COOLPAD GROUP LIMITED
酷派集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 2369)

2016 ANNOUNCEMENT OF FINAL RESULTS

The board (the "Board") of directors (the "Directors") of Coolpad Group Limited (the "Company") announces the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2016, together with the comparative figures for the year ended 31 December 2015.

Financial Highlights

	Year ended 31 December		
	2016	2015	**Variance**
	HK$'000	*HK$'000*	*(%)*
Revenue	**7,969,477**	14,667,866	-45.7
(Loss)/profit before tax*	**(4,356,068)**	2,311,011	-288.5
(Loss)/profit for the year attributable to owners of the Company	**(4,379,631)**	2,324,518	-288.4
Basic (loss)/earnings per share**	**HK (89.82) cents**	HK46.66 cents	-292.5
Diluted (loss)/earnings per share**	**HK (89.82) cents**	HK45.87 cents	-295.8

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
REVENUE	4	**7,969,477**	14,667,866
Cost of sales		**(7,614,994)**	(13,079,059)
Gross profit		**354,483**	1,588,807
Other income and gains	4	**449,889**	472,999
Gain on loss of control of subsidiaries	17	**154,089**	2,635,391
Loss on disposal of an investment in a joint venture	11	**(1,837,114)**	–
Impairment of investments in associates	11	**(793,445)**	–
Selling and distribution expenses		**(1,009,958)**	(958,838)
Administrative expenses		**(954,989)**	(970,297)
Other expenses		**(324,182)**	(168,581)
Finance costs	6	**(83,995)**	(103,319)
Share of losses of:			
Joint ventures		**(138,969)**	(184,491)
Associates		**(171,877)**	(660)
(LOSS)/PROFIT BEFORE TAX	5	**(4,356,068)**	2,311,011
Income tax expense	7	**(45,352)**	(34,505)
(LOSS)/PROFIT FOR THE YEAR		**(4,401,420)**	2,276,506

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

	Notes	**2016** **HK$'000**	2015 HK$'000
OTHER COMPREHENSIVE (EXPENSES)/INCOME			
Other comprehensive expenses to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		**(425)**	(377)
Exchange differences on translation of foreign operations		**(132,276)**	(196,905)
Reclassification adjustment for a foreign operation disposed of during the year	*17*	**19,048**	–
Share of other comprehensive expenses of:			
Joint ventures		**(493)**	(55,318)
Associates		**(28,277)**	–
Other comprehensive expenses to be reclassified to profit or loss in subsequent periods		**(142,423)**	(252,600)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Gain on property revaluation		**37,135**	28,999
Income tax effect		**(6,773)**	(3,220)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**30,362**	25,779
OTHER COMPREHENSIVE EXPENSES FOR THE YEAR, NET OF TAX		**(112,061)**	(226,821)
TOTAL COMPREHENSIVE (EXPENSES)/INCOME FOR THE YEAR		**(4,513,481)**	2,049,685
(Loss)/profit attributable to:			
Owners of the Company		**(4,379,631)**	2,324,518
Non-controlling interests		**(21,789)**	(48,012)
		(4,401,420)	2,276,506
Total comprehensive (expenses)/income attributable to:			
Owners of the Company		**(4,481,811)**	2,106,449
Non-controlling interests		**(31,670)**	(56,764)
		(4,513,481)	2,049,685
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	*9*	***HK cents***	*HK cents* (Restated)
Basic		**(89.82)**	46.66
Diluted		**(89.82)**	45.87

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**997,534**	1,001,136
Investment properties		**106,427**	110,011
Prepaid land lease payments		**348,646**	436,038
Intangible assets		**26,451**	102,945
Investments in joint ventures	*10*	**108,288**	3,748,371
Investments in associates	*11*	**1,050,857**	197,759
Available-for-sale investments		**31,068**	36,916
Loans receivable		**25,001**	37,046
Other non-current assets		**41,062**	45,106
Deferred tax assets		**5,698**	30,000
Total non-current assets		**2,741,032**	5,745,328
CURRENT ASSETS			
Inventories		**1,395,870**	1,686,570
Trade receivables	*12*	**860,599**	1,619,599
Bills receivable	*13*	**82,491**	129,345
Short-term loans receivable		**369,545**	995,513
Prepayments, deposits and other receivables	*14*	**2,540,530**	979,157
Due from directors		**500**	3,282
Due from a joint venture		**–**	195,051
Due from associates		**11,261**	–
Due from other related parties		**182,683**	–
Pledged deposits		**361,811**	413,488
Cash and cash equivalents		**1,308,082**	2,515,974
Total current assets		**7,113,372**	8,537,979
CURRENT LIABILITIES			
Trade payables	*15*	**1,784,925**	1,916,195
Bills payable	*16*	**1,321,077**	1,351,701
Other payables and accruals		**1,605,686**	2,081,268
Interest-bearing bank and other borrowings		**1,123,095**	1,205,263
Due to associates		**268,420**	706
Due to a joint venture		**4,406**	2,359
Due to other related party		**50,538**	–
Tax payable		**90,734**	84,004
Total current liabilities		**6,248,881**	6,641,496
NET CURRENT ASSETS		**864,491**	1,896,483
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,605,523**	7,641,811

