
THIS RESPONSE DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Response Document or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Graphene Group Limited**, you should at once hand this Response Document to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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中國烯谷集團有限公司
China Graphene Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 63)

**RESPONSE DOCUMENT RELATING TO UNCONDITIONAL
MANDATORY GENERAL CASH OFFER BY GUOTAI JUNAN
SECURITIES (HONG KONG) LIMITED FOR AND ON BEHALF OF
ZHONGHAN INTERNATIONAL HOLDINGS GROUP LIMITED TO
ACQUIRE ALL THE ISSUED SHARES (OTHER THAN THOSE
ALREADY OWNED OR AGREED TO BE ACQUIRED BY
ZHONGHAN INTERNATIONAL HOLDINGS GROUP LIMITED AND
PARTIES ACTING IN CONCERT WITH IT)**

Financial Adviser to China Graphene Group Limited

Wilson

Wilson International Capital Limited

Independent Financial Adviser to the Independent Board Committee

VEDA | CAPITAL

智略資本

26 July 2019

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EXPECTED TIMETABLE

Set out below is the expected timetable of the Offer. The expected timetable set out below is indicative only and may be subject to changes. Further announcement(s) will be made in the event of any changes to the expected timetable as and when appropriate.

All time and date references contained below shall refer to Hong Kong local time and dates.

Event	Time and Date
Despatch date of the Offer Document and the Form for Acceptance (<i>Note 1</i>)	Friday, 12 July 2019
Offer opens for acceptance (<i>Note 1</i>)	Friday, 12 July 2019
Despatch date of the Response Document (<i>Note 2</i>)	Friday, 26 July 2019
Latest time and date for acceptance of the Offer on the Closing Date (<i>Notes 3 & 4</i>)	no later than 4:00 p.m. Friday, 9 August 2019
Announcement of the results of the Offer as at the Closing Date to be published on the website of the Stock Exchange and the Company (<i>Note 2</i>)	no later than 7:00 p.m. Friday, 9 August 2019
Latest date for posting of remittances in respect of valid acceptances received under the Offer (<i>Notes 4 & 5</i>)	Tuesday, 20 August 2019

Notes:

1. The Offer, which is unconditional, is made on the date of posting of the Offer Document, and is capable of acceptance on and from that date until 4:00 p.m. on the Closing Date, unless the Offeror revises or extends the Offer in accordance with the Takeovers Code.
2. In accordance with the Takeovers Code, the Company is required to post the Response Document within 14 days from the posting of the Offer Document, unless the Executive consents to a later date and the Offeror agrees to extend the closing date by the number of days in respect of which the delay in the posting of the Response Document is agreed.
3. In accordance with the Takeovers Code, where the Response Document is posted after the date on which the Offer Document is posted, the Offer must initially be open for acceptance for at least 28 days following the date on which the Offer Document is posted. The latest time and date for acceptance of the Offer is 4:00 p.m. on Friday, 9 August 2019, unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. An announcement will be issued on the website of the Stock Exchange and the Company by 7:00 p.m. on the Closing Date, stating whether the Offer has been extended, revised or expired. In the event that the Offeror decides to extend the Offer and the announcement does not specify the next closing date, at least 14 days' notice by way of an announcement will be given before the Offer is closed in accordance with the Takeovers Code.
4. If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force on the Closing Date or the date for posting of remittances and it has (i) not been cancelled in time for trading on the Stock Exchange to resume in the afternoon, the time and date of the close of the Offer or the

EXPECTED TIMETABLE

posting of remittances will be postponed to 4:00 p.m. on the next Business Day which does not have either of those warnings in force in Hong Kong or such other day as the Executive may approve; or (ii) been cancelled in time for trading on the Stock Exchange to resume in the afternoon, the time and date of the close of the Offer or the posting of remittances will remain at 4:00 p.m. on the same Business Day.

5. Remittances in respect of the cash consideration (after deducting the seller's ad valorem stamp duty) payable for the Offer Shares tendered under the Offer will be despatched to the Shareholders accepting the Offer by ordinary post at their own risk as soon as possible, but in any event within seven (7) Business Days following the date of receipt of all relevant documents (receipt of which renders such acceptance complete and valid) in accordance with the Takeovers Code. Acceptances of the Offer shall be irrevocable and not capable of being withdrawn, except in the circumstances set out in the section headed "5. Right of withdrawal" in Appendix I to the Offer Document.

DEFINITIONS

In this Response Document, unless the context otherwise requires, the following expressions shall have the following meanings:

“acting in concert”	has the same meaning ascribed to it under the Takeovers Code
“Announcements”	together the Offer Announcement and the Response Announcement
“associate”	has the same meaning ascribed to it under the Takeovers Code
“Board”	the board of Directors
“Business Day(s)”	a day on which the Stock Exchange is open for the transaction of business
“China Asia Group (HK)”	China Asia Group (HK) Limited, a company incorporated in Hong Kong, is wholly owned by Shenzhen China Asia Zhi Ye Development Limited
“Clever Robust”	Clever Robust Limited, a company incorporated in the British Virgin Islands and acts in the capacity as the lender under a loan agreement date 11 December 2017 entered into between HK Guoxin as borrower and Clever Robust as lender for granting a term loan in the principal amount of HK\$350,000,000 granted by Clever Robust to HK Guoxin under the loan agreement
“Closing Date”	9 August 2019, or if the Offer is extended, any subsequent closing date of the Offer as may be announced by the Offeror and approved by the Executive in accordance with the Takeovers Code
“Company”	China Graphene Group Limited (stock code: 63), a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company, from time to time

DEFINITIONS

“Encumbrances”	any claim, charge, mortgage, security, lien, pledge, option restriction, equity, power of sale, hypothecation or other third party rights or interests, retention of title, right of preemption, right of first refusal, other encumbrance or security interest of any kind, or another type of preferential arrangement (including, without limitation, a title transfer or retention arrangement) having similar effect
“Executive”	Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“Financial Year”	For the year end 31 December
“Form of Acceptance”	the form of acceptance and transfer of Offer Shares in respect of the Offer
“Group”	the Company and its subsidiaries
“Guotai Junan Securities”	Guotai Junan Securities (Hong Kong) Limited, a corporation licensed under the SFO to carry out Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities as defined in the SFO, acting as an agent of the Offeror to make the Offer for and on behalf of the Offeror
“HK Guoxin”	HK Guoxin Investment Group Limited (Receivers appointed pursuant to the Share Charge over the charged securities (as defined in the Share Charge) including the Sale Shares beneficially owned by it), and is wholly owned by Mr. Li as at the date of this announcement
“HK\$”	Hong Kong dollars, lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent committee of the Board comprising all the non-executive Directors (other than Mr. Li and Mr. Wang), namely Mr. Gao Han and Mr. Chow Chi Ping, established for the purpose of advising the Independent Shareholders in respect of the Offer

DEFINITIONS

“Independent Financial Adviser” or “VEDA”	VEDA Capital Limited, a corporation licensed under the SFO to carry out Type 6 (advising on corporate finance) regulated activities as defined in the SFO, and the independent financial adviser to advise the Independent Board Committee in respect of the Offer
“Independent Property Valuer” or “EIDEA”	means EIDEA Professional Services Company Limited, the independent property valuer appointed by the Company;
“Independent Shareholders”	Shareholders other than the Offeror and parties acting in concert with it
“IRD”	Inland Revenue Department
“JPY”	Japanese yen, the lawful currency of Japan
“Last Trading Day”	20 June 2019, being the last trading day for the Shares immediately prior the publication of the Offer Announcement
“Latest Practicable Date”	23 July 2019, being the latest practicable date prior to the printing of this Response Document for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Huang Binghua”	Mr. Huang Binghua* (黃炳華), the brother of Mr. Huang Binghuang and indirectly holds a minority interest in the Offeror
“Mr. Huang Binghuang”	Mr. Huang Binghuang* (黃炳煌), the ultimate controlling shareholder of the Offeror
“Mr. Li”	Mr. Li Feng Mao, a non-executive Director and the sole director and sole owner of HK Guoxin
“Mr. Wang”	Mr. Wang Song Ling, an independent non-executive Director
“Offer”	the unconditional mandatory general cash offer being made by Guotai Junan Securities for and on behalf of the Offeror for all the Offer Shares pursuant to Rule 26.1 of the Takeovers Code
“Offer Announcement”	the announcement dated 21 June 2019 and made by the Offeror setting out the details of the Offer

DEFINITIONS

“Offer Document”	the offer document dated 12 July 2019 and issued by or on behalf of the Offeror to all Shareholders in accordance with the Takeovers Code containing, inter alia, the details of the Offer together with the relevant form of acceptance
“Offer Period”	has the meaning given to it in the Takeovers Code, i.e. commenced from 20 February 2019 (being the date of the announcement of the Company in relation to the Possible Takeover) and will end on the Closing Date
“Offer Price”	the price at which the Offer being made, being HK\$0.166 per Offer Share payable by the Offeror to the Shareholders accepting the Offer
“Offer Share(s)”	all the Share(s) in issue, other than those Shares already owned or agreed to be acquired by the Offeror and parties acting in concert with it
“Offeror”	Zhonghan International Holdings Group Limited, a company incorporated in Hong Kong, is owned as to 41% by China Asia Group (HK) and 59% by Zhengbo International Corporation
“Possible Takeover”	The possible mandatory general offer as a result of a possible change of controlling shareholder of the Company
“PRC”	the People’s Republic of China
“Receivers”	Osman Mohammed Arab and Lai Wing Lun, both of RSM, the joint and several receivers and managers over the Sale Shares and the agent and lawful attorney of HK Guoxin
“Receivership”	Receivers has been appointed in respect to the Sale Shares in late December 2018 as, according to RSM, an event of default has occurred pursuant to a deed in which HK Guoxin had charged the Sale Shares in favour of Clever Robust
“Relevant Period”	the period commencing from the date falling six months before the commencement of the Offer Period on 20 February 2019 (i.e. 20 August 2018), up to and including the Latest Practicable Date
“Response Announcement”	the announcement of the Company dated 2 July 2019 in response to the Offer Announcement

DEFINITIONS

“Response Document”	this response document dated 26 July 2019 issued by the Company to the Shareholders in response of the Offer in accordance with the Takeovers Code
“RSM”	RSM Corporate Advisory (Hong Kong) Limited
“Sale and Purchase Agreement”	the sale and purchase agreement dated 21 June 2019 entered into between the Receivers and the Offeror in respect of the sale and purchase of the Sale Shares
“Sale and Purchase Completion”	the completion of the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement
“Sale Shares”	an aggregate of 2,112,395,735 Shares, beneficially owned by HK Guoxin and charged in favour of Clever Robust
“SFC”	the Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
“Share Charge”	the share charge dated 11 December 2017 executed by HK Guoxin in favour of Clever Robust in respect of the Sale Shares
“Shareholder(s)”	holder(s) of Shares
“Shares”	the ordinary shares of HK\$0.05 each in the share capital of the Company
“Shenzhen China Asia Zhi Ye Development Limited”	Shenzhen China Asia Zhi Ye Development Limited Company* (深圳市中亞實業發展有限公司), a company incorporated in the PRC, is owned as to 90% by Mr. Huang Binghuang and as to 10% by Mr. Huang Binghua
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Super Homes Limited”	Super Homes Limited, an indirect wholly owned subsidiary of the Company and the holder of the investment property (Flats A on 11th, 12th, 17th to 19th, 21st to 23rd, 26th to 28th, 30th and 32nd Floors, Flat B on 32rd Floor, Flats C on 30th to 32nd Floors, Flat D on 11th, 12th, 18th to 23rd, 25th, 26th and 30th to 32nd Floors, Roof A, Roof D, The ICON, 38 Conduit Road, Mid-Levels, Hong Kong)

DEFINITIONS

“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Trading Day(s)”	a day when the Stock Exchange is open for trading in Hong Kong
“Zhengbo International Corporation”	Zhengbo International Corporation, a company incorporated in the British Virgin Islands, is owned as to 90% by Mr. Huang Binghuang and as to 10% by Mr. Huang Binghua
“%”	per cent.

