased from being a subsidiary of the Company.

Tech Time is a subsidiary of Qihoo 360 Group who is a leading Internet group in China offering comprehensive, effective and user-friendly Internet and mobile security products and services to protect users’ computers and mobile devices against malware and malicious websites.

On 18 September 2015, the Company, Tech Time and Coolpad E-Commerce Inc. entered into the Share Adjustment Framework Agreement pursuant to which Coolpad E-Commerce Inc. agreed to purchase 6,800 shares of Coolpad E-Commerce Inc. held by the Company. Upon Completion, the Company’s shareholdings in Coolpad E-Commerce Inc. will be reduced to 25%, while Tech time will hold the remaining 75%. As consideration for the said share repurchase, Coolpad E-Commerce Inc. will transfer its Internet Related Business (i.e. the Subject) to the Company.

The Subject includes (i) all OS systems and their rights of operation for all mobile devices of the Group except for “Dazen” and “QIKU” mobile devices; (ii) all rights of operation for the internet business of the Group except for “Dazen” and “QIKU” mobile internet business; (iii) the domain names and server of the Coolpad website (coolpad.com) and Coolshop (shop.coolpad.com) and their rights of operation and management; (iv) the rights of operation of “Coolyun”; and (v) the rights of operation of “Zuimei Weather” application and related business.

As indicated by the management of the Company, the income that the Subject generates depends on the number of the mobile device users who use smart phones manufactured by the Company and with the assumption of the Share Adjustment Framework Agreement mentioned above being completed at 31 October 2015 (the “Valuation Date”). In this regard, the Company provides the financial forecast with consideration of the current users of smart phones of the Company, and the synergy of potential cooperation with Internet companies.

SOURCES OF INFORMATION

This report was compiled after consideration of all relevant information obtained from the Company and other public sources. Documents received include, but not limited to:

- Background information and future business plan of the Company;
- Financial statements of the Company for the period ended the Valuation Date;
- Financial forecast of the Company as at Valuation Date;
- Business licenses of the Company;
- Article of Association of the Company; and

- Corporate Structure of the Company.

Other sources of information included:

- Market trends of operation and other related industry in mainland China; and
- We have held discussions with the management of the Company regarding the operational and the condition of the Company. We believe that the information provided during these discussions is reliable.

VALUATION METHODOLOGY

In arriving at our assessed value, we have considered three generally accepted approaches, namely, the market approach, cost approach and income approach.

The Market Approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established used market may be valued by this approach.

Cost Approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes. The cost approach can sometimes provide an indication of value for assets without a known used market.

Income Approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits (income) from the same or a substantially similar project with a similar risk profile.

Given the nature of the Subject, there are substantial limitations for the Market Approach and the Cost Approach for valuing the underlying assets. Firstly, the market approach requires market transactions of comparable assets as an indication of value. However, the Market Approach requires operational information in order to arrive at an indication of value. Secondly, the Cost Approach does not directly incorporate information about the economic benefits contributed by the Subject.

In view of the above, we have adopted the Income Approach for the valuation. Under this method, value depends on the present worth of future economic benefits to be derived from the projected sales income. Indications of value have been developed by discounting projected future net cash flows available for payment of owners' interest to their present worth at discount rates which in our opinion are appropriate for the risks of the business. In considering the appropriate discount rate to be applied, we have taken into account a number of factors including the current cost of financing and the relevant risks inherent in the business.

VALUATION ASSUMPTIONS

In determining the value of the investment value in the Subject, we make the following key assumptions:

- In order to realize the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For this valuation exercise, we have assumed that the facilities and systems proposed are sufficient for future expansion;
- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the Subject;
- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;
- We have been provided with copies of the operating licenses and company incorporation documents. We have assumed such information to be reliable and legitimate. We have relied to a considerable extent on such information provided in arriving at our opinion of value;
- We have assumed the accuracy of the financial and operational information provided to us by the Company relied to a considerable extent on such information in arriving at our opinion of value;
- We have assumed the capital structure of the Subject will not change; and
- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

MAJOR ASSUMPTIONS**Forecast Period**

With reference to the financial forecast provided by the Company, the forecast period for this valuation exercise is 4.2 years from 1 November 2015 to 31 December 2019. Beyond this forecast period, we have assumed a terminal growth rate of 3%.

