# COOLPAD GROUP LIMITED
# 酷派集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2369)**

## 2018 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 2018, together with the comparative figures for the year ended 31 December 2017.

**Financial Highlights**

| | **Year ended 31 December** | | |
|---|---|---|---|
| | **2018** | 2017 | **Changes** |
| | ***HK$'000*** | *HK$'000* | *(%)* |
| Revenue | **1,277,164** | 3,378,077 | -62.19 |
| Loss before tax | **(419,408)** | (2,702,251) | -84.48 |
| Loss for the year attributable to owners of the Company | **(409,321)** | (2,674,457) | -84.70 |
| Basic and diluted loss per share | **HK(8.13) cents** | HK(53.14) cents | -84.70 |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*Year ended 31 December 2018*

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| REVENUE | 4 | **1,277,164** | 3,378,077 |
| Cost of sales | | **(1,349,097)** | (3,696,480) |
| Gross loss | | **(71,933)** | (318,403) |
| Other income and gains | 4 | **213,368** | 367,440 |
| Gain/(loss) on loss of control of subsidiaries, net | | **94,590** | (534) |
| Impairment of investments in associates | | **(6,657)** | (453,694) |
| Selling and distribution expenses | | **(158,007)** | (667,863) |
| Administrative expenses | | **(323,082)** | (709,261) |
| Other expenses | | **(47,038)** | (752,782) |
| Finance costs | 6 | **(37,141)** | (26,248) |
| Share of losses of: | | | |
| A joint venture | | **(779)** | (3,765) |
| Associates | | **(82,729)** | (137,141) |
| LOSS BEFORE TAX | 5 | **(419,408)** | (2,702,251) |
| Income tax credit/(expense) | 7 | **8,746** | (20,825) |
| LOSS FOR THE YEAR | | **(410,662)** | (2,723,076) |

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

| | Note | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| OTHER COMPREHENSIVE INCOME | | | |
| Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods: | | | |
| Changes in fair value of available-for-sale investments | | **–** | 377 |
| Exchange differences on translation of foreign operations | | **32,126** | 40,113 |
| Reclassification adjustment for foreign operations disposed of during the year | | **5,820** | 111 |
| Share of other comprehensive (loss)/income of: | | | |
| A joint venture | | **(4,496)** | 6,560 |
| Associates | | **(23,800)** | 21,549 |
| Net other comprehensive income that may be reclassified to profit or loss in subsequent periods | | **9,650** | 68,710 |
| Other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods: | | | |
| Gain/(loss) on property revaluation | | **39,286** | (37,059) |
| Income tax effect | | **(9,821)** | 5,940 |
| Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods | | **29,465** | (31,119) |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | | **39,115** | 37,591 |
| TOTAL COMPREHENSIVE LOSS FOR THE YEAR | | **(371,547)** | (2,685,485) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(409,321)** | (2,674,457) |
| Non-controlling interests | | **(1,341)** | (48,619) |
| | | **(410,662)** | (2,723,076) |
| Total comprehensive loss for the year attributable to: | | | |
| Owners of the Company | | **(370,113)** | (2,636,943) |
| Non-controlling interests | | **(1,434)** | (48,542) |
| | | **(371,547)** | (2,685,485) |
| LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | | *HK cents* | *HK cents* |
| Basic and diluted | 9 | **(8.13)** | (53.14) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2018*

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **843,867** | 943,870 |
| Investment properties | | **222,563** | 120,013 |
| Prepaid land lease payments | | **184,800** | 271,171 |
| Intangible assets | | **5,172** | 12,855 |
| Investment in a joint venture | | **101,402** | 106,677 |
| Investments in associates | | **339,225** | 448,468 |
| Available-for-sale investments | | **–** | 34,921 |
| Equity investments at fair value through profit or loss | | **139,932** | – |
| Loans receivable | | **4,076** | 18,266 |
| Other non-current assets | | **14,310** | 26,825 |
| Deferred tax assets | | **660** | 8,278 |
| Total non-current assets | | **1,856,007** | 1,991,344 |
| CURRENT ASSETS | | | |
| Inventories | | **194,955** | 395,569 |
| Trade receivables | *10* | **179,850** | 616,478 |
| Bills receivable | *11* | **8,967** | 11,572 |
| Short-term loans receivable | | **4,600** | 64,710 |
| Prepayments, deposits and other receivables | *12* | **560,945** | 1,160,450 |
| Amounts due from associates | | **27,922** | 43,801 |
| Pledged deposits | | **114,966** | 115,776 |
| Cash and cash equivalents | *13* | **168,554** | 451,130 |
| Total current assets | | **1,260,759** | 2,859,486 |
| CURRENT LIABILITIES | | | |
| Trade payables | *14* | **252,664** | 756,397 |
| Bills payable | *15* | **–** | 45,934 |
| Other payables and accruals | | **1,609,156** | 1,886,662 |
| Interest-bearing bank and other borrowings | | **–** | 684,966 |
| Amounts due to associates | | **248,891** | 277,082 |
| An amount due to a related party | | **202,129** | – |
| Tax payable | | **110,907** | 113,909 |
| Total current liabilities | | **2,423,747** | 3,764,950 |
| NET CURRENT LIABILITIES | | **(1,162,988)** | (905,464) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **693,019** | 1,085,880 |

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

| | 2018<br>*HK$'000* | 2017<br>*HK$'000* |
|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | **693,019** | 1,085,880 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing bank and other borrowings | **228,258** | 239,260 |
| Deferred tax liabilities | **45,335** | 55,823 |
| Other non-current liabilities | **4,759** | 1,381 |
| Total non-current liabilities | **278,352** | 296,464 |
| Net assets | **414,667** | 789,416 |
| EQUITY | | |
| **Equity attributable to owners of the Company** | | |
| Share capital | **50,334** | 50,334 |
| Reserves | **363,879** | 793,592 |
| | **414,213** | 843,926 |
| **Non-controlling interests** | **454** | (54,510) |
| Total equity | **414,667** | 789,416 |

## 1. CORPORATE AND GROUP 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, and the provision of wireless application services and financing services.