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

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

NOTES TO FINANCIAL STATEMENTS

31 December 2016

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

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

Going concern basis

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

As at 31 December 2016, the Group recorded a net current asset position of HK$864 million.

The Group continued suffering significant operating losses subsequent to 31 December 2016 and its liquidity position continued to deteriorate. Certain lenders did not renew the banking facilities with the Group upon the expiry of the loan agreements and certain vendors had filed lawsuits against the Group or requested immediate repayments.

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

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

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

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

2.1 BASIS OF PREPARATION (continued)

Going concern basis (continued)

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

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

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

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

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

3. OPERATING SEGMENT INFORMATION

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

(a) the mobile phone segment engages in the research, development, production and sale of mobile phones and related accessories and provision of wireless application service;

(b) the property investment segment invests in properties for their rental income potential and/or for capital appreciation; and

(c) the finance service segment engages in the provision of a range of financing services in Mainland China.

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

Segment assets exclude investments in joint ventures, investments in associates, available-for-sale investments, deferred tax assets, amounts due from directors, an amount due from a joint venture, amounts due from associates, amounts due from other related parties, pledged deposits and cash and cash equivalents as these assets are managed on a group basis.

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

3. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016	Mobile phone HK$'000	Property investment HK$'000	Finance service HK$'000	Total HK$'000
Sales to external customers	7,864,075	–	105,402	7,969,477
Other revenue and gains	346,301	11,451	–	357,752
Total	8,210,376	11,451	105,402	8,327,229
Segment results	(1,637,221)	10,503	63,897	(1,562,821)
Reconciliation:				
Interest income				92,137
Gain on loss of control of a subsidiary				154,089
Loss on disposal of an investment in a joint venture				(1,837,114)
Impairment of investments in associates				(793,445)
Finance costs				(83,995)
Share of losses of joint ventures				(138,969)
Share of losses of associates				(171,877)
Corporate and other unallocated expenses				(14,073)
Loss before tax				(4,356,068)
Segment assets	6,194,969	109,054	490,133	6,794,156
Reconciliation:				
Investments in joint ventures				108,288
Investments in associates				1,050,857
Corporate and other unallocated assets				1,901,103
Total assets				9,854,404
Segment liabilities	4,719,120	1,619	500	4,721,239
Reconciliation:				
Corporate and other unallocated liabilities				1,594,855
Total liabilities				6,316,094
Other segment information:				
Impairment of trade receivables	249,558	–	–	249,558
Write-down of inventories to net realisable value	94,388	–	–	94,388
Fair value gain on investment properties	–	3,549	–	3,549
Product warranty provision	73,423	–	–	73,423
Depreciation and amortisation	177,995	–	377	178,372
Capital expenditure*	177,139	–	–	177,139

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

3. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2015	Mobile phone *HK$'000*	Property investment *HK$'000*	Finance service *HK$'000*	Total *HK$'000*
Sales to external customers	14,640,758	–	27,108	14,667,866
Other revenue and gains	357,543	12,348	–	369,891
Total	14,998,301	12,348	27,108	15,037,757
Segment results	(150,383)	11,314	13,724	(125,345)
Reconciliation:				
Interest income				103,108
Gain on loss of control of a subsidiary				2,635,391
Finance costs				(103,319)
Share of loss of a joint venture				(184,491)
Share of losses of associates				(660)
Corporate and other unallocated expenses				(13,673)
Profit before tax				2,311,011
Segment assets	5,938,514	111,685	1,092,267	7,142,466
Reconciliation:				
Investments in joint ventures				3,748,371
Investments in associates				197,759
Corporate and other unallocated assets				3,194,711
Total assets				14,283,307
Segment liabilities	5,517,663	1,246	1,311	5,520,220
Reconciliation:				
Corporate and other unallocated liabilities				1,346,392
Total liabilities				6,866,612
Other segment information:				
Impairment of trade receivables	12,840	–	–	12,840
Write-down of inventories to net realisable value	198,519	–	–	198,519
Fair value gain on investment properties	–	3,734	–	3,734
Product warranty provision	76,241	–	–	76,241
Depreciation and amortisation	167,077	–	7	167,084
Capital expenditure*	480,357	–	–	480,357