Revenue

With reference to the financial forecast provided by the Company, the revenue projection of the subject is based on the number of the mobile device users who were using the smart phones manufactured by the Company. Also, synergy has been considered adequately, which includes the possible cooperation with Internet Companies.

APPENDIX IV VALUATION REPORT OF THE INTERNET RELATED BUSINESS

As indicated by the management, due to current and future users of smart phones of the Company and the synergy of the possible cooperation with Internet Companies after the completion of Share Adjustment Framework Agreement mentioned above, the growth rate of the revenue will peak at 2017, which is 52.9%. And then the growth rate will gradually drop down to 11.4% at 2019, which is relatively steady due to the relatively saturated market and the highly competitive environment of mobile Internet. Therefore, the revenue for the period 2015 to 2019 is projected as follows:

RMB'000	2015				
	Nov-Dec	2016E	2017E	2018E	2019E
Revenue	84,840	450,000	688,000	925,000	1,030,000
YoY Growth		38.9%	52.9%	34.4%	11.4%

Cost of sales

With reference to the financial forecast provided by the Company, the management believes due to the highly competitive environment of mobile Internet, the price of the product provided by the Subject will be lower in the future because of the competitive pressure of competitors. Also, the Company estimates that the low-cost product will be replaced by high-cost product like mobile games gradually from 2016 to 2019. In result, the cost of goods sold may account for increasing proportion of revenue from 10% in the year end of 2015 to 40% in 2018 and be stable since 2018 due to the completion of the product replacement. The COGS for the period 2015 to 2019 are projected as follows:

RMB'000	2015				
	Nov-Dec	2016E	2017E	2018E	2019E
COGS	8,484	90,000	206,400	370,000	412,000
COGS % of Revenue	10.0%	20.0%	30.0%	40.0%	40.0%

General & Administrative Expenses

With reference to the financial forecast provided by the Company, as the revenue grows year on year, General & administrative expenses are forecasted to account for decreasing proportion of the revenue from 41% in the year end of 2015 to 29.5% in 2019. The Company estimated that the Subject will forms scale gradually under the support of the Company with current users of smart phones of the Company and the synergy of the possible cooperation with Internet Companies. G&A Expenses for the period 2015 to 2019 are projected as follows:

RMB'000	2015				
	Nov-Dec	2016E	2017E	2018E	2019E
G&A Expenses	34,784	159,750	209,840	282,273	304,365
G&A Expenses % of Revenue	41.0%	35.5%	30.5%	30.5%	29.5%

Depreciation, amortization and CAPEX

With reference to the financial forecast provided by the Company, since the Subject has the asset-light strategy, the capital expenditure would be utilized to satisfied daily operation, like purchasing computers and servers. The increase of the capital expenditure would be consistent with the growth of smart phone users of the company. Therefore, the capital expenditure and amortization and depreciation for the period 2015 to 2019 are projected as follows:

RMB'000	2015				
	Nov-Dec	2016E	2017E	2018E	2019E
Depreciation	2,200	10,000	12,000	20,000	30,000
Capital expenditure	2,000	20,000	30,000	45,000	60,000

Change in working capital

With reference to the financial forecast provided by the Company, the estimation on working capital from the period of 2015 to 2019 is based on the day of the receivable, which would be 35 days in 2016 and 2017, 40 days in 2018 and 2019. Therefore, the change in working capital is shown as the following table:

RMB'000	2015				
	Nov-Dec	2016E	2017E	2018E	2019E
Change in Working Capital	1,500	13,750	23,139	35,889	11,838

Income tax

With reference to the financial forecast provided by the Company, due to the certificate of the high-tech enterprise, the Company is subject to 15% income tax rate from 2015 to 2019 and thereafter.

DISCOUNT RATE

In applying the DCF method to estimate the value of the Subject, it is necessary to determine an appropriate Weighted Average Cost of Capital (“WACC”) in order to determine the discount rate for value in use valuation. WACC is the weighted average of the estimated rate of return required by equity and debt holders for an investment of this type. WACC relates to perceived risks. Risk factors relevant to our selection of an appropriate discount rate include:

1. Interest rate risk, which measures variability of returns, caused by changes in the general level of interest rates.
2. Purchasing power risk, which measures loss of purchasing power over time due to inflation.

