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CHINA GRAPHENE GROUP LIMITED

中國烯谷集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 63)

ANNOUNCEMENT OF THE UNAUDITED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board of directors (the “Board”) of China Graphene Group Limited (the “Company”) announces that the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2019, together with the comparative figures for the six months ended 30 June 2018, are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

| | | Six months ended 30 June | |
|--|-------|--------------------------|-----------------|
| | | 2019 | 2018 |
| | Notes | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) |
| Revenue | 4 | 6,647 | 8,026 |
| Cost of sales | | <u>(394)</u> | <u>(699)</u> |
| Gross profit | | 6,253 | 7,327 |
| Other income | 5 | 200 | 164 |
| Other gains and losses | 6 | 9,214 | (33) |
| Operating and administrative expenses | | <u>(18,549)</u> | <u>(28,969)</u> |
| Loss from operations | | (2,882) | (21,511) |
| Finance costs | 7 | (4,493) | (2,894) |
| Share of losses of associates | | <u>—</u> | <u>(255)</u> |
| Loss before taxation | | (7,375) | (24,660) |
| Income tax expense | 8 | <u>—</u> | <u>—</u> |
| Loss for the period attributable to owners of the Company | 9 | <u>(7,375)</u> | <u>(24,660)</u> |

| | | Six months ended 30 June | |
|--|----|--------------------------|-----------------------|
| | | 2019 | 2018 |
| <i>Notes</i> | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Unaudited) | (Unaudited) |
| Other comprehensive (expenses)/income | | | |
| <i>Items that may be reclassified to profit or loss</i> | | | |
| Exchange differences on translating foreign operations | | (17) | 1,340 |
| Other comprehensive (expenses)/income for the period, net of tax | | (17) | 1,340 |
| Total comprehensive expenses for the period attributable to owners of the Company | | (7,392) | (23,320) |
| Loss per share | 10 | | |
| Basic (HK cent per share) | | <u>HK cent (0.26)</u> | <u>HK cent (0.87)</u> |
| Diluted (HK cent per share) | | <u>HK cent (0.26)</u> | <u>HK cent (0.87)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

| | | As at 30 June 2019 <i>HK\$'000</i> (Unaudited) | As at 31 December 2018 <i>HK\$'000</i> (Audited) |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 3,742 | 4,218 |
| Right-of-use assets | | 4,100 | — |
| Investment properties | | 369,200 | 369,200 |
| Investment in associates | | 12,211 | 12,211 |
| Pledged bank deposits | | 5,692 | 6,368 |
| Deposits paid for investment properties | | — | 1,500 |
| | | <u>394,945</u> | <u>393,497</u> |
| Current assets | | | |
| Inventories | | 10,770 | 527 |
| Trade and other receivables | 13 | 6,518 | 6,329 |
| Investments at fair value through profit or loss | | — | 645 |
| Bank and cash balances | | 1,945 | 5,359 |
| | | <u>19,233</u> | <u>12,860</u> |
| Current liabilities | | | |
| Bank overdraft | | 133 | — |
| Trade and other payables | 14 | 14,900 | 9,484 |
| Current tax liabilities | | — | 17 |
| Lease liabilities | | 2,726 | — |
| Borrowings | 15 | 205,560 | 200,000 |
| | | <u>223,319</u> | <u>209,501</u> |
| Net current liabilities | | <u>(204,086)</u> | <u>(196,641)</u> |
| Non-current liability | | | |
| Lease liabilities | | 1,395 | — |
| NET ASSETS | | <u>189,464</u> | <u>196,856</u> |
| Capital and reserves | | | |
| Share capital | | 140,955 | 140,955 |
| Reserves | | 48,509 | 55,901 |
| TOTAL EQUITY | | <u>189,464</u> | <u>196,856</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. COMPANY INFORMATION

China Graphene Group Limited (the “Company”) was incorporated in Bermuda with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Rooms 1908-1916, 19/F, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company is an investment holding company. The principal activities of its subsidiaries are property investment, provision of horticultural services, manufacturing and selling graphene and graphene-related products, property management, and money lending.

