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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 INDEPENDENT INVESTIGATION

References are made to the announcements of Coolpad Group Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”) dated 22 March 2024, 2 April 2024, 16 April 2024, 7 May 2024, 7 June 2024 and 28 June 2024 in relation to, among others, (i) the delay in publication of annual results and delay in despatch of annual report for the year ended 31 December 2023 (the “**2023 Annual Results**”); (ii) the anonymous allegations against the Company (the “**Allegations**”) received by the former auditor of the Company, EY; (iii) the change of auditor and suspension of trading; (iv) the formation of the Independent Committee by the Audit Committee to conduct an independent inquiry into the Allegations; (v) the engagement of Grant Thornton Advisory Services Limited (the “**Independent Investigator**”), an independent investigator, to conduct an independent investigation (the “**Independent Investigation**”); (vi) the Resumption Guidance; and (vii) quarterly updates on the resumption progress (collectively, the “**Announcements**”). Terms used herein shall have the same meanings as defined in the Announcements unless otherwise stated.

The Company wishes to update the shareholders of the Company (the “**Shareholders**”) that the Independent Investigation has been completed. The Independent Investigator has issued a report (the “**Report**”) setting out its findings. Key findings of the Independent Investigation are set out below.

BACKGROUND

EY received a complaint letter (the “**Complaint Letter**”) from an anonymous complainant (the “**Complainant**”) regarding the Allegations. EY reported the Allegations to the Audit Committee and requested the Company to conduct the Independent Investigation.

The Audit Committee formed the Independent Committee to conduct an independent inquiry into the Allegations in the Complaint Letter. The Independent Investigator has also been engaged to conduct the Independent Investigation.

EY resigned as the Company's auditor with effect from 28 March 2024, and Zhonghui Anda was appointed as the new auditor of the Company with effect from 16 April 2024.

As disclosed in the announcement of the Company dated 7 June 2024, the Stock Exchange set out the Resumption Guidance for the Company to, among others, conduct the Independent Investigation into the Allegations, announce the findings, assess the impact on the Company's business operation and financial position, and take appropriate remedial action.

The Independent Investigator has issued the Report to the Independent Committee setting out its investigation findings.

SCOPE OF THE INDEPENDENT INVESTIGATION

For the purposes of the Independent Investigation, the Independent Investigator has carried out, among other things, the following key procedures:

- (1) obtained and reviewed relevant documents and records of the Group;
- (2) reached out to and/or conducted interviews with relevant personnel (including but not limited to employees of the Company and external parties);
- (3) obtained and reviewed the relevant internal control policies and procedures of the Company;
- (4) obtained confirmation letters from relevant personnel and entities, if necessary;
- (5) conducted computer forensic review to obtain the image of the computers and emails of the relevant personnel and performed computer forensic procedures, including keywords searches to identify relevant documents; and
- (6) performed independent background checks on relevant personnel and entities.

SUMMARY OF THE KEY FINDINGS OF THE INDEPENDENT INVESTIGATION

Based on the procedures carried out during the Independent Investigation and subject to the limitations set out in the section headed "Limitations of the Independent Investigation" below, the Independent Investigator has provided the following key observations and findings.

1. Allegation 1: Diversion of the proceeds raised

Summary of the allegation and its background

In October 2021, the Company issued new shares (the “**Share Subscriptions**”) and unlisted warrants (the “**Warrant Subscription**”) to various subscribers. The Complainant alleged that the net proceeds raised were intended originally for researching and developing mobile telecommunication technology, but they were primarily allocated to the Company’s real estate development business.

Findings of the Independent Investigator

The Independent Investigator conducted a comprehensive review, which included obtaining and examining relevant documents and records such as Board meeting minutes, financial and accounting documents, and relevant agreements. Interviews were conducted with executive Directors and employees from various departments within the Group to gather details of the use of proceeds. Additionally, the Independent Investigator performed a specific internal control review into the Company’s financing processes and procedures for managing and using funds derived from financing. To ensure thoroughness, computer forensic review on the computers and emails of the chairman and chief executive officer of the Company, Mr. Chen Jiajun (“**Mr. Chen**”) and the executive Director, Mr. Ma Fei, was also carried out.

Based on these extensive procedures, the Independent Investigator concluded that there was no evidence to support the Allegation that the relevant net proceeds raised were primarily used for real estate development.

