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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 INTERIM RESULTS FOR SIX MONTHS ENDED 30 JUNE 2017

The board of directors (the “Board”) of China Graphene Group Limited (the “Company”) announces that the unaudited consolidated financial results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2017, together with the comparative figures for the six months ended 30 June 2016, are as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		Unaudited six months ended 30 June	
	<i>Note</i>	2017	2016
		HK\$'000	HK\$'000
Revenue	3	2,123	2,828
Cost of sales		(374)	(464)
Gross profit		1,749	2,364
Net gain/(loss) on trading securities		54	(14)
Other revenue		5,352	2,468
Operating and administrative expenses		(33,081)	(25,322)
Loss from operations		(25,926)	(20,504)
Finance costs		(1,967)	–
Share of loss of an associate		(102)	–
Loss before taxation	4	(27,995)	(20,504)
Income tax expense	5	–	–
Loss for the period		(27,995)	(20,504)
<i>Attributable to:</i>			
Equity shareholders of the Company		(27,995)	(20,504)
Non-controlling interests		–	–
		(27,995)	(20,504)
Basic and diluted loss per share	6	HK cent (0.99)	HK cent (0.73)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Unaudited six months ended 30 June	
	2017	2016
Note	HK\$'000	HK\$'000
Loss for the period	(27,995)	(20,504)
Other comprehensive income for the period (after tax and reclassification adjustments)	—	—
Total comprehensive loss for the period	(27,995)	(20,504)
Attributable to:		
Equity shareholders of the Company	(27,995)	(20,504)
Non-controlling interests	—	—
Total comprehensive loss for the period	(27,995)	(20,504)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2017

		Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		7,160	6,630
Investment in an associate		12,662	–
Restricted bank deposits		11,210	8,120
		31,032	14,750
Current assets			
Trading securities		635	581
Inventories		248,690	248,750
Loan receivable		864	2,344
Trade and other receivables	8	67,637	26,739
Cash and cash equivalents		77,673	75,587
		395,499	354,001
Current liabilities			
Trade and other payables	9	22,050	17,198
Bank loan	10	200,000	120,000
		222,050	137,198
Net current assets		173,449	216,803
NET ASSETS		204,481	231,553
Capital and reserves			
Share capital		140,955	140,955
Reserves		63,526	90,598
Total equity attributable to equity shareholders of the Company		204,481	231,553
Non-controlling interests		–	–
TOTAL EQUITY		204,481	231,553

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The interim condensed consolidated financial statements are unaudited, but have been reviewed by the Company's audit committee. The interim condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 31 August 2017.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except for trading securities which are stated at fair values.

The interim condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of interim condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim condensed consolidated financial statements contain condensed consolidated statement of profit or loss, condensed consolidated statement of profit or loss and comprehensive income, condensed consolidated statement of financial position and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2016 that is included in the interim condensed consolidated financial statements as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2016 are available from the Company's principal office in Hong Kong. The auditor has expressed an unqualified opinion on those financial statements in their report dated 20 March 2017.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued the following amendments to Hong Kong Financial Reporting Standards (“HKFRS”) and Hong Kong Accounting Standards (“HKAS”) that are first effective for the current accounting period of the Group:

- HKFRSs (Amendments) “Annual Improvements to HKFRSs 2014–2016 Cycle”
- HKAS 7 “Statement of Cash Flows: Disclosure Initiative”
- HKAS 12 “Income Taxes: Recognition of deferred tax assets for unrealised losses”

The adoption of the amendments has had no significant impact on the results and financial position of the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by business lines (products and services). In a manner consistent with the way in which information is reported internally to the executive directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and performance assessment, the Group has presented the following reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Horticultural services: this segment provides horticultural services.
- Graphene manufacturing: this segment manufactures and sells graphene and graphene related products.
- Property development: this segment develops and sells the Group’s residential properties.
- Property management and other related services: this segment mainly provides building management services.
- Money lending: this segment provides loan financing to corporate entities and individuals.
- Securities trading: this segment engages in the trading of securities.

For the purposes of assessing segment performance and allocating resources between segments, the Company’s executive directors monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible and current assets with the exception of available-for-sale financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade creditors, accruals and other payables attributable to the activities of the individual segments managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is “adjusted EBITDA” i.e. “adjusted earnings before interest, taxes, depreciation and amortisation”, where “interest” is regarded as including bank interest income and investment income and “depreciation and amortisation” is regarded as including impairment losses on non-current assets. To arrive at adjusted EBITDA the Group’s earnings are further adjusted for items not specifically attributed to individual segments, such as auditors’ remuneration and other corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue (including inter segment sales), interest income from cash balances managed directly by the segments, depreciation and amortisation, material non-cash items and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Company's executive directors for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2017 and 2016 is set out below.

