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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)

KEY FINDINGS OF THE INDEPENDENT AGREED-UPON PROCEDURES REPORT AND INTERNAL CONTROL REVIEW

This announcement is made by the board of directors (the “**Board**”) of Coolpad Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”).

References are made to the announcements of the Company dated 30 March 2017, 31 March 2017, 26 April 2017, 23 May 2017, 29 June 2017, 28 July 2017, 15 August 2017, 21 September 2017, 31 October 2017, 29 November 2017, 28 December 2017, 16 January 2018, 19 January 2018, 26 January 2018, 31 January 2018, 28 February 2018, 20 March 2018, 3 April 2018, 4 May 2018, 10 May 2018, 18 May 2018, 6 June 2018, 23 July 2018, 19 October 2018, 21 December 2018, 15 February 2019 and 8 May 2019 (collectively the “**Announcements**”). Reference is also made to the independent auditor’s report for the year ended 31 December 2016 included in the Company’s annual report 2016 published on 18 April 2018. Unless the context otherwise requires, the capitalised terms used therein shall have the same meanings as defined in the Announcements.

THE AUP REPORT

As disclosed in the announcement of the Company dated 3 April 2018, Corporate Governance Professionals Limited (formerly known as Baker Tilly Hong Kong Risk Assurance Limited) (the “**Consultant**”) has been engaged to conduct certain agreed-upon procedures tailored to address certain audit issues raised by the Auditors. The Consultant has completed the agreed-upon procedures and issued the report (the “**AUP Report**”).

A summary of the key findings from the AUP Report are set forth below.

1. Issues in relation to a potential acquisition

During the financial year ended 31 December 2016, the Company made three payments to Company A which amounted to US\$50 million (first payment), US\$90 million (second payment) and US\$30 million (third payment) in June, August and September 2016, respectively.

Those prepayments were made pursuant to three undated investment cooperation agreements between the Company and Company A, pursuant to which, the Company appointed Company A to act on its behalf to negotiate the consideration and undertake the due diligence work for the acquisition of 18.77% of a target company incorporated in the United States. The Company agreed to prepay those amounts to Company A for the potential acquisition.

Company A was required to complete its work in three stages by 8 July 2016, 25 December 2016 and 31 October 2016, failing which Company A was required to refund the prepayments to the Company together with interest penalty.

In July 2016, a sum of US\$50 million was refunded by Company A to the Company. In addition, between March and July 2017, Dongguan Yulong Telecommunication Tech Co. Ltd. (“**Dongguan Yulong**”), a subsidiary of the Company, received full refund of the remaining prepayments of US\$120 million, together with interest payment of US\$1.49 million.

Although the Auditors were provided with certain intention agreement, payment agreement and settlement agreement in relation to the refund of the prepayments, the Auditors were not satisfied with the evidence obtained during its audit procedures. Apart from the aforementioned agreements, the Auditors were provided with evidence relating to cash receipts and payments recorded by the Group, and they had obtained audit confirmations from Companies A and B, in the course of the audit, the Auditors 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 relevant 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 first payment of US\$50 million and the subsequent resumption of the negotiation in August 2016, the Auditors were not provided with any agreements nor other documentary evidence to support the termination and resumption.

Although the management represented to the Auditors that the prepayments were made for the acquisition of the equity interest in the target company, the Auditors 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 relevant investment cooperation agreements.

In this respect, the Auditors were unable to obtain sufficient reliable evidence to substantiate the representations made by the management and the Auditors 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, the Auditors 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.

Due to the scope limitations as set out in the independent auditor's report, the Auditors were unable to satisfy themselves 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; and
- (ii) whether the effects of those transactions have been properly accounted for and disclosed.

The Consultant's key findings in the AUP Report

The Consultant found that the three investment cooperation agreements were undated and did not contain certain important information such as information related to the target company, the percentage of equity interest to be acquired or the total investment amount. There was also no other written evidence of the termination or resumption of the acquisition, or any evaluation, assessment reports or due diligence reports available.

Based on their interviews with the Group's management, the Consultant noted that the investment cooperation agreements were drafted by the former chairman of the Group and a former director of the Group who has already left the Group. At the material times, the former chairman of the Group did not inform the management of the details of the relevant prepayments.