2. Allegation 2: Misappropriation of research and development funds

Summary of the allegation and its background

On 14 October 2020, Dongguan Yulong Telecommunication Tech Co., Ltd. (東莞宇龍通信科技有限公司) (“**Dongguan Yulong**”), an indirect wholly-owned subsidiary of the Company, entered into a contract with Guangdong Wuchuan Construction and Installation Engineering Co.* (廣東吳川建築安裝工程有限公司) (the “**Contractor**”), pursuant to which the Contractor agreed to act as the main contractor for construction works of the Dongguan Phase III Project for a total contract sum of RMB750 million (the “**Dongguan Construction Contract**”).

The Complainant alleged that the research and development funds of the Company were misappropriated for the prepayment of RMB73 million to the Contractor, which was suspected to be a related party of the Company. The Complainant alleged that the Dongguan Construction Contract was not subjected to formal tender procedures and the terms were highly unfavourable to the Company.

Findings of the Independent Investigator

The Independent Investigator noted that the terms of the Dongguan Construction Contract were reviewed and approved by the business department, finance department, legal department, vice president of the business department and chief executive officer of the Company prior to signing.

After entering into the Dongguan Construction Contract on 14 October 2020, Dongguan Yulong paid the Contractor an aggregate amount of RMB103 million on 10 January 2022, 14 January 2022 and 19 January 2022 respectively, which included a prepayment of RMB73 million. The Group had sufficient self-owned funds for the payment of the relevant prepayment at such dates. The prepayment of RMB73 million accounted for 10% of the contract sum and was requested by the Contractor as it was affected by the increase in the price of materials and substantial price fluctuations during the construction period, which led to increasing incurrences of out-of-pocket expenses. The Independent Investigator has independently verified the increase in price of construction materials. Based on the interviews conducted by the Independent Investigator, it was the Contractor's customary practice to request 10% of the contract sum as prepayment. The Independent Investigator noted that the prepayment amount in standard construction documents in Guangdong province ranges from 10% to 30% of the contract sum. The Company also requested a downward adjustment of the construction progress payment amount based on the upward adjustment of the prepayment amount.

Further, the Independent Investigator noted that the Contractor was selected through a tender process that was generally consistent with the then general tender process of Dongguan Yulong. The Independent Investigator did not find any abnormalities in the independence and comprehensiveness of the tender process adopted by Dongguan Yulong.

Based on the above, the Independent Investigator did not find any evidence to support the Allegation that the terms of the Dongguan Construction Contract were not in the interest of the Company. The Independent Investigator also did not find any evidence that (i) there was relationship between the shareholders, directors or senior management of the Group, the Contractor and Kingkey Group Limited* (京基集團有限公司), (ii) there was relationship between the shareholders, directors or senior management of the Group and the sub-contractors engaged by the Contractor, and (iii) the Company made any prepayment to related parties in relation to construction works.

3. Allegation 3: Property Management Services Agreement

Summary of the allegation and its background

The Complainant alleged that Yulong Computer Telecommunication Scientific (Shenzhen) Co., Ltd. (宇龍計算機通信科技(深圳)有限公司) (“**Yulong Shenzhen**”), an indirect wholly-owned subsidiary of the Company, entered into a property management services agreement (the “**2020 Property Management Services Agreement**”) with Shenzhen Kingkey Property Management Company Limited (深圳市京基物業管理有限公司) (“**Shenzhen Kingkey**”), a related party, with pricing not in line with market prices.

Findings of the Independent Investigator

The Independent Investigator noted that Yulong Shenzhen conducted the tender process for selecting the property management service provider under the 2020 Property Management Services Agreement for the Coolpad Information Harbor No. 1 Building (the “**Coolpad Building**”) in 2018. During the tender evaluation process, Yulong Shenzhen obtained and compared the property management fees of properties around the Coolpad Building through public information or direct inquiries. The tender process was completed in December 2018, and Shenzhen Kingkey was selected as the property management service provider as it offered the most competitive price.

Before entering into the 2020 Property Management Services Agreement in 2020, Yulong Shenzhen once again obtained and compared the property management fees of surrounding properties and found no changes. A Board meeting was convened on 25 March 2020 to consider and approve the 2020 Property Management Services Agreement. Following the Board’s approval, the 2020 Property Management Services Agreement was entered into with Shenzhen Kingkey for a term commencing 1 August 2020 and ending on 31 December 2022.