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

3. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about major customers

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

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

4. REVENUE, OTHER INCOME AND GAINS

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

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

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

* Other interest income comprised a sum of interest surcharge of HK$39,363,000 in connection with certain prepayments for a potential equity investment. Details of the prepayments are set out in note 14 (i) to this announcement.

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

** Government grants and subsidies represented refunds of VAT received from a tax bureau and grants received from certain finance bureaus to support certain of the Group's research and development activities. There are no unfulfilled conditions or contingencies relating to these grants and subsidies.

5. (LOSS)/PROFIT BEFORE TAX

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

	Notes	2016 HK$'000	2015 HK$'000
Cost of inventories sold		**7,520,606**	12,880,540
Depreciation		**72,726**	88,015
Amortisation of patents, licences and computer software*		**3,486**	6,280
Amortisation of prepaid land lease payments		**7,773**	7,658
Research and development costs*:			
Product development costs amortised		**94,387**	65,131
Current year expenditure		**458,417**	523,273
		552,804	588,404
Operating lease rental		**21,974**	31,851
Employee benefit expense (including directors' remuneration):			
Wages and salaries		**560,650**	726,534
Staff welfare expenses		**43,756**	56,377
Pension scheme contributions (defined contribution scheme)		**52,307**	63,879
Equity-settled share option expense		**41,145**	49,591
		697,858	896,381
Loss on disposal of certain interests in a joint venture	*11*	**1,837,114**	–
Impairment of trade receivables#	*12*	**249,558**	12,840
Impairment of an unlisted available-for-sale investment#		**2,365**	16,169
Impairment of investments in associates#	*11*	**793,445**	–
Loss/(gain) on disposal of items of property, plant and equipment#		**9,653**	(1,118)
Write-down of inventories to net realisable value&		**94,388**	198,519
Direct operating expenses arising on rental-earning investment properties		**948**	1,034
Product warranty provision&		**73,423**	76,241
Foreign exchange differences, net#		**21,769**	137,076

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

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

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

6. FINANCE COSTS

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

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

7. INCOME TAX EXPENSE

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

No provision for Hong Kong profits tax has been made (2015: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

7. INCOME TAX EXPENSE (continued)

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

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

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

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

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

(c) Xi'an Coolpad, the Company's wholly-owned subsidiary, was assessed and recognised as a high-technology enterprise in November 2014, and is subject to CIT at a rate of 15% for the three years from 2015 to 2017. Therefore, Xi'an Coolpad was subject to CIT at a rate of 15% (2015: 15%) for the year ended 31 December 2016.

(d) Shenzhen Coolpad Technologies Co., Ltd. ("SZ Coolpad Technologies"), the Company's wholly-owned subsidiary, was recognised as a software enterprise and therefore was exempted from CIT for each of the two years ended 31 December 2013 and 2014 and is entitled to a 50% reduction in the applicable tax rate for CIT for the three years ending 31 December 2017. In this regard, SZ Coolpad Technologies was subject to CIT at a rate of 12.5% (2015: 12.5%) for the year ended 31 December 2016.

(e) Nanjing Coolpad Software Tech Co., Ltd. ("Nanjing Coolpad"), the Company's wholly-owned subsidiary, was established in 2014 and assessed as a software enterprise and therefore is exempted from CIT for the first two years starting from the year when it begins to make profit and will be entitled to a 50% reduction in the applicable tax rate for CIT in the three years that follow. Nanjing Coolpad started its tax concession period from year 2015 as it began to make profit in that year. In this regard, Nanjing Coolpad was exempted from CIT for the years ended 31 December 2016 and 2015.