3. Market risk, which measures the effects of the general market on the price behavior of securities.
4. Business risk, which measures the uncertainty inherent in projections of operating income.
5. Exchange rate risk, which measures the possible influence on the value of the investment due to changes in exchange rates.

Consideration of risk also involves elements such as quality of management, degree of liquidity, and other factors affecting the rate of return acceptable to a given investor in a specific investment. An adjustment to risk is a discount rate increment to compensate for the extent of risk which is believed to be inherent in the investment.

Weighted Average Cost of Capital

WACC is calculated by multiplying the cost of each capital component by its weight and then summing all subtotals:

$$\text{WACC} = \frac{E}{V} \times R_e + \frac{D}{V} \times R_d \times (1 - T_c)$$

Where:

R_e = Required return on equity

R_d = Required return on debt

E = Fair value of the firm's equity

D = Fair value of the firm's debt

V = $E + D$

E/V = Percentage of equity financing

D/V = Percentage of debt financing

T_c = Corporate tax rate

Required Return on Equity Capital

We have used Capital Assets Pricing Model (the “CAPM”) to estimate the required return on equity capital.

The CAPM is a fundamental tenet of modern portfolio theory which is a generally accepted basis for marketplace valuations of equity capital. The CAPM technique is widely accepted in the investment and financial analysis communities for the purpose of estimating a company’s required return on equity capital.

The equation of CAPM is shown as follows:

$$\text{Required Return on Equity} = \text{Risk free rate} + \text{Nominal Beta}(\beta) \times \text{MarketPremium} + \text{Specific Risk}(\epsilon)$$

The required return on equity of a company represents the total rate of return investors expect to earn, through a combination of dividends and capital appreciation, as a reward for risk taking.

Parameters for CAPM

In determining the equity discount rates for the Subject, the following parameters have been used:

Parameters	Rates	Sources
Risk Free Rate	2.21%	10 years US Treasury Bonds & Notes BFV Curve
Levered Beta	0.80	Calculated based on Group Average
Equity Risk Premium	7.00%	Duff & Phelps Valuation Guidebook
Size Premium	5.78%	Duff & Phelps Valuation Guidebook
Country Premium	2.40%	Duff & Phelps Valuation Guidebook
Specific Risk	3.00%	Estimated

WACC

The application of CAPM and WACC as outlined above yielded the following discount rates, which we believe to be fair and reasonable required return for the Subject.

Parameters	Rates	Notes
D/E Ratio	0.22	Average of Comparable Companies
Cost of Equity	18.98%	Calculated based on CAPM
Cost of Debt	4.90%	PBOC Lending Rate (5+ years)
Corporate Tax Rate	15.00%	Management Forecast
WACC	16.34%	Calculated

INVESTMENT VALUE

The estimated investment value of the Subject derived from the DCF model is USD271.66 million.

LIMITING CONDITIONS

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of the Subject over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report is issued subject to our Limiting Conditions as attached.

Based on our investigation and analysis outlined in the report, we are of the opinion that as at 31 October 2015, the investment value of the Internet Related Business belonging to the Coolpad E-Commerce Inc. is reasonably stated at the amount of **USD271.66 million**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle
Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Regional Director

Note: Simon M.K. Chan is a CPA Fellow member of the Hong Kong Institute of Certified Public Accountants, a CPA Fellow member of CPA Australia and a Certified Valuation Analyst, who has extensive experience in valuation and corporate advisory business. He has provided a wide range of valuation services to numerous listed and private companies in different industries in Mainland China and Hong Kong for over 20 years.

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. The responsibility for determining expected values rests solely with the Company/engagement parties and our reports were only used as part of the Company's/engagement parties' analysis in reaching their conclusion of value.
2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.
3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.
4. The management and the Board of the Company has reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.
5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.
6. No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers.
7. The use of and/or the validity of the report is subject to the terms of engagement letter/proposal and the full settlement of the fees and all the expenses.
8. Our conclusions assume continuation of prudent management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation/Reference Date. We cannot provide assurance on the achievability of the results forecasted by the Company/engagement parties because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.
10. The values expressed herein are valid only for the purpose stated in the report and in the engagement letter or proposal as of the Valuation/Reference Date. The report should not be otherwise be referred to or quoted, in whole or in part, in any form of communication, or distributed in whole or in part or copied to any their party without our prior written consent. We shall not under any circumstances whatsoever be liable to any third party except where we specifically agreed in writing to accept such liability.
11. This report is confidential to the client and the calculation of values expressed herein is valid only for the purpose stated in the engagement letter/or proposal as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed and no responsibility is accepted with respect to any third party for the whole or any part of its contents.
12. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation if such investigation is beyond the scope of normal scenario analysis work.
13. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.
14. We are not environmental consultants or auditors, and we take no responsibility for any actual or potential environmental liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional environmental assessment. We do not conduct or provide environmental assessments and have not performed one for the subject property.