The Consultant was unable to ascertain whether the relevant parties were related parties. However, based on the annual return of Company A filed at the Hong Kong Companies Registry and a corporate information investigation report issued by an independent corporate information service provider in May 2018, the Consultant noted that the directors of Company A did not overlap with the directors and senior management personnel of the relevant parties involved.

The Consultant also noted that the prepayments have been refunded to the Group's account and did not identify any material loss on the part of the Group in respect of the prepayments made.

2. Issues in relation to two new suppliers

In August 2016, Dongguan Yulong made two aggregate prepayments amounting to RMB300 million for purchases of mobile phone components under a purchase framework agreement between Dongguan Yulong and supplier A (“**Supplier A**”). Pursuant to the purchase framework agreement, Supplier A was required to pay interests of 10% per annum to Dongguan Yulong.

The purchase framework agreement with Supplier A had an expiry date of 25 December 2016. Prior to the expiry of the agreement, the Group received a full refund of the prepayment amounts together with interest of RMB9.30 million. In December 2016, Dongguan Yulong made aggregate prepayment of RMB300 million to supplier B (“**Supplier B**”) for purchases of mobile phone components pursuant to another purchase framework agreement entered with Supplier B. Supplier B was required to pay interest of 10% per annum to Dongguan Yulong.

The purchase framework agreement with Supplier B had an expiry date of 27 March 2017. Prior to the expiry of the agreement, in February and March 2017, the Group received refund of the prepayments in a total sum of RMB300 million from Supplier B. Therefore, as of 31 December 2016, the Group had an outstanding balance of RMB300 million due from Supplier B.

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 two 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.

The Auditors inquired of the Company’s management as to why both of the purchase framework 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. The Auditors also inquired of the Company’s management about the reasons for the subsequent termination of these transactions. The Auditors were not provided with sufficient explanations which could satisfy themselves for the purpose of the Auditors’ audit.

Due to the scope limitations as set out in their report, the Auditors were unable to satisfy themselves 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 those transactions have been properly accounted for and disclosed.

The Consultant's key findings in the AUP Report

The Consultant found that there was no evidence to substantiate the Group's internal assessment of these two new suppliers and the evaluation of the terms stated in the purchase framework agreement with Supplier A. 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.

However, the Consultant has identified certain documentary evidence to substantiate the Group's evaluation of the terms stated in the purchase framework agreement with Supplier B.

In addition, the Consultant noted that the Group had been refunded with the prepayments and that the Group did not suffer loss in respect of the principal amounts of the prepayments.

3. Issues in relation to a loan

A loan of HK\$223.59 million was due from Company D, a limited liability partnership established in the PRC (the "**PRC Partnership**").

The Auditors noted certain associations between Company A, Company B, Supplier A and Company D and a related party, which was a PRC listed company controlled by the former chairman of the Group. In addition, another former director of the Company was also a director of the same PRC listed company during the financial year of 2016.

The Consultant's key findings in the AUP Report

The Consultant was unable to confirm whether Company A, Company B, Supplier A and Company D were related parties and whether those transactions should be regarded as related party transactions and disclosed as such in the financial statements.

The Consultant also noted that the Group has received all the principals (together with accrued but unpaid interest) of the loan on 18 January 2017.

THE NEW IBC'S AND THE BOARD'S VIEWS ON THE AUP REPORT

The New IBC and the Board are of the view that the AUP Report is thorough, comprehensive and in-depth. The New IBC and the Board also consider the findings and remarks of the Consultant in the AUP Report fair and reasonable. The New IBC and the Board have considered and adopted in full the findings of the AUP Report.

In light of the findings and remarks of the Consultant, the New IBC and the Board consider that the Audit Issues have been duly dealt with and that no further meaningful actions can be taken, given that the relevant personnel of the relevant transactions concerned have already left the Group and that the Group did not suffer substantial financial loss as a result of the relevant transactions.

THE INTERNAL CONTROL REVIEW

As disclosed in the announcement of the Company dated 3 April 2018, the Company has also engaged the Consultant to perform an overall internal control review of the Group for the review period from 1 January 2017 to 31 December 2018 (the “**Internal Control Review**”).