## 2.1 BASIS OF PREPARATION

The consolidated 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 included in property, plant and equipment and equity investments at fair value through profit or loss which have been measured at fair value. The consolidated 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 approximately HK$411 million for the current year and net current liabilities of approximately HK$1,163 million as at 31 December 2018. The unrestricted cash and cash equivalent balance amounted to approximately HK$169 million as at 31 December 2018. As at that date, the Group's capital commitment in respect of the capital expenditure for its construction in progress to be incurred in the coming twelve months was approximately HK$561 million. These circumstances may cast significant doubt on the Group's ability to continue as a going concern.

During the year, the Company's directors have taken various measures with an aim to improve the Group's liquidity position, including but not limited to, i) the successful draw-down of loans from Kingkey Group Company Limited (京基集團有限公司) ("Kingkey Group"); ii) the disposal of its 80% equity interest in a wholly-owned subsidiary, under which there is a parcel of land, for a cash consideration of approximately HK$118 million; and iii) the disposal of certain investment properties located in Shenzhen, the PRC, with the related proceeds of approximately HK$113 million.

Further measures have been taken by or in the deliberation of the Company's directors to improve the liquidity position of the Group. On 20 March 2019, the Group and Kingkey Group entered into a supplementary agreement, pursuant to which, Kingkey Group agreed to grant the extension of the terms in connection with the loans drawn down under the loan agreement on 18 May 2018 from 12 months to 36 months. Up to the date of this report, the cumulative loan amount drawn down by the Group was approximately HK$258 million. The remaining undrawn loan balance was approximately HK$326 million.

The Company's directors have prepared a cash flow forecast of the Group for the next twelve months based on the existing situation, the future events and commitments of the Group. The Company's directors considered that the Group will have adequate working capital to meet its obligations, therefore the consolidated financial statements of the Group have been prepared under a going concern basis. Measures and estimations have been taken into consideration by the Company's directors, including and not limited to:

(i) The Group has been actively negotiating with the banks to obtain additional loans to supplement its operating cash flows. Based on the communication between the banks and the Group, among others, up to the date of this report, the Group may be able to obtain additional loan facilities amounting to approximately RMB200 million. Nevertheless, the confirmation of these facilities is subject to the final approval from the banks,

**2.1 BASIS OF PREPARATION** (continued)

**Going concern basis** (continued)

(ii) The Group kept revisiting the disposal plan of long term assets. The Group initiated the negotiations with the potential buyers in respect of its land and properties under construction in Xi'an city, the PRC, during the year. The Company's directors expected the successful disposal could generate additional cash flow for the Group.

(iii) The Group has revisited its capital expenditure plan in the coming twelve months and has considered to postpone the current constructions in progress depending on the sufficiency of the working capital and the Group's capability in obtaining the finance resources. In the view of the Company directors, the deferral of the capital expenditure would mitigate the pressure on the demand of operating fund in the coming twelve months.

(iv) The Group continued to focus its sales efforts on the high growth overseas markets and is revisiting its operating strategies in Mainland China taking into account the potential business opportunities expected to arise from the 5th generation wireless system market in Mainland China, and expand the cooperation with its business partners from various channels, 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 scaling down the operation, human resources optimisation and containment of capital expenditures.

Notwithstanding the above, given the volativity of the new generation mobile phone business and the uncertainties to obtain continued support by the banks and the Group's creditors, material uncertainties exist as to whether management of the Company will be able to achieve its plans and measures as described above.

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 2018. 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 the consolidated financial statements.

**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 consolidated financial statements.

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers* |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| *Annual Improvements to HKFRSs 2014-2016 Cycle* | Amendments to HKFRS 1 and HKAS 28 |

Other than as further explained below, the adoption of the above new and revised standards has had no significant financial effect on the consolidated financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments*: *Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

*Classification and measurement*

The following information sets out the impacts of adopting HKFRS 9 on the consolidated statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

*Classification and measurement* (continued)

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

| | | HKAS 39 measurement | | | | | HKFRS 9 measurement | |
|---|---|---|---|---|---|---|---|---|
| | | Category | Amount | Reclassification | ECL | Fair value remeasurement under HKFRS 9 | Amount | Category |
| | *Notes* | | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | |
| Financial assets | | | | | | | | |
| Equity investments at fair value through profit or loss | | N/A | – | 34,921 | – | 82,539 | 117,460 | FVPL[4] |
| From: Available-for-sale investments | *(i)* | | – | 34,921 | – | – | – | |
| Available-for-sale investments | | AFS[1] | 34,921 | (34,921) | – | – | – | |
| To: Equity investments at fair value through profit or loss | *(i)* | | – | (34,921) | – | – | – | |
| Trade receivables | *(ii)* | L&R[2] | 616,478 | – | (371) | – | 616,107 | AC[3] |
| Bills receivable | | L&R | 11,572 | – | – | – | 11,572 | AC |
| Loans receivable | | L&R | 82,976 | – | – | – | 82,976 | AC |
| Financial assets included in prepayments, deposits and other receivable | | L&R | 76,543 | – | – | – | 76,543 | AC |
| Amounts due from associates | | L&R | 43,801 | – | – | – | 43,801 | AC |
| Pledged deposits | | L&R | 115,776 | – | – | – | 115,776 | AC |
| Cash and cash equivalents | | L&R | 451,130 | – | – | – | 451,130 | AC |
| Total assets | | | 1,433,197 | – | (371) | 82,539 | 1,515,365 | |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

