



STRATEGIC FINANCIAL RELATIONS (CHINA) LIMITED
縱橫財經公關顧問(中國)有限公司

[Press Release]



Coolpad's Half-year Revenue Reaches around HK\$5.28 Billion

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Enriches Mobile Content and Internet Experience through Business Integration with LeEco Aims to Become an Internet+Hardware Ecosystem Enterprise

(Hong Kong, 30 August 2016) – Coolpad Group Limited (“Coolpad” or the “Group”) (stock code: 2369.HK), China’s leading provider of smartphones and integrated wireless data solutions, announced today its unaudited interim results for the six months ended 30 June 2016.

During the period, the Group recorded revenue of approximately HK\$5.28 billion, gross profit of approximately HK\$705 million and overall gross profit margin at 13.5%, up 0.8 percentage point against the same period last year. The growth was attributable to the lower costs and higher selling prices of 4G smartphones. Net loss attributable to owners of the Company was approximately HK\$2.05 billion. It was mainly due the Group making a HK\$2.66 billion gain in the first half of 2015 from disposal of part of its equity interest in a subsidiary of the Group, Coolpad E-commerce, while in the period under review a loss of HK\$1.89 billion was incurred by the Group from the disposal of certain equity interest in Coolpad E-commerce. Basic and diluted loss per share were HK40.90 cents and HK40.90 cents respectively.

Mr. Jia Yueting, Chairman of Coolpad, said, “I am honored to be a member of the Coolpad management team. As an outstanding smartphone supplier, Coolpad boasts strong capabilities in research and development and supply chain management and a prominent brand reputation. The Group has begun active cooperation with LeEco, incorporating LeEco’s eco-App as a standard feature in Coolpad smartphones. We have also enriched product content and constructed a mobile communication ecosystem to give users more satisfying Internet experiences and develop Coolpad into an unmatched smartphone brand in the industry. Cool 1 duel, the first smartphone model with LeEco’s ecosystem installed was launched on the 16th this month and strong sales have been recorded. Consumers have high expectation of the product.”

During the period, as a result of the weak economy, fierce competition in the smartphone market and the restructuring its business, the Group’s business performance was inevitably affected. To better adapt to the changes in the mainland smartphone market and maintain long term growth of shipment units, the Group started in 2014 to restructure its businesses, grouping them under four business units. The Group will launch a richer 4G product mix to the market through diversified sales channels and consolidate its 4G smartphone market in China and expand overseas markets aggressively.

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Diversification of Sales Channels

The Group is an important smartphone provider to telecommunications carriers. During the period under review, it continued to release customized flagship models and other mid-range to low-end customized models for carriers, e.g., FengShang Pro, FengShang 3, FengShang Mini, etc. The Group has solid cooperative relationships with many local carriers and, during the period, it maintained a practical development approach and supported carriers in promoting consumer demand for 4G products.

In the first half of 2016, strong total sales of smartphones through retail channels were recorded in Mainland China, mainly because of the subsidy transferred to the open channel and years of efforts in distribution network and retail stores construction. The Group works hard at the construction of distribution networks and retail store coverage, essential for it to be fully prepared to cater for sales trend via open channels. The more than 20 joint ventures set up by the Group and provincial top-tier smartphone distributors operated smoothly during the period. The JV regime has not only brought more stores and counters under the Group's umbrella, but also given its retail channel network a strong start and a firm foundation to grow.

Although it was only last year that the Group started its brand and business operation in the retail channel, "ivvi" won satisfactory brand awareness in this sales channel during the period. By cooperating with hundreds of provincial tier-1 smartphones distributors, "ivvi" enjoyed exposure in tens of thousands of retail stores and counters in Mainland China. It will continue to boost that number quickly and extend its reach to third- and fourth-tier cities. The "Coolpad" brand used to be sold in carrier channel, but the Group is prepared to sell Coolpad products via retail channels to gain a bigger yet market share. After the joint ventures with distributors in the different provinces were formed last November, the Group now has much easier access to consumers.

At the same time, the Group began to run its own e-commerce business and unveiled an official B2C store to sell smartphones directly to consumers online in the first half of 2016. Consumers can access this flagship online store in JD and Tmall, the two largest e-commerce platforms in Mainland China. The Group also began close cooperation with the LeEco Mall, which has given it access to the huge content resources of LeEco for boosting online channel sales.