15. This exercise is premised in part on the historical financial information and future forecast provided by the management of the Company/engagement parties. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in arriving at our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, and those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments; the resulting value may differ significantly.

16. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as transaction price purpose in any manner whatsoever. The conclusion of values represents the consideration based on information furnished by the Company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this circular.



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

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31 January 2016

**REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW
FORECAST IN CONNECTION WITH THE VALUATION OF INVESTMENT VALUE
OF THE INTERNET RELATED BUSINESS**

To the Directors of Coolpad Group Limited

We have performed the work described below, in respect of the discounted cash flow forecast (hereinafter referred to as the “Forecast”) on which the valuation dated 25 January 2016 prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (仲量聯行企業評估及諮詢有限公司) in respect of the investment value of the Internet Related Business (the “Valuation Target”) as at 31 October 2015. The Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Directors’ responsibilities

It is the responsibility solely of the directors (the “Directors”) of Coolpad Group Limited (the “Company”) to prepare the Forecast. The Forecast has been prepared using a set of assumptions (the “Assumptions”), the completeness, reasonableness and validity of which are the sole responsibility of the Directors.

Our independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting accountants' responsibilities

Our responsibility is to express a conclusion, based on our work on the arithmetical accuracy of the calculations of the Forecast and to present our conclusion solely to you, as a body, for the purpose.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. We have planned and performed our work to obtain limited assurance for giving our conclusion below.

Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the assumptions made by the Directors. Our work has been undertaken solely to assist the Directors in evaluating whether the Forecast, so far as the arithmetical accuracy of the calculations is concerned, has been properly compiled in accordance with the assumptions made by the Directors.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and our work does not constitute any valuation of Valuation Target. The Forecast does not involve the adoption of accounting policies. The assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. We have not reviewed, considered or conducted any work on the completeness, reasonableness and the validity of the assumptions and thus express no opinion whatsoever thereon. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly we do not express an audit opinion.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Conclusion

Based on our work described above, nothing has come to our attention that causes us to believe that the Forecast, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, has not been properly compiled on the basis of the Assumptions made by the Directors.

Ernst & Young
Certified Public Accountants
Hong Kong

B. Letter from the Board

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)

31 January 2016

The Stock Exchange of Hong Kong Limited
11/F., One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Dear Sirs and Madams,

MAJOR TRANSACTIONS OF COOLPAD GROUP LIMITED
(THE “COMPANY”)
(1) DISPOSAL OF CERTAIN INTEREST IN A SUBSIDIARY
(2) ACQUISITION OF THE INTERNET RELATED BUSINESS

We refer to the circular of the Company dated 31 January 2016 (the “Circular”). Capitalised terms used herein shall have the same meanings as those defined in the circular unless the context otherwise requires.

We, the Board of the Company, notes that Ernst & Young, the Company’s reporting accountants (the “Reporting Accountants”), has examined the arithmetical accuracy of the calculation of the discounted cash flow forecast in the valuation report dated 25 January 2016 prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (the “Independent Valuer”) in relation to the investment valuation (the “Valuation”) of the Internet Related Business as at 31 October 2015. The Valuation is prepared based on discounted cash flow method and it is regarded as a profit forecast under Rule 14.61 of the Listing Rules (the “Forecast”).

The purpose of the Valuation above is used to support the Board's estimation of the investment value of the Internet Related Business in future, the result of which was not regarded as the booking value of any business or assets to be recorded in the financial statements. We have discussed with the Independent Valuer the bases and assumptions in the Valuation upon which the Forecast has been made and have reviewed the Valuation. We have also considered the report dated 31 January 2016 issued by the Reporting Accountants to the Board that the Reporting Accountants had examined the arithmetical accuracy of the calculations of the Valuation for assisting the Directors in evaluating whether, so far as the calculations are concerned, the discounted cash flow has been properly compiled in accordance with the assumptions in the Valuation.