As Yulong Shenzhen was satisfied with the services provided by Shenzhen Kingkey, it entered into a new property management services agreement with Shenzhen Kingkey on 23 December 2022, for a term of three years commencing 1 January 2023 and ending on 31 December 2025 (the “**2022 Property Management Services Agreement**”) upon the expiry of the 2020 Property Management Services Agreement after reviewing the contract price and past services.

The Company issued the relevant continuing connected transaction announcements on 25 March 2020 and 23 December 2022 respectively in compliance with the Listing Rules.

The Independent Investigator found that there was no indication that the pricing of the 2020 Property Management Services Agreement and the 2022 Property Management Services Agreement were not in line with regular market prices.

4. Allegation 4: Surgical Mask Business

Summary of the allegation and its background

The Complainant alleged Mr. Chen misappropriated the funds of the Company and procured the Company to invest in a surgical mask business related to his spouse.

Findings of the Independent Investigator

The Independent Investigator noted that the Company commenced the civil surgical mask business as part of its corporate social responsibility at the beginning of the outbreak of the COVID-19 pandemic. As the Company did not have any relevant experience in the manufacture of masks or melt-blown nonwovens, and found it difficult to procure raw materials for the masks, it decided to cooperate with an entity with relevant experience in the form of a joint venture. As such, in April 2020, a joint venture called Chuangku New Material Technology (Shenzhen) Co.* (創酷新材料科技(深圳)有限公司) (“**Chuangku**”) was established mainly for the production of melt-blown nonwovens, which is an important component of masks.

The original joint venture partners of Chuangku when it was established on 7 April 2020 comprise: (i) Yulong Shenzhen, which held 55% interest in Chuangku with a capital injection of RMB1,650,000; (ii) Ms. Wu Jiayi, who held 20% interest in Chuangku with a capital injection of RMB600,000; (iii) Mr. Wu Jiahao, who held 19% interest in Chuangku with a capital injection of RMB570,000; (iv) Mr. Peng Kejie, who held 6% interest in Chuangku with a capital injection of RMB180,000. Ms. Wu Jiayi and Mr. Wu Jiahao are siblings of Mr. Chen’s spouse and are considered as connected persons of the Company.

The shareholding structure of the joint venture changed on 14 April 2020 due to taxation considerations. The new joint venture partners comprise: (i) Yulong Shenzhen, which held 49.5% interest in Chuangku with a capital injection of RMB1,485,000; (ii) Jiangsu Shunyuan New Material Technology Co. Ltd.* (江蘇順遠新材料科技有限公司) (“**Jiangsu Shunyuan**”), which held 10% interest in Chuangku with a capital injection of RMB300,000; and (iii) Shenzhen Higgs Boson Materials Co., Ltd.* (深圳希格斯玻色子材料有限公司) (“**Shenzhen Higgs Boson**”), which held 40.5% interest in Chuangku with a capital injection of RMB1,215,000. It was noted that Ms. Wu Jiayi was one of the shareholders of Jiangsu Shunyuan from 29 June 2015 to 13 August 2019, and Shenzhen Higgs Boson was jointly held by the original joint venture partners, Ms. Wu Jiayi, Mr. Wu Jiahao and Mr. Peng Kejie.

The Independent Investigator noted that although the formation of Chuangku constituted connected transactions, such transactions were de minimis transactions and were fully exempted from shareholders' approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules. It was further noted that the Company decided to cooperate with Jiangsu Shunyuan and Mr. Chen's relatives because (i) Jiangsu Shunyuan was engaged in the cotton and chemical fiber business and had relevant experience; (ii) the Company intended to set up the joint venture and engage in the manufacturing as soon as possible; and (iii) the price of melt-blown nonwovens increased.

Chuangku generated approximately RMB6.33 million revenue from June 2020 to March 2021. However, as the COVID-19 pandemic progressed, the demand for masks decreased which led to a decline in sales. Chuangku ceased its operations in the second half of 2020 and recorded a loss of approximately RMB8.47 million from April 2020 to February 2023. Chuangku was applied for liquidation by an external entity on 28 October 2022, and entered the bankruptcy liquidation stage on 10 February 2023.

5. Allegation 5: Renovation

Summary of the allegation and its background

The Complainant alleged that the Company had engaged a construction company, Shenzhen Meishide Construction and Installation Engineering Co.* (深圳市美仕德建設安裝工程有限公司) (the "**Renovation Contractor**") because it was controlled by Mr. Chen's spouse. Further, the Complainant alleged that the Company had paid RMB15 million to the Renovation Contractor as prepayment.