LETTER FROM THE BOARD



中國烯谷集團有限公司
China Graphene Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 63)

Executive Directors:

Mr. Chen Meng
Mr. Zhou Chen

Non-executive Director:

Mr. Li Feng Mao (*Chairman*)

Independent non-executive Directors:

Mr. Wang Song Ling
Mr. Gao Han
Mr. Chow Chi Ping

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Principal office in Hong Kong:

Rooms 1908-1916, 19th Floor
Sun Hung Kai Centre
30 Harbour Road, Wanchai
Hong Kong

26 July 2019

To the Shareholders,

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL CASH OFFER BY
GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED FOR AND
ON BEHALF OF ZHONGHAN INTERNATIONAL HOLDINGS
GROUP LIMITED TO ACQUIRE ALL THE ISSUED SHARES
(OTHER THAN THOSE ALREADY OWNED OR AGREED TO BE
ACQUIRED BY ZHONGHAN INTERNATIONAL HOLDINGS
GROUP LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

Reference is made to the Announcements in relation to the Offer. As disclosed in the Announcements, the Company had received a letter from RSM in late December 2018 claiming that the Receivers have been appointed in respect of the Sale Shares originally held by HK Guoxin since, according to RSM, an event of default has occurred pursuant to a deed in which HK Guoxin had charged the Sale Shares in favour of Clever Robust.

LETTER FROM THE BOARD

The Company was informed by the Receivers on 21 June 2019 (before trading hours) that the Receivers and the Offeror entered into the Sale and Purchase Agreement pursuant to which the Receivers have agreed to sell and the Offeror has agreed to purchase the Sale Shares, representing approximately 74.93% of the existing issued share capital of the Company, at the consideration of HK\$350,000,000 (equivalent to approximately HK\$0.166 per Sale Share). The Sale and Purchase Completion took place on 21 June 2019.

Immediately upon Sale and Purchase Completion, the Offeror is required to make an unconditional mandatory general cash offer for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it) pursuant to Rule 26.1 of the Takeovers Code.

The Offeror had on 12 July 2019 despatched the Offer Document setting out details of the Offer together with the relevant form of acceptance.

The purpose of this Response Document is to provide you with, among others, information relating to the Group, details of the Offer, the recommendation from the Independent Board Committee, the advice from the Independent Financial Adviser, namely VEDA, and the valuation report issued by the Independent Property Valuer, namely EIDEA.

Independent Shareholders are advised to read this Response Document, including the letter from the Independent Board Committee, the letter from VEDA and the valuation report from EIDEA in conjunction with the Offer Document carefully.

THE OFFER

Principal terms of the Offer

Guotai Junan Securities, for and on behalf of the Offeror and in compliance with the Takeovers Code, is making the Offer to acquire all the Offer Shares on the terms set out in the Offer Document in accordance with the Takeovers Code on the following basis:

The Offer

For every Offer Share held HK\$0.166 in cash

The Offer Shares to be acquired under the Offer shall be free from all Encumbrances and together with all rights attached to them, including the rights to receive all dividends and distribution declared, made or paid on or after the date on which the Offer is made, being the date of the Offer Document.

The Offer is extended to all Shareholders other than the Offeror and parties acting in concert with it in accordance with the Takeovers Code.

LETTER FROM THE BOARD

The Offer is unconditional in all respects and is not conditional upon acceptances being received in respect of a minimum number of Shares or any other conditions.

The Offer Price is the same as the purchase price per Sale Share under the Sale and Purchase Agreement which was arrived at after arm's length negotiations between the Offeror and the Receivers, after taking into account of the latest closing price of the Shares before entering into of the Sale and Purchase Agreement, the listing status of the Company and the fact that the Offeror is able to obtain the controlling stake in the Company.

Further details of the Offer, including among others, the terms and procedures of acceptance of the Offer, are set out in the Offer Document.

Comparison of value

The Offer Price of HK\$0.166 per Offer Share represents:

- (a) a premium of approximately 17.73% over the closing price of the Shares of HK\$0.141 per Share on the Last Trading Day;
- (b) a premium of approximately 47.95% over the average closing price of the Shares of approximately HK\$0.112 per Share for the five consecutive Trading Days immediately prior to and including the Last Trading Day;
- (c) a premium of approximately 45.49% over the average closing price of the Shares of approximately HK\$0.114 per Share for the 10 consecutive Trading Days immediately prior to and including the Last Trading Day;
- (d) a premium of approximately 28.38% over the average closing price of the Shares of approximately HK\$0.129 per Share for the 30 consecutive Trading Days immediately prior to and including the Last Trading Day;
- (e) a discount of approximately 31.12% to the closing price of the Shares of HK\$0.241 per Share on the Latest Practicable Date;
- (f) a premium of approximately 137.82% over the audited consolidated net assets value attributable to equity holders of the Company of approximately HK\$0.070 per Share as at 31 December 2018 and 2,819,102,084 Shares in issue as at the Latest Practicable Date; and
- (g) a premium of approximately 115.30% over the adjusted unaudited net assets value attributable to equity holders of the Company of approximately HK\$0.077 per share as at 31 December 2018 taking into account of the market value of the property interests amounted to HK\$389,700,000 held by the Group as at 30 June 2019.

LETTER FROM THE BOARD

INFORMATION OF THE GROUP

The Group is principally engaged in property related businesses, provision of horticultural services, money lending business, manufacturing and trading of graphene and graphene-related products. The Group's revenue of Financial Year 2018 was mainly derived from rental income of investment properties.

	Financial Year		
	2018	2017	2016
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Revenue	16,529	4,446	5,442
(Loss)/profit before income tax	(88,805)	51,898	(43,947)
Income tax expense	(17)	–	–
(Loss)/profit for the year attributed to owners of the Company	(88,822)	51,898	(43,947)
Total comprehensive (expenses)/income attributed to owners of the Company	(87,410)	52,713	(56,733)
Net assets attributable to the owners of the Company	196,856	284,266	231,553
	HKCents	HKCents	HKCents
Basic and diluted (loss)/earnings per share	(3.15)	1.84	(1.56)
Dividend	–	–	–

The Directors would also like to draw to the attention of the Shareholders and the potential investors that the auditor of the Company, namely ZHONGHUI ANDA CPA Limited, issued a qualified opinion in respect of the consolidated financial statements of the Group for the Financial Year 2018 (which details are set out in Appendix I to this Response Document) and on the following:

1. Banking facilities of the Group

The Company obtained a banking facility of HK\$200 million with a commercial bank in August 2016 which was subsequently renewed for another two years in August 2018. The said banking facility was 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 and Mr. Li (the sole shareholder of HK Guoxin, who is also the chairman and non-executive Director) 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 then potential change of controlling Shareholder early this year, a credit review was conducted by the bank (i.e. as the lender) in respect of the said banking facilities. Eventually, the said banking facility was replaced by another facility, which is repayable on demand. In light of the aforesaid, the contingent liability would be not less than HK\$200 million which consists of the principal of HK\$200 million and interest accrued thereon.

LETTER FROM THE BOARD

2. Graphene business of the Group

The graphene business of the Group in Japan has ceased, 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 Financial Year 2018. The Directors are still in the course of assessing and considering as to how to deal with the graphene business of the Group and there is no concrete plan as at the Latest Practicable Date.

3. Investment in Five Color Stone Technology Corporation

The investment in Five Color Stone Technology Corporation (“**Five Color Stone**”) in Taiwan was not successful. Based on the best knowledge, information and belief of the Directors as at the Latest Practicable Date, the investment in Five Color Stone may be difficult to be recovered.

4. Financial resources of the Group

Based on the available financial resources of the Group, unless the Group disposes of some of its assets, the Group will only have sufficient working capital for its present requirements up to 6 months from the Latest Practicable Date.

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.

Your attention is drawn to the financial information of the Group set out in Appendix I to this Response Document for further details.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE OF THE COMPANY

The table below sets out the shareholding structure of the Company (i) immediately upon the Sale and Purchase Completion and as at the Latest Practicable Date, (ii) immediately upon close of the Offer (assuming no Shareholders will accept the Offer) and (iii) immediately upon close of the Offer (assuming all Shareholders will accept the Offer):

	Immediately upon the Sale and Purchase Completion and as at the Latest Practicable Date		Immediately upon close of the Offer (assuming no Shareholders will accept the Offer)		Immediately upon close of the Offer (assuming all the Shareholders will accept the Offer)	
	<i>Number of Shares</i>	<i>Percentage of shareholding (%)</i>	<i>Number of Shares</i>	<i>Percentage of shareholding (%)</i>	<i>Number of Shares</i>	<i>Percentage of shareholding (%)</i>
The Offeror	2,112,395,735	74.93	2,112,395,735	74.93	2,819,102,084	100
Public Shareholders	<u>706,706,349</u>	<u>25.07</u>	<u>706,706,349</u>	<u>25.07</u>	<u>-</u>	<u>-</u>
Total	<u>2,819,102,084</u>	<u>100.0</u>	<u>2,819,102,084</u>	<u>100.0</u>	<u>2,819,102,084</u>	<u>100.0</u>

The Offeror has no intention to privatise the Group and intends to maintain the listing of the Shares on the Stock Exchange. The existing Directors, the directors of the Offeror and the new Directors to be nominated by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that, after the close of the Offer, not less than 25% of the entire issued share capital of the Company will continue to be held by the public at all times.

The Stock Exchange has stated that if, at the close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the Shares, are held by the public at all times, or if the Stock Exchange believes that:

- **a false market exists or may exist in the trading of Shares; or**
- **that there are insufficient Shares in public hands, to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares.**

In the event that the public float of the Company falls below 25% upon close of the Offer, the Offeror will, as soon as practicable, dispose of such number of Shares either directly in the market or through a placing agent to be appointed by the Offeror to ensure that the public float requirement under the Listing Rules can be met. Appropriate announcement(s) will be made in this regard as and when appropriate in compliance with the Listing Rules.

LETTER FROM THE BOARD

INTENTION OF THE OFFEROR

The intention of the Offeror on the Group has been set out in the section headed “Intentions of the Offeror in relation to the Group” in the Offer Document.

The Board is aware of the intention of the Offeror in respect of the Group and its employees as stated in the Offer Document.

PROPOSED CHANGE OF BOARD COMPOSITION

As stated in the Offer Document, The Offeror proposes to nominate new Directors to the Board subject to compliance with all the applicable regulatory requirements, including the Takeovers Code and the Listing Rules. Such nominees are Mr. Huang Binghuang as new executive Director, chairman of the Board and chief executive officer, Mr. Tong Zaan San and Ms. Xia Ping as new executive Directors, Ms. Wang Lijiao as new non-executive Director, and Mr. Lum Pak Sum as new independent non-executive Director. Details of the existing Directors and the above-mentioned nominated Directors are set out in Appendix II to the Offer Document.

The existing Directors will not resign from their positions as Directors.

Any changes to the Board will be made in compliance with the Takeovers Code and the Listing Rules and further announcements will be made as and when appropriate.

ADDITIONAL INFORMATION

The Independent Board Committee, which comprise all the non-executive Directors (other than Mr. Li and Mr. Wang), namely Mr. Gao Han and Mr. Chow Chi Ping has been established to make a recommendation to the Independent Shareholders as to whether the Offer is, or is not, fair and reasonable and as to their acceptance of the Offer.

Mr. Li has been in disagreement with the Board and has refused to respond and give confirmation as to the accuracy and completeness of the information contained in the document required to be issued by the Company in relation to the Offer whereas no effective response has been received from Mr. Wang by the Company as at and following the date of formation of the Independent Board Committee which is why he is not in the Independent Board Committee although the Board has used its best endeavours to do so. As such, an application has been made to the Executive pursuant to Rule 9.4 of the Takeovers Code to exclude Mr. Li and Mr. Wang from the responsibility statement contained in any documents to be issued by the Company in relation to the Offer, including this Response Document. The Executive has granted such consent.

VEDA has been appointed as the Independent Financial Adviser with the approval of the Independent Board Committee to advise the Independent Board Committee in connection with the Offer.

LETTER FROM THE BOARD

Recommendation from the Independent Board Committee has been set out in the letter from the Independent Board Committee. You are advised to read this Response Document (including the letter from the Independent Board Committee and the letter from the Independent Financial Adviser) together with the Offer Document carefully in respect of the Offer. Your attention is drawn to the additional information contained in the appendices to this Response Document, including the valuation report issued by EIDEA, an independent qualified valuer.

In considering what action to take in connection with the Offer, you should consider your own positions, if any, and, in case of any doubt, consult your professional advisers.

Yours faithfully,
By order of the Board
CHINA GRAPHENE GROUP LIMITED
Mr. Gao Han
Independent Non-executive Director



中國烯谷集團有限公司
China Graphene Group Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 63)

26 July 2019

To the Independent Shareholders,

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL CASH OFFER BY
GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED
FOR AND ON BEHALF OF
ZHONGHAN INTERNATIONAL HOLDINGS GROUP LIMITED
TO ACQUIRE ALL THE ISSUED SHARES (OTHER THAN
THOSE ALREADY OWNED
OR AGREED TO BE ACQUIRED BY
ZHONGHAN INTERNATIONAL HOLDINGS GROUP LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

We refer to the Response Document dated 26 July 2019 issued by the Company of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meaning as those defined in the Response Document.