On the basis of the foregoing, we confirm that the Valuation, including the Forecast, has been made after due and careful enquiry.

The purpose of this letter is solely for the strict compliance with Rule 14.62 of the Listing Rules. We, however, express no opinion in this letter on the actual results of the Forecast as the Forecast is based on certain hypothesis on future events.

Yours faithfully,
For and on behalf of
COOLPAD GROUP LIMITED
Guo Deying
Chairman

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) The Directors' or chief executive's interests or short positions in the Shares, underlying Shares and debentures of the Company and its associated corporations

Based on the register kept by the Company, as at the Latest Practicable Date, the interests or short positions of each Director or chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and to the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were taken or deemed to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules, were as follows:

Long Positions in Shares and Underlying 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
									Total
Mr. Guo Deying	1, 2&6	-	1,014,256,870	420,000	-	1,014,256,870	-	1,014,676,870	23.30
Mr. Jiang Chao	3&6	29,043,000	-	-	420,000	-	-	29,463,000	0.68
Mr. Li Bin	4&6	20,125,000	-	-	-	-	51,200,000	20,125,000	0.46
Mr. Jia Yueting	5&6	-	-	897,437,000	-	-	-	897,437,000	20.61
Mr. Chan King									
Chung	6	441,600	-	-	-	-	-	441,600	0.01
Mr. Huang									
Dazhan	6	331,200	-	-	-	-	-	331,200	0.01
Mr. Xie Weixin	6	441,600	-	-	-	-	-	441,600	0.01

Long positions in shares of an associated corporation

Name of director	Note	Number of shares held, capacity and nature of interest			Percentage of issued share capital of the associated corporation
		Name of associated corporation	Through spouse or minor children	Founder of a discretionary trust	
Mr. Guo Deying	1	Data Dreamland Holding Limited	1,000	1,000	100

Notes:

- The entire issued share capital of Data Dreamland Holding Limited (“Data Dreamland”) is held by Barrie Bay Limited (“Barrie Bay”), which is acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a unit trust held by HSBC International Trustee Limited (“HSBC Trustee”) acting as the trustee of the Barrie Bay Trust. The Barrie Bay Trust is a discretionary trust set up by Mr. GUO Deying (“Mr. GUO”), an executive Director, and his spouse, Ms. YANG Xiao (“Ms. YANG”), the beneficiary objects of which include the children of Mr. GUO and M s. YANG.

Each of Mr. GUO and Ms. YANG is taken to be interested in the 1,014,256,870 shares held by Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their minor children under the Barrie Bay Trust. The long positions in the Company’s shares of each of Mr. GUO and Ms. YANG under the column “Through spouse or minor children” and the column “Founder of a discretionary trust” in the table headed “Long positions in shares and underlying shares of the Company” above refers to the same 1,014,256,870 shares. Each of Mr. GUO and Ms. YANG is taken to be interested in the entire issued share capital of Data Dreamland as each of them is a settlor of the Barrie Bay Trust and by virtue of the interests of their minor children under the Barrie Bay Trust. The long positions in shares of Data Dreamland of each of Mr. GUO and Ms. YANG in the column “Through spouse or minor children” and the column “Founder of a discretionary trust” under the table headed “Long positions in shares of an associated corporation” above refers to the same 1,000 shares.