Findings of the Independent Investigator

The Independent Investigator noted that the Coolpad Building required installation of air conditioning units in 2019. The main contractor of the Coolpad Building renovation project offered a price quotation of RMB27.39 million, which the engineering department of the Company considered to be too expensive. Due to the tight construction schedule, the cost and procurement department of the Company did not conduct a tender process to select the service provider for the air conditioning unit installation. Instead, the Company contacted the Renovation Contractor by telephone for a price quotation, which had been introduced to the engineering department staff through a friend.

It was further noted that that was the first time that the Group collaborated with the Renovation Contractor. The relevant departments of the Company and its subsidiaries conducted background checks and related party review on the Renovation Contractor and were aware that Ms. Wu Jiawen, being the spouse of Mr. Chen, was one of the shareholders of the Renovation Contractor. However, considering that Ms. Wu Jiawen only held 25% equity interest in the Renovation Contractor and that she had no control over the composition of a majority of the board of directors of the Renovation Contractor, the Renovation Contractor was not an associate of a connected person of the Company under the Listing Rules.

Given that the price quotation provided by the Renovation Contractor was lower than that of the main contractor, the project was awarded to the Renovation Contractor. Mr. Chen was not involved in the selection process for the air conditioning installation service provider and only became aware of the decision after the Company had made its selection. As a result, Yulong Shenzhen entered into an agreement with the Renovation Contractor on 18 September 2019 for the procurement of the air conditioning units (the “**First Renovation Agreement**”), with a total contract sum of RMB25 million. Yulong Shenzhen was required to make a prepayment of RMB15 million for the purchase of air conditioning equipment. The amount of the prepayment was determined by the Renovation Contractor based on the list of equipment to be purchased provided by Yulong Shenzhen.

From 2020 to 2021, due to rising material prices and transportation costs in light of the pandemic, the Renovation Contractor was unable to procure the necessary equipment with the prepayment of RMB15 million. As a result, the Renovation Contractor was unable to carry out the installation of the air conditioner unit as scheduled.

After negotiations with the Company, the Renovation Contractor returned RMB5 million of the prepayment between December 2020 and January 2021. The Company entered into a termination agreement with the Renovation Contractor to terminate the First Renovation Agreement on 5 February 2021, after taking into account the price and the construction timeline of the project. Both parties agreed that the Renovation Contractor would return the remaining RMB10 million of the prepayment by 30 June 2021, with interest accruing at a rate of 6% per annum, effective from 1 January 2021. The Independent Investigator did not find any material discrepancies between the 6% per annum interest rate charged under the termination agreement and the domestic market lending rates in 2021, which ranged from approximately 3.85% to 5.6%, and it has not been calculated on normal or better commercial terms.

In October 2020, the Company invited bids for the second round of fire protection and air conditioner renovation works of the Coolpad Building. Taking into account the qualification of the Renovation Contractor and the tender price offered, the Renovation Contractor won the bids and the agreement was executed on 26 January 2021 (the “**Second Renovation Agreement**”). The Company and the Renovation Contractor agreed to settle the payment for the second fire protection and air conditioner renovation works through a set-off against the unrefunded portion of the prepayment. The remaining prepayment after set-off and the accrued interests were fully recovered by April 2022.

In June 2022, the Company completed the recovery of the prepayment of RMB15 million through the Renovation Contractor’s refund and the set-off against the payment for the second fire protection and air conditioner renovation works.

Based on the above, the Independent Investigator did not find any evidence to support the Allegation that Mr. Chen sought personal gains through the prepayment of sums to the Renovation Contractor.

6. Allegation 6: SPAC Project

Summary of the allegation and its background

The Complainant alleged that Mr. Chen misappropriated the Company’s funds of HK\$90 million, that he has procured the Company to invest into a special purpose acquisition company (“**SPAC**”) project which was invested by Mr. Chen and his family.

The allegedly misappropriated HK\$90 million consisted of subscription amounts of HK\$42 million in SEND KING CHINA FOCUS FUND SP, a segregated portfolio created by SEND KING INVESTMENT FUND SPC (“**Send King**”), and HK\$48 million in MG PE Fund S.P.I., a segregated portfolio created by Max Giant Investment SPC I (“**Max Giant**”) (collectively, the “**Funds**”).