*Classification and measurement* (continued)

| | HKAS 39 measurement | | HKFRS 9 measurement | |
|---|---|---|---|---|
| | **Category** | **Amount** | **Amount** | **Category** |
| | | *HK$'000* | *HK$'000* | |
| Financial liabilities | | | | |
| Trade and bills payables | AC | 802,331 | 802,331 | AC |
| Financial liabilities included in other payables and accruals | AC | 1,464,974 | 1,464,974 | AC |
| Interest-bearing bank and other borrowings | AC | 924,226 | 924,226 | AC |
| Amounts due to associates | AC | 277,082 | 277,082 | AC |
| Total liabilities | | 3,468,613 | 3,468,613 | |

[1] AFS: Available-for-sale investments
[2] L&R: Loans and receivables
[3] AC: Financial assets or financial liabilities at amortised cost
[4] FVPL: Financial assets at fair value through profit or loss

*Notes:*

(i) The Group has elected the option to irrevocably designate all of its previous available-for-sale equity investments as equity investments at fair value through profit and loss.

(ii) The carrying amounts of the trade receivables under the column "HKAS 39 measurement – Amount" represent the amounts before the measurement of ECLs.

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

*Impairment*

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9.

| | **Impairment allowances under HKAS 39 at 31 December 2017** | **Re-measurement** | **ECL allowances under HKFRS 9 at 1 January 2018** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade receivables | 308,312 | 371 | 308,683 |

*Impact on reserves and accumulated losses*

The impact of transition to HKFRS 9 on reserves and accumulated losses as at 1 January 2018 is as follows:

| | **Increase in available-for-sale investment revaluation reserve** | **Decrease/ (increase) in accumulated losses** | **Increase/ (decrease) in equity attributable to owners of the Company** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Reclassification of available-for-sale investment revaluation reserve to accumulated losses as a result of reclassification of equity investments at fair value through profit or loss under HKFRS 9 | 2,314 | (2,314) | – |
| Recognition of ECL allowance for trade receivables under HKFRS 9 | – | (371) | (371) |
| Fair value remeasurement for equity investments previously measured at cost under HKAS 39 | – | 82,539 | 82,539 |
| | 2,314 | 79,854 | 82,168 |

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

*Impact on reserves and accumulated losses* (continued)

| Accumulated losses | *HK$'000* |
|---|---|
| Balance as at 31 December 2017 as previously reported | (2,552,847) |
| Recognition of expected credit losses for trade receivables under HKFRS 9 | (371) |
| Reclassification of available-for-sale investment revaluation reserve as a result of reclassification of equity investments at fair value through profit or loss under HKFRS 9 | (2,314) |
| Fair value remeasurement for equity investments previously measured at cost under HKAS 39 | 82,539 |
| Balance as at 1 January 2018 (restated) | (2,472,993) |

(b) HKFRS 15 and its amendments replaces HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognized as an adjustment to the opening balance of accumulated losses as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 18 and related interpretations.

The application of HKFRS 15 in the current year has had no material impact on the amounts reported in the Group's consolidated 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 the 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 financing 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 before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, gain or loss on loss of control of subsidiaries, impairment of investments in associates, finance costs and share of losses of associates and a joint venture as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude investment in a joint venture, investments in associates, available-for-sale investments/ equity investments at fair value through profit or loss, deferred tax assets, amounts due from associates, 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 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 2018** | **Mobile phone** *HK$'000* | **Property investment** *HK$'000* | **Financing service** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | **1,276,091** | **–** | **1,073** | **1,277,164** |
| Other revenue and gains | **184,767** | **20,643** | **–** | **205,410** |
| Total | **1,460,858** | **20,643** | **1,073** | **1,482,574** |
| **Segment results** | **(395,578)** | **18,567** | **(1,674)** | **(378,685)** |
| *Reconciliation:* | | | | |
| Interest income | | | | **7,958** |
| Gain on loss of control of subsidiaries | | | | **94,590** |
| Impairment of investments in associates | | | | **(6,657)** |
| Finance costs | | | | **(37,141)** |
| Share of loss of a joint venture | | | | **(779)** |
| Share of losses of associates | | | | **(82,729)** |
| Corporate and other unallocated expenses | | | | **(15,965)** |
| Loss before tax | | | | **(419,408)** |
| **Segment assets** | **1,989,885** | **224,911** | **9,309** | **2,224,105** |
| *Reconciliation:* | | | | |
| Investment in a joint venture | | | | **101,402** |
| Investments in associates | | | | **339,225** |
| Corporate and other unallocated assets | | | | **452,034** |
| Total assets | | | | **3,116,766** |
| **Segment liabilities** | **1,802,574** | **2,564** | **–** | **1,805,138** |
| *Reconciliation:* | | | | |
| Corporate and other unallocated liabilities | | | | **896,961** |
| Total liabilities | | | | **2,702,099** |
| **Other segment information:** | | | | |
| Impairment of financial assets | **11,297** | **–** | **–** | **11,297** |
| Write-down of inventories to net realisable value | **16,643** | **–** | **–** | **16,643** |
| Fair value gain on investment properties | **–** | **3,343** | **–** | **3,343** |
| Product warranty provision | **3,114** | **–** | **–** | **3,114** |
| Depreciation and amortisation | **53,017** | **–** | **22** | **53,039** |
| Capital expenditure* | **249,671** | **–** | **–** | **249,671** |

* Capital expenditure consists of additions to property, plant and equipment.