8. DIVIDEND

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

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 4,876,031,862 (2015: 4,981,998,098 (restated)) in issue during the year.

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

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

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

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

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

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

10. INVESTMENTS IN JOINT VENTURES

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

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

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

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

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

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

10. INVESTMENTS IN JOINT VENTURES (continued)

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

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

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

10. INVESTMENTS IN JOINT VENTURES (continued)

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

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

Coolpad E-commerce Inc. ("Coolpad E-commerce") is an investment holding company and its subsidiaries (collectively, the "Coolpad E-commerce Group") are engaged in the research, development, designing, manufacture, distribution, marketing and sale of internet and other terminal products that are distributed through internet as the primary channel and the research, development, operation and provision of services for the key components, software and/or applications of the internet terminal products.

Coolpad E-commerce was a material joint venture as at 31 December 2015. Certain equity interest in Coolpad E-commerce was disposed of in 2016. Following the disposal of partial interest Coolpad E-commerce became a material associate to the Group as at 31 December 2016. Detailed information about the transaction and the financial information of Coolpad E-commerce are disclosed in note 11 to this announcement.

11. INVESTMENTS IN ASSOCIATES

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

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

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

11. INVESTMENTS IN ASSOCIATES (continued)

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

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

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

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

On 25 May 2015, the Group entered into an equity transfer agreement with Tech Time to transfer a 4.5% equity interest in Coolpad E-commerce to Tech Time for a consideration of US$45,000,000 (equivalent to HK$348,867,000) (the "Second Transaction"). Upon completion of the Second Transaction on 29 May 2015, the Group's equity interest in Coolpad E-commerce was reduced from 55% to 50.5%. The Group lost the control of Coolpad E-commerce and accounted for it as a joint venture (note 10).

On 18 September 2015, the Company entered into a share adjustment framework agreement (the "Share Adjustment Agreement") with Tech Time and Coolpad E-commerce, pursuant to which, among others, Coolpad E-commerce agreed to repurchase 6,800 shares (after the proposed share split in the Share Adjustment Agreement) of Coolpad E-commerce held by the Company, representing a 25.5% equity interest (the "Disposal Interest") therein (the "Third Transaction"). As a consideration for the repurchase, Coolpad E-commerce was required to transfer certain intellectual property items to the Group so as to allow the Group to regain full control of the operation of its internet related business.

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

11. INVESTMENTS IN ASSOCIATES (continued)

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

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

11. INVESTMENTS IN ASSOCIATES (continued)

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

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

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

On 12 December 2016, the Group disposed of its 80% equity interest in Coolpad Mobile to an independent third party for a cash consideration of RMB272,000,000 (equivalent to HK$304,077,000). As a result, the Group lost its control over Coolpad Mobile and accounted for it as an associate (note 17) thereafter. Coolpad Mobile is considered to be a material associate of the Group and is accounted for using the equity method.

11. INVESTMENTS IN ASSOCIATES (continued)

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

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

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

11. INVESTMENTS IN ASSOCIATES (continued)

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

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

12. TRADE RECEIVABLES

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

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

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

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

12. TRADE RECEIVABLES (continued)

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

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**19,250**	6,850
Impairment losses recognised *(note 5)*	**249,558**	12,840
Amounts written off as uncollectible	**(44)**	(21)
Exchange realignment	**(1,167)**	(419)
	267,597	19,250

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

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

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

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

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

13. BILLS RECEIVABLE

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

	2016	2015
	HK$'000	*HK$'000*
Within 3 months	**82,491**	129,345

Bills receivable are non-interest-bearing.

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

Transferred financial assets that are derecognised in their entirety

At 31 December 2016, the Group endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of its suppliers in order to settle the trade payables due to such suppliers with an aggregate carrying amount of RMB51,514,000 (equivalent to HK$57,589,000). The Derecognised Bills had a maturity of one to three months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's continuing involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2016, the Group had not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The endorsement has been made throughout the year.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes:

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

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

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

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

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

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

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

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes: (continued)

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

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

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

15. TRADE PAYABLES

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

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

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

16. BILLS PAYABLE

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

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

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

17. DISPOSAL OF A SUBSIDIARY

Disposal of Coolpad Mobile

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

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

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

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

17. DISPOSAL OF A SUBSIDIARY (continued)

Disposal of Coolpad E-commerce

As detailed in note 11 to this announcement, upon completion of the Second Transaction on 29 May 2015, the Group's equity interest in Coolpad E-commerce was reduced from 55% to 50.5%. As a result, the Group lost its control over Coolpad E-commerce and accounted for it as a joint venture subsequently.

