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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)

INSIDE INFORMATION

This announcement is made by China Graphene Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the announcement of the Company dated 27 December 2018 (the “**Previous Announcement**”) in relation to the appointment of Receivers (the “**Receivership**”) in respect of 2,112,395,735 shares (representing approximately 74.93% of the entire issued share capital of the Company) held by HGIGL in the Company (the “**Shares**”). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those specified in the Previous Announcement.

Subsequent to the Previous Announcement, the Company became aware that a winding-up petition was made against HGIGL 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 (the “**Petition**”) on the ground that HGIGL is indebted towards the Petitioner a debt of HK\$170,000,000. Based on the information available to the Group, the Petitioner is indirectly owned as to approximately 98% by Mr. Li Feng Mao (the chairman, non-executive director and the ultimate controlling shareholder of the Company).

The Company is not in the position to ascertain the validity of the Petition and the Receivership and the outcome thereof. Nevertheless, given that HGIGL is a controlling shareholder of the Company, the Petition and the Receivership may result in the sale of the Shares to other third-party purchasers, which in turn may trigger a mandatory general offer under the Hong Kong Code on Takeovers and Mergers and hence a change of controlling shareholder of the Company should any purchaser(s) acquire 30% or more of the voting rights of the Company.

The Company is now in the course of taking legal advice on the matters mentioned above in order to assess its legal positions. The Company is also in the course of enquiring the relevant parties involved in the Receivership and Petition or the solicitors acting for them the latest status of the same. Up to the date of this announcement, no significant information has been received by the Company so far.

The Company would also like to provide the following updates:

- (a) due to the Receivership and Petition, they, in turn, affected the status of existing banking facility of the Company. The Company has obtained a banking facility of HK\$200 million with a commercial bank since August 2016 which has been renewed for another two years in August 2018. The said banking facility has been fully drawn down. As disclosed in the announcement of the Company dated 12 August 2016, as one of the undertakings required by the bank, all the shares of the Company shall remain listed on The Stock Exchange of Hong Kong Limited and Mr. Li Feng Mao (the sole shareholder of HGIGL, who is also the chairman, non-executive director and the ultimate controlling shareholder of the Company) shall hold, directly or indirectly, over 50% of the entire issued share capital of the Company during the facility period. Any breach of the undertaking described above may constitute an event of default, and all amounts due or owing by the Company to the bank (including principal and interest accrued thereon) shall become immediately due and payable by the Company. Given the trading halt of the Company and its potential change of controlling shareholder, a credit review is currently being conducted by the bank (i.e. as the lender) in respect of the Company's existing banking facilities. As at the date of this announcement, the bank has not yet notified the Company the results of such review. If the bank refuses to grant any waiver on the default and the Company fails to repay all outstanding principal and interest immediately, the bank may enforce the security by selling the 30 units of investment properties of the Company mortgaged to the bank. As at 31 December 2018, the market value of the said 30 units of investment properties in existing state amounted to approximately HK\$369.2 million. Taking into account the fact that the said 30 units of investment properties are the major operating assets of the Group and are the major source of income of the Group, enforcement of the security by the bank may result in insufficiency in the level of operation as required under Rule 13.24 of the Listing Rules;

- (b) in light of the recent financial difficulties of HGIGL which in turn has an adverse impact on the Company to obtain funding (whether by way of financial assistance from HGIGL, bank loans, debt financing or other equity fund raising activities) to support its business segment in Japan, the Company has decided to temporarily suspend its business in Japan, which is at its testing stage before full operation. The continuation of business in Japan depends on, inter alia, the Company's ability to continually provides financial support to the business in Japan, including (i) capital investment to complete the graphene production line; and (ii) working capital. As at the date of this announcement, the Company still need an additional fund of JPY300 million (approximately HK\$21.33 million) to acquire general equipment, design, set up and testing of the production line, hiring of workers and technicians to bring the production line into production stage. The Company also requires an additional fund of approximately JPY50 million (approximately HK\$3.51 million) to support its business in Japan. Due to the aforesaid, the local management in Japan has proposed the board of directors of the Company, a temporary suspension of business in Japan. After careful consideration, the board have accepted the proposal. The Board would like to draw the attention of the public that the auditors of the Company may take the view that full or partial impairment may be needed as a result of such suspension which in turn may adversely affect the financial results of the Company for the financial year ended 31 December 2018;
- (c) pursuant to a court judgement issued on 10 October 2018 regarding a claim made against the Company in relation to a residential flat it sold in December 2010, the Company was ordered to return the net purchase price of HK\$9,669,000 it received for the said flat back to the purchaser (the “**Judgment Amount**”) and the legal and beneficial title of the said flat has been transferred back from the purchaser to the Company. The Judgement Amount has been settled on 11 January 2019 and completion has taken place on 25 January 2019;
- (d) Super Homes Ltd., one of the wholly-owned subsidiaries of the Company, has received an enquiry letter from the Inland Revenue Department of Hong Kong (the “**IRD**”) in early February 2019 regarding the taxability of the gain from the revaluation of the investment properties of the Group. In the event that the IRD assesses the gain as taxable income, the Group will be liable for additional tax liabilities, which is estimated to be up to HK\$20 million. The Company is now seeking advice from its tax consultant in addressing the queries of the IRD in this regard;
- (e) the management is now actively looking for source of financing to improve the financial situations of the Company. In this connection, the Company intends to sell some of its investment properties. Since all investment properties have been mortgaged to the bank, the consent of the bank is needed for the sale. As at the date of this announcement, the Company has not yet obtained such consent;
- (f) the Company would like to stress that, even the bank consents to the sale of investment properties, the bank may require the proceeds to be used for repayment of the outstanding principal and interest under the bank facilities or such other purpose as specified by the bank. Under such circumstances, the financial difficulty of the Company may not be resolved through the sale of investment properties;
- (g) the Company understands from HGIGL that it is now actively looking for source of financing to resolve its financial difficulties.

Despite the above, the Company would like to stress that its business and operations in Hong Kong remain normal. Nevertheless, in the event that:

- (a) the bank refuses to grant any waiver on the default and declare the loan facilities advanced to the Company and its subsidiaries immediately due and repayable, it may enforce the security and sell the investment properties currently owned by the Company and/or the Company is unable to resume its business in Japan, and/or formulate and implement any new and sustainable business, the Company may fail to comply with Rule 13.24 of the Listing Rules, which stipulates that the Company shall carry out a sufficient level of operations; or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Stock Exchange to warrant the continued listing of the Shares; and/or
- (b) the Company fails to implement its plan to sell its investment properties and utilize the proceeds of sale thereof, or otherwise obtain a new source of financing; it will not be able to resolve its financial difficulties,

and under any one of such circumstances above, there may be a risk that trading in the shares of the Company may be suspended again. The Board recommends that investors to exercise caution when dealing in the securities of the Company.

Further announcement will be made by the Company if there is any update on the above matters.

At the request of the Company, trading in the shares of the Company on the Stock Exchange was halted with effect from 11:01 a.m. on 31 December 2018 and will resume trading effect from 9:00 a.m. on 21 February 2019.

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

Hong Kong, 20 February 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 as independent non-executive Director.