3. **OPERATING SEGMENT INFORMATION** (continued)

| Year ended 31 December 2017 | Mobile phone *HK$'000* | Property investment *HK$'000* | Financing service *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 3,349,991 | – | 28,086 | 3,378,077 |
| Other revenue and gains | 309,689 | 16,505 | – | 326,194 |
| Total | 3,659,680 | 16,505 | 28,086 | 3,704,271 |
| **Segment results** | (2,141,391) | 17,777 | 1,499 | (2,122,115) |
| *Reconciliation:* | | | | |
| Interest income | | | | 41,246 |
| Loss on loss of control of a subsidiary | | | | (534) |
| Impairment of investments in associates | | | | (453,694) |
| Finance costs | | | | (26,248) |
| Share of loss of a joint venture | | | | (3,765) |
| Share of losses of associates | | | | (137,141) |
| Loss before tax | | | | (2,702,251) |
| **Segment assets** | 3,432,818 | 124,375 | 84,586 | 3,641,779 |
| *Reconciliation:* | | | | |
| Investment in a joint venture | | | | 106,677 |
| Investments in associates | | | | 448,468 |
| Corporate and other unallocated assets | | | | 653,906 |
| Total assets | | | | 4,850,830 |
| **Segment liabilities** | 2,630,191 | 1,381 | – | 2,631,572 |
| *Reconciliation:* | | | | |
| Corporate and other unallocated liabilities | | | | 1,429,842 |
| Total liabilities | | | | 4,061,414 |
| **Other segment information:** | | | | |
| Impairment of doubtful debts | 173,000 | – | – | 173,000 |
| Write-down of inventories to net realisable value | 53,021 | – | – | 53,021 |
| Fair value gain on investment properties | – | 5,906 | – | 5,906 |
| Product warranty provision | 45,166 | – | – | 45,166 |
| Depreciation and amortisation | 99,382 | – | 25 | 99,407 |
| Capital expenditure* | 139,998 | – | – | 139,998 |

* Capital expenditure consists of additions to property, plant and equipment.

## 3. OPERATING SEGMENT INFORMATION (continued)

**Geographical information**

***(a) Revenue from external customers***

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mainland China | **193,184** | 1,476,597 |
| Overseas | **1,083,980** | 1,901,480 |
| | **1,277,164** | 3,378,077 |

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

***(b) Non-current assets***

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mainland China | **1,707,350** | 1,923,781 |
| Overseas | **3,989** | 6,098 |
| | **1,711,339** | 1,929,879 |

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 amounting to 10% or more of the Group's revenue is as follows:

| | **Operating segment** | **2018** | 2017 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| Customer A | Mobile phone | **812,119** | 1,142,714 |

## 4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Revenue from contracts with customers | | |
| Sale of mobile phones and related accessories | **1,261,393** | 3,263,892 |
| Wireless application service income | **14,698** | 86,099 |
| Financing service income | **1,073** | 28,086 |
| | **1,277,164** | 3,378,077 |

**Revenue from contracts with customers**

***(i) Disaggregated revenue information***

**For the year ended 31 December 2018**

| **Segment** | **Mobile phone** | **Financing service** | **Total** |
|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Timing of revenue recognition: | | | |
| Goods transferred at a point of time | **1,276,091** | **–** | **1,276,091** |
| Financing income recognised overtime | **–** | **1,073** | **1,073** |
| Total revenue from contracts with customers | **1,276,091** | **1,073** | **1,277,164** |

The following table shows the amounts of revenue recognised in the current year that were included in the contract liabilities at 1 January 2018:

| | **2018** |
|---|---|
| | ***HK$'000*** |
| Sale of mobile phones and related accessories | **45,100** |

No revenue recognised during the year related to performance obligations that were satisfied in prior years.

***(ii) Performance obligation***

Information about the Group's performance obligations is summarised below:

*Sale of mobile phones and related accessories*

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

## 4. REVENUE, OTHER INCOME AND GAINS (continued)

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| **Other income and gains** | | |
| Bank interest income | **7,958** | 6,722 |
| Other interest income | **–** | 34,524 |
| Government grants and subsidies* | **76,646** | 143,434 |
| Gross rental income | **17,300** | 10,599 |
| Dividend income from investments | **6,057** | 1,653 |
| Sales of scrap materials | **13,711** | – |
| Fair value gain on investment properties | **3,343** | 5,906 |
| Change in foreign exchange difference, net | **–** | 59,836 |
| Various services income | **21,662** | 69,095 |
| Gain on disposal of a parcel of land | **5,383** | – |
| Fair value gain on equity investments at fair value through profit or loss, net | **21,557** | – |
| After-sales repair service | **6,360** | – |
| Others | **33,391** | 35,671 |
| | **213,368** | 367,440 |