For the six months ended 30 June (Unaudited)	Horticultural services		Graphene manufacturing		Property development		Property management and other related services		Money lending		Securities trading		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	1,991	2,343	-	-	-	-	75	61	57	424	-	-	2,123	2,828
Inter-segment revenue	68	44	-	-	-	-	-	-	-	-	-	-	68	44
Reportable segment revenue	<u>2,059</u>	<u>2,387</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>75</u>	<u>61</u>	<u>57</u>	<u>424</u>	<u>-</u>	<u>-</u>	<u>2,191</u>	<u>2,872</u>
Reportable segment profit/(loss) (adjusted EBITDA)	<u>(1,207)</u>	<u>(1,177)</u>	<u>(7,237)</u>	<u>-</u>	<u>(9,770)</u>	<u>(17,638)</u>	<u>64</u>	<u>48</u>	<u>(5)</u>	<u>382</u>	<u>54</u>	<u>(14)</u>	<u>(18,101)</u>	<u>(18,399)</u>
	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Reportable segment assets	2,073	2,296	67,762	49,548	238,127	251,554	947	873	864	2,344	635	581	310,408	307,196
Reportable segment liabilities	<u>292</u>	<u>197</u>	<u>1,379</u>	<u>1,059</u>	<u>1,851</u>	<u>5,163</u>	<u>36</u>	<u>27</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,558</u>	<u>6,446</u>

For the six months ended 30 June 2017, revenue of approximately HK\$311,000 was derived from a single external customer who contributed more than 10% of total revenue of the Group. This revenue was attributable to the horticultural services segment.

For the six months ended 30 June 2016, revenue of approximately HK\$356,000 was derived from a single external customer who contributed more than 10% of total revenue of the Group. This revenue was attributable to the horticultural services segment.

(b) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	Unaudited six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Revenue		
Reportable segment revenue	2,191	2,872
Elimination of inter-segment revenue	(68)	(44)
	<u>2,123</u>	<u>2,828</u>
Profit		
Reportable segment loss	(18,101)	(18,399)
Elimination of inter-segment profit	(68)	(44)
	<u>(18,169)</u>	<u>(18,443)</u>
Reportable segment loss derived from Group's external customers	(18,169)	(18,443)
Other revenue and net income	172	354
Depreciation and amortisation	(895)	(436)
Finance costs	(1,967)	—
Share of loss of an associate	(102)	—
Unallocated corporate expenses	(7,034)	(1,979)
	<u>(27,995)</u>	<u>(20,504)</u>
	Unaudited	Audited
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
Assets		
Reportable segment assets	310,408	307,196
Investment in associates	12,662	—
Unallocated corporate assets		
— restricted bank deposits	11,210	8,120
— cash and cash equivalent	77,673	47,145
— other assets	14,578	6,290
	<u>426,531</u>	<u>368,751</u>
Consolidated total assets	<u>426,531</u>	<u>368,751</u>
Liabilities		
Reportable segment liabilities	3,558	6,446
Unallocated corporate liabilities		
— bank loan	200,000	120,000
— other liabilities	18,492	10,752
	<u>222,050</u>	<u>137,198</u>
Consolidated total liabilities	<u>222,050</u>	<u>137,198</u>

(c) Other segment information

	Horticultural services		Grapheme Manufacturing		Property development		Property management and other related services		Money lending		Securities trading		Unallocated		Total	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Rental income from operating leases	-	-	-	-	5,180	2,113	-	-	-	-	-	-	-	-	5,180	2,113
Depreciation and amortisation	-	-	(347)	-	-	-	-	-	-	-	-	-	(548)	(436)	(895)	(436)
Income tax expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Additions to non-current segment assets during the year	-	-	1,336	-	-	-	-	-	-	-	-	-	26	545	1,362	545

(d) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset.

	Revenue from external customers		Specified non-current assets	
	Unaudited six months ended 30 June		Unaudited 30 June	Audited 31 December
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong (place of domicile)	2,123	2,828	3,478	4,000
Japan	-	-	3,682	2,630
	2,123	2,828	7,160	6,630

4. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	Unaudited six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Depreciation and amortisation	895	436
Cost of inventories	374	464
Net realised and unrealised (gains)/losses on trading securities	(54)	14

5. INCOME TAX

No Hong Kong Profits Tax for the six months ended 30 June 2017 and 2016 has been provided for as the Group has no estimated assessable profits arising in Hong Kong.

6. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of HK\$27,995,000 (2016: HK\$20,504,000) for the period and the weighted average number of approximately 2,819,102,000 (2016: 2,819,102,000) ordinary shares in issue during the period.

(b) Diluted loss per share

Diluted loss per share is the same as basic loss per share as the Company does not have dilutive potential ordinary shares for the six months ended 30 June 2017 and 2016.