As at the date of issuing these unaudited consolidated interim results, in the opinion of the directors of the Company (the “Directors”), Zhonghan International Holdings Group Limited (the “Zhonghan International”), a company incorporated in Hong Kong, is the immediate parent; and Zhengbo International Corporation, a company incorporated in the British Virgin Islands, is the ultimate parent, and controlled by Mr. Huang Binghuang.

2. BASIS OF PREPARATION

Going Concern

The Group incurred a loss of approximately HK\$7,375,000 for the six months ended 30 June 2019, the Group had net current liabilities of approximately HK\$204,086,000 as at 30 June 2019 and had net cash outflow from operating activities of approximately HK\$14,771,000 during the period. Notwithstanding this fact, the Directors consider it is appropriate to prepare the condensed consolidated financial statements on a going concern basis as the Group is expected to have sufficient financial resources to meet its obligation as they fall due for at least the next twelve months based on its projected cash flow forecasts. The Group’s Directors have reviewed the financial position of the Group as at 30 June 2019, including its working capital and bank and cash balances, together with the projected cash flow forecasts for the next twelve months and the Directors consider that the Group is financially viable to continue as a going concern.

Should the Group be unable to continue as a going concern, adjustments would have to be made to the condensed consolidated financial statements to adjust the value of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these potential adjustments have not been reflected in the condensed consolidated financial statements.

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosures required by the Rules Governing the Listing of Securities on Stock Exchange.

These condensed consolidated financial statements should be read in conjunction with the 2018 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2018 except as stated below.

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

| | |
|--------------------|-----|
| Land and buildings | 50% |
|--------------------|-----|

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to consolidated profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in consolidated profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US\$ 5,000.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

The following explains the impact of the adoption of HKFRS 16 "Leases" ("HKFRS 16") on the Group's financial information and the new accounting policies that have been applied from 1 January 2019, where they are different to those applied in prior periods.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening condensed consolidated statement of financial position on 1 January 2019.

Adjustments recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.125%.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 Determining whether an Arrangement contains a Lease.

As a lessee, the Group's leases are mainly rentals of offices. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The changes in the consolidated amounts reported in the condensed consolidated financial statements as follows:

**1 January
2019
HK\$'000**

At 1 January 2019

| | |
|---------------------------------|--------------|
| Increase in right-of-use assets | 5,467 |
| Increase in lease liabilities | 5,467 |

As a lessor, the Group's leases of investment properties are held for rental purposes are classified as operating leases. The accounting treatment of its lease arrangements for investment properties are held for rental purposes has not changed compared with HKAS 17.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service and geographical location of customers is as follows:

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Disaggregated by major products or services | | |
| – Provision of property management services | – | 136 |
| – Sale of plants and provision of horticultural services | 3,468 | 2,412 |
| – Sale of graphene | – | 74 |
| | <hr/> | <hr/> |
| Revenue from contracts with customers | 3,468 | 2,622 |
| – Rental income | 3,179 | 5,404 |
| | <hr/> | <hr/> |
| Total revenue | 6,647 | 8,026 |
| | <hr/> | <hr/> |
| Disaggregated by geographical location of customers | | |
| – Hong Kong | 3,468 | 2,548 |
| – Japan | – | 74 |
| | <hr/> | <hr/> |
| | 3,468 | 2,622 |
| | <hr/> | <hr/> |