We have been appointed to form the Independent Board Committee to consider the terms of the Offer and to give recommendations to the Independent Shareholders as to whether, in our opinion, the terms of the Offer are fair and reasonable so far as they are concerned and as to the acceptance of the Offer. VEDA has been appointed as the Independent Financial Adviser to advise us in this respect. Details of its advice and the principal factors and reasons taken into consideration in arriving at its advice are set out in the “Letter from the Independent Financial Adviser” on pages 17 to 39 of this Response Document.

We also wish to draw your attention to the “Letter from the Board” and the additional information set out in the appendices to the Response Document, including the valuation report issued by EIDEA, being the Independent Property Valuer.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

We, being the members of the Independent Board Committee, have declared that we are independent and do not have any conflict of interest in respect of the Offer and are therefore able to consider the terms of the Offer and to make recommendations to the Independent Shareholders.

RECOMMENDATION

Having considered the terms of the Offer and the advice from VEDA, in particular the factors, reasons and recommendations as set out in the “Letter from the Independent Financial Adviser”, we concur with the view of the Independent Financial Adviser and consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and recommend the Independent Shareholders to accept the Offer.

We would also like to remind the Independent Shareholders who intend to accept the Offer to closely monitor the market price and liquidity of the Shares during the Offer Period, and consider selling their Shares in the open market, where possible, instead of accepting the Offer, if the net proceeds from such sales exceed the net amount receivable under the Offer.

Notwithstanding our recommendations, the Independent Shareholders are strongly advised that their decision to realise or to hold their investment in the Company depends on their own individual circumstances and investment objectives. If in any doubt, the Independent Shareholders should consult their own professional advisers for professional advice.

Yours faithfully,

For and on behalf of the

Independent Board Committee

Mr. Gao Han

Mr. Chow Chi Ping

Independent non-executive Director Independent non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of a letter of advice from the Independent Financial Adviser to the Independent Board Committee in relation to the Offer, which has been prepared for the purpose of inclusion in this Response Document.

VEDA | CAPITAL
智 略 資 本

Room 1106, 11/F.
Wing On Centre
111 Connaught Road Central
Hong Kong

26 July 2019

To the Independent Board Committee

Dear Sirs/Madams,

**UNCONDITIONAL MANDATORY GENERAL CASH OFFER BY
GUOTAI JUNAN SECURITIES (HONG KONG) LIMITED FOR AND
ON BEHALF OF ZHONGHAN INTERNATIONAL HOLDINGS
GROUP LIMITED TO ACQUIRE ALL THE ISSUED SHARES
IN CHINA GRAPHENE GROUP LIMITED
(OTHER THAN THOSE ALREADY OWNED OR TO BE
ACQUIRED BY ZHONGHAN INTERNATIONAL HOLDINGS
GROUP LIMITED AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee in relation to the Offer, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the Response Document dated 26 July 2019 issued by the Company, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Response Document unless the context requires otherwise.

As noted from the Board Letter, the Company was informed by the Receivers on 21 June 2019 (after trading hours), the Receivers and the Offeror entered into the Sale and Purchase Agreement, pursuant to which the Receivers have agreed to sell and the Offeror has agreed to purchase the Sale Shares representing approximately 74.93% of the issued share capital of the Company at the consideration of HK\$350,000,000 (equivalent to HK\$0.166 per Sale Share). The Sale and Purchase Completion took place on 21 June 2019.

Upon Sale and Purchase Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in an aggregate of 2,112,395,735 Shares, representing approximately 74.93% of the total issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Offeror had on 12 July 2019 despatched the Offer Document setting out details of the Offer together with the relevant form of acceptance.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the non-executive Directors and the independent non-executive Directors (other than Mr. Li and Mr. Wang) who have no direct or indirect interest in the Offer, namely Mr. Gao Han and Mr. Chow Chi Ping, has been established to make recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to the acceptance of the Offer.

Mr. Li has been in disagreement with the Board and has refused to respond and give confirmation as to the accuracy and completeness of the information contained in the document required to be issued by the Company in relation to the Offer whereas no effective response has been received from Mr. Wang by the Company although the Board has used its best endeavours to do so as at the date of and following the formation of the Independent Board Committee, which is why Mr. Wang is not on the Independent Board Committee. As such, an application was made to the Executive pursuant to Rule 9.4 of the Takeovers Code to exclude Mr. Li and Mr. Wang from the responsibility statement contained in any documents to be issued by the Company in relation to the Offer, including this Response Document. The Executive has granted such consent.

We, VEDA, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee in this respect and our opinion herein is solely for the assistance of the Independent Board Committee in connection with its consideration of the Offer pursuant to Rule 2.1 of the Takeovers Code. The appointment of VEDA as the Independent Financial Adviser has been approved by the Independent Board Committee. Our role as the Independent Financial Adviser is to give our recommendation to the Independent Board Committee as to (i) whether the Offer is fair and reasonable so far as the Independent Shareholders are concerned; and (ii) whether the Offer should be accepted.

We are independent from and not connected with the Company, the Offeror, any of their respective substantial shareholders, or any party acting, or presumed to be acting, in concert with any of them. Accordingly, we are considered eligible to give independent advice on the Offer. Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to advise the Independent Board Committee, no arrangement exists whereby we shall receive any other fees or benefits from the Offeror and the Company or any of its substantial shareholders or any person acting, or deemed to be acting, in concert with any of them.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

BASIS OF OUR ADVICE

In formulating our advice and recommendation to the Independent Board Committee, we have relied on the statements, information, opinions and representations contained in or referred to in the Response Document and the information and representations as provided to us by the Directors and the management of the Company. Our review procedures include, among others, review of the annual report of the Group for the year ended 31 December 2017 (the “**2017 Annual Report**”) and the annual report of the Group for the year ended 31 December 2018 (the “**2018 Annual Report**”), the Offer Document and Response Document, relevant announcements published by the Company, industry trends of the Company’s principal business, the share price performance, the trading liquidity of the Company and comparable companies to the Company. We have assumed that all information and representations that have been provided by the Directors and the management of the Company are true, complete and accurate in all material respects at the time when they were made and up to the date throughout the Offer Period and should there be any material changes thereto, Shareholders would be notified as soon as possible in accordance with Rule 9.1 of the Takeovers Code. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Response Document were reasonably made after due enquiries and careful considerations.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Response Document, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors and the management of the Company, which have been provided to us.

We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our recommendation. As stated in Appendix III to the Response Document, the Directors (other than Mr. Li and Mr. Wang for the reasons stated below) jointly and severally accept full responsibility for the accuracy of the information contained in the Response Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Response Document have been arrived at after due and careful consideration and there are no other facts not contained in the Response Document, the omission of which would make any statement in the Response Document misleading. The Directors (other than Mr. Li and Mr. Wang for the reasons stated below) only take responsibility for the correctness of the reproduction or presentation of the information relating to the Offer and the Offeror which is based on the Offer Document.

As stated in Appendix III to the Response Document, Mr. Li has been in disagreement with the Board and has refused to respond and give confirmation as to the accuracy and completeness of the information contained in the document required to be issued by the Company in relation to the Offer whereas no effective response has been received from Mr. Wang by the Company, as at the date of and following the formation of the Independent Board Committee, although the Board has used its best endeavours to do so. As such, an application has been made to the Executive pursuant to Rule 9.4 of the Takeovers Code to

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

exclude Mr. Li and Mr. Wang from the responsibility statement contained in any documents to be issued by the Company in relation to the Offer, including the Response Document. The Executive has granted such consent.

We have not considered the tax consequences on the Independent Shareholders in respect of their acceptance or non-acceptance of the Offer since they vary depending on respective individual circumstances. The Independent Shareholders who are overseas residents or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation to the Independent Board Committee in relation to the Offer, we have considered the principal factors and reasons as set out below:

1. Background of the Offer

The Company was informed by the Receivers on 21 June 2019 (before trading hours) that the Receivers and the Offeror entered into the Sale and Purchase Agreement pursuant to which the Receivers have agreed to sell and the Offeror has agreed to purchase the Sale Shares, representing approximately 74.93% of the existing issued share capital of the Company, at the consideration of HK\$350,000,000 (equivalent to approximately HK\$0.166 per Sale Share). The Sale and Purchase Completion took place on 21 June 2019.

Immediately upon Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in an aggregate of 2,112,395,735 Shares, representing approximately 74.93% of the total issued share capital of the Company. Pursuant to Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory general offer in cash for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it).

2. Background information of the Group

(a) *Principal business*

The Company is a company incorporated in Bermuda with limited liability and its Shares are listed on the Main Board of the Stock Exchange. The Group is principally engaged in property related businesses, provision of horticultural services, money lending business and the manufacturing and trading of graphene and graphene-related products.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(b) Historical financial information

Set out below is a summary of the audited consolidated financial results of the Group for the three years ended 31 December 2016, 31 December 2017 and 31 December 2018 (“FY2016”, “FY2017” and “FY2018”, respectively) as extracted from the 2017 Annual Report and the 2018 Annual Report respectively:

Table 1: Historical financial information of the Group

	For the year ended 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Revenue (<i>note 1</i>)	5,442	4,446	16,529
Rental income (<i>note 1</i>)	6,953	10,126	10,747
Provision of property management services	121	201	289
Sale of plants and provision of horticultural services	4,830	4,122	4,894
Loan interest income	491	60	167
Sale of graphene	–	63	432
Gross Profit	4,548	3,743	14,939
Profit/(Loss) before taxation	(43,947)	51,898	(88,805)
Profit/(Loss) attributable to owners of the Company for the year	(43,947)	51,898	(88,822)
	As at 31 December		
	2016	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>
Total assets	368,751	494,939	406,357
Total liabilities	137,198	210,673	209,501
Net current assets/(liabilities)	216,803	(144,586)	(196,641)
Equity attributable to owners of the Company	231,553	284,266	196,856

Source: the 2017 Annual Report and 2018 Annual Report

Note 1: The respective rental income for FY2016 and FY2017 was recognised as other income whilst the rental income for FY2018 was recognised as revenue.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

(i) For the year ended 31 December 2017

In FY2017, the Group recorded total revenue of approximately HK\$4.4 million, representing a slight decrease of approximately 18.5% as compared to approximately HK\$5.4 million in FY2016. Such decrease was mainly attributable to the lower sales recorded from the Group's horticulture business and money lending business. The Group's gross profit decreased in a similar manner recording approximately HK\$3.7 million in FY2017, representing a slight decrease of approximately 17.8% as compared to approximately HK\$4.5 million in FY2016. The Group's gross margin increased by approximately 0.8 percentage points from approximately 83.3% in FY2016 to approximately 84.1% in FY2017.

In FY2017, the Group recorded profit attributable to owners of the Company of approximately HK\$51.9 million compared to the loss attributable to owners of the Company of approximately HK\$43.9 million recorded for FY2016. Such increase was primarily attributable to a fair value gain of approximately HK\$110 million in FY2017 as a result from the change of accounting policy from "Completed Properties Held for Sale" to "Investment Properties".

The total assets of the Group increased by approximately HK\$126.1 million from approximately HK\$368.8 million as at 31 December 2016 to approximately HK\$494.9 million as at 31 December 2017. The total assets of the Group as at 31 December 2017 mainly comprised (i) investment properties of approximately HK\$358.4 million (31 December 2016: nil); and (ii) cash and cash equivalents of approximately HK\$57.4 million (31 December 2016: approximately HK\$75.6 million).

The total liabilities of the Group increased by approximately HK\$73.5 million from approximately HK\$137.2 million as at 31 December 2016 to approximately HK\$210.7 million as at 31 December 2017. The total liabilities of the Group as at 31 December 2017 mainly comprised of bank borrowings of HK\$200 million (31 December 2016: HK\$120 million).

The equity attributable to owners of the Company increased slightly by approximately 22.8% from approximately HK\$231.6 million as at 31 December 2016 to approximately HK\$284.3 million as at 31 December 2017 primarily as a result from the change of accounting policy from "Completed Properties Held for Sale" to "Investment Properties" for FY2017.