- Mr. GUO was taken to be interested in the 420,000 shares held by Wintech Consultants Limited as he was one out of the three directors of Wintech Consultants Limited and the other two directors were accustomed to act in accordance with Mr. GUO’s direction.
- Mr. Jiang Chao, an executive Director, was interested in the 420,000 shares held by Wintech Consultants Limited as he was one of the discretionary objects under the China Wireless Employee Benefit Trust, a discretionary trust established for the benefit of the employees of the Group and the China Wireless Share Award Plan.
- The certain interests of these Directors in the underlying Shares are the options granted to the relevant Directors by the Company under the Share Option Schemes.
- Mr. Jia Yueting is interested in 897,437,000 shares of the Company as follows:
- The 1,014,676,870 shares in which Mr. Guo Deying is interested include 132,294,374 shares proposed to be issued by way of rights issue after 23 February 2016 (the “Rights Issue”), for details of which please refer to the announcement of the Company dated 22 January 2016. The 29,463,000 shares in which Mr. Jiang Chao is interested include 3,843,000 shares proposed to be issued pursuant to the Rights Issue. The 20,125,000 shares in which Mr. Li Bin is interested include 2,625,000 shares proposed to be issued pursuant to the Rights Issue. The 897,437,000 shares in which Mr. Jia Yueting is interested include 117,057,000 shares proposed to be issued pursuant to the Rights Issue. The 441,600 shares in which Mr. Chan King Chung is interested include 57,600 shares proposed to be issued pursuant to the Rights Issue. The 331,200 shares in which Mr. Huang Dazhan is interested include 43,200 shares proposed to be issued pursuant to the Rights Issue. The 441,600 shares in which Mr. Xie Weixin is interested include 57,600 shares proposed to be issued pursuant to the Rights Issue.

Name of controlled corporation	Name of controlling shareholder	% control	Direct interest	Number of shares	
Leview Mobile HK Limited	Leview Mobile Limited	100.00	Y	Long position	897,437,000
Leview Mobile Ltd.	Le Ltd.	100.00	N	Long position	897,437,000
Le Ltd.	Lele Holding Ltd.	100.00	N	Long position	897,437,000
Lele Holding Ltd.	JIA Yueting	100.00	N	Long position	897,437,000

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and to the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were taken or deemed to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules.

(b) Substantial Shareholders' interests or short positions in the Shares and Underlying Shares

Based on the register kept by the Company, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company), had any interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

Long Positions in Shares and Underlying 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
Data Dreamland Holding Limited ("Data Dreamland")	1&4	1,014,256,870	Beneficial owner	1,014,256,870	23.29
Barrie Bay PTC Limited ("Barrie Bay")	2&4	1,014,256,870	Interest of controlled corporation	1,014,256,870	23.29
HSBC International Trustee Limited ("HSBC Trustee")	2&4	1,015,256,870	Trustee	1,015,256,870	23.31
Ms. YANG	1&4	1,014,256,870	Spouse interest	1,014,256,870	23.29
UOB Kay Hian (Hong Kong) Limited	3	412,881,601	Interest of controlled corporation	412,881,601	9.48

Notes:

1. The entire issued share capital of Data Dreamland is held by Barrie Bay. Barrie Bay is acting as the trustee of the Barrie Bay Trust. The Barrie Bay 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 and Ms. YANG and the discretionary objects of which include the minor children of Mr. GUO and Ms. YANG.
2. The 1,014,256,870 shares were held by Data Dreamland, the entire share capital of which is held by Barrie Bay, 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 412,881,601 shares were held by UOB Kay Hian (Hong Kong) Limited, the entire issued share capital of which is held by UOB Kay Hian Overseas Limited. The entire issued share capital of UOB Kay Hian Overseas Limited is held by UOB Kay Hian (Hong Kong) Limited.
4. The 1,014,676,870 shares in which Data Dreamland, Barrie Bay, HSBC Trustee and Ms. YANG are interested include 132,294,374 shares proposed to be issued by way of Rights Issue.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Directors 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

4. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2014, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of, by or leased to any member of the Group or are proposed to be acquired or disposed of, by or leased to any member of the Group.

As at the Latest Practicable Date, there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to the business of the Group.

5. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, were entered into by the Group within two years immediately preceding the date of this circular which are or may be material:

- (a) the Shareholders' Agreement;
- (b) the Share Adjustment Framework Agreement; and
- (c) the underwriting agreement entered into by the Company and UOB Kay Hian (Hong Kong) Limited (大華繼顯 (香港) 有限公司) on 22 January 2016 in relation to the underwriting arrangement with respect of a proposed rights issue, details of which are set out in the Company's announcement dated 22 January 2016.

6. LITIGATION AND POSSIBLE LEGAL ACTION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or claim of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of the Group.

7. EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualifications of the experts who have been named in this circular or have given their opinion or advice which are contained in this circular:

Name	Qualification
Ernst & Young	Reporting accountant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent Valuer

The above experts have given and has not withdrawn their written consents to the issue of this circular with the inclusion of its letters and references to their names in the form and context in which it appear.