(b) Information about operating segment profit or loss, assets and liabilities:

| | Property investment | Horticultural services | Graphene manufacturing and sales | Property management and other related services | Money lending | Total |
|--|----------------------------|-------------------------------|---|---|----------------------|-----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Six months ended 30 June 2019 (unaudited) | | | | | | |
| Revenue from external customers | 3,179 | 3,468 | – | – | – | 6,647 |
| Segment loss | (8,836) | (723) | (4) | (200) | – | (9,763) |
| Depreciation | 1,703 | 8 | – | – | – | 1,711 |
| Additions to segment non-current assets | – | 474 | – | – | – | 474 |
| As at 30 June 2019 (unaudited) | | | | | | |
| Segment assets | 386,675 | 3,663 | 4,229 | – | 584 | 395,151 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Segment liabilities | 10,294 | 2,772 | 5,399 | – | 207 | 18,672 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

| | Property investment <i>HK\$'000</i> | Horticultural services <i>HK\$'000</i> | Graphene manufacturing and sales <i>HK\$'000</i> | Property management and other related services <i>HK\$'000</i> | Money lending <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|--|---|---|-------------------------------------|--------------------------|
| Six months ended 30 June 2018 (unaudited) | | | | | | |
| Revenue from customers | 5,404 | 2,466 | 74 | 136 | – | 8,080 |
| Intersegment revenue | – | (54) | – | – | – | (54) |
| Revenue from external customers | <u>5,404</u> | <u>2,412</u> | <u>74</u> | <u>136</u> | <u>–</u> | <u>8,026</u> |
| Segment (loss)/profit | (3,958) | (943) | (7,862) | 854 | (76) | (11,985) |
| Depreciation | 541 | – | 567 | – | – | 1,108 |
| Additions to segment non-current assets | 42 | 95 | – | – | – | 137 |
| As at 31 December 2018 (audited) | | | | | | |
| Segment assets | <u>378,419</u> | <u>2,256</u> | <u>4,173</u> | <u>790</u> | <u>884</u> | <u>386,522</u> |
| Segment liabilities | <u>2,391</u> | <u>639</u> | <u>5,322</u> | <u>10</u> | <u>186</u> | <u>8,548</u> |

Reconciliations of segment revenue and profit or loss

| | Six months ended 30 June | |
|--------------------------------------|---------------------------------|------------------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Revenue | | |
| Total revenue of reportable segments | 6,647 | 8,080 |
| Elimination of intersegment revenue | <u>–</u> | <u>(54)</u> |
| Consolidated revenue | <u>6,647</u> | <u>8,026</u> |

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Profit or loss | | |
| Total loss of reportable segments | (9,763) | (11,985) |
| Elimination of intersegment profits | – | (54) |
| Share of losses of associates | – | (255) |
| Unallocated amounts: | | |
| – Depreciation of property, plant and equipment | – | (8) |
| – Finance costs | (4,493) | (2,894) |
| – Others income | 307 | (581) |
| – Gain on disposal of subsidiaries | 9,109 | – |
| – Unallocated corporate expenses | (2,535) | (8,883) |
| Consolidated loss before tax | (7,375) | (24,660) |
| Reconciliations of segment assets and liabilities | | |
| | As at | As at |
| | 30 June | 31 December |
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Assets | | |
| Total assets of reportable segments | 395,151 | 386,522 |
| Investments in associates | 12,211 | 12,211 |
| Unallocated: | | |
| – Pledged bank deposits | 5,692 | 6,368 |
| – Cash and cash equivalents | 316 | 168 |
| – Other assets | 808 | 1,088 |
| Consolidated total assets | 414,178 | 406,357 |

| | As at 30 June 2019 HK\$'000 (unaudited) | As at 31 December 2018 HK\$'000 (audited) |
|--|---|---|
|--|---|---|

Liabilities

| | | |
|--|----------------|----------------|
| Total liabilities of reportable segments | 18,672 | 8,548 |
| Unallocated: | | |
| – Borrowings | 205,560 | 200,000 |
| – Other liabilities | 482 | 936 |
| – Current tax liabilities | – | 17 |
| | <hr/> | <hr/> |
| Consolidated total liabilities | 224,714 | 209,501 |
| | <hr/> <hr/> | <hr/> <hr/> |

