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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 ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of directors (the “**Board**”) of China Graphene Group Limited (the “**Company**”) announces the audited consolidated financial 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, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue	4	16,529	14,572
Cost of sales		<u>(1,590)</u>	<u>(703)</u>
Gross profit		14,939	13,869
Other income	5	2,604	541
Other gains and losses	6	(43,808)	110,237
Operating and administrative expenses		<u>(56,267)</u>	<u>(67,973)</u>
(Loss)/profit from operations		(82,532)	56,674
Finance costs	8	(5,943)	(4,553)
Share of losses of associates		<u>(330)</u>	<u>(223)</u>
(Loss)/profit before tax		(88,805)	51,898
Income tax expenses	9	<u>(17)</u>	<u>—</u>
(Loss)/profit for the year attributable to owners of the Company	10	<u>(88,822)</u>	<u>51,898</u>

	<i>Note</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Other comprehensive income			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		<u>1,412</u>	<u>815</u>
Other comprehensive income for the year, net of tax		<u>1,412</u>	<u>815</u>
Total comprehensive (expenses)/income for the year attributable to owners of the Company		<u><u>(87,410)</u></u>	<u><u>52,713</u></u>
(Loss)/earnings per share			
– Basic	<i>13</i>	<u><u>(HK cents 3.15)</u></u>	<u><u>HK cents 1.84</u></u>
– Diluted		<u><u>(HK cents 3.15)</u></u>	<u><u>HK cents 1.84</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

		2018		2017	
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Property, plant and equipment			4,218		6,700
Investment properties			369,200		358,400
Investment in associates			12,211		12,541
Pledged bank deposits			6,368		13,769
Deposits paid for investment properties	14		1,500		–
Prepayment for property, plant and equipment	14		–		37,442
			<u>393,497</u>		<u>428,852</u>
Current assets					
Inventories			527		462
Trade and other receivables	14		6,329		7,466
Investments at fair value through profit or loss			645		737
Cash and cash equivalents			<u>5,359</u>		<u>57,422</u>
			<u>12,860</u>		<u>66,087</u>
Current liabilities					
Trade and other payables	15		9,484		10,673
Current tax liabilities			17		–
Bank borrowings	16		<u>200,000</u>		<u>200,000</u>
			<u>209,501</u>		<u>210,673</u>
Net current liabilities			<u>(196,641)</u>		<u>(144,586)</u>
NET ASSETS			<u><u>196,856</u></u>		<u><u>284,266</u></u>
CAPITAL AND RESERVES					
Share capital			140,955		140,955
Reserves			<u>55,901</u>		<u>143,311</u>
TOTAL EQUITY			<u><u>196,856</u></u>		<u><u>284,266</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL 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 Room 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.

In the opinion of the directors of the Company (the “Directors”), as at the date of issue of these consolidated financial statements, (i) the Company became aware that a winding-up petition was made against HK Guoxin Investment Group Limited (“HK Guoxin”) by 吉林省國信興業投資集團有限公司 (the “Petitioner”) in the High Court of Hong Kong on 10 December 2018 on the ground that HK Guoxin is indebted towards the Petitioner a debt of HK\$170,000,000, and (ii) RSM Corporate Advisory (Hong Kong) Limited claiming that Messrs. Osman Mohammed Arab and Lai Wing Lun have been appointed as receivers (the “Receivership”) of the 2,112,395,735 shares held by HK Guoxin in the Company. The Company is not in the position to ascertain the validity of the Petition and the Receivership and the outcome thereof. The Company is now in the course of taking legal advice on the matters mentioned above in order to assess its legal positions. Up to the date of these consolidated financial statements, no significant information has been received by the Company so far. Before the winding-up petition and claiming from the receivers, HK Guoxin, which is a company incorporated in Hong Kong, is the immediate parent and Mr. Li Feng Mao, the sole beneficial owner of HK Guoxin and a director of the Company, is the ultimate controlling party of the Company.