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

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

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

18. EVENTS AFTER THE REPORTING PERIOD

a) Other than those advances stated in note 14, in March 2017, the Group made another sum of advances amounting to RMB165 million (equivalent to HK$186.22 million) to three entities and a prepayment of RMB80 million (equivalent to HK$90.26 million) to an advertising agent in respect of outdoor advertising services for the period from October 2017 to April 2018.

In the view of the Directors, the above entities were independent to the Group. Those advances were interest-bearing at a rate of 10% per annum, non-secured and repayable within one year. In July 2017, the Group received the refund of the advances in full. In October 2017, the advertising agent has been default in delivering the services to the Group. Up to the date of this report, negotiation with the advertising agent in recovering the prepayment was still ongoing.

b) On 11 July 2017, the Group received a civil complaint from Ping An Bank Co., Ltd. Shenzhen Branch about a borrowing of RMB80 million (equivalent to HK$89 million) as at 31 December 2016 to request for the immediate repayment of all principals and interest of the borrowing. The maturity date in connection with the loan was 15 August 2017. On 22 August 2017, the Group settled the amount in full.

c) On 25 July 2017, the Group received another civil complaint from Bank of Ningbo Co., Ltd. Shenzhen Branch ("Bank of Ningbo SZ") regarding certain bank acceptance drafts of RMB70 million (equivalent to HK$78 million) (collectively, the "Bank Acceptance Drafts A") as at 31 December 2016. The Group drew down the facilities under a bank acceptance agreement signed with Bank of Ningbo SZ in November 2016, the term of which would expire on 7 November 2017. For the purpose of the Bank Acceptance Agreement, the Group made a deposit of RMB21 million (equivalent to HK$23 million). Pursuant to the civil complaint, Bank of Ningbo SZ claimed that due to the fact that the Group had involved in litigation and faced difficulties in the operating activities which was deemed to be a breach of the covenants in the Bank Acceptance Agreement, Bank of Ningbo SZ as plaintiff demanded the priority claim to the security deposit of RMB21 million (equivalent to HK$23 million) and requested the Group to immediately repay the difference between the face amount of the Bank Acceptance Bills A and the security deposit of RMB49 million (equivalent to HK$55 million) together with the relevant interest up to the repayment date. On 22 September 2017, the court made a verdict according to law to approve the application by the plaintiff to withdraw the civil complaint. On 7 November 2017, the Group settled the amount in full.

d) On 28 July 2017, the Group received a civil complaint from Shanghai Pudong Development Bank Co., Ltd. Shenzhen Branch ("Pudong Bank SZ") regarding certain bank acceptance billings of HK$151 million (equivalent to RMB129 million) (collectively, the "Bank Acceptance Drafts B"). The Group drew down the facilities under a Financing Limit Agreement signed with Pudong Bank SZ in July 2017, the term of which will expire in January 2018. For the purpose of the financing limit agreement, the Group deposited an amount of HK$45 million (equivalent to RMB39 million) with Pudong Bank SZ as a security. Pursuant to the civil complaint, Pudong Bank SZ claimed that the fact that the Group has been involved in litigations and certain assets of the Group had been frozen and locked up by the court constitute a breach of the covenants in the Financing Limit Agreement. Pudong Bank SZ, as a plaintiff, demanded the Group to immediately make up for the shortfall of the security deposit of the Bank Acceptance Drafts B amounting to HK$106 million (equivalent to RMB90 million). On 12 January and 15 January 2018, the Group had paid the bank acceptance drafts amounting to RMB66 million and RMB63 million, respectively.