5. OTHER INCOME

| | Six months ended 30 June 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
|--|---|---------------------------------|
|--|---|---------------------------------|

| | | |
|---|-------------|-------------|
| Dividend income from equity investments | – | 4 |
| Others | 200 | 160 |
| | <hr/> | <hr/> |
| | 200 | 164 |
| | <hr/> <hr/> | <hr/> <hr/> |

6. OTHER GAINS AND LOSSES

| | Six months ended 30 June 2019 HK\$'000 (unaudited) | 2018 HK\$'000 (unaudited) |
|--|---|---------------------------------|
|--|---|---------------------------------|

| | | |
|--|--------------|-------------|
| Fair value gain/(loss) on investments at fair value through profit or loss | 32 | (33) |
| Gain on disposal of subsidiaries (note) | 9,109 | – |
| Net gain on disposals of property, plant and equipment | 73 | – |
| | <hr/> | <hr/> |
| | 9,214 | (33) |
| | <hr/> <hr/> | <hr/> <hr/> |

note:

Pursuant to a provisional agreement for sale and purchase of the entire issued share capital of a subsidiary of the Company entered into with an independent third party, the Group disposed of 100% interests in a wholly-owned subsidiary for a total cash consideration of approximately HK\$9,500,000, resulting in a gain on disposal of a subsidiary of approximately HK\$9,093,000. Completion has taken place on 11 April 2019.

Pursuant to an agreement entered into with an independent third party, the Group disposed of 100% interests in a wholly-owned subsidiary for a total cash consideration of approximately HK\$200,000, resulting in a gain on disposal of a subsidiary of approximately HK\$16,000. Completion has taken place on 4 January 2019.

7. FINANCE COSTS

| | Six months ended 30 June | |
|-----------------------------|--------------------------|-----------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Interest on bank borrowing | 3,078 | 2,894 |
| Interest on other borrowing | 1,354 | — |
| Lease interests | 61 | — |
| | <u>4,493</u> | <u>2,894</u> |

8. INCOME TAX EXPENSE

No provision for Hong Kong Profits Tax has been made for the six months ended 30 June 2019 and 2018 as the Group has no assessable profits arising in Hong Kong during the periods.

No provision for overseas tax has been made for the six months ended 30 June 2019 and 2018 as the Group has no assessable profits arising outside Hong Kong during the periods.

9. LOSS FOR THE PERIOD

The Group's loss for the period is stated after charging the following:

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2019 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | (unaudited) | (unaudited) |
| Directors' remuneration | 7,144 | 9,778 |
| Depreciation of property, plant and equipment | 1,711 | 1,116 |
| Operating lease charges – Land and buildings | — | 2,986 |
| Cost of inventories sold | 394 | 699 |
| Allowance for trade receivables | — | 27 |
| | <u>—</u> | <u>27</u> |

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2019 | 2018 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Loss: | | |
| Loss for the purpose of calculating basic and diluted loss per share attributable to owners of the Company | <u>(7,375)</u> | <u>(24,660)</u> |
| Number of shares: | '000 | '000 |
| Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share | <u>2,819,102</u> | <u>2,819,102</u> |

The basic and diluted loss per share for the six months ended 30 June 2019 and 2018 were the same as the Company had no dilutive potential ordinary shares in issue during the periods.

11. INTERIM DIVIDEND

The Board does not recommend the payment of any dividend for the six months ended 30 June 2019 (Six months ended 30 June 2018: Nil).

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of approximately HK\$482,000 (six months ended 30 June 2018: approximately HK\$137,000). Certain property, plant and equipment with a net book value of approximately HK\$243,000 (six months ended 30 June 2018: Nil) were disposed of by the Group during the six months ended 30 June 2019, resulting in a net gain on disposals of approximately HK\$73,000 (six months ended 30 June 2018: Nil).