2. GOING CONCERN BASIS

The Group incurred a loss of approximately HK\$88,822,000 for the year ended 31 December 2018, the Group had net current liabilities of approximately HK\$196,641,000 as at 31 December 2018 and had net cash outflow from operating activities of approximately HK\$38,761,000 during the year. Notwithstanding this fact, the Directors consider it is appropriate to prepare the 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 has reviewed the financial position of the Group as at 31 December 2018, 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.

In addition, the Group can also improve its financial position, immediate liquidity and cash flows, by adopting the following measures:

- (a) the Directors will take action to reduce costs;
- (b) the Directors will renew bank borrowings; and
- (c) the Directors is progress to sell certain investment properties.

Should the Group be unable to continue as a going concern, adjustments would have to be made to the 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 consolidated financial statements.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; 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 year and prior years.

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

An analysis of the Group's revenue for the year is as follows:

	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	10,747	10,126
Provision of property management services	289	201
Sale of plants and provision of horticultural services	4,894	4,122
Loan interest income	167	60
Sale of graphene	432	63
	16,529	14,572

5. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest income on bank deposits	2	1
Dividend income from equity investments	29	26
Gain on disposals of property, plant and equipment	278	–
Reversal of over-provided expenses in prior years	1,483	–
Reversal of allowance for trade receivables	164	–
Others	648	514
	<u>2,604</u>	<u>541</u>

6. OTHER GAINS AND LOSSES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Fair value gain on investment properties	10,800	110,081
Fair value (loss) gain on investments at fair value through profit or loss	(92)	156
Write-off of prepayment for property, plant and equipment	(54,516)	–
	<u>(43,808)</u>	<u>110,237</u>

7. SEGMENT INFORMATION

The Group's operating segments are identified on the basis of internal report about the components of the Group that are regularly received by the chief operating decision maker in order to allocate resources to segments and to assess their performance. The chief operating decision maker is the Company's Directors.

The Group has five operating segments as follows:

Property investment – engages in leasing out residential properties

Horticultural services – provides horticultural services

Graphene manufacturing and sales – manufactures and sells graphene and graphene-related products

Property management and other related services – provides building management services

Money lending – provides loan financing to corporate entities and individuals

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profits or losses do not include unallocated administrative expenses, share of losses of associates, unallocated other income, unallocated other gains and losses, finance costs and income tax expense. Segment assets do not include pledged bank deposits, interests in associates and unallocated corporate assets. Segment liabilities do not include bank borrowings, unallocated corporate liabilities, current tax liabilities and deferred tax liabilities.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

(a) Disaggregation of revenue

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

	2018	2017
	HK\$'000	HK\$'000
Disaggregated by major products or services		
– Provision of property management services	289	201
– Sale of plants and provision of horticultural services	4,894	4,122
– Sale of graphene	432	63
Revenue from contracts with customers	5,615	4,386
– Rental income	10,747	10,126
– Loan interest income	167	60
Total revenue	16,529	14,572
Disaggregated by geographical location of customers		
– Hong Kong	5,183	4,323
– Japan	432	63
	5,615	4,386

Timing of revenue recognition

	2018			2017		
	At a point		Total	At a point		Total
	in time	Over time	HK\$'000	in time	Over time	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Provision of property management services	–	289	289	–	201	201
Sale of plants and provision of horticultural services	897	3,997	4,894	578	3,544	4,122
Sale of graphene	432	–	432	63	–	63
Total	1,329	4,286	5,615	641	3,745	4,386

Provision of property management services

Revenue from property management services recognised when the services are rendered.

Sale of plants and provision of horticultural services

The Group sells plants to the customers. Sales are recognised when control of the plants has transferred, being when the plants are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the plants and the customer has obtained legal titles to the plants.

Revenue from horticultural services is recognised when the services are rendered.

Sales of plants and provision of horticultural services to customers are normally made with credit terms of 30 days. A receivable is recognised when the plants are delivered or services are rendered to the customers as this is the point in time or over time that the consideration is unconditional because only the passage of time is required before the payment is due.

