THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Silver Grant International Industries Limited**, you should at once hand this circular and the enclosed proxy form to the purchaser or the transferee or to the bank, stockbroker or other agent whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

SILVER GRANT INTERNATIONAL INDUSTRIES LIMITED
銀建國際實業有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 171)

(1) MAJOR ACQUISITION AND VERY SUBSTANTIAL DISPOSAL INVOLVING THE MERGER OF ZHONG HAI YOU QI, TZ UNITED EAST AND COBT;
(2) PROPOSAL FOR RE-ELECTION OF DIRECTORS;
(3) PROPOSED CHANGE OF COMPANY NAME;
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

A letter from the board of directors of Silver Grant International Industries Limited (the "**Company**") is set out on pages 6 to 32 of this circular.

A notice convening an extraordinary general meeting (the "**EGM**") of the Company to be held at Boardroom 3 & 4, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 10 May 2019 at 2:30 p.m. or any adjournment thereof is set out on pages 240 to 243 of this circular. A proxy form for use in the EGM is enclosed. Whether or not you propose to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar and transfer office, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Hong Kong, 23 April 2019

CONTENTS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

"Articles of Association"	articles of association of the Company, as originally adopted, or as from time to time altered in accordance with the Companies Ordinance, (Chapter 622 of the Laws of Hong Kong)
"Board"	board of Directors
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"CNOOC"	中國海洋石油集團有限公司 (China National Offshore Oil Corporation*)
"COBT"	中海瀝青(泰州)有限責任公司 (China Offshore Bitumen (Taizhou) Co., Ltd.*), a company established in the PRC and owned as to 51%, 39%, 5% and 5% by CRCL, Taizhou Petrochemical, Suzhou Ruixin and Hangzhou Yiyang respectively as at the Latest Practicable Date
"CRCL"	中海石油煉化有限責任公司 (CNOOC Refinery Co., Ltd.*), a company established in the PRC and a shareholder of COBT and Zhong Hai You Qi as at the Latest Practicable Date
"Company"	Silver Grant International Industries Limited, a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Stock Exchange
"Completion"	completion of the Merger in accordance with the Merger Agreement
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company

"EGM"	extraordinary general meeting of the Company to be convened to consider and, if thought fit, to approve the resolution(s) contained in the notice of the EGM which is set out on pages 240 to 243 of this circular
"Enlarged Group"	the Group as enlarged by the Merged Enterprise and after the deconsolidation of the TZ United East Group upon Completion
"Group"	the Company and its subsidiaries
"Hangzhou Yiyang"	杭州奕陽投資合夥企業(有限合夥) (Hangzhou Yiyang Investment Limited Partnership*), a partnership established in the PRC and a shareholder of COBT as at the Latest Practicable Date
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	third parties independent of the Company and its connected persons
"Independent Valuer"	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
"Latest Practicable Date"	18 April 2019, being the latest practicable date for ascertaining certain information contained herein prior to the printing of this circular
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Merged Enterprise"	Zhong Hai You Qi after absorption of TZ United East and COBT upon Completion
"Merger"	merger by absorption of TZ United East and COBT by Zhong Hai You Qi
"Merger Agreement"	merger agreement entered into among Zhong Hai You Qi, TZ United East and COBT on 28 November 2018 in relation to the Merger

"percentage ratios"	percentage ratios under Rule 14.07 of the Listing Rules
"Post-Merger Shareholders"	CRCL, TZ Dong Thai, Taizhou Petrochemical, Suzhou Ruixin and Hangzhou Yiyang
"PRC"	People's Republic of China and for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Proposed Change of Company Name"	proposed change in the Company's English name from "Silver Grant International Industries Limited" to "Silver Grant International Holdings Group Limited" and in the Company's Chinese name from "銀建國際實業有限公司" to "銀建國際控股集團有限公司"
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGIP"	Silver Grant International Petrochemical Limited（銀建國際石化有限公司）, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
"Share(s)"	ordinary share(s) with no par value of the Company
"Shareholder(s)"	holder(s) of the Shares
"Shareholders Cooperation Agreement"	shareholders cooperation agreement entered into among the Post-Merger Shareholders on 28 November 2018 in relation to their respective rights and obligations in the Merged Enterprise upon the Merger
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Suzhou Ruixin"	蘇州工業園區瑞新公路物資有限公司 (Suzhou Industrial Park Ruixin Highway Materials Co., Ltd.*), a company established in the PRC and a shareholder of COBT as at the Latest Practicable Date

"Taizhou Petrochemical"	泰州石油化工有限責任公司 (Taizhou Petrochemical Co., Ltd.*), a company established in the PRC and a shareholder of COBT as at the Latest Practicable Date
"Taizhou Yinjian"	泰州銀建能源投資有限公司 (Taizhou Yinjian Energy Investment Co., Ltd.*), a company established in the PRC and an indirect wholly-owned subsidiary of the Company as at the Latest Practicable Date
"TZ Dong Thai"	泰州東泰石化有限公司 (Tai Zhou Dong Thai Petrochemical Company Limited*), a company established in the PRC and an indirect non-wholly owned subsidiary of the Company owned as to 17.61% and 50.46% by SGIP and Taizhou Yinjian respectively as at the Latest Practicable Date
"TZ Oil Product"	泰州東聯油品裝卸有限公司 (Tai Zhou United East Oil Product Loading and Unloading Company Limited*), a company established in the PRC and a direct wholly-owned subsidiary of TZ United East as at the Latest Practicable Date
"TZ United East"	泰州東聯化工有限公司 (Tai Zhou United East Petrochemical Company Limited*), a company established in the PRC and an indirect non-wholly owned subsidiary of the Company owned as to 100% by TZ Dong Thai as at the Latest Practicable Date
"TZ United East Group"	TZ United East and its subsidiary(ies)
"TZ Xin Bin Jiang"	泰州市新濱江開發有限責任公司 (Taizhou Xin Bin Jiang Development Company Limited*), a company established in the PRC by 泰州市政府國有資產監督管理委員會 (State-owned Assets Supervision and Administration Commission of Taizhou Government*) and a shareholder of TZ Dong Thai as at the Latest Practicable Date
"Zhong Hai You Qi"	中海油氣(泰州)石化有限公司 (Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited*), a company established in the PRC and an associated company of the Company owned as to 33% and 67% by TZ Dong Thai and CRCL respectively as at the Latest Practicable Date

"Zhuguang Holdings"	Zhuguang Holdings Group Company Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange (stock code: 1176) and is a substantial shareholder of the Company
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

* *The English names of the PRC entities as referred to in this circular are translations from their Chinese names and are for identification purposes only. If there is any inconsistency, the Chinese name shall prevail.*

For illustration purposes in this circular, the amounts in RMB are translated to HK$ at the rate of RMB1.00 = HK$1.13. No representation is made that any amount in RMB has been or could be converted at the above rate or at any other rates or at all.

SILVER GRANT INTERNATIONAL INDUSTRIES LIMITED
銀建國際實業有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 171)

Executive Directors
Gao Jian Min *(Managing Director)*
Huang Jiajue
Luo Zhihai
Ma Yilin

Non-executive Directors
Chu Hing Tsung *(Chairman)*
Chen Zhiwei

Independent non-executive Directors
Liang Qing
Zhang Lu
Hung Muk Ming

Registered Office:
Suite 4901
49th Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

23 April 2019

To the Shareholders

Dear Sir or Madam,

(1) MAJOR ACQUISITION AND VERY SUBSTANTIAL DISPOSAL INVOLVING THE MERGER OF ZHONG HAI YOU QI, TZ UNITED EAST AND COBT;
(2) PROPOSAL FOR RE-ELECTION OF DIRECTORS;
(3) PROPOSED CHANGE OF COMPANY NAME;
AND
(4) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcements of the Company dated 4 December 2018, 27 December 2018, 28 January 2019, 28 February 2019 and 29 March 2019 in respect of, among other things, the Merger.