7. INTERIM DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2017 (2016: Nil).

8. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Trade debtors		
Within 1 month	327	482
After 1 month but within 3 months	297	348
Over 3 months	171	234
	<hr/>	<hr/>
	795	1,064
Escrow money receivable	20,850	20,351
Other debtors	1,414	1,246
	<hr/>	<hr/>
Receivables	23,059	22,661
Rental and other deposits	42,138	1,499
Prepayments	2,440	2,579
	<hr/>	<hr/>
	67,637	26,739
	<hr/>	<hr/>

The Group's trade receivables are due within 30 days from the date of billing.

9. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Trade creditors		
Within 1 month	17	605
	17	605
Other creditors and accrued charges	7,831	7,321
Amount due to a director	14,150	9,150
	21,998	17,076
Financial liabilities measured at amortised cost		
Receipt-in-advance	52	122
	22,050	17,198

10. BANK LOAN

	Unaudited 30 June 2017 HK\$'000	Audited 31 December 2016 HK\$'000
Bank loan repayable		
— Within one year or on demand	200,000	—
— After 1 year but within 2 years	—	120,000
	200,000	120,000

11. FAIR VALUE MEASUREMENT

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements were approximately equal to their fair values.

12. CONTINGENT LIABILITY

In previous years, a subsidiary of the Group sold a property to a buyer. The buyer alleged that the subsidiary made certain representations in selling of the property. The buyer filed a claim with the High Court in Hong Kong claiming the repayment of consideration of approximately HK\$9.8 million paid in purchasing the property and rescission of the contract together with related costs, interests and damages. The subsidiary filed a defense against the claim. The directors of the Company are of the view that the buyer's claim is based on unreasonable and invalid grounds and therefore unfounded. In view of the inherent uncertainties of the legal proceedings, the outcome of which cannot be estimated reliably at this stage, the directors of the Company considered that no specific provision should be made in the financial statements.

BUSINESS REVIEW

During the period, the Group continued to engage in provision of horticultural services, manufacturing and sales of graphene and graphene related products, property development and property related business, money lending business and securities trading business. The Group's revenue of the period was mainly derived from the provision of horticultural services.

The Group recorded a net loss for the period of approximately HK\$27,995,000, representing an increase in loss of 36.5% when compared to the net loss of approximately HK\$20,504,000 for the corresponding period last year.

The revenue from horticulture services business under the brand "Cheung Kee Garden" decreased from HK\$2,343,000 for the six-month period ended 30 June 2016 to HK\$1,991,000 for the six-month period ended 30 June 2017.

The Company was optimistic on the local property market and continues to market the Group's completed properties held for sale over the period under review.

Regarding the Graphene business, as announced in January 2017, the Company's subsidiary has entered into two agreements, namely the Plant Sales and Purchase Agreement and the License Agreement, with the Japan Partner. The subsidiary is currently working actively with the local governmental authority in related licensing applications for commencement of production and related establishment, and has engaged with a Japanese university in research and development project in other graphene related technology.

During the period, the Group invested approximately HK\$12.7 million in a joint venture for the operation of a newly start-up company in Taiwan which principal business is manufacturing and sales of Graphene. The joint venture is owned as to 28% and 72% by the Group and the joint venture partner respectively. The Group expects the investment will bring synergy to the development of the Group's graphene business.

The net asset value of the Company per share as at 30 June 2017 was approximately HK\$0.07 (31 December 2016: HK\$0.09) based on the 2,819,102,084 shares (31 December 2016: 2,819,102,084 shares) issued.

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 addition to the Group's business in manufacturing and sales of graphene and graphene related products, the Board considers that the Group's exposure to foreign exchange risk is relatively controllable with the slight appreciation of the Japanese Yen in the first half of the year and the general market expectation that they will remain stable in the second half. The Group has not entered into any financial derivatives contract for either hedging or speculative purposes.

The Group had HK\$200,000,000 bank borrowing as at 30 June 2017. The Company has a banking facility relating to a two-year term loan with aggregate amount of HK\$200,000,000. The increase in finance cost represents the interest expenses on the bank loan during the period. The loan is secured by the pledge of all the properties owned by the Group. Working capital requirements of the Group are funded by internal resources and bank loan.

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 2017.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2017, 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 of Hong Kong Limited (the "Listing Rules") and complied with all the applicable code provisions of the Code, except that the Chairman of the Board was absent from the annual general meeting of the Company due to other important engagement at the relevant time.

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. The audit committee has reviewed unaudited consolidated financial results of the Company for the six months ended 30 June 2017.

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
Yuan Li Min
Executive Director

Hong Kong, 31 August 2017

As at the date of this announcement, the Board comprises Mr. Yuan Li Min and Mr. Chen Meng as executive Directors; Mr. Li Feng Mao as non-executive Director; Mr. Wang Song Ling, Mr. Leung Po Hon and Mr. Li Jing Bo as independent non-executive Directors.