* 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 BEFORE TAX

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

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cost of inventories sold | **1,332,454** | 3,643,459 |
| Depreciation | **40,732** | 76,880 |
| Amortisation of intangible asset | **1,500** | 1,462 |
| Amortisation of prepaid land lease payments | **4,948** | 7,633 |
| Research and development costs*: | | |
| Product development costs amortised | **5,859** | 13,432 |
| Current year expenditure | **107,843** | 401,876 |
| | **113,702** | 415,308 |
| Operating lease rental | **15,829** | 34,682 |
| Auditor's remuneration | **3,766** | 3,884 |
| Employee benefit expenses (including directors' remuneration) | | |
| Wages and salaries | **213,456** | 509,669 |
| Staff welfare expenses | **14,221** | 27,214 |
| Pension scheme contributions (defined contribution scheme) | **17,952** | 40,188 |
| Equity-settled share option expense, net^ | **(63,004)** | (28,086) |
| | **182,625** | 548,985 |
| Gain on disposal of certain interests in a joint venture | **–** | (35) |
| (Reversal of impairment)/impairment of trade receivables# | **(4,621)** | 40,510 |
| Impairment of other financial assets, net# | **15,918** | 132,490 |
| Impairment of investments in associates | **6,657** | 453,694 |
| Loss on revaluation of property, plant and equipment# | **–** | 136,769 |
| Loss on disposal of items of property, plant and equipment# | **14,059** | 370 |
| (Gain)/loss on disposal of a parcel of land | **(5,383)** | 46,739 |
| (Gain)/loss on disposal of associates# | **(26)** | 6,031 |
| Write-down of inventories to net realizable value& | **16,643** | 53,021 |
| Direct operating expenses arising on rental-earning investment properties | **2,076** | 1,272 |
| Product warranty provision | **3,114** | 45,166 |
| Fair value gain on equity investments at fair value through profit or loss, net | **(21,557)** | – |
| Loss on disposal of investment properties# | **13,167** | – |
| Foreign exchange differences, net# | **70,937** | (59,836) |

* Included in "Administrative expenses" in profit or loss

& Included in "Cost of sales" in profit or loss

\# Included in "Other expenses" in profit or loss

^ The amount represents the net effect of i) a reversal of equity-settled share option expenses recognised in prior years as a result of forfeiture of certain share option granted amounting to HK$70,510,000 (2017: HK$55,317,000); and ii) recognition of equity-settled share option expenses amounting to HK$7,506,000 (2017: HK$27,231,000).

## 6. FINANCE COSTS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on: | | |
| Bank and other borrowings | **37,141** | 22,634 |
| Discounted bills receivable | **–** | 3,614 |
| | **37,141** | 26,248 |

## 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 (2017: 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's subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current | | |
| Charge for the year | **2,248** | 22,543 |
| Overprovision in prior years | **-** | (615) |
| Deferred | **(10,994)** | (1,103) |
| Total tax (credit)/charge for the year | **(8,746)** | 20,825 |

## 8. DIVIDEND

The directors did not recommend the payment of any dividends for the years ended 31 December 2018 and 2017.

## 9. LOSS 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 5,033,246,581 (2017: 5,033,246,581) in issue during the year.

No adjustment has been made to the basic loss per share amount presented for the years ended 31 December 2018 and 2017 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.

## 10. TRADE RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **481,750** | 924,790 |
| Impairment | **(301,900)** | (308,312) |
| | **179,850** | 616,478 |

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 case 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **158,389** | 512,222 |
| 4 to 6 months | **16,312** | 111,893 |
| 7 to 12 months | **7,774** | 46,341 |
| Over 1 year | **299,275** | 254,334 |
| | **481,750** | 924,790 |
| Less: Impairment | **(301,900)** | (308,312) |
| | **179,850** | 616,478 |

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **308,312** | 267,597 |
| Effect of adoption of HKFRS 9 | **371** | – |
| At 1 January (restated) | **308,683** | 267,597 |
| (Reversal of impairment)/impairment loss | **(4,621)** | 40,510 |
| Amounts written off as uncollectible | **–** | (4,071) |
| Exchange realignment | **(2,162)** | 4,276 |
| | **301,900** | 308,312 |

## 11. BILLS RECEIVABLE

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **8,967** | 9,101 |
| Over 3 months | **–** | 2,471 |
| | **8,967** | 11,572 |

Bills receivable are non-interest-bearing.

At 31 December 2018 and 2017, the Group did not have any past due or impaired bills receivable.

## 12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Prepayments for other suppliers | **40,873** | 45,164 |
| Deposits and other receivables | **156,591** | 79,086 |
| Deductible input VAT | **370,492** | 1,052,979 |
| Prepaid expenses | **2,661** | 3,577 |
| Current portion of prepaid land lease payments | **4,638** | 6,469 |
| | **575,255** | 1,187,275 |
| Non-current portion | **(14,310)** | (26,825) |
| | **560,945** | 1,160,450 |

## 13. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **168,554** | 451,130 |
| Time deposits | **114,966** | 115,776 |
| | **283,520** | 566,906 |
| Less: pledged deposits for: | | |
| – Bank loans | **–** | (46,392) |
| – A performance guarantee provided by a bank | **(114,966)** | (69,384) |
| | **(114,966)** | (115,776) |
| Cash and cash equivalents | **168,554** | 451,130 |

## 14. TRADE PAYABLES

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **87,231** | 303,801 |
| 4 to 6 months | **4,512** | 88,576 |
| 7 to 12 months | **17,621** | 159,924 |
| Over 1 year | **143,300** | 204,096 |
| | **252,664** | 756,397 |

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

## 15. BILLS PAYABLE

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 3 months | **–** | 45,934 |

## 16. EVENTS AFTER THE REPORTING PERIOD

(a) On 11 January 2019, Mr. JIANG Chao ceased to be an executive director of the Company, Mr. CHEN Jiajun was appointed as an executive director and a chief executive officer of the Company on 17 January 2019.