Sale of graphene

The Group sells graphene to the customers. Sales are recognised when control of the graphene has transferred, being when the graphene is delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the graphene and the customer has obtained legal titles to the graphene.

Sales to customers are normally made with credit terms of 30 days. A receivable is recognised when the graphene is delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

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

Information regarding the Group's reportable segments as provided to the chief operation decision maker for the purposes of resource allocation and assessment of segment performance for the year is set out below.

Certain comparative figures on segment information have been reclassified to conform to the current year's presentation. The new classification on segment information was considered to provide a more appropriate presentation.

	Property investment	Horticultural services	Graphene manufacturing and sales	Property management and other related services	Money lending	Total
	2018	2018	2018	2018	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Years ended 31 December 2018						
Revenue from customers	10,747	4,984	432	289	167	16,619
Intersegment revenue	–	(90)	–	–	–	(90)
Revenue from external customers	<u>10,747</u>	<u>4,894</u>	<u>432</u>	<u>289</u>	<u>167</u>	<u>16,529</u>
Segment profit/(loss)	52	(2,326)	(68,524)	224	47	(70,527)
Depreciation	1,086	–	934	–	–	2,020
Additions to segment non-current assets	42	–	95	–	–	137
As at 31 December 2018						
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>
	Property investment	Horticultural services	Graphene manufacturing and sales	Property management and other related services	Money lending	Total
	2017	2017	2017	2017	2017	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Years ended 31 December 2017						
Revenue from customers	10,126	4,243	63	201	60	14,693
Intersegment revenue	–	(121)	–	–	–	(121)
Revenue from external customers	<u>10,126</u>	<u>4,122</u>	<u>63</u>	<u>201</u>	<u>60</u>	<u>14,572</u>
Segment profit/(loss)	92,014	(10,324)	(9,064)	191	49	72,866
Depreciation	1,081	–	945	–	–	2,026
Additions to segment non-current assets	26	–	2,275	–	–	2,301
As at 31 December 2017						
Segment assets	<u>369,153</u>	<u>2,775</u>	<u>62,302</u>	<u>876</u>	<u>4,503</u>	<u>439,609</u>
Segment liabilities	<u>5,456</u>	<u>719</u>	<u>1,830</u>	<u>43</u>	<u>85</u>	<u>8,133</u>

Reconciliations of segment revenue and profit or loss

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue		
Total revenue of reportable segments	16,619	14,693
Elimination of intersegment revenue	(90)	(121)
	<u>16,529</u>	<u>14,572</u>
Profit or loss		
Total (loss)/profit of reportable segments	(70,527)	72,866
Elimination of intersegment profits	(90)	(121)
Share of losses of associates	(330)	(223)
Unallocated amounts:		
– Depreciation of property, plant and equipment	(16)	(15)
– Finance costs	(5,943)	(4,553)
– Other gains and losses	460	508
– Unallocated corporate expenses	(12,359)	(16,564)
	<u>(88,805)</u>	<u>51,898</u>
Consolidated (loss)/profit before tax	<u>(88,805)</u>	<u>51,898</u>

Reconciliations of segment assets and liabilities

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Assets		
Total assets of reportable segments	386,522	439,609
Investments in associates	12,211	12,541
Unallocated:		
– Pledged bank deposits	6,368	13,769
– Cash and cash equivalents	168	28,432
– Other assets	1,088	588
	<u>406,357</u>	<u>494,939</u>
Consolidated total assets	<u>406,357</u>	<u>494,939</u>
Liabilities		
Total liabilities of reportable segments	8,548	8,133
Unallocated:		
– Bank borrowings	200,000	200,000
– Other liabilities	936	2,540
– Current tax liabilities	17	–
	<u>209,501</u>	<u>210,673</u>
Consolidated total liabilities	<u>209,501</u>	<u>210,673</u>

Geographical information

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue		Non-current assets	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Hong Kong	16,097	14,509	372,565	361,326
Japan	432	63	2,353	41,216
Consolidated total	<u>16,529</u>	<u>14,572</u>	<u>374,918</u>	<u>402,542</u>