8. EXPERTS' INTERESTS

As the Latest Practicable Date, none of the above mentioned experts have any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2014, the date to which the latest audited financial statements of the Group was made up.

As the Latest Practicable Date, none of the above mentioned experts were beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. COMPETING BUSINESS

As at the Latest Practicable Date, 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 the Latest Practicable Date, Mr. Jia Yueting, the executive Director, is a shareholder and director of Beijing Baile Culture Communication Co., Ltd. (北京百樂文化傳媒有限公司), which is a holding company with subsidiaries principally engaged in mobile phone and therefore, Mr. Jia Yueting is considered to have interest in the business which competes or is likely to 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 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.

10. MISCELLANEOUS

- (a) The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (b) The head office and principal place of business of the Company in the PRC is No. 2 Flat, Coolpad Cyber Park, Mengxi Boulevard, Northern Part of Science & Technology Park, Nanshan District, Shenzhen. The principal place of business of the Company in Hong Kong is at Room 1902, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong.
- (c) The secretary of the Company is Mr. Jiang Chao, who is a fellow member of the Association of Chartered Certified Accountants.
- (d) The Company’s branch registrar and transfer office in Hong Kong is Computershare Hong Kong Investor Services Limited, which is located at 17M Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the principal place of business of the Company in Hong Kong at Room 1902, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong during normal business hours on any business day from the date of this circular up to and including 23 February 2016:

- (i) the memorandum and articles of association of the Company;
- (ii) each of the agreements referred to in this circular;

- (iii) each of the material contracts as set out under the paragraph headed “Material Contracts” in this appendix;
- (iv) the letters of consents from the experts referred to under the paragraph headed “Experts’ Qualifications and Consents” in this appendix;
- (v) the reports of the Company’s reporting accountant and the Board quoted and referred to in this circular;
- (vi) the Valuation Report;
- (vii) the annual reports of the Company for the two years ended 31 December 2013 and 2014;
- (viii) the circular of the Company dated 12 February 2015; and
- (ix) this circular.

NOTICE OF THE EGM

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)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (“Meeting”) of Coolpad Group Limited (the “Company”) will be held at Meeting Room of Exhibition Hall in Building 5, Coolpad Information Park, Shenzhen, People’s Republic of China on Tuesday, 23 February 2016 at 11:00 a.m. for the following purposes:

ORDINARY RESOLUTION

1. To consider and approve:

“THAT

- (a) the share adjustment framework agreement (“Share Adjustment Framework Agreement”) dated 18 September 2015 entered into among the Company, Coolpad E-Commerce Inc. and Tech Time Development Limited be and is hereby approved, confirmed and ratified and the transactions contemplated thereunder be and are hereby approved; and
- (b) any one of the directors (“Directors”) of the Company be and is authorised to do all such acts and things, to sign and execute such documents or agreements or deeds on behalf of the Company and to do such other things and to take all such actions as he/she considers necessary, appropriate, desirable and expedient for the purposes of giving effect to or in connection with the Share Adjustment Framework Agreement and all transactions contemplated thereunder, and to agree to such variation, amendments or waiver or matters relating thereto of a non-material nature (including any variation, amendments or waiver of such documents or any terms thereof, which are not fundamentally different from those as provided in the Share Adjustment Framework Agreement) as are, in the opinion of such Director, in the interests of the Company and its shareholders as a whole.”

By Order of the Board of
COOLPAD GROUP LIMITED
GUO DEYING
Chairman and Chief Executive Officer

Hong Kong, 31 January 2016

NOTICE OF THE EGM

Notes:

1. The register of members of the Company will be closed from 19 February 2016 to 23 February 2016 (both days inclusive) during which period no transfer of share(s) will be effected. Members whose name appear on the register of members of the Company at the close of business on 23 February 2016 will be entitled to attend and vote at the Meeting.
2. Any shareholder entitled to attend and vote at the Meeting is entitled to appoint another person as his/her proxy to attend and vote on his/her behalf. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company.
3. Where there are joint registered holders of any shares, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such shares as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most, or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand in the register in respect of the relevant joint holding.
4. In order to be valid, a form of proxy in the prescribed form together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time fixed for holding the annual general meeting or adjournment thereof.

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