13. TRADE AND OTHER RECEIVABLES

| | As at 30 June 2019 HK\$'000 (unaudited) | As at 31 December 2018 HK\$'000 (audited) |
|------------------------------|---|---|
| Trade receivables | 1,623 | 2,032 |
| Allowance for doubtful debts | (27) | (27) |
| | 1,596 | 2,005 |
| Other receivables | 4,922 | 5,824 |
| | 6,518 | 7,829 |

The credit term is generally 30 days. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the Directors.

The aging analysis of trade receivables based on the invoice date, and net of allowance, is as follows:

| | As at 30 June 2019 HK\$'000 (unaudited) | As at 31 December 2018 HK\$'000 (audited) |
|-----------------|---|---|
| 0 to 90 days | 110 | 1,883 |
| 91 to 180 days | 1,432 | 112 |
| 181 to 365 days | 31 | 8 |
| Over 365 days | 23 | 2 |
| | 1,596 | 2,005 |

14. TRADE AND OTHER PAYABLES

| | As at 30 June 2019 HK\$'000 (unaudited) | As at 31 December 2018 HK\$'000 (audited) |
|--------------------------|---|---|
| Trade payables | – | 96 |
| Amounts due to directors | 5,498 | – |
| Other payables | 9,402 | 9,388 |
| | 14,900 | 9,484 |

15. BORROWINGS

| | As at 30 June 2019 <i>HK\$'000</i> (unaudited) | As at 31 December 2018 <i>HK\$'000</i> (audited) |
|---|--|--|
| Bank loans – within one year or on demand | 200,000 | 200,000 |
| Other borrowings – within one year or on demand | 5,560 | – |
| | <u>205,560</u> | <u>200,000</u> |

The carrying amounts of the Group's bank loans and other borrowings are denominated in HKD and United States dollar respectively.

The interest rate of the Group's bank loans as at 30 June 2019 and 31 December 2018 was 2% per annum over one-month HIBOR or 2% per annum below HKD prime rate, whichever is lower. The interest rate of the Group's other borrowings as at 30 June 2019 (31 December 2018: Nil) was 3-month USD LIBOR plus 8%.

The borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

Bank loans of HK\$200,000,000 (31 December 2018: HK\$200,000,000) are secured by (i) the investment properties of HK\$369,200,000 (31 December 2018: HK\$369,200,000), (ii) a charge over deposits for the total principal amount of not less than HK\$4,000,000 together with interest accrued thereon, (iii) bank deposits of not less than HK\$6,000,000 and (iv) assignment of rental income from properties to a designated bank account which is charged to the bank.

Other borrowings of approximately HK\$5,560,000 (31 December 2018: Nil) is secured by the entire issued shares of Super Homes Limited, an indirect wholly-owned subsidiary of the Company as collaterals.

During the six months ended 30 June 2019, the Company has violated several covenants attached to the interest-bearing bank loan and other borrowings. Breaches of the covenants would permit the bank or lender to immediately call borrowings.

BUSINESS REVIEW AND PROSPECTS

During the six months ended 30 June 2019, the Group continued to engage in property related businesses (including property investment, property management and other related services), provision of horticultural services, money lending business and trading of graphene and graphene-related products. The Group's revenue for the six months ended 30 June 2019 was mainly derived from rental income from investment properties and from provision of horticultural services. The Group recorded a net loss for the period of approximately HK\$7,375,000, representing a decrease in loss of 70% as compared to the net loss of approximately HK\$24,660,000 for the corresponding period last year. Such decrease was mainly attributable to measures taken to reduce costs during the period and proceeds generated from disposal of one subsidiary.

For property related business, the Group experienced a reduction in rental income from its investment properties by 41% to approximately HK\$3,179,000 (six months ended 30 June 2018: HK\$5,404,000). Such decrease was due to decrease in occupancy rate and drop in rental level during the period due to intensified competition in the rental market.