As confirmed by the Consultant in its report, whilst the Group's internal control system does not have unusual or material deficiencies and that the Group has established an effective and comprehensive internal control procedures, the Consultant considered that the Group's internal control system does have room for improvements and has identified certain internal control deficiencies in the Group. The Board and the New IBC have reviewed those findings and taken necessary actions to address those internal control deficiencies in accordance with the recommendations of the Consultant.

The Consultant's key findings in the Internal Control Review

Key findings of the Consultant and the Company's responses and subsequent follow-up actions are summarised below:

Key Findings	The Company's response and subsequent follow-up actions
No business performance analysis or credit assessment were conducted against existing or new clients in China.	At the time of the Second Stage Review, there were no new sales framework agreement. For existing clients, Yulong Computer Telecommunication Scientific (Shenzhen) Co., LTD., (“ Shenzhen Yulong ”) has implemented the Consultant's recommendations. Shenzhen Yulong has been recording the results of the business performance analysis and credit assessments in writing in terms of operating conditions, sales conditions and credit conditions since December 2018, and will submit the records to the chief financial officer and the chief executive officer for his written approval.

Key Findings	The Company's response and subsequent follow-up actions
<p>Payments of substantial expenses could be approved by chief executive officer without board approval.</p>	<p>The relevant Group companies have implemented the Consultant's recommendations.</p> <p>The payment of expenses now requires the approval by designated personnel according to the amount spent, so as to ensure that all expenses have been duly authorized before payment is made.</p>
<p>All procurement costs could be approved by chief executive officer without board approval.</p>	<p>The relevant Group companies have updated and implemented the "Procedure to sign off special documents" on 25 September 2018, stipulating that certain transactions must be approved by the Board.</p>
<p>There were employment disputes with temporary workers.</p>	<p>The third party agency engaged by Shenzhen Yulong has entered into termination agreements with the relevant temporary workers. The termination agreement has stated the date of termination, the amount of compensation and other relevant terms to ensure that the relevant temporary worker has agreed to the amount of the compensation.</p>
<p>Some payment approvals did not comply with the Group's regulations on the authority of approving financial matters.</p>	<p>The relevant Group companies have implemented the Consultant's recommendations and have complied with the requirements under the Group's regulations on the authority of approving financial matters.</p>
<p>The Group did not prepare a budget for cash flow.</p>	<p>The Group has implemented the Consultant's recommendations.</p> <p>After the budget for cash flow is prepared by the accounting department, the head of accounting department and the chief financial officer will now confirm by email as written evidence of review.</p>
<p>There was no proper division of responsibility in relation to the safekeeping of company chops.</p>	<p>The relevant Group companies have implemented the Consultant's recommendations.</p> <p>The keys of the company chops deposit boxes and the passwords of the file cabinets containing the company chops deposit boxes are now kept by the file management manger and the head of document information centre.</p>
<p>No credit assessment or background investigation was conducted against six borrowers.</p>	<p>Dongguan Yulong has agreed not to grant loans to any third party.</p>
<p>The loan amount granted by the relevant Group company exceeded the upper limit set by the China Banking and Insurance Regulatory Commission, and the approval documents for loan recovery and liquidated damages waiver were not properly maintained.</p>	<p>The relevant Group company has updated its internal control procedures.</p>

Key Findings	The Company's response and subsequent follow-up actions
There were cases where no internal assessments on new suppliers were conducted.	<p>The Group has implemented the Consultant's recommendations.</p> <p>The Group has now strictly implemented the current verification procedures in relation to suppliers, prepared all relevant assessment documents properly and submitted the same to the procurement committee for approval in accordance with the verification procedures. The relevant documents are also properly maintained to ensure that new suppliers have been properly approved prior to any engagement.</p>

Shareholders and potential investors should exercise caution when dealing in the shares of the Company.

By order of the Board
Coolpad Group Limited
Leung Siu Kee
Executive Director
Company Secretary

Hong Kong, 18 July 2019

As at the date of this announcement, the executive Directors are Mr. Chen Jiajun, 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.