18. EVENTS AFTER THE REPORTING PERIOD (continued)

e) On 17 October 2017, the Group entered into a subscription agreement with an independent third party in respect of the issue of convertible bonds with a nominal value of HK$581,948,000. Details of the bond issuance are set out in the announcement of the Group dated 17 October 2017. On 19 October 2017, the Group received a deposit from the bond subscriber amounting to HK$58,195,000.

f) On 17 October 2017, the Group entered into a cooperative development agreement with an independent third party in respect of the joint development of the first, second and third phases of the urban renovation project of Coolpad Information Harbour. Details of the development project are set out in the announcement of the Group dated 17 October 2017.

g) On 4 January 2018, Leview Mobile HK Limited has sold and a purchaser has purchased 897,437,000 shares of the Group at HK$0.9 per share in cash, representing a total consideration of HK$807,693,300.00. Accordingly, Leview Mobile HK Limited ceased to be the single largest shareholder of the Group and the purchaser has become the single largest shareholder of the Group. Details of the transaction are set out in the announcement of the Group dated 4 January 2018.

h) On 11 January 2018, Leview Mobile HK Limited has sold and a purchaser had purchased 551,367,386 shares of the Group. Accordingly, Leview Mobile HK Limited ceased to be the shareholder of the Group and the purchaser has become a substantial shareholder of the Group. Details of the transaction are set out in the announcement of the Group dated 11 January 2018.

MANAGEMENT DISCUSSION & ANALYSIS

REVENUE ANALYSED BY PRODUCT SEGMENTS

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

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

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

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

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

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

GROSS PROFIT

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

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

OTHER INCOME AND GAINS

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

GAIN ON THE LOSS OF CONTROL OF A SUBSIDIARY

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

SELLING AND DISTRIBUTION EXPENSES

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

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

ADMINISTRATIVE EXPENSE

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

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

INCOME TAX EXPENSE

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

NET (LOSS)/PROFIT

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

LIQUIDITY AND FINANCIAL RESOURCE

For the year ended 31 December 2016, the Group's operating capital was mainly generated from cash from its daily operation and bank borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other unforeseeable cash requirements. The Group had a gearing ratio of 58% as at 31 December 2016 (2015: 36%). The gearing ratio is equal to net debt divided by the sum of capital and net debt.

Cash and cash equivalents of the Group as at 31 December 2016 amounted to HK$1,308.1 million, while it was HK$2,516.0 million as at 31 December 2015.

CONTINGENCY

(a) Litigation with the customers

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

(b) Litigations with the suppliers

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

PLEDGE OF ASSETS

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

EVENTS AFTER THE REPORTING PERIOD

On 17 October 2017, the Group entered into a cooperative development agreement with an independent third party in respect of the joint development of the first, second and third phases of the urban renovation project of Coolpad Information Harbour.

On 17 October 2017, the Group entered into a subscription agreement with an independent third party in respect of the issue of convertible bonds with a nominal value of HK$581,948,000. Details of the bond issuance are set out in the announcement of the Group dated 17 October 2017. On 19 October 2017, the Group received a deposit from the bond subscriber amounting to HK$58,195,000. The Directors believed that the issue of the Convertible Bonds represent an opportunity to enhance the financial position of the Company, thereby provides working capital for the business development of the Group. The Directors also believed that the issue of the Convertible Bonds will provide funds for the Company without causing immediate dilution effect on the shareholdings of existing Shareholders, and the capital base of the Company will be enlarged if the conversion right was exercised.

On 4 January 2018, Leview Mobile HK Limited has sold and a purchaser has purchased 897,437,000 shares of the Group at HK$0.9 per share in cash, representing a total consideration of HK$807,693,300.00. Accordingly, Leview Mobile HK Limited ceased to be the single largest shareholder of the Group and the purchaser has become the single largest shareholder of the Group. On 11 January 2018, Leview Mobile HK Limited has sold and a purchaser had purchased 551,367,386 shares of the Group. Accordingly, Leview Mobile HK Limited ceased to be the shareholder of the Group and the purchaser has become a substantial shareholder of the Group. Details of the transaction are set out in the announcements of the Group date 4 January 2018 and 11 January 2018, respectively.

BUSINESS REVIEW

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

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

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

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

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

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

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

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

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

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

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

A strong R&D team is another footstone for a tech company besides sales channel and an intelligent management team. The Group had built a high-ranking design team and continued to strengthen its R&D capability to bring users the best smartphone experience. The Group not only kept researching and developing smart terminals of the present 4G technology, but also started working on the next 5G technology and its smart terminals. The Group deeply differentiated and optimized the functions and features of the Android operating system to bring users better mobile applications.

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

FOREIGN EXCHANGE EXPOSURE

The Group has transactional currency exposures. Such exposures arise from sales and purchases by operating units in currencies other than the units' functional currencies, where the receivables and payables are denominated in USD and EUR. The Group is exposed to foreign exchange risk with respect mainly to USD and EUR which may affect the Group's performance and asset value. The Group has not entered into any derivative contracts to hedge against the risk in the year 2016.