The Group operates horticultural services business under the brand "Cheung Kee Garden", which has over forty years' history and sound reputation in the local market. During the period, the Group recorded increment of revenue from sales of plants and provision of horticultural service to approximately HK\$3,468,000 (six months ended 30 June 2018: HK\$2,412,000) by around 44%. Increase of revenue was resulted from increasing of number of customers and diversify of horticultural services. This business segment has a long established customer base and remained a stable income source of the Group. The Group intends to strengthen its products and service range, and expose new customer continuously in order to broaden its revenue base in this segment.

During the six months ended 30 June 2019, the graphene business of the Group in Japan has ceased operation. Immediately before ceasing of operation, the graphene business was at its testing stage. The Group will discuss with its partner in respect of the said business as to how to handle the equipment of those graphene business.

Material Acquisitions and Disposals

The Group disposed of the 100% equity interest in a wholly-owned subsidiary, which holds a property in Kwun Tong, for a cash consideration of approximately HK\$9.5 million. Completion has taken place on 11 April 2019.

Bank borrowings and other borrowings

As at 30 June 2019, the total amount of bank and other borrowings was HK\$205,560,000 (31 December 2018: HK\$200,000,000).

Charge over the Group's assets

The Group mortgaged its investment properties as collateral for bank borrowings. As at 30 June 2019, the net book value of mortgaged properties amounted to approximately HK\$369,200,000 (31 December 2018: HK\$369,200,000).

Bank loans of HK\$200,000,000 (31 December 2018: HK\$200,000,000) are secured by (i) the investment properties of HK\$369,200,000 (31 December 2018: HK\$369,200,000), (ii) a charge of deposits for the total principal amount of not less than HK\$4,000,000 together with interest accrued thereon, (iii) bank deposits of not less than HK\$6,000,000 and (iv) assignment of rental income from properties to a designated bank account which is charged to the bank.

Other borrowings of approximately HK\$5,560,000 (31 December 2018: Nil) is secured by the entire issued shares of Super Homes Limited, an indirect wholly-owned subsidiary of the Company as collaterals.

During the six months ended 30 June 2019, the Company has violated several covenants attached to the interest-bearing bank loan and other borrowings. Breaches of the covenants would permit the bank or lender to immediately call borrowings.

The net asset value of the Group per share as at 30 June 2019 was approximately HK\$0.07 (31 December 2018: HK\$0.07) based on the 2,819,102,084 (31 December 2018: 2,819,102,084) shares in issue.

Looking ahead, the Group targets to rent out all the remaining units to maximize the rental income. This business segment is expected to provide stable income stream to the Group.

LIQUIDITY AND FINANCIAL RESOURCES

All the Group's funding and treasury activities are centrally managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Company's latest annual report. The Group's monetary assets and liabilities are denominated and the Group conducts its business transactions principally in Hong Kong dollars. In view of the business segment in Japan, the Group manages its foreign currency risk by closely reviewing the movement of the foreign currency rate and considers hedging significant foreign currency exposure should the need arise.

As at 30 June 2019, there was bank loans in the sum of HK\$200,000,000 outstanding (31 December 2018: HK\$200,000,000). The Group's working capital requirements are funded by bank loans and cash generated from its ordinary course of business.

The gearing ratio of the Group as at 30 June 2019 was 1.08 (31 December 2018: 1.02). Gearing ratio was calculated based on total debts divided by total equity. The amount of total debts was calculated by aggregating the bank and other borrowings.

DISCLOSURE OF INFORMATION ON DIRECTORS

Pursuant to Rule 13.51B(1) of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), the changes of information on Directors are as follows:

1. Mr. Gao Han (“Mr. Gao”) was appointed as an independent non-executive Director, a member and the chairman of the remuneration committee, a member of the nomination committee and a member of the audit committee with effect from 28 February 2019;
2. Mr. Chow Chi Ping, David (“Mr. Chow”) was appointed as an independent non-executive Director, a member and the chairman of the audit committee, a member of the nomination committee and a member of the remuneration committee of the Company with effect from 28 February 2019.
3. Mr. Chen Meng has resigned as an executive Director with effect from 23 August 2019;
4. Mr. Li Feng Mao has resigned as a non-executive Director and the chairman of the Board with effect from 23 August 2019;
5. Mr. Wang Song Ling has resigned as an independent non-executive Director with effect from 23 August 2019. Mr. Wang also ceased to be the chairman of the nomination committee, a member of the audit committee and the remuneration committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of the Listed Issuers (the “Model Code”) as stipulated in Appendix 10 to the Listing Rules as its own code of conduct regarding Director’s securities transactions. Specific enquiry has been made to all the Directors, and the Directors have confirmed that they have complied with all relevant requirements as stipulated in the Model Code during the six months ended 30 June 2019.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2019, the Company had applied the principles of the Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and complied with all the applicable code provisions of the Code, except that, (i) all Directors were not able to attend the annual general meeting of the Company held on 28 June 2019 due to prior business commitments, (ii) the Company failed to satisfy the requirement on company secretary, details of which are set out in the paragraph headed “Failure to satisfy the requirements on independent non-executive Directors and company secretary” of this announcement.

FAILURE TO SATISFY THE REQUIREMENTS ON INDEPENDENT NON-EXECUTIVE DIRECTORS AND COMPANY SECRETARY

Following the resignations of Mr. Wang Song Ling, the Company only has two independent non-executive Directors, which falls below the minimum number requirement of independent non-executive Directors as required under Rules 3.10 of the Listing Rules. The Company also only has two audit committee members which falls below the minimum number of committee members requirement under Rule 3.21 of the Listing Rules.

The Company will use its best endeavours to ensure that the suitable candidate(s) is/are appointed as soon as possible and, in any event, within three months from the effective date of the resignation of Mr. Wang Song Ling pursuant to Rules 3.10 and 3.21 of the Listing Rules. The Company will make further announcement(s) as and when appropriate.

Mr. Zhou Chen has resigned as the company secretary of the Company with effect from 27 June 2019. Following Mr. Zhou's resignation, there remains the outstanding appointment of company secretary of the Company as required under Rule 3.28 of the Listing Rules. Mr. Zhou Chen was appointed as the company secretary of the Company again on 30 August 2019.

EVENT SUBSEQUENT TO 30 JUNE 2019

On 6 August 2019, the Company received a letter (the "Requisition Notice") from a shareholder, Zhonghan International Holdings Group Limited ("Zhonghan"), requesting that a special general meeting of the Company be called and held pursuant to the Companies Act 1981 of Bermuda as soon as possible to appoint Mr. Huang Binghuang, Ms. Xia Ping and Ms. Wang Lijiao as Directors and Mr. Lum Pak Sum as an independent non-executive Director with immediate effect following the passing of such ordinary resolution and to grant general mandates to issue and repurchase shares. The Company will convene a special general meeting on 30 September 2019 to consider the above matters. For further details, please refer to the announcement of the Company dated 28 August 2019.

The Group has sold a residential property to an independent third party for a consideration of HK\$10,350,000. Completion has taken place on 31 July 2019.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019.

REVIEW OF AUDIT COMMITTEE

The audit committee of the Company is responsible for reviewing and monitoring the financial reporting process, risk management and internal control systems of the Group. As at the date of this announcement, the audit committee comprises two independent non-executive Directors, namely Mr. Gao Han and Mr. Chow Chi Ping. The audit committee has reviewed unaudited consolidated interim results of the Company for the six months ended 30 June 2019.

PUBLICATION OF INTERIM REPORT

The interim report of the Company containing all the information required by the Listing Rules will be dispatched to its shareholders and published on the websites of the Stock Exchange of Hong Kong Limited (www.hkex.com.hk) and the Company (www.chn-graphene.com) in due course.

By order of the Board of
China Graphene Group Limited
Chow Chi Ping
Independent Non-executive Director

Hong Kong, 30 August 2019

As at the date of this announcement, the Board comprises Mr. Zhou Chen as executive Director; and Mr. Gao Han and Mr. Chow Chi Ping as independent non-executive Directors