Reference is also made to the announcements of the Company dated 29 January 2019 and 12 March 2019 in relation to (i) the re-election of Directors and (ii) the Proposed Change of Company Name respectively.

The purpose of this circular is to provide you with, among others, (i) further details of (a) the Merger; (b) the re-election of Directors; and (c) the Proposed Change of Company Name; (ii) other information as required under the Listing Rules; and (iii) the notice of the EGM.

On 28 November 2018 (after trading hours), TZ United East, Zhong Hai You Qi and COBT entered into the Merger Agreement, pursuant to which, Zhong Hai You Qi will absorb and merge with TZ United East and COBT. Upon Completion, the Merged Enterprise, Zhong Hai You Qi, will be the surviving company and will assume all the assets, liabilities, operations, personnel, contracts, qualifications and all other rights and obligations of TZ United East and COBT. TZ United East and COBT will be dissolved and deregistered.

Further, on 28 November 2018 (after trading hours), the Post-Merger Shareholders also entered into the Shareholders Cooperation Agreement to set out their respective rights and obligations in the Merged Enterprise, in accordance with the Merger.

As one or more of the applicable percentage ratios in respect of the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder is or are more than 25% and/or 75% and all of them are less than 100%, the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder constitute a major acquisition and a very substantial disposal of the Company and are subject to the shareholders' approval requirements under Chapter 14 of the Listing Rules.

I. THE MERGER AGREEMENT

Principal terms of the Merger Agreement are set out as follows:

Date: 28 November 2018 (after trading hours)

Parties:
(1) Zhong Hai You Qi;

(2) TZ United East; and

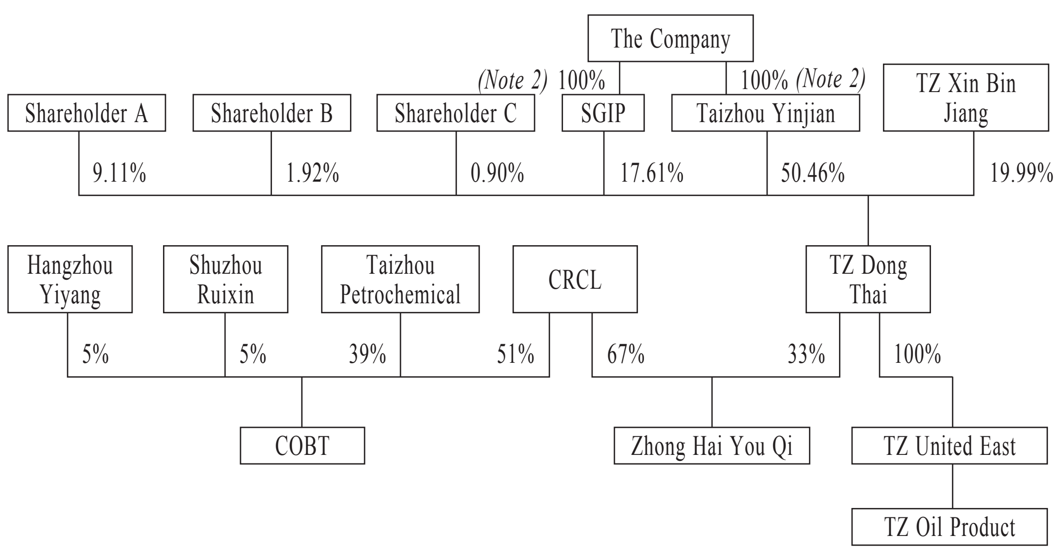
(3) COBT.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, save for the Company's shareholding interest in Zhong Hai You Qi and TZ Dong Thai, Zhong Hai You Qi, COBT and their respective ultimate beneficial owners are Independent Third Parties.

Merger: Zhong Hai You Qi shall absorb and merge with TZ United East and COBT in the way stipulated under the Company Law of the PRC.

The Merged Enterprise will be the surviving company upon Completion, and continue to use its existing name 中海油氣(泰州)石化有限公司 and assume all the assets, liabilities, operations, personnel, contracts, qualifications and all other rights and obligations of TZ United East and COBT. TZ United East and COBT will be dissolved and deregistered.

Shareholding structure: As at the Latest Practicable Date, the shareholding structure of Zhong Hai You Qi, TZ United East and COBT is as follows:



Notes:

(1) The percentages may not add up to 100% due to rounding.

(2) SGIP and Taizhou Yinjian are indirect wholly-owned subsidiaries of the Company.

Upon Completion, the registered capital of the Merged Enterprise will be the aggregate of the registered capitals of Zhong Hai You Qi, TZ United East and COBT prior to the Merger, i.e. RMB3,550,705,800. The existing shareholders of Zhong Hai You Qi, TZ United East and COBT respectively will become the Post-Merger Shareholders.

The proportion of the capital contribution by each of the Post-Merger Shareholders in the Merged Enterprise upon Completion (the "**Merger Basis**") are determined with reference to their respective capital contribution in Zhong Hai You Qi, TZ United East and COBT before the Merger and the mutually agreed value of equity interest of Zhong Hai You Qi, TZ United East and COBT (the "**Adjusted Net Asset Values**") on 30 November 2017 (the "**Reference Date**") which amounted to approximately RMB4,384,466,000 (equivalent to approximately HK$4,954,446,580), RMB1,877,105,200 (equivalent to approximately HK$2,121,128,876) and RMB256,034,600 (equivalent to approximately HK$289,319,098) respectively after arm's length negotiation between the Post-Merger Shareholders. The above Merger Basis was agreed by the Group after consideration of (a) the preliminary valuation of Zhong Hai You Qi, TZ United East and COBT in the ranges of RMB4,441 million (equivalent to approximately HK$5,018 million) to RMB4,749 million (equivalent to approximately HK$5,366 million), RMB1,679 million (equivalent to approximately HK$1,897 million) to RMB1,803 million (equivalent to approximately HK$2,037 million), and RMB224 million (equivalent to approximately HK$253 million) to RMB241 million (equivalent to approximately HK$272 million) as at 31 October 2018 according to the preliminary valuation analysis prepared by the Independent Valuer applying the market approach (the "**Preliminary Valuation Assessment**"); and (b) the business prospect of the Merged Enterprise upon the Merger as mentioned in the section headed "V. Reasons for and Benefits of Conducting the Merger" in the Letter from the Board of this circular. In addition, in accordance with the Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises published in July 2013, CRCL has also filed the abovementioned Merger Basis supported by its relevant assessment documents to the State-owned Assets Supervision and Administration Commission of the State Council in order to obtain necessary pre-approval before the entering into of the Merger Agreement.

The valuation of Zhong Hai You Qi, TZ United East and COBT are HK$6,018 million, HK$1,660 million and HK$267 million respectively as at 31 December 2018 according to the valuation report prepared by the Independent Valuer applying the market approach as set out in Appendix V to this circular.