Revenue from major customers contributing 10% or more to the Group's revenue are as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Rental income – Customer A	<u>3,840</u>	<u>3,840</u>

8. FINANCE COSTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest on bank borrowings	<u>5,943</u>	<u>4,553</u>

9. INCOME TAX EXPENSES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax – Hong Kong Profits Tax Provision for the year	<u>17</u>	<u>–</u>

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the year ended 31 December 2018. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements since the Group has sufficient tax losses brought forward to set off against assessable profits for the year ended 31 December 2017.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expenses and the product of (loss)/profit before tax multiplied by the Hong Kong Profits Tax is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(Loss)/profit before tax	<u>(88,805)</u>	<u>51,898</u>
Tax at the domestic income tax rate of 16.5% (2017: 16.5%)	(14,653)	8,563
Tax effect of expenses that are not deductible	12,465	3,870
Tax effect of income that is not taxable	(1,854)	(18,163)
Tax effect of unused tax losses not recognised	4,870	8,496
Tax effect of utilisation of tax losses not previously recognised	(91)	(12)
Tax effect of temporary differences not recognised	(339)	161
Effect of different tax rate of subsidiaries	<u>(381)</u>	<u>(2,915)</u>
	<u>17</u>	<u>–</u>

10. (LOSS)/PROFIT FOR THE YEAR

The Group's (loss)/profit for the year is stated after charging/(crediting) the following:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Depreciation of property, plant and equipment	2,036	2,041
Fair value gain on investment properties	(10,800)	(110,081)
Operating lease charges – Land and buildings	5,802	5,773
Auditor's remuneration		
– Current	750	705
– Under-provision in prior year	–	250
Cost of inventories sold	1,590	703
(Reversal of) allowance for inventories (included in cost of sales)	(2)	149
Write-off bad debts	37	–
(Reversal of) allowance for trade receivables	<u>(164)</u>	<u>191</u>

11. EMPLOYEE BENEFITS EXPENSE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Staff costs including directors' remunerations:		
Salaries, bonuses and allowances	30,881	41,487
Retirement benefit scheme contributions	<u>1,476</u>	<u>880</u>
	<u>32,357</u>	<u>42,367</u>

12. DIVIDENDS

The board of directors (the “Board“) does not recommend the payment of any dividend for the year ended 31 December 2018 (2017: Nil).

13. (LOSS)/EARNINGS PER SHARE

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(Loss)/profit:		
(Loss)/profit for the purpose of calculating basic and diluted (loss)/earning per share attributable to owners of the Company	<u>(88,822)</u>	<u>51,898</u>
	<i>2018</i> <i>'000</i>	<i>2017</i> <i>'000</i>
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted (loss)/earning per share	<u>2,819,102</u>	<u>2,819,102</u>

The basic and diluted (loss)/earning per share for the years ended 31 December 2018 and 2017 were the same as the Company had no dilutive potential ordinary shares in issue during the years.

14. TRADE AND OTHER RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	2,032	958
Allowance for doubtful debts	<u>(27)</u>	<u>(191)</u>
	2,005	767
Prepayments for property, plant and equipment	–	37,442
Deposits paid for investment properties	1,500	–
Other prepayments	1,067	2,426
Rental and other deposits	2,628	2,386
Other tax receivables	440	–
Other receivables	<u>189</u>	<u>1,887</u>
	<u>7,829</u>	<u>44,908</u>
Analysed as:		
Current assets	6,329	7,466
Non-current assets	<u>1,500</u>	<u>37,442</u>
	<u>7,829</u>	<u>44,908</u>

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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 90 days	1,883	705
91 to 180 days	112	60
181 to 365 days	8	2
Over 365 days	2	–
	2,005	767

As at 31 December 2018, an allowance was made for estimated irrecoverable trade receivables of approximately HK\$27,000 (2017: approximately HK\$191,000).