(ii) For the year ended 31 December 2018

In FY2018, the Group recorded total revenue of approximately HK\$16.5 million, representing a drastic increase of approximately 275.0% as compared to approximately HK\$4.4 million in FY2017. Such increase was mainly attributable to (i) the rental income for FY2017 being recognised as other income whilst the rental income for FY2018 being recognised as revenue; and (ii) the increase in sales recorded by the Group's horticulture business. The Group's gross profit increased in a similar manner recording approximately HK\$14.9 million in

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

FY2018, representing a drastic increase of approximately 302.7% as compared to approximately HK\$3.7 million recorded in FY2017. The Group's gross margin increased slightly by approximately 6.2 percentage points from approximately 84.1% in FY2017 to approximately 90.3% in FY2018.

In FY2018 the Group recorded a loss attributable to owners of the Company of approximately HK\$88.8 million compared to the profit attributable to owners of the Company of approximately HK\$51.9 million recorded for FY2017. The loss recorded for FY2018 was primarily attributable to the cessation of the Company's 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 approximately HK\$54.5 million has been written off for the year ended 31 December 2018.

The total assets of the Group decreased by approximately HK\$88.5 million from approximately HK\$494.9 million as at 31 December 2017 to approximately HK\$406.4 million as at 31 December 2018. The total assets of the Group as at 31 December 2018 mainly comprised investment properties of approximately HK\$369.2 million (31 December 2017: HK\$358.4 million).

The total liabilities of the Group decreased by approximately HK\$1.2 million from approximately HK\$210.7 million as at 31 December 2017 to approximately HK\$209.5 million as at 31 December 2018. The total liabilities of the Group as at 31 December 2018 mainly comprised of bank borrowings of HK\$200 million (31 December 2017: HK\$200 million).

The equity attributable to owners of the Company decreased significantly by approximately 30.7% from approximately HK\$284.3 million as at 31 December 2017 to approximately HK\$196.9 million as at 31 December 2018 primarily as a result from the prepayment of equipment and machinery for the manufacturing of graphene recorded in the accounting books of overseas subsidiaries amounting to approximately HK\$54.5 million being written off for the year ended 31 December 2018.

The Independent Shareholders should note that ZHONGHUI ANDA CPA Limited ("ZHONGHUI"), the independent auditor, expressed a qualified opinion on the financial statements of the Group and the Company for FY2018 in relation to an investment in associates and the limited accounting books and records of subsidiaries. ZHONGHUI stated that insufficient evidence was provided to satisfy 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. Also due to the insufficiency of supporting documentation and explanations for accounting books and records in respect of the WI Capital and WI Graphene for the years ended 31 December 2018 and 2017, ZHONGHUI was unable to carry out audit procedures to their satisfaction as to whether certain income and expenses for the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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 2018 Annual Report, have been properly recorded and accounted for in the consolidated financial statements.

(iii) Our analysis

Having considered (i) the volatility of the Group's financial performance over the last three financial years; (ii) the change from net profit position in FY 2017 to net loss position in FY2018; (iii) the cessation of the Company's business segment of manufacturing and sales of graphene in Japan; and (iv) ZHONGHUI's qualified opinion on the financial statements of the Group and the Company for FY2018 in relation to an investment in associates and the limited accounting books and records of subsidiaries, it is uncertain as to whether the Group can improve its financial performance in the near future. The Independent Shareholders who wish to retain some or all of the Shares should consider the past financial performance of the Group and the business prospects of the Group as set out in the section headed "Future prospects and outlook of the Group" of this letter, or otherwise are reminded to closely monitor the development of the Group and the publications of the Company (including the Response Document) in this regard.

(iv) Unaudited Adjusted Net Asset Value

As disclosed in the Response Document, the Property Interests held by the Group were re-valued at HK\$389,700,000 as at 30 June 2019 by EIDEA (the "**Properties Valuation**"). The recorded Book Value of the Property Interests held by the Group as at 31 December 2018 was HK\$369,200,000 according to the 2018 Annual Report. In this regard, the unaudited adjusted consolidated net asset value of the Group as at 31 December 2018 upon taking into account of the Properties Valuation would be approximately HK\$217.4 million (the "**Adjusted NAV**").

3. Background and intention of the Offeror

Background of the Offeror

As stated in the section headed "Information on the Offeror" in the "Letter from Guotai Junan Securities" contained in the Offer Document, the Offeror is a company incorporated in Hong Kong with limited liability, and is an investment holding company ultimately and beneficially owned as to 90% by Mr. Huang Binghuang and as to 10% by Mr. Huang Binghua. The Offeror is owned as to 41% by China Asia Group (HK) and 59% by Zhengbo International Corporation. Zhengbo International Corporation is owned as to 90% by Mr. Huang Binghuang and as to 10% by Mr. Huang Binghua. China Asia Group (HK) is wholly owned by Shenzhen China Asia Zhi Ye Development Limited, which in turn is owned as to 90% by Mr. Huang Binghuang and as to 10% by Mr. Huang Binghua.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Shenzhen China Asia Zhi Ye Development Limited is the parent company of China Asia Zhi Ye Group Limited Company* (中亞置業集團有限公司) (“**China Asia Zhi Ye**”), which is principally engaged in real estate development, property management, high-tech research and development, property leasing, business planning and management, exhibition planning and information consulting services. Mr. Huang Binghuang has been the chief executive officer of China Asia Zhi Ye since 2008. Mr. Huang Binghua has been the legal representative of China Asia Zhi Ye since 2008. Mr. Huang Binghua is also the legal representative of Shenzhen China Asia Zhi Ye. Mr. Huang Binghuang and Mr. Huang Binghua are brothers. Ms. Wang is the chief financial officer of China Asia Zhi Ye. Mr. Huang Binghuang and Mr. Huang Binghua have over 10 years’ experience in property related business.

The board of directors of Zhengbo International Corporation consists of Mr. Huang Binghuang and Mr. Huang Binghua; the board of directors of China Asia Group (HK) consists of Mr. Huang Binghuang, Mr. Huang Binghua and Ms. Wang; the board of directors of Shenzhen China Asia Zhi Ye Development Limited consists of Mr. Huang Binghuang, Mr. Huang Binghua and Mr. Huang Zhi. As at the latest practicable date of the Offer Document (the “**Offer Document LPD**”), Mr. Huang Binghuang and Mr. Huang Binghua are the only ultimate beneficial owners of the Offeror, and Mr. Huang Binghuang, Mr. Huang Binghua and Ms. Wang are the only directors of the Offeror. The Offeror decided to invest in the Company because, as the Company has been mainly engaging in the business of property investment, the Offeror considers that their investment in the Company would enable the Company to leverage on the extensive commercial network and experience of Mr. Huang Binghuang and Mr. Huang Binghua to support the Company’s business.

Immediately prior to the entering into of the Sale and Purchase Agreement, the Offeror and parties acting in concert with it did not hold any securities of the Company, and was therefore independent of the Company and its connected persons.

Immediately upon Completion and as at the Latest Practicable Date, the Offeror and parties acting in concert with it were interested in an aggregate of 2,112,395,735 Shares, representing approximately 74.93% of the total issued share capital of the Company. Save for the aforementioned, the Offeror, the directors of the Offeror and parties acting in concert with the Offeror do not have any other interests in the share capital or voting rights of the Company.

Intention of the Offeror

As stated in the section headed “Intention of the Offeror in relation to the Company” in the “Letter from Guotai Junan Securities” contained in the Offer Document, The Offeror intends that the Group will continue to operate its existing business. After the close of the Offer, the Offeror will conduct a detailed review of its business and operations in order to formulate a long-term strategy for the Group and explore other business opportunities for enhancing its future development and strengthening its revenue bases. As at the Offer Document LPD, the Offeror has not identified such investment or business opportunities.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Offeror has no intention to terminate the employment of any employees of the Group or to make significant changes to any employment (except for the proposed change of the Board composition as detailed in the section sub-headed “Proposed change to the Board composition of the Company” below) or to dispose of or re-allocate the Group’s assets other than those in its ordinary course of business of the Group.

Proposed change of Board composition

As at the Latest Practicable Date, the Board comprises Mr. Chen Meng and Mr. Zhou Chen as executive Directors, Mr. Li Feng Mao as a non-executive Director, Mr. Wang Song Ling, Mr. Gao Han and Mr. Chow Chi Ping as independent non-executive Directors.

The existing Directors will not resign from his/her position as Directors of the Company.

As stated in the Offer Document, the Offeror proposes to nominate new Directors to the Board subject to compliance with all the applicable regulatory requirements, including the Takeovers Code and the Listing Rules. Such nominees are Mr. Huang Binghuang as new executive Director, chairman of the Board and chief executive officer, Mr. Tong Zaan San and Ms. Xia Ping as new executive Directors, Ms. Wang as new non-executive Director, and Mr. Lum Pak Sum as new independent non-executive Director. Any such appointment to the Board will be made in compliance with the Takeovers Code and the Listing Rules

The biographies of the proposed Directors are set out in Appendix II to the Offer Document.

4. Future prospects and outlook of the Group

As disclosed in the 2018 Annual Report, the Group was principally engaged in property related businesses, provision of horticultural services, money lending business, and the manufacturing and trading of graphene and graphene-related products.

The Group’s primary business segments of rental income and the provision of horticultural services, contributed approximately 65.0% and approximately 29.6% of the Group’s total revenue respectively in FY2018. The Group’s money lending business only contributed approximately 1.0% of the Group’s total revenue in FY2018. As disclosed in the 2018 Annual Report, the Company has ceased its graphene business in Japan, which contributed approximately 2.6% of the Group’s total revenue in FY2018. As such the Group’s principal business segments moving forward are rental income and the provision of horticultural services making up 94.6% of the Group’s total revenue in FY2018.

Taking reference to recent local and international news, Hong Kong is currently in the midst of political turmoil with regular protests and civil unrest that is typically uncharacteristic of Hong Kong. The trade war between the United States of America and the

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRC is also still ongoing with no immediate foreseeable resolution. We expect the aforementioned factors to have an impact on the Hong Kong economy and property market in particular making Hong Kong's future outlook and prospects relatively uncertain.

As advised by the management of the Company, the Company does not have any specific plans for the Group's investment property portfolio as at the Latest Practicable Date. The above mentioned political and economic turmoil will likely have an impact on Hong Kong's economy and property market. We have made reference to Colliers International Hong Kong Property Research Reports for Q2 2019, the average annual growth forecasted for 2018 to 2023 for office, retail, industrial and residential rent was only 0.1%, 2.2% 4.1% and 2.5% respectively. The Q2 2019 recorded actual growth was also much lower than forecasted at -0.3%, 0.3%, 1.3% and 0.2% respectively. As such, taking into account the aforementioned factors, the future growth of the Group's rental income is relatively uncertain. Whilst the Group may experience a fair value gain on the investment properties, as rental income has made up the majority of the Group's operating revenue in the past three financial years, capitalising on such fair value gain would not be in the best interests of the Group's business and operations.

Taking reference to the Group's FY2016, FY2017 and FY2018 financial performance, the Group's horticulture business has not seen a long term growth trend over the past three financial years, recording approximately HK\$4.9 million in FY2018 and only a minimal increase over approximately HK\$4.8 million recorded in FY2016. The Company has also given no indication on any expansion plans to the Group's horticulture business. Taking into account the aforementioned factors, the future outlook of the Group's horticulture business is relatively uncertain and will most likely not experience significant growth in the foreseeable future.

As disclosed in the 2018 Annual Report, the Group suffered a significant loss with the cessation of the Group's graphene business in Japan with the prepayment of equipment and machinery for the manufacturing of graphene recorded in the accounting books of overseas subsidiaries amounting to approximately HK\$54.5 million being written off for the year ended 31 December 2018. The Group also received a qualified opinion from ZHONGHUI on the financial statements of the Group and the Company for FY2018 in relation to an investment in associates and the limited accounting books and records of subsidiaries.

The Group's overall financial performance over the past three financial years have been extremely volatile recording a loss attributable to owners of the Company of approximately HK\$43.9 million in FY2016, a profit attributable to owners of the Company of approximately HK\$51.9 million in FY2017 and a loss attributable to owners of the Company of approximately HK\$88.8 million in FY 2018. Such volatile historical financial performance makes the future financial prospects of the Group difficult to determine.

Having considered that the uncertainties associated with the financial performance and prospects of the Group as discussed above, including but not limited to (i) the recent political turmoil in Hong Kong and the uncertainties in global economies; (ii) the limited and uncertain growth potential of the Group's principal business segments; (iii) the cessation of the Group's graphene business in Japan and the substantial write off recorded in FY2018; (iv) the qualified opinion expressed from ZHONGHUI; (v) the Group's volatile financial

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

results and challenging business outlook; and (vi) there is no concrete plan on the future development of the Group from the Offeror as at the Latest Practicable Date, we are of the view that the Group might continue to operate in a challenging environment in coming years and we remain cautious about the outlook and prospects of the Group.