The Independent Valuer applied the market multiple of current enterprise value to EBITDA ratio (the "**EV/EBITDA ratio**") in the valuation report of Zhong Hai You Qi. The major factor for the difference between the Preliminary Valuation Assessment range of Zhong Hai You Qi as at 31 October 2018 (i.e. RMB4,441 million (equivalent to approximately HK$5,018 million) to RMB4,749 million (equivalent to approximately HK$5,366 million)) and the valuation of Zhong Hai You Qi as at 31 December 2018 (i.e. HK$6,018 million) is the increase of market multiple of EV/EBITDA ratio among the selected set of 6 comparable companies. As at 31 October 2018, the EV/EBITDA ratios are 8.33 and 8.64 for the comparable companies listed on the stock exchanges of the PRC and Hong Kong respectively. As at 31 December 2018, the EV/EBITDA ratios have increased to 8.38 and 10.27 for comparable companies listed on the stock exchanges of the PRC and Hong Kong respectively. The Independent Valuer applied the market multiple of current price to book ratio (the "**PB ratio**") in the valuation report of TZ United East. The major factor for the difference between the Preliminary Valuation Assessment range of TZ United East as at 31 October 2018 (i.e. RMB1,679 million (equivalent to approximately HK$1,897 million) to RMB1,803 million (equivalent to approximately HK$2,037 million)) and the valuation of TZ United East as at 31 December 2018 (i.e. HK$1,660 million) is the difference in net asset value of TZ United East under the different valuation dates. As at 31 October 2018, the net asset value based on the management account of TZ United East prepared under the PRC GAAP is approximately RMB 1,484 million (equivalent to approximately HK$1,677 million). As at 31 December 2018, the net asset value based on the draft audited account of TZ United East prepared under the Hong Kong Financial Accounting Standards is approximately HK$1,444 million. The difference in the net asset values as at the two valuation dates led to the difference between the valuations as at the said two valuation dates. The Independent Valuer applied the market multiple of the PB ratio in the valuation report of COBT. The valuation of COBT as at 31 December 2018 is within the range of its Preliminary Valuation Assessment. The valuation approaches applied by the Independent Valuer in the valuation report of Zhong Hai You Qi, TZ United East and COBT are considered as suitable generally-accepted market multiple under the guideline public company method. For the details of basis, valuation and assumptions adopted in the valuation report, please refer to Appendix V to this circular.

As at the Latest Practicable Date, Zhong Hai You Qi is owned as to 33% and 67% by TZ Dong Thai and CRCL respectively; TZ United East is wholly-owned by TZ Dong Thai; and COBT is owned as to 51%, 39%, 5% and 5% by CRCL, Taizhou Petrochemical, Suzhou Ruixin and Hangzhou Yiyang respectively. Pursuant to the abovementioned equity interests of the Post-Merger Shareholders before the Merger, the respective values of equity interest of and the resultant amount and proportion of the respective capital contribution of the Post-Merger Shareholders in the Merged Enterprise upon Completion are set out in the table below:

Name of shareholder	**Approximate value of equity interest** *(RMB)* *(Note 1)*	**Amount of capital contribution** *(RMB)* *(Note 2)*	**Proportion of capital contribution** *(Note 3)*
CRCL	3,068,169,900	1,671,498,500	47.07%
TZ Dong Thai	3,323,979,000	1,810,860,000	51.00%
Taizhou Petrochemical	99,853,500	54,398,900	1.53%
Suzhou Ruixin	12,801,700	6,974,200	0.20%
Hangzhou Yiyang	12,801,700	6,974,200	0.20%
Total	6,517,605,800	3,550,705,800	100%

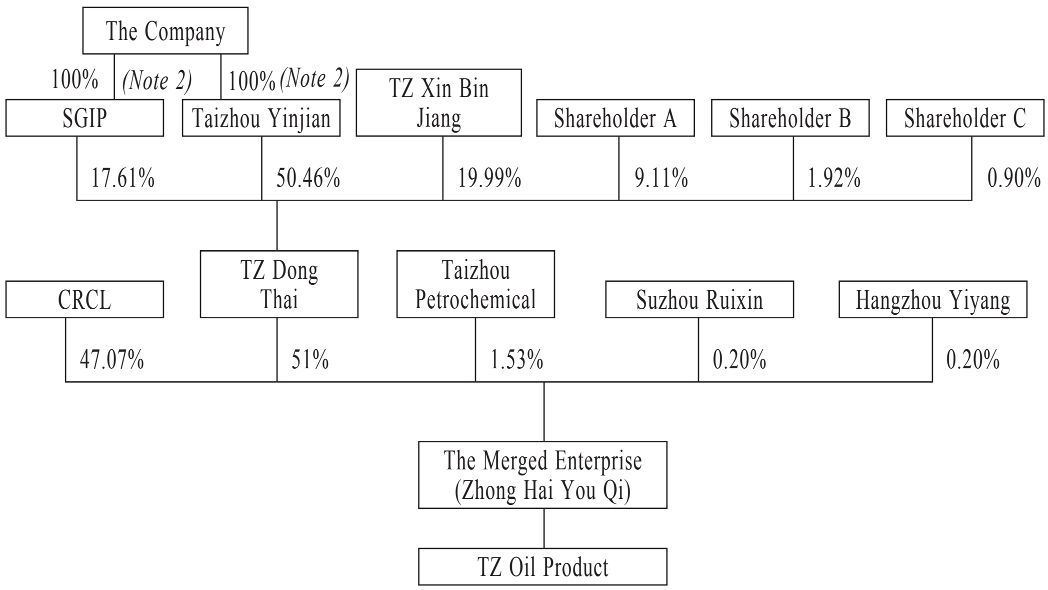
Notes:

1. The approximate value of equity interest of each Post-Merger Shareholder in the Merged Enterprise was determined based on the Adjusted Net Asset Value of Zhong Hai You Qi, TZ United East and/or COBT (as the case may be) corresponding to the interests held by the respective Post-Merger Shareholders in Zhong Hai You Qi, TZ United East and/or COBT (as the case may be) prior to the Merger (the "**Corresponding NAV**").

2. The amount of capital contribution of each Post-Merger Shareholder was determined based on the aggregate registered capital of Zhong Hai You Qi, TZ United East and COBT prior to the Merger and their respective proportion of capital contribution.

3. The proportion of capital contribution was determined based on the Corresponding NAV divided by the aggregated Adjusted Net Asset Value of Zhong Hai You Qi, TZ United East and COBT (i.e. RMB6,517,605,800).

The shareholding structure of the Merged Enterprise upon Completion will be as follows:



Notes:

(1) The percentages may not add up to 100% due to rounding.

(2) SGIP and Taizhou Yinjian are indirect wholly-owned subsidiaries of the Company.

Having considered (i) the valuation of Zhong Hai You Qi, TZ United East and COBT as at 31 December 2018 according to the valuation report prepared by the Independent Valuer against the Adjusted Net Asset Values, and (ii) the business prospect of the Merged Enterprise upon the Merger as mentioned in the section headed "V. Reasons for and Benefits of Conducting the Merger", the Directors are of the view that the above terms and basis for the shareholding restructuring arrangement are fair and reasonable to the Company and the Shareholders.

Completion: Completion shall be subject to, among others, the Company having obtained approvals required under applicable laws, regulations and rules (including the Listing Rules) in relation to the Merger Agreement and transactions contemplated thereunder and as agreed by the parties thereto. Completion shall take place on the date on which all relevant procedures for the business change in relation to the Merger Agreement and the transactions contemplated thereunder with the competent administration for industry and commerce authorities having been completed.

Subsidiary and branch office: The ownership of TZ Oil Product and the branch office of TZ United East shall be transferred to the Merged Enterprise upon the Merger.

Amendment of articles of association:	The parties agreed to the amendments made to the articles of association of the Merged Enterprise. Such amended articles of association shall reflect, among others, (i) the arrangement of the Merger and the Shareholders Cooperation Agreement; (ii) the parties' agreement that no less than 65% of the accumulated distributable profit for each year will be distributed to the Post-Merger Shareholders as dividends; (iii) transfer of shares to third parties other than an existing shareholder will require consent of more than 50% from other existing shareholders; and (iv) for proposed share transfer that are approved by other existing shareholders, any of such other existing shareholders has the pre-emptive right to purchase such shares on identical terms and conditions.
Profit sharing:	The profit or loss of Zhong Hai You Qi, TZ United East and COBT for the period from the Reference Date to the date of Completion shall be shared among or borne by (as the case may be) the respective shareholders of Zhong Hai You Qi, TZ United East and COBT in proportion to their respective shareholding prior to the Merger.