Reconciliation of allowance for trade receivables:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
At 1 January	191	–
Allowance for the year	(164)	191
At 31 December	27	191

The Group applies the simplified approach under HKFRS 9 to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on share credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	Up to 3 months past due	3 to 6 months past due	6 to 12 months past due	Over 12 months past due	Total
At 31 December 2018						
Weighted average expected loss rate	–	–	15%	100%	–	
Receivable amount (HK\$'000)	1,560	398	53	19	2	2,032
Loss allowance (HK\$'000)	–	–	(8)	(19)	–	(27)
At 31 December 2017						
Weighted average expected loss rate	–	–	–	–	99%	
Receivable amount (HK\$'000)	471	234	60	–	193	958
Loss allowance (HK\$'000)	–	–	–	–	(191)	(191)

15. TRADE AND OTHER PAYABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	96	150
Other payables and accrued charges	9,016	8,618
Amount due to a director	–	1,664
Other tax payables	127	–
Receipt in advance	245	241
	<u>9,484</u>	<u>10,673</u>

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 90 days	<u>96</u>	<u>150</u>

The amount due to a director is unsecured, interest-free and repayable on demand.

16. BANK BORROWINGS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bank loans	<u>200,000</u>	<u>200,000</u>

The bank borrowings are classified as current liabilities as they contain a repayment on demand clause. According to the repayment schedule, the bank borrowings are repayable as follow:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within 1 year	120,000	120,000
After 1 year but within 2 years	80,000	80,000
	<u>200,000</u>	<u>200,000</u>

The carrying amounts of the Group's bank borrowings are denominated in HKD.

The interest rate of the Group's bank borrowings as at 31 December 2018 and 2017 was 2% per annum over one-month HIBOR or 2% per annum below HKD prime rate, whichever is lower.

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

Bank loans of HK\$200,000,000 (2017: HK\$200,000,000) are secured by (i) the investment properties of HK\$369,200,000 (2017: HK\$358,400,000), (ii) the land and buildings of approximately HK\$406,000 (2017: approximately HK\$423,000), (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.

During the year, the Company has violated several covenants attached to the interest-bearing borrowings. Breaches in meeting the covenants would permit the bank to immediately call borrowings.

17. CONTINGENT LIABILITIES

In light that there was a change in a subsidiary's shareholdings during the year ended 31 December 2002 and the subsidiary has accumulated tax loss brought forward, Section 61B of the Hong Kong Inland Revenue Ordinance basically prevents the utilization of tax loss through the purchase of companies with accumulated tax losses. In view of the inherent uncertainties of change of shareholders, and the outcome of which cannot be estimated reliably at this stage, the Directors considered that no specific provision should be made in the consolidated financial statements.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT ON THE COMPANY’S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

ZHONGHUI ANDA CPA Limited has expressed qualified opinion on the audited consolidated financial statements of our Group for the financial year ended 31 December 2018, an extract of which is as follows:

Qualified Opinion

We have audited the consolidated financial statements of China Graphene Group Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out in the annual report of the Company, 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, consolidated statement of changes in equity and 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, except for the possible effects of the matters described in the Basis for Qualified Opinion section of our report, 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 in accordance 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.

Basis for Qualified Opinion

1. Investment in associates

Five Color Stone Technology Corporation (“Five Color Stone”)

No sufficient evidence has been provided to satisfy ourselves as to (i) the recoverable amount of the investment in Five Color Stone with carrying value of approximately HK\$12,211,000 and HK\$12,541,000 as at 31 December 2018 and 2017, respectively and (ii) whether share of loss of approximately HK\$330,000 and HK\$223,000 of Five Color Stone is properly recognised for the year ended 31 December 2018 and 2017, respectively.