(b) The Group and Kingkey Group entered into a supplementary agreement on 20 March 2019, pursuant to which, Kingkey Group agreed to grant the extension of the terms in connection with the loans drawn down under the loan agreement on 18 May 2018 from 12 months to 36 months. Up to the date of this announcement, the cumulative loan amount drawn down by the Group was approximately HK$258 million. The remaining unused loan balance was approximately HK$326 million.

## EXTRACT OF INDEPENDENT AUDITOR'S REPORT

### Opinion

We have audited the consolidated financial statements of Coolpad Group Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Material Uncertainty Related to Going Concern

We draw attention to note 2.1 to the consolidated financial statements, which indicates that the Group incurred a net loss of approximately HK$411 million during the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$1,163 million. As stated in note 2.1, these events or conditions, along with other matters as set forth in note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## 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 | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| **Revenue** | **Revenue *HK$ Million*** | **% of revenue** | Revenue *HK$ Million* | % of revenue |
| Sale of mobile phones and related accessories | **1,261.39** | **98.77** | 3,263.89 | 96.62 |
| Wireless application service income | **14.70** | **1.15** | 86.10 | 2.55 |
| Finance service | **1.07** | **0.08** | 28.09 | 0.83 |
| **Total** | **1,277.16** | **100** | 3,378.08 | 100 |

The Group recorded consolidated revenue for the year ended 31 December 2018 of HK$1,277.16 million, representing a decrease of 62.19% as compared with HK$3,378.08 million for the year ended 31 December 2017. The decrease of the consolidated revenue in 2018 was mainly due to the intensive competition of the smartphone business in China and the decrease in market share and sales volume in China region for the current year.

## GROSS LOSS

| | Year ended 31 December | | | |
|---|---|---|---|---|
| | **2018** | | 2017 | |
| **Gross loss** | **Gross loss *HK$ Million*** | **Gross loss margin (%)** | Gross loss *HK$ Million* | Gross loss margin (%) |
| **Total** | **(71.93)** | **(5.63)** | (318.40) | (9.43) |

The Group's overall gross loss for the year ended 31 December 2018 was HK$71.93 million, representing a decrease of 77.41% as compared with HK$318.40 million gross loss for the year ended 31 December 2017. The Group's overall gross profit margin for the year ended 31 December 2018 recorded a -5.63%, representing a increase of 40.30% as compared with -9.43% for the year ended 31 December 2017. The gross loss of the Group was primarily attributable to the fierce competition of the 4G smartphone market in Mainland China and the decline of the shipments volume of the Group.

## OTHER INCOME AND GAINS

Other income and gains of the Group amounted to approximately HK$213.37 million for the year ended 31 December 2018, representing a decrease of 41.93% as compared with HK$367.44 million for the year ended 31 December 2017. This decrease was attributable to the decrease of government grant received by subsidiaries of the Group and the decrease of interest income in 2018. Meanwhile, due to the depreciation of Renminbi in 2018, the Group recorded exchanges loss this year which also led to the decrease of other income and gains.

## SELLING AND DISTRIBUTION EXPENSES

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Selling and distribution expenses *(HK$ million)* | **158.01** | 667.86 |
| Selling and distribution expenses/Revenue *(%)* | **12.37** | 19.77 |

Selling and distribution expenses of the Group for the year ended 31 December 2018 decreased to HK$158.01 million, representing a decrease of approximately HK$509.85 million, or 76.34%, as compared with HK$667.86 million for the year ended 31 December 2017. The decrease in selling and distribution expenses was primarily attributable to the decreased expenditure for marketing, advertising and promotion expenses. The net decrease of 7.40% as a percentage of total revenue was because of the cease of sales of products that may cost losses in the domestic market during the reporting period.

## ADMINISTRATIVE EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | **2018** | 2017 |
| Administrative expenses *(HK$ million)* | **323.08** | 709.26 |
| Administrative expenses/Revenue *(%)* | **25.30** | 21.00 |

Administrative expenses decreased by 54.45% from HK$709.26 million for the year ended 31 December 2017 to HK$323.08 million for the year ended 31 December 2018. As a percentage of total revenue, administrative expenses increased to 25.30% in 2018 from 21.00% in 2017. The net increase of 4.30% as a percentage of total revenue was because of the decrease of overall revenue and the continuing R&D expenditures on new technologies during the reporting period.

## INCOME TAX EXPENSE

For the year ended 31 December 2018, the Group's income tax expense decreased to a net tax credit amount of HK$8.75 million which primarily due to the disposal of certain investment properties which led to the reversal of deferred tax liabilities during the reporting period.

## NET LOSS

For the year ended 31 December 2018, the Group recorded a net loss of HK$410.66 million, representing a decline of HK$2,312.42 million, or 84.92%, as compared with the net loss of HK$2,723.08 million for the year ended 31 December 2017. The net loss for 2018 was mainly because of the decrease in the sales.

## LIQUIDITY AND FINANCIAL RESOURCE

For the year ended 31 December 2018, the Group's operating capital was mainly generated from cash from its daily operation and other borrowings. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and other unforeseeable cash requirements. The Group had a gearing ratio of 85% as at 31 December 2018 (2017: 80%). 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 2018 amounted to HK$168.55 million, while it was HK$451.13 million as at 31 December 2017.

## CONTINGENT LIABILITIES

### (a) Litigation with customers

A subsidiary of the Group is currently a plaintiff in a lawsuit with certain customers in the United States of America, who refused to settle trade receivables of approximately US$25,000,000 (equivalent to HK$195,823,000). In preparing the announcement, the aforesaid lawsuit was still in progress.