The Complainant alleged that the Company through Send King’s fund administrator, First Fund Services Limited (“**First Fund**”), remitted the subscription amounts to Kingkey Financial International (Holdings) Limited (“**Kingkey Financial**”) which is controlled by Mr. Chen’s family to invest in the SPACs related to companies that are led by Mr. Chen.

Reference is also made to the announcement of the Company dated 28 March 2024. It is stated in the EY Resignation Letter that during the course of EY’s audit of an unlisted investment fund recorded by the Company as at 31 December 2023 (the “**Unlisted Fund**”), EY noted that the Company had subscribed 100% of its participating shares, and a loan was made by the Unlisted Fund to an entity (“**Entity A**”). Based on public information, Entity A has the same name as an associate company of a listed company of which the Relevant Director was a substantial shareholder and director. The words “Unlisted Fund”, “Entity A” and “Relevant Director” were referring to MG PE Fund S.P.I., Skyroar Limited (“**Skyroar**”) and Mr. Chen, respectively.

Findings of the Independent Investigator

The Independent Investigator noted that the Company's funds of HK\$90 million, which was used to subscribe the Funds, were raised by the Company by way of a rights issue in mid-2021, with the intention of using the funds for external investments. After completing the rights issue, the Company sought potential investment opportunities. In around July to August 2021, the Company explored investment opportunities in two other funds, but ultimately did not pursue the investments due to the size and risk profile of those funds.

In around October to November 2021, the relevant funds of Send King and Max Giant were introduced to the Company's management by the then investment and financing manager of the Company who had extensive capital experience. The Company conducted a public search on the fund investment managers of the two Funds and noted that the relevant entities and their management personnel possessed the necessary licenses and qualifications. Consequently, the Company decided to subscribe to the two Funds.

Yulong Infotech Inc. ("**Yulong Infotech**"), a wholly-owned subsidiary of the Company, entered into subscription agreements with Send King and Max Giant on 24 January 2022 and 28 April 2022 respectively, and paid the subscription amounts and fees to First Fund (as Send King's trustee under the executed trust and escrow agreement) and Max Giant in accordance with the relevant agreements.

According to the relevant terms of the subscription agreements and memorandums, the Company delegated the responsibility for the Funds' day-to-day investment decisions to the Funds and the Funds' investment managers. No personnel of the Group had the right to participate in or were involved in making the relevant investment decisions. It was only when the Group's personnel reviewed the audit reports of the two Funds in the second half of 2023 that they obtained some details of the investments conducted by the Funds.

The Independent Investigator noted that both Funds conducted investments by way of investing in debt. The Funds made loans to Bravo Crystal Limited ("**Bravo Crystal**") and Skyroar on 9 February 2022 and 13 June 2022 respectively, on which interests were charged. It was noted that at the time of Yulong Infotech's subscriptions into the Funds, Bravo Crystal and Skyroar had no common directors or shareholders with the Company. It was subsequently disclosed in the 2023 annual report of Kingkey Financial (a related company of the Group) that Kingkey Financial had an associate named Skyroar Limited. It was further disclosed in the 2024 annual report of Kingkey Financial that Skyroar Limited has been reclassified to a financial asset due to the reduction in shareholding held by Kingkey Financial in Skyroar Limited.

The Independent Investigator found that the directors or guarantors of Bravo Crystal and Skyroar were associated with another group of companies (the “**Entities**”). However, considering that Skyroar only became an associate of Kingkey Financial after receiving the loan from Max Giant, and since the Group’s personnel were not involved in the investment decisions of the Funds in respect of the relevant loans, there is no evidence to suggest that the Group had any intention to provide loans to the aforementioned companies, or to invest in SPACs of Kingkey Financial or the Entities through First Fund when the Group decided to invest in the Funds.

It was also noted that, in order to minimize the risks to the Company as soon as possible, and because the Company needed capital to develop its business, Yulong Infotech sold all its interests in the shares in both Funds in March 2024.

7. Allegation 7: Securities Dealing

Summary of the allegation and its background

The Complainant alleged that Mr. Chen has misappropriated the Company funds of over US\$8 million in securities dealing.

Findings of the Independent Investigator

The Independent Investigator noted that the Company decided to invest in Long Roll Absolute Return Fund SP (formerly known as Innovest Hong Kong Rental Income Fund SP) (“**Innovest Fund**”), the segregated portfolio created by Innovest Investment Fund SPC (“**Innovest**”), through its subsidiary, Yulong Infotech, in 2020. Innovest Fund was introduced to the Company by the then investment and financing manager of the Company.