II. THE SHAREHOLDERS COOPERATION AGREEMENT

Principal terms of the Shareholders Cooperation Agreement are set out as follows:

Date:	28 November 2018 (after trading hours)
Parties:	(1) CRCL; (2) TZ Dong Thai; (3) Taizhou Petrochemical; (4) Suzhou Ruixin; and (5) Hangzhou Yiyang. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, CRCL, Taizhou Petrochemical, Suzhou Ruixin, Hangzhou Yiyang and their respective ultimate beneficial owners are Independent Third Parties.

Business nature:	The production, provision and sale of refined oil products such as gasoline, diesel, fuel oil and lubricate oil and other petrochemical products such as Benzene, Methyl Ethyl Ketone (MEK), Methyl Tert-butyl Ether (MTBE) and so on.
Registered capital and proportion of capital contribution:	Similar in substance to the terms under the section headed "Shareholding structure" in the section headed "The Merger Agreement" in the Letter from the Board of this circular.
Composition of the board of directors:	The board shall consist of 11 directors, of which 5 and 4 directors shall be nominated by TZ Dong Thai and CRCL respectively, and elected in the shareholders' meeting. The remaining 2 directors shall be elected at the employee representative congress of the Merged Enterprise. TZ Dong Thai shall nominate the chairman and the position of vice chairman shall be nominated by CRCL, both to be elected in the board meeting.
Composition of the supervisory committee:	The supervisory committee shall consist of 8 supervisors, of which each of the Post-Merger Shareholders shall nominate 1 supervisor respectively, and elected in the shareholders' meeting. The remaining 3 supervisors shall be elected at the employee representative congress of the Merged Enterprise. The chairman of the supervisory committee shall be nominated by CRCL and be elected by a majority vote of all supervisors.
Composition of the management:	Each term of office shall be for a term of 3 years. For the first term, CRCL shall be entitled to nominate the general manager, whom will be appointed by the board. The members of the management of Zhong Hai You Qi, TZ United East and COBT before the Merger shall become the vice general managers of the Merged Enterprise. TZ Dong Thai shall recommend the financial controller and CRCL shall recommend the financial manager.

For the second term, there shall be 7 members of the senior management. CRCL shall be entitled to nominate the general manager, whom will be appointed by the board. TZ Dong Thai and CRCL shall be entitled to recommend 3 and 2 vice general managers respectively. CRCL shall recommend the financial controller and TZ Dong Thai shall recommend the financial manager.

Vice general managers and the financial controller shall be appointed by the board while the financial manager shall be appointed by the general manager.

Provision of resources:	After Completion, CRCL shall allocate crude oil resources to the Merged Enterprise in accordance with the relevant crude oil allocation principles. CRCL shall provide support to the Merged Enterprise in the provision of paraffinic crude oil and cycloalkyl crude oil. Subject to market needs, CRCL shall provide support in the development of a resources supply business between the Merged Enterprise and CNOOC enterprises.
Financing:	To satisfy future financing needs for operation and future development, the Merged Enterprise shall obtain loans from reputable banks and the Post-Merger Shareholders shall provide guarantees in proportion to their equity interests to secure such loans. In the event that any Post-Merger Shareholder (other than CRCL) refuses to provide guarantee, such obligation shall be borne by TZ Dong Thai. CRCL shall coordinate with the crude oil sales enterprise of CNOOC to accept the letter of credit of the Merged Enterprise issued by the five largest domestic banks for payment of crude oil procurement.
Validity:	The Shareholders Cooperation Agreement shall be subject to the Company having obtained approvals required under applicable laws, regulations and rules (including the Listing Rules) in relation to the Merger Agreement and transactions contemplated thereunder and as agreed by the parties thereto.

III. INFORMATION ABOUT THE PARTIES

Zhong Hai You Qi

Zhong Hai You Qi is principally engaged in the production and trading of petroleum and petrochemical products. As at the Latest Practicable Date, Zhong Hai You Qi is owned as to 33% and 67% by TZ Dong Thai and CRCL, respectively.

The financial information of Zhong Hai You Qi for the three years ended 31 December 2018 is as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*
Net profit before tax	109,241	1,016,708	273,595
Net profit after tax	87,742	762,022	201,107

The audited net asset value of Zhong Hai You Qi as at 31 December 2018 was approximately HK$3,779 million.

Net profit after tax of Zhong Hai You Qi for the year ended 31 December 2018 decreased approximately 73.6% to approximately HK$201 million (31 December 2017: approximately HK$762 million) which was mainly due to (a) decrease in its gross profit margin from 6.6% in the year ended 31 December 2017 to 2.4% in the year ended 31 December 2018; and (b) the provision of impairment loss in respect of its inventory due to the turbulence in the price of crude oil in the year ended 31 December 2018. As mentioned in the section headed "Management Discussion and Analysis on Zhong Hai You Qi" in Appendix III(B) to this circular, the decrease of gross profit margin of Zhong Hai You Qi was mainly attributable to (a) the suspension of production of TZ United East for sub-contracting production which led to the adjustment of product mix of Zhong Hai You Qi (i.e. less high-value and high-margin products); and (b) the turbulence in the price of crude oil, being a common market risk of the petrochemical industry, during the year ended 31 December 2018. The details of the management discussion and analysis on Zhong Hai You Qi are set out in Appendix III (B) to this circular.

TZ United East

TZ United East is principally engaged in the production and trading of petrochemical products and provision of subcontracting service. TZ Oil Product, a wholly-owned subsidiary of TZ United East, owns a terminal and is principally engaged in terminal operations (loading and unloading of crude oil, solvent oil, gasoline and diesel). As at the Latest Practicable Date, TZ United East is wholly-owned by TZ Dong Thai.

The financial information of TZ United East for the three years ended 31 December 2018 is as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*
Net loss before tax	(357,769)	(27,086)	(400,724)
Net loss after tax	(357,769)	(27,086)	(400,724)

The audited net asset value of TZ United East as at 31 December 2018 was approximately HK$1,444 million.

Net loss after tax of TZ United East for the year ended 31 December 2018 increased approximately 1,379.5% to approximately HK$401 million (31 December 2017: approximately HK$27 million) which was mainly due to the voluntary suspension of its production for five months during the period between May to September 2018 for major overhaul of its production facilities as mentioned in the section headed "Management Discussion and Analysis on TZ United East" in Appendix III(A) to this circular. As TZ United East was unable to earn subcontracting income from Zhong Hai You Qi under joint production arrangement during the period of suspended production to mitigate its operating expenditure, TZ United East therefore recorded a significant increase in losses. The details of the management discussion and analysis on TZ United East are set out in Appendix III(A) to this circular.

COBT

COBT is principally engaged in (i) the production and sales of products such as naphtha, heavy duty bitumen, modified bitumen, solvent oil, fuel oil and lubricant oil materials; (ii) the leasing of self-owned transportation facilities, terminals and other port facilities services such as cargo handling and warehousing services; and (iii) consultation on bitumen production technology and technological research and development services. As at the Latest Practicable Date, COBT is owned as to 51%, 39%, 5% and 5% by CRCL, Taizhou Petrochemical, Suzhou Ruixin and Hangzhou Yiyang, respectively.

The financial information of COBT for the three years ended 31 December 2018 is as follows:

	For the year ended 31 December 2016	**For the year ended 31 December 2017**	**For the year ended 31 December 2018**
	HK$'000	*HK$'000*	*HK$'000*
	(Audited)	*(Audited)*	*(Audited)*
Net profit (loss) before tax	5,112	(54,457)	(42,916)
Net profit (loss) after tax	3,730	(54,880)	(42,916)

The audited net asset value of COBT as at 31 December 2018 was approximately HK$232 million.