5. Principal terms of the Offer

Guotai Junan Securities, for and on behalf of the Offeror, is making the Offer to acquire all of the Offer Shares pursuant to Rule 26.1 of the Takeovers Code on the following basis:

For each Offer Share HK\$0.166 in cash

The Offer Price of HK\$0.166 per Offer Share under the Offer is approximately equal to but not lower than the purchase price per Sale Share paid by the Offeror under the Sale and Purchase Agreement, which was arrived after arm's length negotiations between the Offeror and the Receivers.

The Offer is unconditional in all respects.

5.1 The Offer Price

The Offer Price of HK\$0.166 per Offer Share represents:

- (i) a premium of approximately 17.73% over the closing price of HK\$0.141 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 47.95% over the average of the closing prices as quoted on the Stock Exchange for last five trading days up to and including the Last Trading Day of approximately HK\$0.1122 per Share;
- (iii) a premium of approximately 45.49% over the average of the closing prices as quoted on the Stock Exchange for last ten trading days up to and including the Last Trading Day of approximately HK\$0.1141 per Share;
- (iv) a premium of approximately 28.38% over the average of the closing prices as quoted on the Stock Exchange for last thirty consecutive trading days up to and including the Last Trading Day of approximately HK\$0.1293 per Share;
- (v) a premium of approximately 137.82% over the audited consolidated net asset value of the Company of approximately HK\$0.0698 per Share (based on the total number of issued Shares as at the Latest Practicable Date) as at 31 December 2018, being the date to which the latest published audited financial results of the Group were made up;

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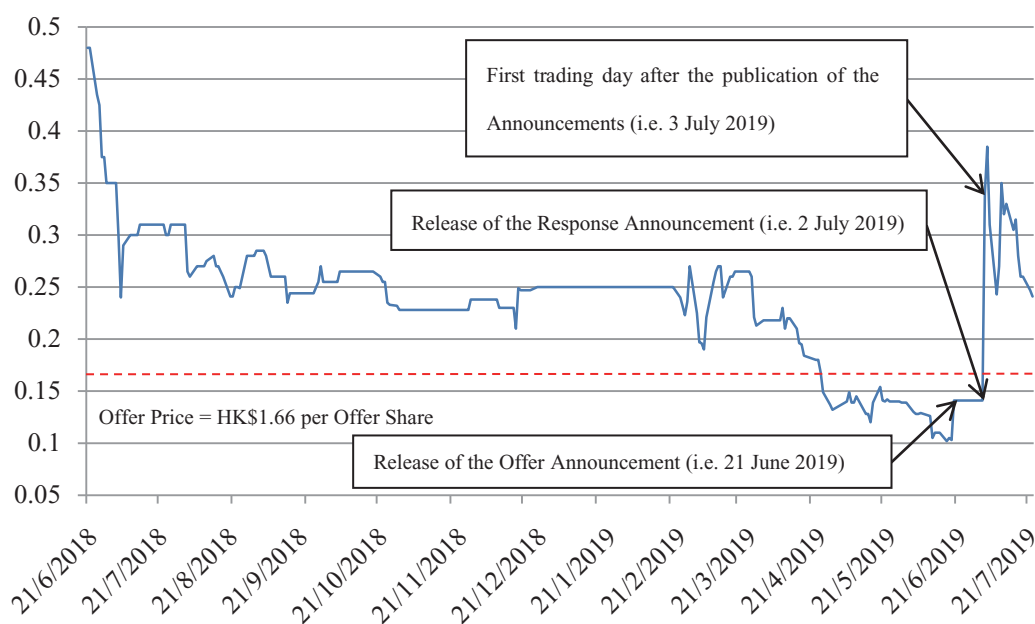
(vi) a premium of approximately 115.30% over the Adjusted NAV of the Company of approximately HK\$0.0771 per Share (based on the total number of issued Shares as at the Latest Practicable Date) as at 31 December 2018; and

(vii) a discount of approximately 31.12% to the closing price of HK\$0.241 per Share on the Stock Exchange on the Latest Practicable Date.

5.2 Historical performance of the Shares

Set out below is the chart showing the daily closing price of the Shares as quoted on the Stock Exchange during the period commencing from 21 June 2018, being the twelve-month period prior to the Last Trading Day, up to and including the Latest Practicable Date (the “Review Period”):

Chart 1: Share price performance during the Review Period



Source: The Stock Exchange

Note: Trading of the Shares was suspended from 11:01 a.m. on 31 December 2018 to 20 February 2019 (both days inclusive) and from 9:00 a.m. on 21 June 2019 to 2 July 2019 (both days inclusive).

We have reviewed the movements in the closing price of the Shares for the Review Period. We consider that the length of the Review Period to be reasonably long enough to illustrate the relationship between the historical trend of the closing price of the Shares and the Offer.

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The lowest and highest closing price of the Shares during the Review Period were HK\$0.102 per Share recorded on 17 June 2019 and HK\$0.48 per Share recorded on 21 and 22 June 2018, respectively, as quoted on the Stock Exchange. The average daily closing price of the Shares during the Review Period is approximately HK\$0.238 per Share. The Offer Price of HK\$0.166 per Share represents (i) a premium of approximately 62.7% over the lowest closing price of HK\$0.102 per Share; (ii) a discount of approximately 34.6% to the highest closing price of HK\$0.48 per Share; and (iii) a discount of approximately 30.0% to the average daily closing price of approximately HK\$0.238 per Share during the Review Period.

Pre-Announcement Period

During the period under review from 21 June 2018 to 20 June 2019 (being the Last Trading Day) (the “**Pre-Announcement Period**”), the Share price demonstrated a downward trend. The lowest and highest closing price of the Shares during this period were HK\$0.102 per Share recorded on 17 June 2019 and HK\$0.48 per Share recorded on 21 and 22 June 2018 respectively, as quoted on the Stock Exchange. The Offer Price of HK\$0.166 per Share represents (i) a premium of approximately 62.7% over the lowest closing price of HK\$0.102 per Share; and (ii) a discount of approximately 34.6% to the highest closing price of HK\$0.48 per Share during the Pre-Announcement Period.

On 22 June 2018, the Share price experienced a sudden spike downwards to a closing price of HK\$0.240 per Share on 5 July 2018 before fluctuating around HK\$0.25 until the halt in trading of Shares on 31 December 2018 pending the release of an announcement concerning the receivership as disclosed in the Company’s announcement dated 27 December 2018.

On 31 August 2018, the Company published the interim results for the six months ended 30 June 2018. The Share price subsequently experienced a slight downward trend from HK\$0.285 on the date of publication of the interim results down to the lowest of HK\$0.21 on 18 December 2018 before the halt in trading of Shares on 31 December 2018.

On 20 February 2019, the Company published an inside information announcement detailing the receivership as disclosed in the Company’s announcement dated 27 December 2018. The trading of Shares was resumed the following day on 21 February 2019. Upon resumption of trading in Shares, the Shares remained relatively stable until the publication of the Company’s annual results on 29 March 2019.

On 29 March 2019, the Company published the annual results for the year ended 31 December 2018. The Share price subsequently experienced a downward trend from HK\$0.213 on the date of publication of the annual results (i.e. 29 March 2019) down to the lowest of HK\$0.102 on 17 June 2019 before the halt in trading of Shares on 21 June 2019.

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The Shares rebounded slightly up to HK\$0.141 on 20 June 2019 on the Last Trading Day before the publication of the Offer Announcement on 21 June 2019. Trading of Shares was subsequently suspended from 21 June 2019 to 2 July 2019. On the first trading day after the publication of the Announcements (i.e. 3 July 2019), the Share price experienced a spike upward to HK\$0.340 per Share.

The Shares experienced two downward price surge periods and one upward price surge which are (i) the period from 22 June 2018 to 5 July 2018; (ii) the period from 26 March 2019 to 17 June 2019; and (iii) the first trading day after the publication of the Announcements (i.e. 3 July 2019). Concerning the price surge of the Shares during the Review Period, we have reviewed the announcements published by the Company on the Stock Exchange during the Review Period. We have also enquired with the management of the Company for the possible reasons for the price movement during the period and were advised that, save for the information disclosed above, the Company was not aware of any other particular matters which might have impact on the Share price. We believe the price surge in the above three price surge periods were mainly due to the market speculation. The Independent Shareholders should note that there is no guarantee that such price surge may occur during and/or after the Offer Period.

Post-Announcement Period

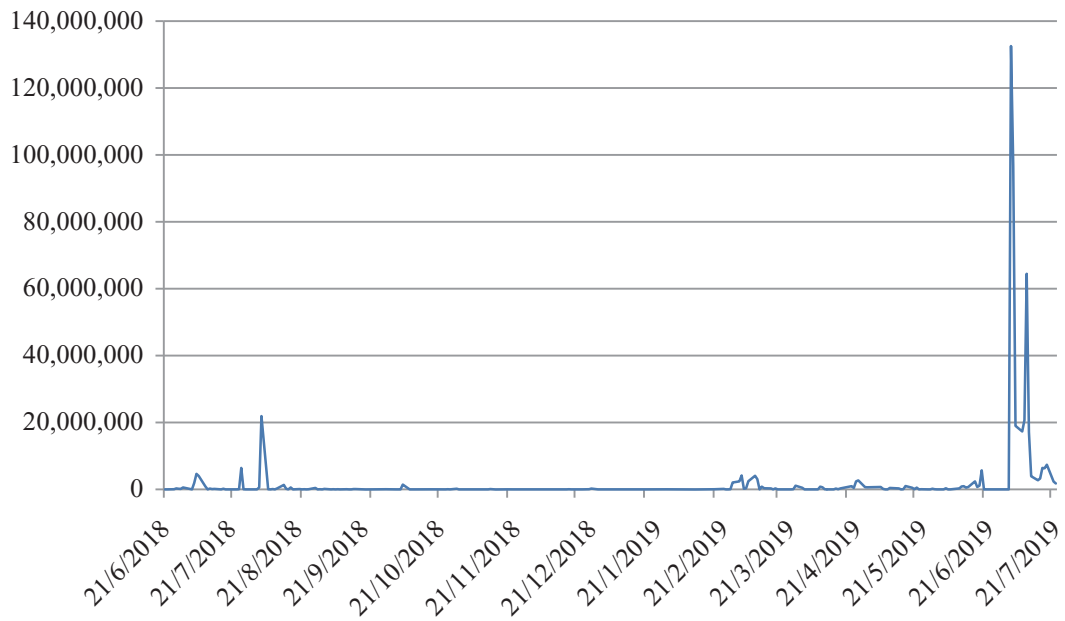
At the request of the Company, trading in the Shares was suspended from 9:00 a.m. on 21 June 2019 to 2 July 2019 (both days inclusive) pending the publication of the Announcements. Following the resumption of trading of Shares on 3 July 2019 and subsequent to the issue of the Announcements, the closing price of the Shares increased by approximately 141.1% from HK\$0.141 per Share on the Last Trading Day to HK\$0.340 per Share on 3 July 2019 (being the first trading day after the publication of the Announcements). During the period from 3 July 2019 to the Latest Practicable Date (the “**Post-Announcement Period**”), the lowest and highest closing price of the Shares as quoted on the Stock Exchange were HK\$0.241 per Share on 23 July 2019 and HK\$0.385 per Share on 4 July 2019. The Offer Price of HK\$0.166 per Share represents (i) a discount of approximately 31.1% to the lowest closing price of HK\$0.241 per Share; and (ii) a discount of approximately 56.9% to the highest closing price of HK\$0.385 per Share during the Post-Announcement Period.

We have enquired with the management of the Company regarding the possible reasons for the increase in the Share price after the publication of the Announcements and were advised that, save for the Announcements, the Company was not aware of any other matters which might have impact on the Share price. We believe that the surge in the closing prices of the Shares immediately after the release of the Announcements was probably due to market reaction towards the Announcements. The Independent Shareholders should note that there is no guarantee that such price surge may occur during and/or after the Offer Period.

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Historical trading volume of the Shares

Chart 2: Daily trading volume of the Shares during the Review Period



Source: The Stock Exchange

Note: Trading of the Shares was suspended from 11:01 a.m. on 31 December 2018 to 20 February 2019 and from 9:00 a.m. on 21 June 2019 to 2 July 2019.