In the second half of 2020, Yulong Infotech made four investments in Innovest Fund and entered into subscription agreements for a total of subscription amounts of US\$7 million. The value of the shares held by Yulong Infotech had increased throughout 2020, but began declining since January 2021. Yulong Infotech opted to redeem the subscribed shares in July 2023.

Based on the performance reports of Innovest Fund and the communications between the Company’s then-auditor and Innovest Fund, the underlying assets of Innovest Fund during the period when Yulong Infotech invested included various financial products, such as stocks and futures. The losses in Innovest Fund occurred primarily in 2021 and were mainly due to leveraged futures investments, including futures on the FTSE China A50 Index, the Mini Nasdaq 100 Index, and the Mini S&P 500 Index. Although the Company had obtained monthly investment statements from Innovest to evaluate Innovest Fund’s performance and was aware of the losses incurred since January 2021, the Company was hopeful that Innovest could achieve a breakeven after the pandemic. As a result, the Company did not set a stop-loss limit and did not redeem the subscribed shares until July 2023.

The Independent Investigator noted that (i) they are not aware of any relationship between Mr. Chen, Kingkey Financial and the underlying assets of Innovest Fund, including stocks, options, futures or exchange traded funds listed on exchanges in Hong Kong and the United States; and (ii) there is no evidence to indicate that Mr. Chen has misappropriated the Company funds of over US\$8 million in securities dealing.

8. Allegation 8: The Major Transaction

Summary of the allegation and its background

The Complainant referred to the major transaction of the Company approved by its Shareholders on 14 May 2021, where Yulong Shenzhen entered into a cooperation agreement in relation to the second and third phases of urban renovation project of the Coolpad Information Harbor (the “**Cooperation Agreement**”) with Shenzhen Xinghuaan Real Estate Development Co., Ltd.* (深圳市星華安房地產開發有限公司) (“**Xinghuaan**”) which was a third party independent of the Company.

The Complainant alleged that Xinghuaan did not disclose the change of ownership that took place four months after entering into the Cooperation Agreement. The Complainant further alleged that the new shareholder of Xinghuaan, Mr. Huang Ruijie (“**Mr. Huang**”) was suspected to be a potential connected person of the Company, as his address and the contact number were highly similar to those of the group of companies controlled by Mr. Chen’s family.

The Complainant also alleged that Mr. Huang did not possess sufficient funds and experience for real estate development.

Findings of the Independent Investigator

The Independent Investigator noted that Yulong Shenzhen conducted a tender process to select Xinghuaan as the counterparty prior to entering into the Cooperation Agreement. The Independent Investigator did not find any abnormalities in the independence and comprehensiveness of the tender process. Following the Board’s consideration and approval on 12 January 2021, the Cooperation Agreement was entered into with Xinghuaan which was approved at the extraordinary general meeting of the Company held on 14 May 2021. As disclosed in the announcement of the Company dated 12 January 2021, Xinghuaan was wholly-owned by Shenzhen Galaxy Real Estate Development Co., Ltd.* (深圳市星河房地產開發有限公司) (“**Galaxy**”) under Galaxy Holding Group* (星河控股集團).

On 13 May 2021, Xinghuaan and Mr. Huang entered into a shareholding entrustment agreement in which Galaxy entrusted Mr. Huang to hold 100% equity interest in Xinghuaan. On 18 August 2021, there were certain changes to the personnel of Xinghuaan:

- (i) the sole shareholder of Xinghuaan changed from Galaxy to Mr. Huang;
- (ii) the executive director and legal representative of Xinghuaan changed from Song Haiyan to Mr. Huang;
- (iii) the general manager of Xinghuaan changed from Xu Yanbing to Mr. Huang; and
- (iv) the supervisor of Xinghuaan changed from Cheng Lin to Mr. Huang Ruijian.

The Independent Investigator noted that following the aforementioned changes, the contact number, address and e-mail address of Xinghuaan also changed, such that they were the same as those in the list of related companies of Kingkey Group Limited* (京基集團有限公司) provided by an independent information agency and the list of connected persons provided by the Company. As Xinghuaan engaged an industrial and commercial service provider to complete the relevant changes in relation to industrial and commercial registrations on its behalf, its contact number, address and e-mail address were provided by the industrial and commercial service provider, and for registration purposes only.