The details of the management discussion and analysis on COBT is set out in Appendix III(C) to this circular.

CRCL

CRCL is a company established in the PRC with limited liability, which is principally engaged in (i) the wholesale and storage business of gasoline, kerosene and diesel; (ii) the storage business of crude oil; (iii) the production, sales and warehousing of petrochemical products; and (iv) the petroleum refining and petrochemical technology development and technology transfer. CRCL is a wholly-owned subsidiary of CNOOC, a company principally engaged in oil and gas exploration and development, engineering and technical services, refining and marketing, natural gas and power generation and financial services. According to the official website of CNOOC (http://www.cnooc.com.cn/col/col6141/index.html), CNOOC has a global presence with a complete industrial chain and business spreading across 40 countries and regions and has over 98,000 employees. CNOOC ranked 31st in Petroleum Intelligence Weekly (PIW)'s World's Top 50 Oil Companies in 2017 and also ranked 87th in Fortune Global 500 in 2018. CNOOC is ultimately wholly-owned by the Stated-owned Assets Supervision and Administration Commission of the State Council of the PRC.

TZ Dong Thai

TZ Dong Thai is principally engaged in investment holding and investment.

Taizhou Petrochemical

Taizhou Petrochemical is principally engaged in the processing and sales of petrol, naphtha, petroleum gas (liquefied), propene, kerosene, general cargo; the processing and sales of diesel, bitumen for use on road, asphalt for use on construction, paraffin wax, fuel oil, solvent oil, lubricant oil, mining candle; railway freight forwarder, installation of water and electricity, oil analysis, technology consulting services, maintenance of electromechanical equipment, house leasing, and warehousing services (no dangerous goods).

Suzhou Ruixin

Suzhou Ruixin is principally engaged in the sales of bitumen, building materials, engineering vehicles, construction machinery, equipment and accessories for highway, hydraulic oil and lubricant oil; leasing of engineering vehicles, road building machinery and equipment and the investment and operation of highway (road) infrastructure.

Hangzhou Yiyang

Hangzhou Yiyang is principally engaged in industrial investment, investment management and investment consultancy.

The Group

The Company is a company incorporated in Hong Kong with limited liability, the issued Shares of which are listed on the Stock Exchange. The Group is principally engaged in property investment, property leasing, other investments and production and trading of petrochemical products.

SGIP is principally engaged in investment holding.

Taizhou Yinjian is principally engaged in environmental conservation and renewable energy investment.

IV. FINANCIAL EFFECTS OF THE MERGER

Before the Merger, TZ United East was an indirect subsidiary owned as to 68.07% by the Company whereas Zhong Hai You Qi was an indirect associated company owned as to 33% by the Company. Upon Completion, TZ United East will be dissolved and deregistered and will cease to be an indirect subsidiary of the Company. The assets and liabilities of TZ United East will be absorbed by Zhong Hai You Qi resulting in the Company's indirect interest in Zhong Hai You Qi (the Merged Enterprise) to increase from 33% to 51%.

With reference to the unaudited pro forma financial information on the Group upon Completion of the Merger, it is assumed that the Merger had been completed on 31 December 2018.

Since the Company does not have control over (i) the board of the Merged Enterprise, (ii) the management of the Merged Enterprise and (iii) the critical production resource crude oil, the Merged Enterprise will be treated as an investment in joint venture by the Group and the financial results of the Merged Enterprise will be accounted for by the Company using the equity accounting method. Notwithstanding that the disposal of TZ United East will constitute a very substantial disposal under the Listing Rules, the entire operation and assets of TZ United East will be retained under the Merged Enterprise in the form of a joint venture. So far as the Company is aware, the financial results of Zhong Hai You Qi will not be consolidated into the accounts of CRCL as well.

I. Earnings

The Group recorded revenue and net loss attributable to owners of the Company of approximately HK$512 million and HK$49 million for the year ended 31 December 2018, respectively. The Enlarged Group would record revenue and net profit attributable to owners of the Company of approximately HK$106 million and HK$277 million, respectively. The decrease in the revenue is mainly due to the deconsolidation of revenue of the TZ United East Group derived from its petrochemical subcontracting processing service provided to Zhong Hai You Qi. The increase in the net profit attributable to owners of the Company is mainly attributable to (i) the deconsolidation of losses of the TZ United East Group and (ii) the gain as a result of the Merger.

In addition, pursuant to the articles of association of the Merged Enterprise, the Merged Enterprise shall distribute no less than 65% of accumulated retained earnings in each financial year to the Post-Merger Shareholders as dividends. Although the Group will not record the turnover of TZ United East which mainly comprises the petrochemical subcontracting processing income from Zhong Hai You Qi, having considering (i) the consecutive positive earning position of Zhong Hai You Qi; (ii) the historical loss-making financial performance of TZ United East; and (iii) the potential operation synergy to be realised after the Merger as mentioned in the section headed "V. Reasons for and Benefits of Conducting the Merger", the Directors consider that the Merger will have positive impacts on the earnings of the Group in the long term.

II. Net Assets

Upon Completion, the Enlarged Group's net assets value attributable to owners of the Company as at 31 December 2018 is expected to be approximately HK$7,031 million in comparison with the Group's net assets value attributable to owners of the Company as at 31 December 2018 of approximately HK$6,749 million. The increase in net assets value is mainly attributable to the net effects on the gain from the Merger and the deconsolidation of the assets and liabilities of the TZ United East Group. Taking into account the valuation of TZ United East of HK$1,660 million which is below its Adjusted Net Asset Value agreed by all Post-Merger Shareholders which amounted to approximately RMB1,877 million (equivalent to approximately HK$2,121 million) for the Merger, the Directors consider the Merger is in favor of the Group as the controlling shareholder of TZ United East in terms of its value of equity interest in TZ United East agreed by all Post-Merger Shareholders being higher than the valuation of TZ United East assessed by the Independent Valuer.

For the purpose of the Unaudited Pro Forma Consolidated Statement of Financial Position as set out in Appendix IV to this circular, valuation as at 31 December 2018 of TZ United East, Zhong Hai You Qi and COBT is used in illustrating the effect upon Completion of the Merger assuming if the Merger had been completed on 31 December 2018. The Group will reassess the fair value of TZ United East, Zhong Hai You Qi and COBT at the actual completion date of the Merger and the actual gain or loss resulting from the Merger could be significantly different from the estimated amounts stated herein. In the preparation of the Unaudited Pro Forma Consolidated

Statement of Financial Position of the Enlarged Group, the management of the Group had assessed the investment in the joint venture for indicators of impairment and concluded that no impairment on the investment in joint venture is necessary as there is no objective evidence that the investment in joint venture is impaired. The management of the Group will adopt consistent accounting policies to assess the interest in the joint venture for impairment in subsequent reporting periods in accordance with the requirements of Hong Kong Accounting Standards 36.

The Company has discussed with its reporting accountants regarding the Company's impairment assessment in the preparation of the pro forma financial information and the reporting accountants, taking into consideration the impairment assessment performed by the Company, has expressed an unqualified opinion on the pro forma financial information under Hong Kong Standard on Assurance Engagements 3420 as a whole.

III. Working Capital and Gearing

The Group had net current assets and cash and cash equivalents of approximately HK$691 million and HK$497 million as at 31 December 2018, respectively. The Enlarged Group would have recorded net current assets and cash and cash equivalents of approximately HK$2,171 million and HK$425 million as at 31 December 2018, respectively, due to the deconsolidation of total assets and total liabilities of the TZ United East Group and the gain as a result of the Merger.

The gearing ratio of the Group as at 31 December 2018 was 43%. The gearing ratio of the Enlarged Group will be improved from that as at 31 December 2018 and become 16% after Completion of the Merger.