### (b) Litigations with suppliers

The Group received several civil complaints in 2018 from suppliers demanding the Group to immediately repay the overdue accounts payable balance of RMB129 million (equivalent to HK$147 million). The arbitration procedures of the civil complaints were still in progress as at the date of the announcement.

## PLEDGE OF ASSETS

As at 31 December 2018, the Group's time deposits of approximately (i) HK$57.11 million were used as a pledged for issuance of letters of credit (2017: nil), and (ii) HK$57.86 million were used as a security for the banks to provide performance guarantees (2017: HK$69.38 million), and (iii) nil were used to secure bank loans (2017: HK$46.39 million).

## BUSINESS REVIEW

The Group confronted a great number of changes, challenges and opportunities in the year ended 31 December 2018 (the "Year"). The Group learned from the past, and contemplated its future from as many aspects as possible. Fortunately, the darkest period of the Group had passed, and the Group started a brand-new exploration in the Year.

The Group saw a large decline in both shipments and revenue in the past year of 2018. For the year ended 31 December 2018, the Group had a turnover of approximately HK$1,277.16 million, which decreased by 62.19% from HK$3,378.08 million in 2017. The net loss of the year 2018 was approximately HK$410.66 million, which decreased by 84.92% from the net loss of HK$2,723.08 million in the year 2017. Gross profit margin for the year 2018 was -5.63%, representing an increase of 3.80% as compared with -9.43% for the year ended 31 December 2017. Both of the basic and diluted loss per share of the Group was HK8.13 cents for the year ended 31 December 2018.

The Group's shareholding structure has undergone changes during the Year. The Company had been notified by Leview Mobile HK Limited on 4 January 2018 that it had sold 897,437,000 shares at HK$0.9 per share in cash to Power Sun Ventures Limited, a company incorporated in British Virgin Islands. Immediately after completion of that transaction, Leview Mobile HK Limited and Power Sun Ventures Limited had become interested in 551,367,386 Shares and 897,437,000 Shares, representing approximately 10.95% and 17.83% of the total issued share capital of the Company, respectively. Accordingly, Leview Mobile HK Limited had ceased to be the single largest Shareholder and Power Sun Ventures Limited had become the single largest Shareholder.

On 11 January 2018, the Company had been notified by Leview Mobile HK Limited that it had sold 551,367,386 Sales Shares to Zeal Limited, a company incorporated in Cayman Islands. Immediately after completion of that transaction, Leview Mobile HK Limited had ceased to have any interest in the Company and Zeal Limited had become interested in 551,367,386 Shares, representing approximately 10.95% of the issued share capital of the Company. Accordingly, Leview Mobile HK Limited ceased to be the Shareholder and Zeal Limited had become a substantial Shareholder.

The Group gave up some loss-making products, and its management managed to control expenses strictly so as to minimize losses. Meanwhile, the Group took various measures to enhance its liquidity and financial position, including but not limited to the disposal of certain investment properties of the Group and the equity interest of non-core operating subsidiaries of the Company, and continued to communicate proactively with banks and interested parties to seek financing.

The Group recorded a decrease in revenue from the sales of smartphones in domestic market in the year of 2018. But it continued to keep a solid cooperation relationship with local carriers and their sales and distribution channels. The Group continued to release low-end smartphones in carriers' channel in the year of 2018 so as to coordinate their diverse contract layout.

As regional sales in the United States continued to maintain its growth momentum, and sales contribution and growth rate continued to expand for the Year, the sales in the United States region accounted for the majority of the total sales of the Group, and became the core business region. The Group provided an independent exclusive product line for US market and enlarged product category to smart accessories, such as cable, charger, battery and headphone. The Group had conducted a series of product demand and preference investigation for US market and built a US dedicated research and development team.

During the Year, the Group had built a solid cooperation with US telecommunications carriers. On 8 August 2018, the senior management of T-mobile and MetroPCS paid a visit to the headquarters of the Group. The visitors and the Company had a deep exchange on 5G path of Coolpad and 5G commercial plan in America. The senior management of T-mobile and MetroPCS highly recognized the Group's technical strength and anticipated a deeper cooperation in the future.

Meanwhile, side by side with carrier field team, the Group developed strong relationship inside national retail channels and dealer channels progressively so as to build a healthy retailing networks in the retail open channel. The Group also attached great importance to branding, as a result of which, the Group had been in hundreds of events with local carrier partners to promote new products and its brand.

The Group attached more importance to intellectual property ("IP") protection in the Year. The Company initiated a lawsuit against Xiaomi regarding patent infringement, further details of which have been disclosed in the Company's announcements made on 26 January 2018, 4 May 2018, 10 May 2018 and 13 November 2018. The Patent Reexamination Board of the China National Intellectual Property Administration (the "PRB") issued a decision to affirm the relevant patent to be valid in part in respect of the request for invalidation of the patent submitted by Xiaomi Telecom to the PRB. As advised by the Company's PRC legal advisers, the Company believes that the decision of the PRB has provided favorable evidence for the Group in the trial of the cases in the future.

Beyond that, the Company has also appointed a Chief IP Officer to focus on the Group's IP and trademarks management. The Group holds a strong belief that by respecting and protecting IP, the Group can promote industry innovation and create a healthy and sustainable development of the industry.

The Group continued to strengthen its research and development ("R&D") ability in the Year. The Group recognises the importance of R&D ability of the Group and recognises itself as a tech-driven company. The Group owns a high-ranking design team, deeply differentiated and optimized the functions and features of the Android operation system and continued to strengthen its R&D capability to bring users the best smartphone experience.