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The following chart shows the daily trading volume of the Shares during the Review Period.

Table 2: Trading volume of the Shares during the Review Period

The following table sets out the historical monthly trading volume of the Shares and the percentage of the number of Shares traded compared to the total number of the Shares in issue during the Review Period.

Month/Period	Total trading volume for month/period <i>(number of Shares)</i>	Number of trading days of Share during the month <i>(days)</i>	Average daily trading volume for month/period <i>(number of Shares)</i>	Percentage of average daily trading volume to total number of the Shares in issue as at the Latest Practicable Date <i>(note 4)</i> <i>(%)</i>	Percentage of average daily trading volume to total number of the Shares held by public Shareholders as at the Latest Practicable Date <i>(note 5)</i> <i>(%)</i>
2018					
21 June to 30 June <i>(note 1)</i>	1,075,000	7	153,571	0.0054%	0.0217%
July	18,462,000	21	879,143	0.0312%	0.1244%
August	25,494,000	23	1,108,435	0.0393%	0.1568%
September	214,000	19	11,263	0.0004%	0.0016%
October	911,175	21	43,389	0.0015%	0.0061%
November	955,241	22	43,420	0.0015%	0.0061%
December <i>(note 2)</i>	782,071	18	43,448	0.0015%	0.0061%
2017					
January <i>(note 2)</i>	–	–	–	–	–
21 February to 28 February <i>(note 2)</i>	261,125	6	43,521	0.0015%	0.0062%
March	914,335	21	43,540	0.0015%	0.0062%
April	827,828	19	43,570	0.0015%	0.0062%
May	3,719,000	19	195,737	0.0069%	0.0277%
1 June to 20 June <i>(note 3)</i>	13,411,450	13	1,031,650	0.0366%	0.1460%
3 July to and including the Latest Practicable Date <i>(note 3)</i>	401,637,982	15	26,775,865	0.9498%	3.7888%

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Source: the Stock Exchange

Notes:

- 1) the Review Period commenced on 21 June 2018.
- 2) The trading of the Shares on the Stock Exchange was suspended from 11:01 a.m. on 31 December 2018 to 20 February 2019 (both days inclusive) pending the release of an inside information announcement. Trading of the Shares on the Stock Exchange was resumed on 21 February 2019.
- 3) The trading of the Shares on the Stock Exchange was suspended from 9:00 a.m. on 21 June 2019 to 2 July 2019 (both days inclusive) pending the release of the Joint Announcement. Trading of the Shares on the Stock Exchange was resumed on 3 July 2019.
- 4) Based on 2,819,102,084 Shares in issue as at the Latest Practicable Date.
- 5) Based on 706,706,349 Shares held by the public Shareholders as at the Latest Practicable Date.

As illustrated above, the average daily trading volume of the Shares as a percentage of the total number of the Shares in issue during the Review Period ranged from approximately 0.0004% in September 2018 to approximately 0.950% in July 2019 with an average daily trading volume of approximately 0.074% of the total number of issued Shares as at the Latest Practicable Date. If only Shares held by public Shareholders, i.e. the free float, are considered in calculating the percentage of average daily trading volume of the Shares per month during the Review Period, the average trading volume of the Shares during the Review Period ranged from approximately 0.002% in September 2018 to approximately 3.7888% in July 2019. Therefore, the trading volume of the Shares was relatively thin in the Review Period and illiquid in the open market.

We noted that the average daily trading volume of the Shares during the periods in July 2018, August 2018 and the Post-Announcement Period as a percentage of the total number of the Shares in issue and as a percentage of the total number of the Shares held by public Shareholders were relatively higher. We have reviewed the announcements published by the Company on the Stock Exchange during the Relevant Period. However, save for the Announcements, we are not aware of any other public information relating to the trading volume movement. We have also enquired with the Management for the possible reasons for the trading volume movement during the abovementioned periods and were advised that, save for the Announcements, the Company was not aware of any other particular matters which might have impact on the trading volume. We consider that such relatively high average daily trading volume of the Shares in July 2018 and August 2018 is most likely due to the market speculation, and the surge in average daily trading volume of the Shares in the Post-Announcement Period is most likely due to the market reaction towards the Announcements and it is uncertain whether such trading momentum could be sustained in light that the average daily trading volume of the Shares was generally thin for most of the

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time during the Review Period i.e. the average daily trading volume during the Review Period was approximately 2,092,255 Shares, representing approximately 0.074% of the total number of Shares in issue as at the Latest Practicable Date.

Given the thin trading volume of the Shares, the Independent Shareholders may find it difficult to dispose of a large volume of Shares in the open market in a short period of time without exerting downward pressure on the price of the Shares. Therefore, the Offer provides a viable alternative exit for the Independent Shareholders, particularly for those who hold a large volume of Shares, to realise their investments in the Company.

Having considered that (i) the overall price performance of the Shares during the Review Period; (ii) the Offer Price represents a premium over the last five, ten and thirty consecutive trading days up to and including the Last Trading Day, the audited consolidated net asset value attributable to the owners of the Company per Share as at 31 December 2018 and the Adjusted NAV per Share as at 31 December 2018; (iii) the uncertainty associated with the financial performance and prospects of the Group as discussed in the section headed “Future prospects and outlook of the Group” above; (iv) there is no guarantee that the upward price surge occurred Post-Announcement may occur during and/or after the Offer Period; (v) the uncertainty of the sustainability of the Share price momentum during the Post-Announcement Period in the absence of the Offer; and (vi) the trading volume of the Shares was generally thin for the majority of the Review Period and thus it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price in the future, accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market, we are of the view that the Offer represents an opportunity for the Independent Shareholders, particularly for those who hold a large volume of the Shares, to dispose of part or all of their Shares at the Offer Price if they so wish to. The Independent Shareholders who wish to realise their investments in the Group are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period.

5.3 Comparable Analysis

In order to further assess the fairness and reasonableness of the Offer Price, we have considered the price-to-book ratio (the “**P/B Ratios**”), the price-to-earnings ratio (the “**P/E Ratios**”) and dividend yield, which are commonly adopted trading multiple analyses. Given that the Group was loss-making for FY2018 and no dividend was distributed for FY2016, FY2017 and FY2018, the P/E Ratios analysis and dividend yield analysis are not applicable.

Based on the Offer Price of HK\$0.166 per Offer Share and the total number of issued Shares of 2,819,102,084 as at the Latest Practicable Date, the Company is valued at approximately HK\$467.97 million. The P/B Ratio of the Company implied by the Offer Price is approximately 2.38 times (the “**Implied P/B Ratio**”) based on the

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audited consolidated net asset value of approximately HK\$196.86 million as at 31 December 2018. The Implied P/B Ratio taking into account the Adjusted NAV of approximately HK\$217.4 million is approximately 2.15 times (the “**Adjusted Implied P/B Ratio**”).

We have attempted to identify the comparable companies which are (i) listed on the Stock Exchange; (ii) principally engaged in same or similar majority business as the Group i.e. engaged in property investment in Hong Kong or the PRC; and (iii) primary revenue source is from rental income i.e. greater than 50% of total annual revenue. In this regard, 7 comparable companies (the “**Comparables**”) are identified, based on our research on the website of the Stock Exchange and Bloomberg in accordance with the above criteria which we consider to be exhaustive. Details of our analysis are listed below:

Company name and stock code	Company business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Net Asset Value (HK\$ million)	P/B Ratios (note 1)
Wing Lee Property Investments Limited (864)	Property investments, the leasing of completed commercial and residential properties.	263	1,087	0.242
Y.T. Realty Group Limited (75)	Property development, property investment and management and hospitality investment and management	1,839	1,631	1.128
Eminence Enterprise Limited (616)	Property development and investment holdings	158	753	0.210
C C Land Holdings Limited (1224)	Provision of corporate management services, property development and investment, as well as treasury investments	6,988	17,123	0.408
Wing Tai Properties Limited (369)	Property development, property investment and management and hospitality investment and management	7,358	28,722	0.256

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Company name and stock code	Company business	Market capitalisation as at the Latest Practicable Date (HK\$ million)	Net Asset Value (HK\$ million)	P/B Ratios (note 1)
Lai Fung Holdings Limited (1125)	Property development for sale and property investment for rental purposes, and development and operation of and investment in cultural, leisure, entertainment and related facilities	2,642	16,143	0.164
Cheuk Nang (Holdings) Limited (131)	Property development, investment and management	2,472	6,461	0.383
			Lowest	0.164
			Highest	1.128
			Average	0.399
Company name and stock code	Company business	Market capitalisation (HK\$ million)	Net Asset Value (HK\$ million)	Implied P/B Ratios
The Company (63)	Property related businesses, provision of horticultural services, money lending business and the manufacturing and trading of graphene and graphene-related products (note 2)	467.97 (based on the Offer Price)	197 217.4 (Adjusted NAV)	2.38 2.15 (Adjusted Implied)

Source: The Stock Exchange

Notes:

- The P/B Ratios of the Comparables are calculated based on the market capitalisation of the respective Comparables as at the Latest Practicable Date divided by the net assets value of the respective Comparables as extracted from their respective latest published results.
- Referencing the 2018 Annual Report, approximately 65% of the Group's revenue is derived from rental income.

As illustrated in the table above, the P/B Ratios of the Comparables ranged from approximately 0.164 times to approximately 1.128 times, with an average of approximately 0.399 times. Both of the Adjusted Implied P/B Ratio of approximately 2.15 times and the Implied P/B Ratio of approximately 2.38 times are significantly higher than the highest comparable P/B Ratio.

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Having considered that both the Adjusted Implied P/B Ratio and the Implied P/B Ratio are higher than the P/B Ratios of all the Comparables, we are of the view that the Offer Price is fair and reasonable to the Independent Shareholders.

6. Public float and maintaining the listing status of the Company

The Stock Exchange had stated that if, upon close of the Offer, less than the minimum prescribed percentage applicable to the Company, being 25% of the issued Shares, are held by the public, or if the Stock Exchange believes that (i) a false market exists or may exist in the trading of the Shares; or (ii) that there are insufficient Shares in public hands to maintain an orderly market, it would consider exercising its discretion to suspend dealings in the Shares until the prescribed level of public float is restored.

As disclosed in the Offer Document, the Offeror has no intention to privatise the Group and intends to maintain the listing of the Shares on the Stock Exchange. The directors of the Offeror and the new Directors to be nominated by the Offeror will jointly and severally undertake to the Stock Exchange to take appropriate steps to ensure that, after the close of the Offer, not less than 25% of the entire issued share capital of the Company will continue to be held by the public at all times.

In the event that the public float of the Company falls below 25% upon close of the Offer, the Offeror will, as soon as practicable, dispose of such number of Shares either directly in the market or through a placing agent to be appointed by the Offeror to ensure that the public float requirement under the Listing Rules can be met.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons set out in this letter, in particular:

- (a) the uncertainties associated with the financial performance and prospects of the Group as discussed in the section headed “Future prospects and outlook of the Group” above, including but not limited to (i) the cessation and write off of the Group’s graphene business in Japan; (ii) the Group’s volatile financial results and challenging business outlook; (iii) ZHONGHUI’s qualified opinion expressed on the FY2018 results; and (iv) there is no concrete plan on the future development of the Group from the Offeror as at the Latest Practicable Date;
- (b) the Offer Price represents a premium over the last five, ten and thirty consecutive trading days up to and including the Last Trading Day, the audited consolidated net asset value attributable to the owners of the Company per Share as at 31 December 2018 and the Adjusted NAV per Share as at 31 December 2018 and for the upward price surge that occurred on the first trading day after the Announcements, there is no guarantee that such price surge may occur during and/or after the Offer Period; and there is an uncertainty of the sustainability of the Share price momentum during the Post-Announcement Period in the absence of the Offer;

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- (c) the trading volume of the Shares was generally thin during the Review Period and thus it is uncertain as to whether there would be sufficient liquidity in the Shares for the Independent Shareholders to dispose of a significant number of the Shares in the open market without depressing the Share price; and accordingly, the market trading price of the Shares may not necessarily reflect the proceeds that the Independent Shareholders can receive by the disposal of their Shares in the open market; and
- (d) the Adjusted Implied P/B Ratio and Implied P/B Ratio are significantly higher than the P/B Ratios of all the Comparables,

we are of the opinion that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to accept the Offer.