Having considered the aforementioned financial effects of the Merger, in particular the (i) positive effect on earnings to the Group; (ii) positive net asset position of the Group after the Merger; and (iii) positive impact on the working capital and gearing of the Group, the Board is of the view that the Merger will have an overall positive financial effect on the Group in the long run and be in the interest of the Group and its Shareholders as a whole.

V. REASONS FOR AND BENEFITS OF CONDUCTING THE MERGER

Mixed ownership reform

On 24 September 2015, the State Council of the PRC has published the Opinions of the State Council on Development of an Economy of Mixed Ownership of State-Run Enterprises (《國務院關於國有企業發展混合所有制經濟的意見》) (the "**Mixed Ownership Reform**") which encourages state-run enterprises to merge the equity interests, cooperate strategically and consolidate assets with non-state-run enterprises through various methods such as investment, merger or reorganisation in order to develop an economy of mixed ownership of state-run enterprises. For the purpose of implementing the Mixed Ownership Reform, the State Council of the PRC has launched certain rounds of mixed ownership reform scheme since 2015 with the focus on key areas including electricity, petroleum, natural gas and civil aviation. By merging state-run enterprises and non-state-run enterprises, the ultimate goal of the Mixed Ownership Reform is to gradually and sequentially raise the competitiveness and efficiency of merged enterprises in the PRC as a whole.

As indicated by Mr. Li Keqiang, the Prime Minister of the PRC, when delivering the annual government work report on March 2019 during the 13th National People's Congress, the Chinese government should focus on the proactive and stable progression of the Mixed Ownership Reform. The reform shall optimise the structure of the state-owned enterprises and increase their operating efficiency and quality. The Chinese government should by all means continue to provide support to the development of private enterprises in China.

Benefits under the joint production arrangement

While Zhong Hai You Qi has a direct source of crude oil and ample refining facilities, TZ United East is capable of producing a full line of downstream petrochemical products. Since 2017, Zhong Hai You Qi and TZ United East entered into a subcontracting arrangement, pursuant to which, Zhong Hai You Qi oversaw sales on a group basis and provided key production raw materials (mainly crude oil and fuel oil) and sub-contracted the production processes to TZ United East. Through such joint production arrangement, production effectiveness and efficiency of both parties were enhanced in terms of centralising the processing of resources, reducing logistic costs and consolidating complimentary advantages in the raw materials structure, the manufacturing processes and the common engineering systems employed in production. All in all, economies of scale and synergy effect of the joint production arrangement were achieved.

With over a year's successful operation under the joint production arrangement, Zhong Hai You Qi and TZ United East decided to proceed with the Merger with COBT in view of the mutual benefits to the merging parties.

Business plans of the Merged Enterprise

Under the development plan formulated by CRCL for the 13th five-year plan, Zhong Hai You Qi, being the main production base of lubricants, refined oils and chemical products, shall integrate the resources of the Taizhou integration project, and actively extend the industry chains of its petrochemical products so as to become the main production base of petrochemical products in the Yangtze River Delta region.

The short term goal of the Merged Enterprise is to become one of the largest scale oil refinery factories in the Jiangsu Province of the PRC in terms of the scale of production facilities and product mix while its long term goal is to consolidate and optimise the production technology and efficiency by utilising the raw materials and production facilities of Zhong Hai You Qi and TZ United East so as to strengthen the market position of the Merged Enterprise in the PRC and raise its competitiveness and efficiency through technological transformation, equipping new batches of devices, full usage of resources, optimising the supply of raw materials for existing production facilities and expanding the production capacity of high value-added products. Subject to the change of the then market conditions, the crucial goal of the Merged Enterprise is to increase its crude oil processing capacity from 4.5 million tons per year at present to 8 million tons per year.

In general, after consolidating the resources and production facilities of TZ United East, Zhong Hai You Qi and COBT, the Merged Enterprise shall further increase the production capacity of high value-added products, and convert the production structure of the Merged Enterprise to a comprehensive product manufacturer of road asphalt, lubricating oil, fuel oil, aromatic hydrocarbons and alkene, so that the production series and capacity are both expanded. Also, the market risk resistance of the product portfolio can be enhanced and the risk of over-concentration of product types can be reduced, such that production can be flexibly adjusted and the market competitiveness of the Merged Enterprise can be improved.

All in all, the Merged Enterprise targets to become an integrated refining and chemical enterprise with flexible management mechanism, reliable resources, advanced technology and strong market competitiveness.

Benefits of the Merger

Upon Completion, all the assets and liabilities of TZ United East and COBT will be absorbed and become part of Zhong Hai You Qi. For the purpose of responding actively towards the economic reforms under the Mixed Ownership Reform, the Merged Enterprise will be jointly managed and operated by the Group and CNOOC through TZ Dong Thai and CRCL respectively, which equips the Merged Enterprise with resources of a state-own-enterprise group and the technology and management efficiency of TZ United East, enabling the Merged Enterprise to better adapt to the market competition. While the Merger enables the Company to continue to benefit from the joint production arrangement, the reliance and independence issues of TZ United East will be eliminated. In addition, the Board considers that the Company and its Shareholders as a whole are expected to benefit from the corresponding advantages arising from the Merger as follows:

(1) Stable raw material supply and better utilisation of resources

While Zhong Hai You Qi has the direct source of crude oil and ample refining facilities under CNOOC, TZ United East is capable of producing a full line of downstream petrochemical products. The Merged Enterprise will cover both the upstream and downstream industry with stable raw material supply under the support of CNOOC and better product mix which formulates a more synergistic business model. As a result, the variety of products can be expanded to other high value-added petrochemical products and avoid repetitive or redundant purchases and constructions of equipment and facilities. Also, as the production sites of Zhong Hai You Qi and TZ United East are within close proximity to each other, Zhong Hai You Qi will be able to manage and streamline the production process by better utilising the production facilities as well as saving logistic and energy costs by sharing the terminals and connecting various production facilities that are in place by a network of pipelines. In addition, the Merged Enterprise shall benefit from economies of scale and realise an integrated development of its business and bring an increase to its overall profit capacity and improvement to its market performance.

In addition, a steady and competitive supply of crude oil resources to the Merged Enterprise will lower the refinery costs. Since the supply of crude oil resources is governed by the Shareholders Cooperation Agreement, the Merged Enterprise will not be required to conduct additional purchases from other market suppliers, which will lower relevant tax costs. The increased capacity and synergy of the Merger will allow the Merged Enterprise to minimise its production unit costs, and extend its product range in its unit production of the refinery and petrochemical markets, thereby enhancing the Group's profitability in the long run.

(2) To enhance financing ability through the Mixed Ownership Reform

TZ United East, being a non-state-run enterprise, has experienced difficulties in obtaining bank financing with favorable terms due to its consecutive loss-making position. Pursuant to the Shareholders Cooperation Agreement, CRCL, being a wholly-owned subsidiary of CNOOC and one of the major Post-Merger Shareholders, will assist the Merged Enterprise to obtain loans from reputable banks by providing guarantees in proportion to its equity interests in order to secure the loans for the Merged Enterprise and coordinate the financing of crude oil procurement from CNOOC. As a result of the Mixed Ownership Reform, the Group can leverage on the credibility of CNOOC to finance the future development and operation of the Merged Enterprise. Although TZ Dong Thai may be required to take up the obligations of the minority Post-Merger Shareholders, who are in aggregate interested in less than 2% of the Merged Enterprise, should they refuse to provide guarantees, the Board considered that to be necessary given TZ Dong Thai will be the largest shareholder of the Merged Enterprise and that such arrangement will facilitate the financing approval process of the Merged Enterprise.