2. Limited accounting books and records of subsidiaries

WI Capital Co., Limited (“WI Capital”) and WI Graphene Co., Limited (“WI Graphene”)

Due to the insufficiency of supporting documentation and explanations for accounting books and records in respect of WI Capital and WI Graphene for the years ended 31 December 2018 and 2017, we were unable to carry out audit procedures to satisfy ourselves as to whether the following income and expenses for the years ended 31 December 2018 and 2017 and the assets and liabilities as at those dates, and the segment information and other related disclosure notes in relation to the Group, as included in the consolidated financial statements of the Group, have been properly recorded and accounted for in the consolidated financial statements:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Income and expenses for the years ended 31 December:		
Revenue	432	63
Cost of sales	<u>(431)</u>	<u>(57)</u>
Gross profit	1	6
Other revenue	291	29
Other losses	–	(70)
Write-off of prepayment for property, plant and equipment	(54,516)	–
Administrative expenses	<u>(14,300)</u>	<u>(16,817)</u>
Loss from operations	<u>(68,524)</u>	<u>(16,852)</u>
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translating foreign operations	<u>1,412</u>	<u>815</u>
Other comprehensive income for the year, net of tax	<u>1,412</u>	<u>815</u>
Total comprehensive expenses for the year	<u><u>(67,112)</u></u>	<u><u>(16,037)</u></u>
	2018	2017
Assets and liabilities as at 31 December:	HK\$'000	HK\$'000
Non-current assets		
Property, plant and equipment	2,353	3,774
Prepayment for property, plant and equipment	<u>–</u>	<u>37,442</u>
	<u>2,353</u>	<u>41,216</u>
Current assets		
Trade and other receivables	1,801	1,821
Cash and cash equivalents	<u>13</u>	<u>19,263</u>
	<u>1,814</u>	<u>21,084</u>
Current liability		
Trade and other payables	<u>5,322</u>	<u>1,830</u>
	<u>5,322</u>	<u>1,830</u>
Net current (liabilities)/assets	<u>(3,508)</u>	<u>19,254</u>
Net (liabilities)/assets	<u><u>(1,155)</u></u>	<u><u>60,470</u></u>

Any adjustments to the figures as described from points 1 and 2 above might have consequential effects on the consolidated financial performance and consolidated cash flows for the two years ended 31 December 2018 and 2017 and the consolidated financial positions of the Group as at 31 December 2018 and 2017, and the related disclosures thereof in the consolidated financial statements.

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA’s Code of Ethics for Professional Accountants (the “**Code**”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material Uncertainty Related to the Going Concern

We draw attention to note 2 to the consolidated financial statements which states that the Group incurred a loss of approximately HK\$88,822,000 for the year ended 31 December 2018 and as at 31 December 2018, the Group’s current liabilities exceeded its current assets by approximately HK\$196,641,000 and the Group had a net operating cash outflows of approximately HK\$38,761,000 for the year ended 31 December 2018. These conditions indicate a material uncertainty which may cast significant doubt about the Group’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matters

We draw attention to note 1 to the consolidated financial statements which states that the Company became aware that a winding-up petition was made against HK Guoxin Investment Group Limited (“**HK Guoxin**”), which is the immediate parent of the Company and receivers were appointed in respect of the 2,112,395,735 shares held by HK Guoxin in the Company.

We draw attention to note 26 to the consolidated financial statements which states that the Company has violated several covenants attached to the interest-bearing borrowings. Breaches in meeting the covenants would permit the bank to immediately call borrowings.

Our opinion is not modified in respect of these matters.

BUSINESS REVIEW AND PROSPECTS

Financial review

During the year, the Group continued to engage in property related businesses, provision of horticultural services, money lending business, securities trading business, manufacturing and trading of graphene and graphene-related products. The Group's revenue of the year was mainly derived from rental income of investment properties.

The Group recorded a substantial loss of HK\$88,822,000 for the year as compared to a profit of HK\$51,898,000 for last year. The loss is mainly attributable to the cessation of graphene business in Japan, and as a result, the prepayment of equipment and machinery for the manufacturing of graphene recorded in the accounting books of overseas subsidiaries amounting to HK\$54,516,000 has been written off for the year ended 31 December 2018.