The Independent Shareholders who wish to realise their investment in the Group are reminded that they should carefully and closely monitor the market price of the Shares during the Offer Period and consider selling their Shares in the open market during the Offer Period, rather than accepting the Offer, if the net proceeds from the sales of such Shares in the open market would exceed the net amount receivable under the Offer. In any event, the Independent Shareholders should note that there is no certainty that the current trading volume and/or current trading price level of the Shares will be sustainable during or after the Offer Period.

Yours Faithfully,
For and on behalf of
Veda Capital Limited

Hans Wong
Chairman

Note: Mr. Hans Wong is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 23 years of experience in investment banking and corporate finance.

1. FINANCIAL INFORMATION

The following is a summary of the financial information of the Group for each of the three financial years ended 31 December 2018, as extracted from the audited consolidated financial statements of the Group set forth in the published annual reports of the Company for the relevant years.

	For the year ended 31 December		
	2018	2017	2016
	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)
Revenue	16,529	4,446	5,442
(Loss)/profit before income tax	(88,805)	51,898	(43,947)
Income tax expense	(17)	–	–
(Loss)/profit for the year attributed to owners of the Company	(88,822)	51,898	(43,947)
Total comprehensive (expenses)/income attributed to owners of the Company	(87,410)	52,713	(56,733)
Net assets attributable to the owners of the Company	196,856	284,266	231,553
Basic and diluted (loss)/earnings per share	HK Cents (3.15)	HK Cents 1.84	HK Cents (1.56)
Dividend	–	–	–

In the Financial Year 2017, the Company changed its intention to hold The Icon, the developed property as investment properties as the Company was optimistic on the local investment property market especially residential rental market. As a result of the change of accounting policy from “completed property held for sale” to “investment properties”, the Group recorded a fair value gain of approximately HK\$110 million in the Financial Year 2017. This change established a new business segment of property investment in the Financial Year 2017. The Group recorded profit for the year of approximately HK\$51,898,000 for the Financial Year 2017. Such increase is mainly attributable to fair value gain of investment properties.

As stated by ZHONGHUI ANDA CPA Limited, the auditor of the Company for Financial Year 2018, the Group measured its investment properties at fair value with the changes in fair value recognised in the consolidated profit or loss. This fair value measurement is significant to the audit because the balance of investment properties of HK\$369,200,000 as at 31 December 2018 and the fair value gain of HK\$10,800,000 for the year then ended are material to the consolidated financial statements. In addition, the Group’s fair value measurement involves application of judgement and is based on assumptions and estimates. Save as above, The Company had no items which are exceptional or extraordinary because of size, nature or incidence in the audited consolidated financial statements of the Group for each of the three years ended 31 December 2018.

Save as disclosed in the section headed “Audit Opinion” in this appendix, no modified opinion, emphasis of matter, or material uncertainty relating to going concern was contained in the audited consolidated financial statements of the Group for each of the three financial years ended 31 December 2016, 2017 and 2018 had been issued by Crowe Horwath (HK) CPA Limited, RSM Hong Kong and ZHONGHUI ANDA CPA Limited, respectively.

AUDITOR OPINION

The auditor of the Company, ZHONGHUI ANDA CPA Limited, issued a qualified opinion in respect of the consolidated financial statements of the Group for the Financial Year 2018. Set out below is the qualified opinion and its corresponding basis based on the annual report of the Group for the Financial Year 2018 (the “**2018 Annual Report**”). Capitalized terms used below have the same meanings as defined in the 2018 Annual Report.

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 on pages 40 to 114 of the 2018 Annual Report, 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

- (a) 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.

- (b) 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 the 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	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Income and expenses for the years ended 31 December:</i>		
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:		
Items that may be reclassified to profit or loss:		
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 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
<i>Assets and liabilities as at 31 December:</i>		
Non-current assets		
Property, plant and equipment	2,353	3,774
Prepayment for property, plant and equipment	—	37,442
	<u>2,353</u>	<u>41,216</u>
Current assets		
Trade and other receivables	1,801	1,821
Cash and cash equivalents	13	19,263
	<u>1,814</u>	<u>21,084</u>
Current liability		
Trade and other payables	5,322	1,830
	<u>5,322</u>	<u>1,830</u>
Net current (liabilities)/assets	<u>(3,508)</u>	<u>19,254</u>
Net (liabilities)/assets	<u>(1,155)</u>	<u>60,470</u>

Any adjustments to the figures as described from points (a) and (b) 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 of the 2018 Annual Report 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 of the 2018 Annual Report 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 of the 2018 Annual Report 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.

2. AUDITED CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out or refer to in this Response Document the consolidated statement of financial position, consolidated statement of cash flows and any other primary statement as shown in the audited consolidated financial statements of the Group for the Financial Year 2018 (the "**2018 Financial Statements**"), together with the notes to the relevant published accounts which are of major relevance to the appreciation of the above financial information.

The 2018 Financial Statements are set out on pages 40 to 114 of the 2018 Annual Report of the Company, which was published on 29 April 2019.

The 2018 Annual Report is posted on the website of the Stock Exchange (www.hkexnews.hk).

Please also see below a quick link to the 2018 Annual Report: <https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn201904291254.pdf>

The 2018 Financial Statements are incorporated by reference into this Response Document and form part of this Response Document.

3. INDEBTEDNESS

As at 31 May 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Response Document, the Group had the following indebtedness:

Borrowings

	HK\$'000
<i>Secured and unguaranteed:</i>	
Bank borrowings	200,000
Other borrowings	<u>7,489</u>
	<u><u>207,489</u></u>

Charges on the assets

As at 31 May 2019, (i) investment properties amounting to approximately HK\$369,200,000, (ii) bank deposits of HK\$4,000,000, (iii) bank deposits of not less than HK\$6,000,000* maintained by the Company with the bank, and (iv) assignment of rental income from investment properties to designated bank accounts which are charged to the bank, amounting to approximately HK\$747,000 were pledged as collaterals for its bank borrowings; and (i) inventories amounting to approximately HK\$10,900,000 and (ii) the entire issued shares of Super Homes Limited, an indirect wholly owned subsidiary of the Company were pledged as collaterals for its other borrowings.

* As at 31 May 2019, the Company maintained with the bank of bank deposits amounting approximately to HK\$5,596,000, which was lesser than HK\$6,000,000. All amounts due or owing by the Company to the bank shall become immediately due and payable by the Company.

Contingent liabilities

As at 31 May 2019, in light that there was a change in a subsidiary's shareholdings, Super Homes Limited, for Group restructure during the year ended 31 December 2002 and the subsidiary has certain accumulated tax loss brought forward, Section 61B of the Hong Kong Inland Revenue Ordinance (the "IRO") basically prevents the utilization of tax loss through the purchase of companies with certain accumulated tax losses brought forward, these tax losses have been utilized to offset previous taxable profit and subject to final agreement by the IRD. If the tax losses not agreed by the IRD, there may be a potential tax payable. In view of the inherent uncertainties of change of shareholders, and the tax 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 consolidated financial statements.

Commitments*Capital commitment*

Capital commitments contracted for as at 31 May 2019 but not yet incurred are as follows:

	HK\$'000
Property, plant and equipment (<i>Note</i>)	<u>15,587</u>

Note: On 13 January 2017, WI Graphene Co., Limited (“**WI Graphene**”), a subsidiary of the Company, entered into a plant sale and purchase agreement with Graphene Platform Corporation (“**GP**”) to purchase the graphene production machinery and equipment with a consideration of JPY700 million (equivalent to HK\$47,500,000) (excluding the consumption tax applicable in Japan, which shall be payable by WI Graphene in addition to sums herein). After prepayment of JPY540 million (equivalent to HK\$37,442,000) (including the consumption tax) for the purchase, the balance of JPY216 million (equivalent to HK\$15,587,000) (including the consumption tax) need to pay within three days after fulfillment of the conditions of (a) WI Graphene having received a written notification from GP that the construction of the plant has been completed within GP’s scope of supply; (b) WI Graphene has confirmed with GP in writing that the plant has been completed as referred to in (a) above and come to WI Graphene’s satisfaction; and (c) WI Graphene has confirmed with GP in writing that the actual use of the fund of JPY500 million by GP complies with the schedule. As the above three conditions have not yet been fulfilled, the payment time is not predictable.

Operating lease commitments

As at 31 May 2019, the Group had significant commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	HK\$'000
Within one year	3,166
In the second to fifth year, inclusive	<u>1,825</u>
	<u>4,991</u>

Disclaimer

Save as disclosed above, as at 31 May 2019, the Group did not have any debt securities, any outstanding mortgages, charges, debentures, other issued debt capital, bank overdrafts, borrowings, liabilities under acceptance, outstanding convertible debt securities or other similar indebtedness, any guarantees or other material contingent liabilities.

To the best understanding and knowledge of the directors of the Group, the directors of the Group confirm that there had been no material changes to the indebtedness position of the Group since 31 May 2019 up to the Latest Practicable Date.

4. MATERIAL CHANGE

The Directors confirm that save as disclosed below, there had been no material change in the financial or trading position or outlook of the Group since 31 December 2018, being the date to which the latest published audited consolidated financial statements of the Company were made up, and up to and including the Latest Practicable Date:

- (a) on 20 February 2019, the Company published an inside information announcement (the “**Inside Information Announcement**”) which stated that the Company became aware that a winding-up petition was made against 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. As further disclosed in the Inside Information Announcement, the banking facility of HK\$200 million obtained from a commercial bank in August 2016 that was renewed for another two years in August 2018. The said banking facility had been fully drawn down. As one of the undertakings required by the bank, all the Shares shall remain listed on the Stock Exchange and Mr. Li (the sole shareholder of HK Guoxin, who is also the chairman, non-executive Director and the then ultimate controlling Shareholder) 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 then trading halt of the Company and its potential change of controlling Shareholder, a credit review was conducted by the bank (i.e. as the lender) in respect of the Company’s existing banking facilities. 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 the Latest Practicable Date, the said banking facility was replaced by another facility without the aforementioned clause but is repayable on demand;
- (b) as disclosed in the Inside Information Announcement, 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. The Company would like to stress that, even if 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. As at the Latest Practicable Date, the Company had not yet obtained such consent and the bank had not exercised any rights to sell the mortgaged investment properties.
- (c) as disclosed in the Inside Information Announcement, Super Homes Limited, an indirect wholly-owned subsidiary of the Company, received an enquiry letter from 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 seeking advice from its tax consultant in addressing the queries of the IRD in this regard; and

- (d) as disclosed in the 2018 Annual Report, Customer A was the sole major customer contributing 10% or more to the Group's revenue. The lease for Customer A was expired and Customer A did not renew their lease for 2019.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this Response Document received from EIDEA, the Independent Property Valuer, in connection with its valuation as at 30 June 2019 of the property interests held by the Group.

The Directors
China Graphene Group Limited
Suites 1908-1916,
19F,
Sun Hung Kai Centre,
30 Harbour Road,
Wanchai,
Hong Kong

EIDEA

**Eidea Professional Services
Company Limited**

Room 2905, 29/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Tel: (852) 2528 3808
Fax: (852) 2529 3808

26 July 2019

Dear Sir/Madam,

Re: Valuation of property interests of 30 Residential Units of The ICON, 38 Conduit Road, Mid-Levels, Hong Kong, (“the Property Interests”)

1. INSTRUCTIONS

In accordance with your instruction for us to value the Property Interests held by China Graphene Group Limited (hereafter referred to as the “**Company**”) and its subsidiaries (together referred to as the “**Group**”) situated in Hong Kong, we confirm that we have carried out inspection of the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property Interests as at 30 June 2019 (the “**Valuation Date**”) for incorporation into the Company’s public document.

This letter which forms part of our valuation report explains the basis and methodology of valuation, clarifying assumptions and limiting conditions of this valuations.

2. BASIS OF VALUATION

The valuation is our opinion of the market value (“**Market Value**”) which we would define as intended to mean the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion.

Market Value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase and without offset for any associated taxes or potential taxes.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

3. VALUATION METHODOLOGY

In valuing the property interests, which is held by the Group in Hong Kong, direct comparison method is adopted based on the principle of substitution, where comparison is made based on prices realized on actual sales of comparable properties. Comparable properties of similar size, scale, nature, character and location are analyzed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

4. VALUATION ASSUMPTIONS

In undertaking our valuation, we have assumed that, unless otherwise stated, transferable land use rights in respect of the properties for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid. We have also assumed that the owner of the Property Interests has enforceable title to the properties and has free and uninterrupted rights to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

5. TITLE INVESTIGATION

We have carried out title searches for the properties, however, we are not in the position to provide you comments on the title of the properties and advise you to seek for the legal opinion regarding to the same from your relevant legal advisors.