(3) Joint operation and management of the Merged Enterprise

Pursuant to the Merger Agreement, the control of the board and the management of the Merged Enterprise will be held by both CRCL and TZ Dong Thai jointly after Completion. Pursuant to the Shareholders Cooperation Agreement, the terms of which are reflected in the amended articles of association of the Merged Enterprise, the Company is entitled to nominate (through TZ Dong Thai) five directors, the chairman and one supervisor of the Merged Enterprise. Moreover, certain members of the senior management of the Merged Enterprise will be recommended by the Company (through TZ Dong Thai), including the financial controller in the first term of office, and three vice general managers and the financial manager in the second term of office. The senior management of TZ United East, including a director and the financial controller, together with Mr. Gao Jian Min, the managing director of the Company, will also be retained as directors or senior management of the Merged Enterprise so as to ensure smooth transition as well as consistent performance of the Merged Enterprise. Mr. Gao Jian Min will also be nominated as the enterprise legal representative（企業法人）of the Merged Enterprise. On the other hand, CRCL will be entitled to nominate the general manager of the Merged Enterprise.

As the senior management of the Merged Enterprise will be responsible for the daily operations and management of the Merged Enterprise under the supervision of the board, the Company's right in the decision making process of the Merged Enterprise will be exercised through its nominated directors, chairman and senior management members. Under the amended articles of association of the Merged Enterprise, the quorum for board meetings shall be two-thirds of all directors. Certain matters which require two-thirds majority approval of the directors of the Merged Enterprise include (i) review and approval of connected transaction matters; (ii) formulation of annual budgets and final accounts; (iii) formulation of proposals for distribution of profits and making up losses; (iv) formulation of proposals for increase or decrease of registered capital and issue of bonds; (v) formulation of bank facility and bank loan limits and major fundraising proposals; (vi) formulation of external investment proposals; (vii) formulation of proposals for providing charges, guarantees and other encumbrances to third parties; (viii) formulation of proposals for providing guarantees to shareholders or beneficial controllers; (ix) formulation of merger, spin off, dissolution, liquidation and restructuring proposals; and (x) formulation of proposals for amendment of the articles of association. Other matters shall be determined by a simple majority of the directors of the Merged Enterprise.

The Directors consider that the above management arrangement will allow the Group to participate in the key decision making process of the Merged Enterprise. With the unified procurement, sales and management, it shall lower the unit cost of the relevant selling, administrative and management expenses, and in turn increase the profitability of the Company through sharing the economic benefits of the Merged Enterprise.

(4) Differences between the existing joint production arrangement among TZ United East and Zhong Hai You Qi in comparison with the Merger

In the past nine years, the operating performance of TZ United East fluctuates substantially while Zhong Hai You Qi has been maintaining a profitable position. The existing joint production arrangement among TZ United East and Zhong Hai You Qi was initiated in 2017 for the purposes of enhancing production effectiveness and efficiency of each other. As a result, TZ United East and Zhong Hai You Qi have demonstrated great improvement in operating and financial performance in 2017. For the financial year ended 31 December 2017, TZ United East recorded revenue of approximately HK$805.3 million representing an increase of 1,550.2% from that of the financial year ended 31 December 2016. TZ United East incurred a net loss of approximately HK$27.1 million for the financial year ended 31 December 2017 which was significantly reduced as compared to the previous years by way of recovering certain direct production cost such as direct material and labour cost, consumables, interest expenses and depreciation, etc. under the joint production arrangement. However, the net loss of TZ United East enlarged again from approximately HK$50.1 million for the six months period ended 30 June 2017 to approximately HK$147.5 million for the six months period ended 30 June 2018 due to its biennial major overhaul of production facilities. The Board considers the existing joint production arrangement mitigated certain operating cost of TZ United East through deriving subcontracting income from Zhong Hai You Qi, but it has yet to turn around the consecutive loss-making position of TZ United East since the financial year ended 31 December 2014. In addition, the joint production arrangement among TZ United East and Zhong Hai You Qi is subject to annual renewal and was not entered into on an exclusive basis. Despite the mutually beneficial outcomes achieved under the joint production arrangement, there is no assurance that Zhong Hai You Qi under the CNOOC Group will not engage one or more subcontractors for the provision of subcontracting services in petrochemical products during the subsistence of the service agreements entered into between TZ United East and Zhong Hai You Qi. Further, there is no assurance at the end of the service period contemplated under the subcontracting services agreement for the year ending 31 December 2019, TZ United East will be able to negotiate a renewal of the subcontracting services at commercially acceptable terms. On the other hand, the Board considers that the crucial factor for TZ United East's under performance was attributable to its lack of stable supply of crude oil. The commercial decision to operate the Merged Enterprise as a joint venture between the Group and CNOOC was arrived at after arm's length negotiations between the Post-Merger Shareholders and having considered (i) the market leader position and expertise of CNOOC in the petrochemical industry with CNOOC Limited being one of the three major state-owned oil companies in the PRC; (ii) the above-mentioned operational and financial advantages under the support by CNOOC through the Mixed Ownership Reform; (iii) the adequate, stable and long term supply of crude oil from CNOOC Group; and (iv) the Merged Enterprise will be able to generate stable recurring profit and cash flow to the Company in the long run, the Board considers the Merger to be in the interest of the Company and its Shareholders. Also, to the knowledge of the Board, it is not uncommon for enterprises in the petrochemical industry to be operated and controlled collectively by its major shareholders.

In light of the above, and having considered the valuation of Zhong Hai You Qi, TZ United East and COBT and the prospects of the Merged Enterprise, the Board is of the view that the Merger Agreement and the Shareholders Cooperation Agreement are on normal commercial terms, and that their terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

VI. IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios in respect of the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder is or are more than 25% and/or 75% and all of them are less than 100%, the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder constitute a major acquisition and a very substantial disposal of the Company and are subject to the shareholders' approval requirements under Chapter 14 of the Listing Rules.

None of the Directors has a material interest in the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder and therefore none of them are required to abstain from voting on the relevant board resolutions approving the same according to the Listing Rules.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no Shareholder has a material interest in the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder, and therefore no Shareholder is required to abstain from voting on the relevant resolutions at the EGM.

VII. RE-ELECTION OF DIRECTORS

The Board currently comprises nine Directors, of which Mr. Gao Jian Min, Mr. Huang Jiajue, Mr. Luo Zhihai and Mr. Ma Yilin are executive Directors; Mr. Chu Hing Tsung and Mr. Chen Zhiwei are non-executive Directors; and Mr. Liang Qing, Mr. Zhang Lu and Mr. Hung Muk Ming are independent non-executive Directors.

Pursuant to article 93 of the Articles of Association, Mr. Huang Jiajue, Mr. Luo Zhihai, Mr. Chu Hing Tsung and Mr. Chen Zhiwei who were appointed as Directors on 29 January 2019 will hold office only until the next following general meeting of the Company, and being eligible, offer themselves for re-election.

In compliance with the requirement of code provision E.1.1 of the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules, a separate resolution will be proposed at the EGM for the re-election of each individual director whether such Director is an executive Director, non-executive Director or independent non-executive Director.

Brief biographical details of the retiring Directors who are proposed to be re-elected at the EGM are set out in Appendix VI to this circular.

VIII. PROPOSED CHANGE OF COMPANY NAME

The Board proposes to change the English name of the Company from "Silver Grant International Industries Limited" to "Silver Grant International Holdings Group Limited" and to change the Chinese name of the Company from "銀建國際實業有限公司" to "銀建國際控股集團有限公司".

Conditions of the Proposed Change of Company Name

The Proposed Change of Company Name is subject to the following conditions:

(1) the passing of a special resolution by the Shareholders to approve the Proposed Change of Company Name at the EGM; and

(2) the issuance of the certificate of change of name by the Registrar of Companies in Hong Kong confirming the Proposed Change of Company Name.

The Proposed Change of Company Name shall take effect from the date on which the new name is registered with the Companies Registry in Hong Kong. The Company will carry out the necessary filing procedures with the Companies Registry in Hong Kong.

