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COOLPAD GROUP LIMITED

酷派集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2369)

CONTINUING CONNECTED TRANSACTIONS PROCUREMENT FRAMEWORK AGREEMENT

PROCUREMENT FRAMEWORK AGREEMENT

The Board is pleased to announce that on 5 August 2016, Yulong Shenzhen, an indirect wholly-owned subsidiary of the Company, entered into a Procurement Framework Agreement with Leshi E-Commerce, pursuant to which Yulong Shenzhen agreed to supply the Products to Leshi E-Commerce.

LISTING RULES IMPLICATION

As the exercise of over 30% of the voting rights of Leshi E-Commerce is controlled by Mr. Jia Yueting, an executive Director of the Company, Leshi E-Commerce is thus a connected person of the Company. Accordingly, the transactions contemplated under the Procurement Framework Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14A.06 of the Listing Rules) in respect the proposed annual cap under the Procurement Framework Agreement for the year ending 31 December 2016 exceed 5%, the transactions contemplated under the Procurement Framework Agreement are subject to the annual review, reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

EGM

An EGM will be convened to seek the approval of the Independent Shareholders in respect of the Procurement Framework Agreement and the proposed annual cap thereof. Voting at the EGM will be conducted by poll and each of Mr. Jia Yueting and his associates is required to abstain from voting on the relevant resolution to be proposed at the EGM.

DESPATCH OF CIRCULAR

A circular containing, among other things, further particulars of the Procurement Framework Agreement together with, the recommendations of the Independent Board Committee, a letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders, and a notice convening the EGM is expected to be despatched to the Shareholders more than 15 business days after the publication of this announcement as more time is required for the Company to prepare the information to be included in the circular.

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PROCUREMENT FRAMEWORK AGREEMENT

Date 5 August 2016

Parties (a) Yulong Shenzhen
(b) Leshi E-Commerce

Term The Procurement Framework Agreement will be effective upon being signed or chopped by both parties and obtaining all internal and external approvals as required by laws and regulations, the articles of association of the parties and relevant regulatory requirements (including but not limited to the approval of the general meeting of the Company and the approval of the general meeting of LeEco), and will expire on 31 December 2016. Any party wishing to renew the agreement shall notify the other party in writing within 30 days before the expiration of the Procurement Framework Agreement.

Major Terms and Conditions Leshi E-Commerce will procure the Products from Yulong Shenzhen and Yulong Shenzhen will deliver the Products. Leshi E-Commerce shall settle accounts with Yulong Shenzhen after 30 days since the completion of the warehouse entry inspection by Leshi E-Commerce.

Leshi E-Commerce shall place formal order to Yulong Shenzhen when procuring the Products. The orders shall be in the form mutually agreed by both parties, including but not limited to, paper form, electronic data form and e-mail form.

Yulong Shenzhen shall supply to Leshi E-Commerce the Products specified in the orders confirmed by the parties in written forms pursuant to the Procurement Framework Agreement. The execution of the Procurement Framework Agreement does not oblige Leshi E-Commerce to place order to procure from Yulong Shenzhen the Products, nor does it oblige Yulong Shenzhen to accept the orders placed by Leshi E-Commerce to procure the Products. The Procurement Framework Agreement shall not restrict the procurement of the same or similar products from other suppliers by Leshi E-Commerce, nor shall it restrict the sales of the same or similar products by Yulong Shenzhen to third parties.

Pricing Policy

Yulong Shenzhen shall provide quotation to Leshi E-Commerce based on reasonable cost, reasonable profit and the market competition landscape of the Products. The price of any specific model shall be negotiated and confirmed by both parties by taking into account reasonable cost plus reasonable profit, with reference to the market competition landscape and other factors, which may be adjusted by Yulong Shenzhen according to market changes. The above-mentioned cost mainly includes the material cost and necessary production and processing expenses of the Products; the profit margin shall be between 1% and 10%, any specific profit margin shall be determined with reference to the prevailing and then market prices of comparable products and the profit margin of previous similar products, as well as the quantity of the Products prescribed in each order. In any event, the above-mentioned product quotations should be no less favourable to Yulong Shenzhen than those available to independent third parties offered by Yulong Shenzhen under the same conditions.

Within the term of the Procurement Framework Agreement, if Yulong Shenzhen cuts the price of any Product or conducts promotion thereof after Leshi E-Commerce receives any batch of such Product, Yulong Shenzhen shall ensure the implementation of price protection for such Product since the date when the new price is adopted, i.e. the relevant Product subsequently delivered by Yulong Shenzhen shall be settled based on the new price.