The Independent Investigator found that there is no evidence of any other relationship between Xinghuaan and the Company, Mr. Chen and his associates. There was also no evidence as to whether Mr. Huang has any relationship with the Company, Mr. Chen and his associates other than the fact that (i) Mr. Huang and Mr. Chen are friends; and (ii) Mr. Huang's mother appeared to be a friend of Mr. Chen's father.

9. Allegation 9: Unjustified Hiring

Summary of the allegation and its background

The Complainant alleged that the Company reduced its core research and development expenses to hire a staff member with no relevant experience at an unreasonable salary.

Findings of the Independent Investigator

The staff in issue held the position as a senior business development manager for three months during 2021 to 2022 (the “**Relevant Staff**”).

The Independent Investigator noted that the Relevant Staff's remuneration was higher than that of a more senior employee in the same department because the Company considered: (i) the Relevant Staff's ability and resources could help the Company expanding its business; and (ii) the Relevant Staff possessed the relevant business skills required in the Company's business, after interviewing the Relevant Staff.

The Independent Investigator concluded that there was no evidence that the Relevant Staff was employed at the expense of reduction in core research and development expenses.

10. Allegation 10: The Subscription

Summary of the allegation and its background

As disclosed in the announcement of the Company dated 27 August 2023, the Company entered into a subscription agreement (the "**Subscription Agreement**") with seven subscribers (the "**Subscribers**") on 27 August 2023, pursuant to which the Company has conditionally agreed to allot and issue to the Subscribers an aggregate of 2,730,000,000 subscription shares at the subscription price of HK\$0.033 per share (the "**Subscriptions**"). The gross proceeds from the Subscriptions were approximately HK\$90 million.

The Complainant alleged that the Subscribers were related to the members of the Board, who secretly provided the funding to the Subscribers to conduct the Subscriptions.

Findings of the Independent Investigator

Based on the interviews conducted by the Independent Investigator, the Independent Investigator found that all Subscribers were investors in the capital market or finance industry.

With respect to the payment of the subscription amounts, six Subscribers transferred funds to the Company from the bank accounts of their entities, except for one Subscriber who designated a nominee to make the payment as he did not possess sufficient Hong Kong dollars given that his major assets were primarily located in Mainland China.

The Independent Investigator did not find any evidence to suggest that there was related-party relationship between the Subscribers (and their guarantors and nominees) and the Group or its personnel at the time of the Subscriptions. The Independent Investigator also did not find any evidence to suggest that any member of the Board secretly provided funding to the Subscribers for the purpose of conducting Subscriptions.

Internal control deficiencies identified by the Independent Investigator

The Independent Investigator identified the following internal control deficiencies:

(1) *Proceeds management and utilization*

The Independent Investigator noted that the Company lacked a formal written policy and procedure for managing and utilizing proceeds raised from fundraising activities. Specifically, there was no effective monitoring system to ensure these proceeds were used in accordance with the disclosures made in the Company's announcements. The Company also lacked clear guidelines on the categorization of the use of funds derived from financing, which created risks of mis-categorization.

(2) *Tender process*

The Company's tender policy did not require retaining tenders submitted by bidders or specify the retention period, resulting in the loss of relevant documents. The tender process and policy for selecting contractors was not updated in a timely manner to reflect the Company's actual needs.

(3) *Investment management*

The Company's investment policy was found to be inadequate, lacking written procedures for the internal control and management of fund investments. The investment management system did not have a defined process for selecting and conducting due diligence on investment targets and partners. To address these deficiencies, the Company should pay closer attention to the performance of its investments and establish a dedicated team to objectively evaluate these investments.

(4) *Recruitment management*

Upon reviewing the Company's recruitment management policy, it was noted that the policy did not include definitions for recruitment channels through external entities (such as clients) or establish specific approval processes for such recruitments.

(5) *Document retention*

The Independent Investigator identified deficiencies in the Company's record-keeping practices. It was noted that the Company did not retain certain records, including tender documents, background checks, price quotations, internal remuneration evaluations, due diligence records, and approvals for key decisions.

(6) *Compliance with the Listing Rules*

The Independent Investigator revealed that the Company failed to disclose the Dongguan Construction Contract in accordance with Chapter 14 of the Listing Rules due to a misunderstanding of the definition of “transaction”. This highlights the need for the Company to revisit its internal control measures to ensure compliance with the Listing Rules.

(7) *Share subscription process*

The Independent Investigator noted that the Company had not established a thorough shares subscriptions process, including due diligence and approval processes.