6. LIMITING CONDITIONS

We have inspected the exterior, and where possible, the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot infestation or any other defects. No tests were carried out on any of the services.

We have not carried out detailed on-site measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the documents are correct. All documents have been used as reference only and all dimensions, measurements and areas are approximations.

We have relied to a considerable extent on information provided from the Group and have accepted advice given to us on such matters, in particular, but not limited to, the tenure, statutory notices, easements, particulars of occupancy, floor areas and all other relevant matters in the identification of the Property.

We have had no reason to doubt the truth and accuracy of the information provided to us. We have also been advised by the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any properties or any expenses and taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property Interests is free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

The reported market value only applies to the whole of the units as a unique interest, and no piecemeal transaction of the units is assumed.

The potential tax liability which would arise on the disposal of the property interests held by the Group mainly includes stamp duty (range from HK\$100 to 8.5% of the consideration or value of the property interests) for Hong Kong properties. In the course of our valuations, we have not taken into account such taxes.

7. REMARKS

In valuing the Property Interests, we have complied with all the requirements contained in Chapter 5 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited, Rule 11 of the Hong Kong Code on Takeovers and Mergers issued by Securities and Futures Commission and the HKIS Valuation Standards 2017 Edition published by The Hong Kong Institute of Surveyors.

We have valued the Property Interests in Hong Kong Dollars (HK\$).

We enclose herewith the valuation certificate.

Yours faithfully,

For and on behalf of

Eidea Professional Services Company Limited

Tony Y. F. Lau

MRICS, BSc (Hons)

Managing Director

Mr. Tony Y. F. Lau is a Professional Member of The Royal Institution of Chartered Surveyors with over 14 years' experience in valuation of properties and machineries and equipment in HKSAR, Macau SAR, mainland China, the Asia Pacific Region, America and Europe.

VALUATION CERTIFICATE

Group I – Property Interests held by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 June 2019 HK\$
1. Flats A on 11th, 12th, 17th to 19th, 21st to 23rd, 26th to 28th, 30th and 32nd Floors, Flat B on 32rd Floor, Flats C on 30th to 32nd Floors, Flat D on 11th, 12th, 18th to 23rd, 25th, 26th and 30th to 32nd Floors, Roof A, Roof D, The ICON, 38 Conduit Road, Mid-Levels, Hong Kong 2174/5272nd shares of and in the Remaining Portion of Inland Lot No.1253	<p>The Property comprises 30 domestic units and the roofs of a 23-storey residential building completed in 2010.</p> <p>The total gross floor area and saleable area of the domestic units are about 21,024 sq.ft. (1,953.18 sq.m.) and 13,776 sq.ft. (1,279.82 sq.m.) respectively. In addition, the total area of the roofs is about 1,464 sq.ft. (136.01 sq.m.).</p> <p>The Property is held under Government lease for a term of 999 years commencing on 25 June 1861.</p>	Portions of the Property are subject to various tenancy agreements at a total monthly rental of approximately HK\$ 596,000 with the latest one expired on 29 August 2024 whilst the remaining portions of the Property are vacant.	389,700,000

Notes:

- The registered owner of the Property is Super Homes Limited, an indirect wholly owned subsidiary of the Company.

1. RESPONSIBILITY STATEMENT

The Directors (other than Mr. Li and Mr. Wang for the reasons stated below) jointly and severally accept full responsibility for the accuracy of the information contained in this Response Document and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this Response Document have been arrived at after due and careful consideration and there are no other facts not contained in this Response Document, the omission of which would make any statement in this Response Document misleading. The Directors (other than Mr. Li and Mr. Wang for the reasons stated below) only take responsibility for the correctness of the reproduction or presentation of the information relating to the Offer and the Offeror which is based on the Offer Document.

Mr. Li has been in disagreement with the Board and has refused to respond and give confirmation as to the accuracy and completeness of the information contained in the document required to be issued by the Company in relation to the Offer whereas no effective response has been received from Mr. Wang by the Company as at and following the date of formation of the Independent Board Committee which is why he is not in the Independent Board Committee although the Board has used its best endeavours to do so. As such, an application has been made to the Executive pursuant to Rule 9.4 of the Takeovers Code to exclude Mr. Li and Mr. Wang from the responsibility statement contained in any documents to be issued by the Company in relation to the Offer, including this Response Document. The Executive has granted such consent.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date is as follows:

	HK\$
Authorised	
<u>20,000,000,000</u> Shares	<u>1,000,000,000</u>
Issued and fully paid	
<u>2,819,102,084</u> Shares	<u>140,955,104.2</u>

The Company had no outstanding options, derivatives, warrants or securities which are convertible or exchangeable into Shares as at the Latest Practicable Date.

All Shares in issue rank pari passu in all respects with each other including rights to dividends, voting and return of capital. The Company has not issued any Shares since 31 December 2018, being the date to which the latest annual audited financial statements of the Company were made up.

3. DISCLOSURE OF INTEREST**(a) Interest of the Company in the Offeror**

As at the Latest Practicable Date, none of the Company nor any member of the Group had any interest in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Offeror, and no such person (including the Company) had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Offeror.

(b) Interest of the Directors in the Company and in the Offeror

As at the Latest Practicable Date, none of the Directors, including their respective associates, had any interests or short positions in relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and the Offeror.

(c) Other Interests

As at the Latest Practicable Date:

- (i) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company was owned or controlled by a subsidiary of the Company or by a pension fund (if any) of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert or who is an associate of the Company as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser but excluding exempt principal traders and exempt fund managers);
- (ii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3) and (5) of the definition of acting in concert or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code;
- (iii) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company were managed on a discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (iv) none of the Directors had any interests in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company and none of the Directors intended, in respect of their own beneficial shareholdings, to accept or reject the Offer;
- (v) no relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company which the Company and any Directors had borrowed or lent.

4. DEALING IN THE SECURITIES OF THE COMPANY

- (a) During the Relevant Period, save for the Sale and Purchase Agreement involving the Sale Shares which were ultimately owned by Mr. Li before the Receivership, none of the Directors had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.
- (b) During the Relevant Period,
- (i) none of the Company nor any member of the Group had dealt in any interest in the equity share capital or any convertible securities, warrants, options and derivatives of the Offeror;
 - (ii) none of the subsidiaries of the Company or a pension fund (if any) of any member of the Group or by a person who is presumed to be acting in concert with the Company by virtue of class (5) of the definition of acting in concert or who is an associate of the Company as specified in class (2) of the definition of associate under the Takeovers Code (including the Independent Financial Adviser but excluding exempt principal traders and exempt fund managers) had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company;
 - (iii) no person, with whom the Company or any person who is presumed to be acting in concert with the Company by virtue of classes (1), (2), (3), (5) of the definition of acting in concert or who is an associate of the Company by virtue of classes (2), (3) and (4) of the definition of associate under the Takeovers Code has an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company; and
 - (iv) no fund managers (other than exempt fund managers) connected with the Company had dealt in any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) of the Company.

5. LITIGATION

As at the Latest Practicable Date, none of the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. MATERIAL CONTRACTS

There was no contracts, not being contracts entered into in ordinary course of business of the Group, have been entered into by the members of the Group within two years preceding commencement of the Offer Period and up to and including the Latest Practicable Date and which are, or maybe, material.

7. EXPERTS AND CONSENTS

The following are qualifications of experts who have given opinion, letter or advice which are contained in this Response Document:

Name	Qualification
VEDA Capital Limited	a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activities under the SFO
EIDEA Professional Services Company Limited	independent professional property valuer

As at the Latest Practicable Date, both VEDA and EIDEA did not have any shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or had any interest, either directly or indirectly, in any assets which had been, since 31 December 2018 (the date to which the latest published annual audited financial statement of the Company were made up), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

Both VEDA and EIDEA have given and have not withdrawn in their written consent to the issue of this Response Document with copy of their respective letters and the references to their names included herein in the form and context in which they are respectively included.

8. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS IN SECURITIES

- (a) As at the Latest Practicable Date, no benefit (other than statutory compensation) had been given or would be given to any Director as compensation for loss of office or otherwise in connection with the Offer.
- (b) As at the Latest Practicable Date, save for the Sale and Purchase Agreement, there was no material contract entered into by the Offeror or any party acting in concert with it in which any Director had a material personal interest.
- (c) As at the Latest Practicable Date, save for the Sale and Purchase Agreement, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.

9. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, the Company has entered into the following service contracts and letters of appointment with the Directors:

- a. the service agreement dated 6 November 2018 entered into between the Company and Mr. Chen Meng, pursuant to which Mr. Chen was appointed as an executive Director for an initial period of 3 years commencing from 6 November 2018, unless terminated by either party by giving not less than 3 months' prior written notice and entitled to receive a fixed salary of HK\$3,000,000 per annum;
- b. the service agreement dated 1 February 2018 entered into between the Company and Mr. Zhou Chen, pursuant to which Mr. Zhou was appointed as an executive Director for an initial period of 3 years commencing from 1 February 2018, unless terminated by either party by giving not less than 3 months' prior written notice and entitled to receive a fixed salary of HK\$3,000,000 per annum;
- c. the appointment letter dated 6 November 2018 entered into between the Company and Mr. Li, pursuant to which Mr. Li was appointed as a non-executive Director and the Chairman for an initial period of 3 years commencing from 6 November 2018, unless terminated by either party by giving not less than 3 months' prior written notice and entitled to receive a fixed salary of HK\$3,000,000 per annum;
- d. the service agreement dated 21 July 2017 entered into between the Company and Mr. Wang, pursuant to which Mr. Wang was appointed as an independent non-executive Director for an initial period of 3 years commencing from 21 July 2017 unless terminated by either party by giving not less than 1 month's prior written notice and entitled to receive a fixed salary of HK\$360,000 per annum;
- e. the service agreement dated 28 February 2019 entered into between the Company and Mr. Gao Han, pursuant to which Mr. Gao was appointed as an independent non-executive Director for an initial period of 3 years commencing from 28 February 2019 unless terminated by either party by giving not less than 1 month's prior written notice and entitled to receive a fixed salary of HK\$240,000 per annum;
- f. the service agreement dated 28 February 2019 entered into between the Company and Mr. Chow Chi Ping, pursuant to which Mr. Chow was appointed as an independent non-executive Director for an initial period of 3 years commencing from 28 February 2019, unless terminated by either party by giving not less than 1 month's prior written notice and entitled to receive a fixed salary of HK\$300,000 per annum;

As at the Latest Practicable Date, save as disclosed above, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies which:

- (a) (including both continuous and fixed term contracts) have been entered into or amended within six months before the commencement of the Offer Period;
- (b) are continuous contracts with a notice period for 12 months or more; and
- (c) are fixed term contracts with more than 12 months to run irrespective of the notice period.

10. MISCELLANEOUS

- (a) The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.
- (b) The principal place of business of the Company in Hong Kong is located at Rooms 1908-1916, 19th Floor, Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.
- (c) There is no company secretary of the Company after resignation of Mr. Zhou Chen with effect from 27 June 2019.
- (d) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (e) The registered office of VEDA is at Room 1106, 11/F, Wing On Centre, 111 Connaught Road Central, Sheung Wan, Hong Kong
- (f) The registered office of EIDEA is at Suite 1001, 10th Floor, Great Eagle Center, 23 Harbour Road, Wanchai, Hong Kong.
- (g) The English text of this Response Document shall prevail over their respective Chinese text for the purpose of interpretation.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on the websites of the SFC (www.sfc.hk) and the Company (www.chn-graphene.com) and, during normal business hours from 9:00 a.m. to 5:00 p.m. (other than Saturdays, Sundays and public holidays), at the Company's Hong Kong principal office address at Rooms 1908-1916, 19th Floor, Sun Hing Kai Centre, 30 Harbour Road, Wanchai Hong Kong from the date of this Response Document until the close of the Offer:

- (a) the Bye-laws of the Company;
- (b) the annual report of the Company for each of the three financial years ended 31 December 2018;
- (c) the letter from the Board as set out on pages 7 to 14 of this Response Document;

- (d) the letter from the Independent Board Committee as set out on pages 15 to 16 of this Response Document;
- (e) the letter from VEDA as set out on pages 17 to 39 of this Response Document;
- (f) the valuation report from EIDEA as set out on pages II-1 to II-4 of this Response Document;
- (g) the written consents referred to in the paragraph headed “Experts and Consents”, in this Appendix;
- (h) the service agreements and appointment letters referred to in the paragraph headed “Directors’ Service Contracts” in this Appendix; and
- (i) this Response Document.