PROPOSED ANNUAL CAP

The proposed annual cap under the Procurement Framework Agreement for the year ending 31 December 2016 is set out below:

	Year ended 31 December 2016 (RMB)
Proposed annual cap (tax inclusive)	1,200,000,000

The proposed annual cap set out above is determined based on the following:

- (1) historical figures of the transactions conducted by the Group similar to those contemplated under the Procurement Framework Agreement;
- (2) the respective operation plans of the Group and Leshi E-Commerce formulated according to the prevailing economic environment, the market conditions and economic indicators of the telecommunications industry, and internal business strategies;
- (3) the current and expected demand of Leshi E-Commerce for the Products, as well as the current and expected trends of the market price of the same, similar or alternative products; and
- (4) a buffer has been budgeted for the estimated amount of sales of Products for any possible increase in the aforesaid amount in 2016.

INTERNAL CONTROL

- (1) In determining the above-mentioned pricing policies, the product operation department and business department of Company is responsible for proposing the price, which will be reviewed by the responsible person of the product operation department of the Company to ensure that the price is fair and reasonable, on normal commercial terms, as well as no less favorable than terms available to independent third parties, and is subject to the final approval by general manager of the Company;
- (2) the product operation department of the Company is responsible for monitoring, collecting and evaluating the market data, including but not limited to the prevailing market and the then market price for comparable products in the related industry on a monthly basis, which is subject to the preliminary investigation by the sales department and the final review by the responsible person of the product operation department;
- (3) the legal and compliance department of the Company is responsible for monitoring, collecting and evaluating the detailed information of the continuing connected transactions of the Group, including but not limited to the pricing terms, payment arrangements and actual transaction amount under each of the specific implementation agreements on a monthly basis to ensure it does not exceed the applicable cap;
- (4) the independent non-executive Directors will review the continuing connected transactions contemplated under the Procurement Framework Agreement to ensure that such transactions are entered into in the ordinary and usual course of business of the Group, on normal commercial terms, and the terms of the related agreements are fair and reasonable, and in the interest of the Company and the Shareholders as a whole; and
- (5) the auditors of the Company will also conduct an annual review on the pricing and annual cap of such continuing connected transactions.

Taking into account of: (i) the above methods and procedures comprise necessary components of an internal control system with designated department and responsible officer, clear approval process and monitoring system and detailed and explicit assessment criteria; and (ii) the above-mentioned review procedures and approval process against the detailed and explicit assessment criteria can ensure that the transactions will be executed in compliance with the pricing principles stipulated in the Procurement Framework Agreement, the Directors (including the independent non-executive Directors) are of the view that such methods and procedures can ensure that the transactions contemplated under the Procurement Framework Agreement will be conducted on normal commercial terms and are in the interests of the Company and its Shareholders as a whole.

IMPLEMENTATION AGREEMENTS

Yulong Shenzhen and Leshi E-Commerce will enter into, from time to time and as necessary, separate implementation agreements for each of the specific transaction contemplated under the Procurement Framework Agreement during its term. Each implementation agreement will set out the detailed products, the specifications, quantities, prices and other relevant terms.

As the implementation agreements provide for the supply of the Products as contemplated under the Procurement Framework Agreement, they do not constitute new categories of connected transactions. Any such implementation agreements will be within the ambit of the Procurement Framework Agreement and the relevant annual cap, if exceeded, the Company will comply with the relevant Listing Rules accordingly.

REASONS AND BENEFITS FOR ENTERING INTO THE PROCUREMENT FRAMEWORK AGREEMENT

Yulong Shenzhen, dedicated to becoming a global leader in the smart terminal industry, is a famous manufacturer of smartphones in China with outstanding technological innovation ability and quality management capability, as well as the systematic supply chain management capability, enabling it to provide extraordinary user experience to its mobile phone users. Based on the Le Ecosystem of “Platform, Content, Device and Application”, Leshi E-Commerce has abundant Internet operation resources and an outstanding capability to meet the customers’ demands. The e-commerce platform LeMall.com operated by Leshi E-Commerce has become one of the global mainstream e-commerce platforms.

Based on the aforementioned strengths of the parties, the Company is of the view that the Procurement Framework Agreement enables the Group to enhance its reputation and increase its market share by providing the smartphone users with integrated products that cater to their demands better. In addition, entering into the Procurement Framework Agreement will promote the transformation of Company’s traditional manufacturing model of mobile phones, integrate online and offline channels, optimize the allocation of the Company’s operation resources and achieve the Company’s synergetic development of the emerging Internet business and the traditional mobile phone manufacturing business.