**OUTLOOK**

The year of 2019 is expected to be a year full of both challenges and opportunities, where research and development work on the most up-to-date technologies, such as 5G technology, Internet of Things ("IOT") and Artificial Intelligence ("AI"), is being comprehensively conducted in the industry, and the Group will be happily to be one of them in 2019. Looking forward, the Group is fully prepared to build a new Coolpad 2.0 vision and strategy with the new management team.

Development and sales of smartphones is currently the main business of the Group and will continue to remain as the main business of the Group for the coming year of 2019. The Group has been in the telecommunication industry for more than 25 years since the very beginning of 1994 and the Group has accumulated extensive experiences and knowledge on telecommunication technologies. The Group has invented the "dual sim cards and dual standby" capability, which greatly facilitated people's experience of using mobile phones. The Group will continue to invest more resources on research and development in order to bring more cutting-edge design and comfortable user experience to the Group's customers.

Up to the date of this announcement, the sales in the United States region accounts for the majority of the total sales of the Group and it is expected that the sales will continue to grow in the coming year of 2019. The Group regards the United States region as its core business region and will allocate its best resources to this business region. The Group will also attach great importance to branding, which will remain an important focus of the Group.

The Group has placed its best team in the United States which was put together with the intent of making Coolpad a household name in the United States. The Group will continue to train its professional team by recruiting the best people in the industry and ensuring that the team has a thorough understanding of the United States market. By transforming its organizational culture into a more innovative, flexible and collaborative one, this provides new experience to consumers, carriers, and media of the Group.

In the United States market, the Group will present itself to its partners as a United States company with a completely new vision, look and feel with our professional team. Besides, the Group will change its product portfolio, targeting on kids and parents. The Group has already built a solid cooperation with T-mobile, but it will not stop here. The Group will centralize its resources to meet the United States telecommunication carriers' requirements so as to expand solid cooperation to other mobile carrier companies.

The Group is aware of the opportunities in Southeast Asian market, South Asian market and Africa market. The Group will conduct business in a stable and healthy pace, as a result of which, the Group intends to only sell profitable products in those regions. Sales channels construction is important in those sales regions and the Group will gradually improve it in 2019.

To build a strong support for business operation, the Group will also focus on supply chain management in the coming year of 2019. The Group emphasizes the importance of coordination between supply chain and sales, and will regulate the completion of sales orders frequently. The Group intends to take various measures to reduce supply chain cost including but not limited to the consideration of delicacy management.

As a member of the domestic 5G standard formulation group, the Group is devoted in developing the next 5G technology and its smart terminal. The Group believes that 5G technology poses another opportunity for the Group and has submitted more than 100 patents for Small Cell, as of up to the date of this announcement. The Group will continue to invest in 5G research and development in 2019 and will keep conducting tests to meet 5G commercial use.

The research and development team of the Group will not let itself overwhelmed in AI trend as well. The R&D team of the Group will focus on the most up-to-date artificial technologies, such as facial recognition, scene classification and human-body posture recognition, etc. With the development of AI, IOT and 5G technology and output of research and development of the Group, the products with AI features would be more intelligent and user-friendly and the Group aims to enlarge the product portfolios to IOT and Mobile Broadband area, such as mesh, speaker and smart camera. The Group is confident that it would soon bring various products with premium design, decent quality, AI enabled and better user experience, which are worth waiting for.

With its sophisticated management, consistent endeavour, innovative technologies and promising product layout, the Group is confident that it will be able to overcome the hardship and navigate forward. As taking heavy burden and embarking on a new journey, the Group shall strive to march on with solidarity and diligence.

## FOREIGN EXCHANGE EXPOSURE

During the year ended 31 December 2018, 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 for the year ended 31 December 2018. The Group has not entered into any derivative contracts to hedge against the risk in the year 2018.

## EMPLOYEES AND REMUNERATION POLICY

During the year ended 31 December 2018, the Group's staff costs (including directors' remuneration) amounted to approximately HK$182.63 million (2017: HK$548.99 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 2018, the Group had 637 employees (2017: 1,421 employees).

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

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 any dividends for the year ended 31 December 2018 (2017: Nil).

## AUDIT COMMITTEE

The Audit Committee, which currently comprises three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's annual results for the year ended 31 December 2018.

## FINANCIAL INFORMATION

The financial information set out in this announcement does not constitute the Group's audited accounts for the year ended 31 December 2018, 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

Under Code Provision A.2.1 of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The roles of the chairman and chief executive officer of the Board have been separate since 5 August 2016. However, since Mr. Liu Hong ceased to be the chairman of the Board on 19 January 2019, the Board has not yet designated a Director to act as the chairman of the Board. The Board will continue to evaluate the roles and functions of the Board members and will consider appointing a chairman of the Board in accordance with the relevant requirements and the Articles of Association of the Company.

Save as disclosed above, none of the Directors is aware of any information which would reasonably indicate that the Company has not met the requirements under the Code during the year ended 31 December 2018.

## 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 2018 will be dispatched to the shareholders in due course.

## PUBLICATION OF INFORMATION ON THE WEBSITES

The annual report of the Company for the year ended 31 December 2018 containing all the information required by the Listing Rules will be dispatched to the Company's shareholders and published on the website of the Stock Exchange at www.hkex.com.hk and the website of the Company at www.coolpad.com.hk in due course.

## 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 remain suspended until further notice.

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

Hong Kong, 29 March 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.*