EMPLOYEES AND REMUNERATION POLICY

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

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

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

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

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

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

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

DIVIDEND

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

AUDIT COMMITTEE

The Audit Committee, comprising all of the INEDs, namely, Mr. CHAN King Chung (Chairman), Dr. HUANG Dazhan and Mr. XIE Weixin, has reviewed the accounting principles and practices adopted by the Company and has discussed the auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2016.

FINANCIAL INFORMATION

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2016, but represents an extract from those accounts. The financial information has been reviewed by the Audit Committee, approved by the Board and agreed by the Group's external auditors, Ernst & Young.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

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

Code Provision A.2.1 of the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules, stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the period from 1 January 2016 to 5 August 2016, Mr. Guo Deying was the chairman of the Board and the chief executive officer of the Company. With effect from 5 August 2016, Mr. Guo Deying resigned as the chairman of the Board and the chief executive officer of the Company, and Mr. Jia Yueting was appointed as the chairman of the Board. In addition, with effect from 16 August 2016, Mr. Liu Jiangfeng was appointed as an executive Director and the chief executive officer of the Company. Such arrangement separates the roles of the chairman of the Board and the chief executive officer of the Company, which enables the Company to comply with the requirements of the code provision A.2.1 of the Code.

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

The Company failed to hold its annual general meeting for the year ended 31 December 2016 within the times stipulated under the Listing Rules and the articles of association of the Company (the "Articles"). Circular and the notice for the annual general meeting will be dispatched as soon as reasonably practicable.

ANNUAL GENERAL MEETING

The date of annual general meeting of the Company will be stated in the notice of annual general meeting which will be dispatched as soon as reasonably practicable. Meanwhile, the Company's annual report for the year ended 31 December 2016 will be dispatched to the shareholders in due course.

AUDITOR'S DISCLAIMER OF OPINION AND INVESTIGATIONS

As disclosed in sections headed "Disclaimer of Opinion" and "Basis for Disclaimer of Opinion" in extract of independent auditor's report contained on pages 43 to 48 of this announcement, the auditor of the Company (the "Auditor") did not express an audit opinion on the consolidated financial statements of the Group for the year ended 31 December 2016 as a result of certain matters.

As stated in the announcement of the Company dated 31 January 2018 and 28 February 2018, the Board has established New Independent Board Committee (the "New IBC") to look into and investigate the audit issues.

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

Disclaimer of opinion

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

Basis For Disclaimer Of Opinion

1. ***Prepayments in connection with a potential acquisition and interest income received and receivable from a company***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. ***Prepayments to two new suppliers and interest income received from a new supplier***

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

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

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

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

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

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

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

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

3. Related parties

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

3.1 Company A

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

3.2 Company B

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

3.3 Supplier A

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

3.4 Company D

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

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

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

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

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

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

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

DELAY IN PUBLICATION OF THE 2017 ANNUAL RESULTS AND POSSIBLE DELAY IN DESPATCH OF 2017 ANNUAL REPORT

The Company is not able to publish the 2017 Annual Results by 31 March 2018 as required under Rule 13.49(1) of the Listing Rules. The Board acknowledges that the delay in the publication of the 2017 Annual Results constitutes a non-compliance of Rule 13.49(1) of the Listing Rules. The possible delay in despatch of the annual report of the Company for the year ended 31 December 2017 (the "2017 Annual Report"), if it materialises, will constitute a non-compliance with Rule 13.46(1) of the Listing Rules.

The Company will use its best endeavours to publish the 2017 Annual Results and despatch the 2017 Annual Report to the shareholders of the Company as soon as possible.

CONTINUED SUSPENSION OF TRADING IN THE SHARES

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9 a.m. on 31 March 2017 and will continue to suspended until further notice.

By order of the Board
Coolpad Group Limited
Jiang Chao
Vice Chairman
Chief Executive Officer

Hong Kong, 3 April 2018

As at the date of this announcement, the executive Directors are Mr. Jiang Chao, Mr. Leung Siu Kee, Mr. Lam Ting Fung Freeman and Mr. Liang Rui; the non-executive Director is Mr. Ng Wai Hung; the independent non-executive Directors are Dr. Huang Dazhan, Mr. Xie Weixin and Mr. Chan King Chung.