Based on the above, the Directors (excluding the independent non-executive Directors whose view will be given after receiving the advice from the Independent Financial Advisor) are of the view that the terms of the Procurement Framework Agreement and the transactions contemplated thereunder are (i) on normal commercial terms; (ii) entered into in the ordinary and usual course of business of the Group; and (iii) fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mr. Jia Yueting and Mr. Liu Hong, as Directors of the Company, are deemed to have material interests in the transactions under the Procurement Framework Agreement and have abstained from voting on the board resolution approving the Procurement Framework Agreement and the proposed annual cap thereof. Other than those Directors mentioned above, none of the other Directors has or is deemed to have material interest in such transactions.

LISTING RULES IMPLICATION

As the exercise of over 30% of the voting rights of Leshi E-Commerce is controlled by Mr. Jia Yueting, an executive Director of the Company, Leshi E-Commerce is thus a connected person of the Company. Accordingly, the transactions contemplated under the Procurement Framework Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (as defined under Rule 14A.06 of the Listing Rules) in respect the proposed annual cap under the Procurement Framework Agreement for the year ending 31 December 2016 exceed 5%, the transactions contemplated under the Procurement Framework Agreement are subject to the annual review, reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

GENERAL INFORMATION

The Group

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

Yulong Shenzhen

Yulong Shenzhen is a company incorporated under the laws of PRC in April 1993 with limited liability, and an indirect wholly-owned subsidiary of the Company. Yulong Shenzhen is principally engaged in developing smartphone sets, mobile data platform system and value-added business operations, as well as providing integrated solutions thereof in PRC. Yulong Shenzhen mainly provides its Coolpad products for enterprises, government and mobile operators as well as individual consumers in PRC.

Leshi E-Commerce

Leshi E-Commerce is company incorporated under the laws of PRC on 15 April 2014 with limited liability. Leshi E-Commerce is principally engaged in the operation of the e-commerce platform Lemall.com which sells, among others, the Le SuperTVs, Le Superphones, other products under the brand of LeEco.

EGM

An EGM will be convened to seek the approval of the Independent Shareholders in respect of the Procurement Framework Agreement and the proposed annual cap thereof. Voting at the EGM will be conducted by poll and each of Mr. Jia Yueting and his associates is required to abstain from voting on the relevant resolution to be proposed at the EGM.

An Independent Board Committee comprising all independent non-executive Directors has been established to advise the Independent Shareholders in respect of the Procurement Framework Agreement and the proposed annual cap thereof. The Independent Financial Advisor will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

DESPATCH OF CIRCULAR

A circular containing, among other things, further particulars of the Procurement Framework Agreement together with, the recommendations of the Independent Board Committee, a letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders, and a notice convening the EGM is expected to be despatched to the Shareholders more than 15 business days after the publication of this announcement as more time is required for the Company to prepare the information to be included in the circular.

DEFINITIONS

In this announcement, the following terms and expressions (unless the context otherwise requires) shall have the following meanings:

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Coolpad Group Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 2369)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting to be convened by the Company for the purpose of considering, and if thought fit, approving, the Procurement Framework Agreement and the proposed annual cap thereof
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee of the Company formed by all the independent non-executive Directors to advise the Independent Shareholders on the Procurement Framework Agreement and the proposed annual cap thereof
“Independent Financial Advisor”	the independent financial advisor to be appointed to advise the Independent Board Committee and the Independent Shareholders on the Procurement Framework Agreement and the proposed annual cap thereof
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the resolution in relation to the Procurement Framework Agreement and the proposed annual cap thereof at the EGM
“LeEco”	Leshi Internet Information & Technology Corp. Beijing (樂視網信息技術(北京)股份有限公司), a joint-stock company incorporated under the laws of PRC with limited liability and listed on the GEM of Shenzhen Stock Exchange
“Leshi E-Commerce”	Leshi E-Commerce (Beijing) Company Limited (樂視電子商務(北京)有限公司), a company incorporated under the laws of PRC with limited liability

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, which, for the purpose of this announcement only, does not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Procurement Framework Agreement”	a procurement framework agreement entered into on 5 August 2016 between Yulong Shenzhen and Leshi E-Commerce, pursuant to which Yulong Shenzhen agreed to supply and Leshi E-Commerce agreed to procure the Products
“Products”	the mobile phone products to be manufactured or distributed or services to be provided by Yulong Shenzhen, including accessories, assembly units, accompanying documents/materials, gifts, relevant services and etc., as well as any new version or functional replacement of any product adopted by Yulong Shenzhen within the term of the Procurement Framework Agreement
“RMB”	Renminbi, the lawful currency of PRC
“Shareholder(s)”	holder(s) of the shares in the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yulong Shenzhen”	Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. (宇龍計算機通信科技(深圳)有限公司), a company incorporated under the laws of PRC with limited liability
“%”	per cent.

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

Hong Kong, 5 August 2016

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