Overseas market, being another important business unit of the Group, received greater attention from the management in the first half of 2016. The Group expanded its business to overseas markets including the USA, India, Vietnam, and Indonesia, and Europe is next. It also managed to diversify the sales channels overseas by either cooperating with and distributing through overseas telecommunications operators or selling smartphones and exporting products directly via e-commerce platforms like Amazon. Furthermore, the Group has started to cooperate with retailers abroad aiming to build a healthy distribution and retail network and also invested more resources into improving global awareness of the "Coolpad" brand.

Cooperation with LeEco will bring immense opportunities

In August 2016, LeEco became the single largest shareholder of the Group. Boasting the unique advantage of access to LeEco eco-content, the Group promises to give users different mobile Internet experiences. Coolpad smartphones now offer the LeEco eco-App by default and users are entitled to free LeEco membership services for several months. The tactic not only can stimulate smartphone sales, but also makes Coolpad smartphones an important means for accessing the LeEco ecosystem hence can enable LeEco to rally more fans.

With strong smartphone research and development capability and a mature supply chain, the Group could give LeEco strong support for its products. The Group believes, as the two partners step up business and strategic cooperation/ integration, we shall be able to benefit from shared resources including their quality supply chains, and marketing and sales channels. This is a “win-win” for the two companies being able to leverage each other’s advantages in corresponding businesses. With fierce market competition squeezing the gross profit margin of smartphones, construction of a mobile ecosystem may enable the Group to achieve better and sustainable profitability in the long term.

Coolpad’s experience in smartphone business and LeEco’s software/content reserves together will give Coolpad the unique advantage of being able to provide high-quality hardware plus rich content. By drawing on and combining each other’s advantages in corresponding areas, both the Group and LeEco will be presented with many more business opportunities.

Business Outlook

The Group expects the smartphone market to turn for the better in the second half year and that shipment and the smartphone market be driven by three major factors. Firstly, telecommunications carriers are expected to increase subsidy for handsets in the second half of 2016. Secondly, the Group will see preliminary results of its business restructuring efforts. Lastly, the Group will have LeEco’s eco-content to give users of its smartphones different mobile Internet experiences.

Looking forward, the Group will improve its four Business Units. By partnering with distributors in every province in Mainland China, the Group will expand retail sales and increase retail store and counter coverage to sell “ivvi” and “Coolpad” smartphones. The Group will consistently strengthen the good relationship it has with carriers and strive to meet their 4G product demand. Leveraging on its brand name, it will also enlarge sales of products in overseas markets via different sales channels such as telecommunications carriers, e-commerce platforms and retail stores. It also plans to have its products assembled, processed and produced directly in overseas factories to save cost and assure on time delivery.

In the future, the Group will cooperate with Internet companies like Baidu, Tencent, etc. to increase revenue from non-one time sales of software with a notably higher margin than that of hardware. Through Internet-related business, the Group can keep long-term interaction with customers and to maintain loyalty.

The business integration with LeEco will see the Group turn into an Internet+hardware ecosystem company operating both hardware and software at the same time, which can lift its gross margin and revenue to new levels. Our ultimate goal is to build a “Platform + Content + Terminals + Applications” ecosystem, thus it will inject LeEco’s content and software into Coolpad’s handset, and that will create added value for both companies.

The Group will continue to strengthen its R&D capability to bring customers the best smartphone experience. It will constantly explore and invest in leading-edge technologies in areas such as 5G network, mobile cloud, and mobile security. Also, it will continue to focus on delicacy management to improve general operational efficiency and take a series of measures to improve administrative efficiency and internal operating processes.

Mr. Jia concluded, “Looking forward, despite that competition in the smartphone market is expected to intensify, the Group will strive to sell more smartphones in the 4G smartphone market and expand overseas markets aggressively, capitalizing on its strong brand reputation, diverse product portfolio, efforts to restructure its sales channels and the support of a more powerful ecosystem. We believe that the ecosystem and content of LeEco and the fast growing mobile Internet market will bring us huge opportunities in 2016.”

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About Coolpad Group Limited

Coolpad Group Limited was founded in 1993, and was listed on the Main Board of the Stock Exchange of Hong Kong in December 2004. The Group is a leading developer and provider of integrated solutions for smartphones, mobile data platform systems and value-added business operations in China. The Group has developed advanced research and development capabilities in mobile communications. Its “Coolpad” brand has become a renowned leader in China’s smartphone market. In August 2016, LeEco became the single largest shareholder of the Group. Through the business integration with LeEco, the Group will strive to become an Internet hardware ecosystem company that provides both hardware and software. The two parties will cooperate in building a “platform + content + terminal + application” LeEco ecosystem.

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