Total revenue increase by 13% to HK\$16,529,000 (2017: HK\$14,572,000).

Revenue from rental income slightly grew by 6% year-over-year to HK\$10,747,000 (2017: HK\$10,126,000).

Revenue derived from horticultural services recorded a 19% increase to HK\$4,894,000 (2017: HK\$4,122,000).

Operating and administrative expenses decreased to HK\$56,267,000 from the prior year of HK\$67,973,000, representing a reduction of 17% year-over-year.

Finance costs amounted to HK\$5,943,000 (2017: HK\$4,553,000), representing an increase of 31% year-over-year due to the reason that the banking facility of HK\$200,000,000 was fully drawdown since August 2017.

Total equity of the Group decrease by 31% to HK\$196,856,000 (2017: HK\$284,266,000) as a result of substantial loss for the year ended 31 December 2018.

The net asset value of the Group per share as at 31 December 2018 was HK\$0.07 (2017: HK\$0.10) based on the 2,819,102,084 (2017: 2,819,102,084) shares in issue.

Business review

The Group changed its intention last year to hold the developed properties as investment properties which generated stable rental income stream to the Group in recent years. Rental income from investment properties contributed over 65% of total revenue of the Group. As at 31 December 2018, the market value of the investment properties in existing state amounted to HK\$369,200,000 (2017: HK\$358,400,000).

The Group operates horticultural services business under the brand “Cheung Kee Garden”, which has over forty years of history and sound reputation in the local market. This business segment has a long established customer base and remained a stable income stream to the Group during the year under review.

The Group started the segment of manufacturing and sales of graphene in Japan since 2016. However, due to shortage of fund recently, as explained in previous announcements, the Group is unable to further support this business segment. After careful consideration, the Board decided to discontinue the construction process and cease the business in Japan. As a result, the prepayment of equipment and machinery for manufacturing of graphene has been written off for the year ended 31 December 2018. During the year, the Group carried out certain graphene trading business amounting to HK\$432,000 (2017: HK\$63,000).

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 and Japanese yen. 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 31 December 2018, there was outstanding bank loans in the principal sum of HK\$200,000,000 (2017: HK\$200,000,000). The Group’s working capital requirements are funded by bank loans which has been renewed for another two years in August 2018. Given its potential change of controlling shareholder as disclosed in the previous announcements dated 27 December 2018 and 20 February 2019, the Group may be in breach of some of the covenants attached to this banking facility. Breaches in meeting the covenants would permit the bank to declare the loans immediately due and repayable. The bank has been conducting a credit review in respect of the existing banking facility. As at the date of this announcement, the bank has not yet notified the Company the results of such review.

The Group recorded a net current liabilities of HK\$196,641,000 for the year ended 31 December 2018 (2017: HK\$144,586,000) and had a net operating cash outflows of HK\$38,761,000 during the year. The management is now actively looking for source of financing to improve the financial situations of the Group.

However, the Directors would like to draw your attention to the extract report of the independent auditor, ZHONGHUI ANDA CPA Limited, with regard to the “Material Undertaking Related to the Going Concern”.

PLEDGE OF ASSETS

As at 31 December 2018, investment properties, certain land and buildings and bank deposits with an aggregate value of not less than of HK\$375,974,000 (2017: HK\$372,592,000) were pledged to the bank to secure bank loans granted to the Group.

EMPLOYEES

As at 31 December 2018, the Group employed a total of 36 employees (2017: 41). Taking into account the financial challenges ahead and the operation needs of the Group, the Group has simplified its manpower by layoff over 50% of employees in early 2019.