Limitations of the Independent Investigation

The Independent Investigator confirmed that the Company did not impose any unreasonable restrictions during the Independent Investigation.

The Independent Investigation was subject to the following key limitations:

- (1) The Independent Investigation was conducted based on the voluntary cooperation of the Group and the relevant personnel. The Independent Investigator was not in a position to fully verify the representations made by the interviewees or ensure that the investigation findings were without errors. Except those documents which are marked as verified in the Report, the Independent Investigator also cannot verify the authenticity of all the documents provided.
- (2) The Independent Investigator was unable to obtain certain materials during the Independent Investigation.
- (3) The Independent Investigator commissioned an independent information agency to conduct individual searches against the directors, senior management and shareholders of the Company, the staff involved, the personnel of the service providers, contractors and the funds, as well as other relevant personnel. However, the independent information agency was unable to provide the results in relation to the shareholding of the relevant individuals in companies established in Hong Kong. Further, the Independent Investigator was unable to conduct individual searches against the relevant persons in the Cayman Islands or the British Virgin Islands.
- (4) The Independent Investigator also commissioned an independent information agency to conduct shareholding searches of companies incorporated in the British Virgin Islands and the Cayman Islands. However, the Independent Investigator was unable to obtain details of the shareholders of the fund companies or underlying asset companies as the consent of the directors of the relevant entities was not obtained.

- (5) The Independent Investigator was unable to conduct interviews with some of the personnel of the Company, including former directors.
- (6) Apart from the inability to conduct interviews with some of the internal personnel, the Independent Investigator was unable to conduct interviews with some of the external parties and obtain replies on some confirmation letters sent out to external parties.

To mitigate the impact of these limitations, the Independent Investigator implemented additional and alternative procedures. For example, in relation to Allegations 7 and 8, the Independent Investigator performed procedures such as (i) conducting computer forensic to identify any documents related to the Allegations; (ii) obtaining written replies from the fund investment manager whom the Independent Investigator was unable to interview; (iii) conducting additional or follow-up interviews with relevant personnel, such as the executive Director and staff (including former staff) of the Company; (iv) conducting site visit at the registered address of Xinghuaan; and (v) sending confirmation to the industrial and commercial service provider who conducted the industrial and commercial registrations on behalf of Xinghuaan. These measures were designed to ensure the thoroughness and reliability of the Independent Investigation, thereby minimizing any potential impact on the overall findings. Consequently, notwithstanding the limitations detailed above, the Independent Investigator is of the view that these limitations do not affect the conclusions of the findings.

VIEWS OF THE INDEPENDENT COMMITTEE AND THE BOARD

The Board (including the Independent Committee) has reviewed the content and the findings of the Independent Investigation in the Report. The Board considers that despite the limitations as set forth above, the content and the findings of the Independent Investigation in the Report are reasonable and acceptable, and have adequately addressed the Allegations.

In the assessment of the Board, the Board is of the view that the operations of the Group remain normal and the Allegations have no material adverse impacts on the financial position of the Group as the Independent Investigator concluded that there was no indication that any of the Allegations was substantiated.

In addition, the Allegations only concern the Group's past transactions but not any of its ongoing transactions. The Group's business operations continue as usual.

The Board noted that the Independent Investigator had identified certain internal control deficiencies during the process of the Independent Investigation. As disclosed in the announcement of the Company dated 28 June 2024, the Company has engaged GRC Chamber Limited as its independent internal control consultant to conduct a comprehensive review of the internal control system of the Group (the “**Internal Control Review**”) and a follow-up internal control review after the remedial measures in relation to the previously identified internal control findings are implemented. The Company will publish an announcement separately on the results of the Internal Control Review.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, the trading of the shares of the Company on the Stock Exchange has been suspended since 9:00 a.m. on 2 April 2024 pending the release of the audited 2023 Annual Results and will continue to be suspended until further notice.

Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
Coolpad Group Limited
Chen Jiajun
Executive Director
Chief Executive Officer
Chairman

Hong Kong, 11 February 2025

As at the date of this announcement, the Board comprises (i) three executive Directors, namely Mr. Chen Jiajun, Mr. Ma Fei and Ms. Liu Juan; (ii) three non-executive Directors, namely Mr. Liang Rui, Mr. Ng Wai Hung and Mr. Xu Yibo; and (iii) three independent non-executive Directors, namely Mr. Guo Jinghui, Ms. Wang Guan and Mr. Cheuk Ho Kan.

** for identification purposes only*