BOARD'S VIEW ON AUDITOR'S QUALIFIED OPINION

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by ZHONGHUI ANDA CPA Limited (the “**Auditor**”). The Auditor expressed qualified opinion on the Group’s consolidated financial statements for the year ended 31 December 2018, the “except for” opinion on the availability of sufficient audit evidence from overseas associates and subsidiaries. The details of which are set out in the extract of Independent Auditor’s Report on page 17 of this results announcement. Although the Company has provided certain financial information of overseas associates and subsidiaries to the Auditor, due to the cessation of graphene business, key personnel in this segment have left the company, and the Company was not able to find suitable replacement in such a short time. While the Company is still able to retrieve the relevant accounting records of this segment, the departure of the accounting staff has inevitably led to delay and difficulties during the audit process in retrieving sufficient detailed books and records and other audit evidence, including but not limited to performing audit procedures in obtaining the confirmations from third parties. Based on the assessment of overall situation and feedback from the Auditor, up to the date of this announcement, the Board is using its best endeavour but infeasible to determine the time required to work out alternative methods and specific time required to provide sufficient information so as to allow the Auditor to express an unqualified opinion on the overseas associates and subsidiaries. The Board is proactively seeking professional advices on how to solve the problems of graphene business overseas and will disclose the information in separate announcement on any updates.

AUDIT COMMITTEE

As at the date of this announcement, the audit committee comprises three independent non-executive directors, namely Mr. Chow Chi Ping, Mr. Gao Han and Mr. Wang Song Ling. The purpose of the establishment of the audit committee is for reviewing and supervising the financial reporting system, risk management and internal control systems of the Group. The audit committee has reviewed the Group’s financial statements for the year ended 31 December 2018.

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 year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year under review.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2018, save and except for disclosed herein, the Company had applied the principles of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and complied with all the applicable code provisions of the CG Code, except that the Chairman of the Board was absent from the annual general meeting of the Company held on 29 May 2018 due to other important engagement at the relevant time.

FAILURE TO SATISFY THE REQUIREMENTS ON INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to Rules 3.10(1), 3.10(2), and 3.21 of the Listing Rules, (i) the Board is required to have at least three independent non-executive Directors; (ii) at least one of the independent non-executive Directors must have appropriate professional qualifications or accounting or related financial management expertise; and (iii) the audit committee must comprise a minimum of three members, at least one of whom is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.

The Company failed to satisfy the above-mentioned requirements during the period between 9 November 2017 and 31 January 2018. With effect from 1 February 2018, Mr. Li Wai Kwan (“**Mr. Li WK**”) was appointed as an independent non-executive Director, the chairman of the audit committee and a member of both remuneration and nomination committees. Following his appointment, the Company satisfied the requirements prescribed under Rules 3.10(1), 3.10(2) and 3.21.

On 30 November 2018, Mr. Li WK tendered his resignation as an independent non-executive Director, the chairman of audit committee and a member of both remuneration committee and nomination committee. Following the resignation of Mr. Li WK, the Company failed to satisfy the requirements under Rules 3.10(1), 3.10(2) and 3.21 of the Listing Rules. Further, on 28 December 2018, Mr. Li Jing Bo (“**Mr. Li JB**”) tendered his resignation as an independent non-executive Director, the chairman of remuneration committee and a member of both audit committee and nomination committee.

With effect from 28 February 2019, (i) Mr. Gao Han (“**Mr. Gao**”) was appointed as an independent non-executive Director, the chairman of the remuneration committee, a member of both the nomination committee and the audit committee and (ii) Mr. Chow Chi Ping, David (“**Mr. Chow**”) was appointed as an independent non-executive Director, the chairman of the audit committee, a member of both the nomination committee and the remuneration committee. Following the appointment of both Mr. Gao and Mr. Chow, the number of independent non-executive Directors has satisfied the minimum number as stipulated under Rule 3.10(1) of the Listing Rules. Both Mr. Gao and Mr. Chow possess the professional qualifications as required under Rule 3.10(2) of the Listing Rules, and as such the Company has also complied with the said rule as well as Rule 3.21 of the Listing Rules regarding the composition of the audit committee of the Company.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the Company’s website at www.chn-graphene.com. The 2018 annual report of the Company will be dispatched to its shareholders and published on the above websites in due course.

By order of the Board of
China Graphene Group Limited
Zhou Chen
Executive Director

Hong Kong, 29 March 2019

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