Reason for the Proposed Change of Company Name

The Board considers that the Proposed Change of Company Name will reflect more accurate the name of business of the Group and the business focus of the Group in the future, and is in the interests of the Company and the Shareholders as a whole.

Effect of the Proposed Change of Company Name

The Proposed Change of Company Name will not affect the rights of any Shareholder or the daily business operation and financial position of the Company. All existing share certificates of the Company in issue bearing the present name of the Company will, upon the Proposed Change of Company Name becoming effective, continue to be valid evidence of legal title to the Shares and will continue to be valid for trading, settlement, registration and delivery purposes. Accordingly, there will not be any arrangement for the free exchange of existing share certificates for new share certificates bearing the new name of the Company. Should the Proposed Change of Company Name become effective, any further issue of share certificates thereafter will bear the new name of the Company and the securities of the Company will be traded on the Stock Exchange under the new name.

Further announcement(s) will be made by the Company as and when appropriate to inform the Shareholders of, among other things, the effective date of the Proposed Change of Company Name and, where necessary, the change of stock short names of the Company for trading of the Shares on the Stock Exchange.

IX. EGM

A notice convening the EGM is set out on pages 240 to 243 of this circular. The EGM will be held at Boardroom 3 & 4, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on 10 May 2019 at 2:30 p.m. for the Shareholders to consider and approve, if thought fit, among other things, the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder, the re-election of Directors and the Proposed Change of Company Name.

A proxy form for use at the EGM is enclosed. Whether or not you propose to attend the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's share registrar and transfer office, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at the EGM will be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

X. RECOMMENDATION

The Directors are of the view that the terms of the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder.

As Completion is subject to the fulfilment of certain conditions precedent, the Merger may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

The Directors also consider that the re-election of Directors and the Proposed Change of Company Name are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

XI. FURTHER INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

By Order of the Board
Silver Grant International Industries Limited
Gao Jian Min
Executive Director and Managing Director

1. FINANCIAL INFORMATION OF THE GROUP

The Company is required to set out in this circular the information for the last three financial years with respect to the profits and losses, financial record and position, set out as a comparative table and the latest published audited statement of financial position together with the notes on the annual accounts for the last financial year for the Group.

The published audited consolidated financial statements of the Group for the three years ended 31 December 2018 are disclosed in the annual reports of the Company for the years ended 31 December 2016 and 2017 respectively and the annual results announcement of the Company for the year ended 31 December 2018. They can be accessed on the website of the Company (www.silvergrant.com.hk) and the website of the Stock Exchange (www.hkexnews.hk).

2. WORKING CAPITAL

After due and careful consideration, the Directors are of the opinion that, after taking into account the present available financial resources, the Group will have sufficient working capital for its present requirements and for the period up to 12 months from the date of this circular.

3. INDEBTEDNESS

As at the close of business on 28 February 2019, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings as follows:

	As at 28 February 2019 *HK$'000*
Bank loans	1,888,451
Other loans	898,390
Other payables	683,223
Total	3,470,064

Save as aforesaid, and apart from the intra-group liabilities within the Group, as at the close of business on 28 February 2019, the Group did not have any other outstanding borrowings, loan capital issued and outstanding or agreed to be issued, debt securities, term loans, loans or other similar indebtedness, bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, debentures, mortgages, charges, pledges, finance leases, guarantees or other material contingent liabilities.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in three core business segments, namely, (a) production and trading of petrochemical products and provision of sub-contracting service (the "**Petrochemical Segment**"), (b) property leasing and management (the "**Property Segment**") and (c) investment (the "**Investment Segment**"). While the Group recorded revenues of approximately HK$511.8 million for the year ended 31 December 2018, the Petrochemical Segment, the Property Segment and the Investment Segment contributed approximately 79.3%, 20.6% and 0.02% of the revenue, respectively.

The Property Segment, which mainly consists of the rental income generated from the leasing of East Gate Plaza and the fair value gain on revaluation of investment properties held by 北京東環置業有限公司 (Beijing East Gate Development Co., Ltd.*) ("**Beijing East Gate**"), an indirect wholly-owned subsidiary of the Group, contributed approximately 20.6% of the revenue for the year ended 31 December 2018. As the core operating company of Property Segment, Beijing East Gate recorded revenue of approximately HK$105.6 million for the year ended 31 December 2018 and recorded a profit of approximately HK$117.4 million in the respective period. Its annual result has been maintaining in a consecutive net profit position since the financial year ended 31 December 2014 incurred due to increase in rental rates upon renewal of tenancy agreements of East Gate Plaza and the fair value gains on revaluation of investment properties. The gross floor area ("**GFA**") of commercial portion and residential portion of property under the management of Beijing East Gate are 1,086,985 square feet in aggregate, which is considered to be located in the prime location of Beijing and remains high occupation rate of approximately 95% as at 31 December 2018.

The value of properties portfolio of the Group as at 31 December 2018 amounted to HK$2,846 million in comparison to the net assets attributable to the owners of the Company amounted to HK$6,749 million as at 31 December 2018, comprised of commercial and residential properties for lease with GFA of 1,085,138 square feet and commercial and residential properties for self-usage with GFA of 46,261 square feet. The Group has been actively looking for investment opportunities which is capable of generating enormous profit and ample cash flows to the Group, including in the Property Segments and considers the existing properties portfolio under management will provide recurring and stable income to the Group in the long term.

The Investment Segment mainly comprises of strategic investments in the fields of power and financial services amounted to approximately HK$806 million as at 31 December 2018. The Directors consider the investments under the Investment Segment are of good potential to realise capital gain and generate dividend income.

The Petrochemical Segment contributed 79.3% of the revenue for the year ended 31 December 2018. TZ United East, the non-wholly owned subsidiary of the Group, and Zhong Hai You Qi, the associate of the Group, are core operating entities of the Petrochemical Segment. TZ United East, being the core operating subsidiary of the Petrochemical Segment, recorded revenue of approximately HK$406.1 million for the year ended 31 December 2018. TZ United East incurred net losses of approximately HK$400.7 million in the respective period and maintained its annual result in a consecutive losses position since the financial year ended 31 December 2014 mainly due to (a) consistent rise in production cost and (b) turbulence of the international crude oil price in the relevant periods and (c) the five months' suspended production in 2018.

The joint production arrangement was agreed between TZ United East and Zhong Hai You Qi for the purpose of enhancing production effectiveness and efficiency of each other. Through the joint production arrangements, the goals of direct procurement of crude oil, effective utilisation of resources, reducing logistic costs, consolidating complimentary advantages, enhancing the economics of scales and synergy effects were achieved. TZ United East and Zhong Hai You Qi have also demonstrated great improvement in operating and financial performance in 2017. For the financial year ended 31 December 2017, TZ United East recorded revenue of approximately HK$805.3 million representing an increase of 1,550.2% from that of the financial year ended 31 December 2016. TZ United East incurred a net loss of approximately HK$27.1 million for the financial year ended 31 December 2017 which was significantly reduced as compared to the previous years by way of recovering certain direct production cost such as direct material and labour cost, consumables, interest expenses and depreciation, etc. under the joint production arrangement. However, the net loss of TZ United East enlarged again to approximately HK$400.7 million for the year ended 31 December 2018 due to its major overhaul of production facilities. In view of the historical financial performance of TZ United East, the Board considers that it has to find a way out to secure adequate and continuous crude oil for the continuous operation of TZ United East, which in the Board's opinion is a critical issue faced by TZ United East. Therefore, it is considered to be in the interests of the Company to proceed with the Merger which, among other things, will secure a stable supply of crude oil from CNOOC for the post-Merger productions so as to improve the overall financial performance of the Group by way of generating stable and recurring profit and cash flow to the Company.

On the other hand, Zhong Hai You Qi, being the associate of the Group and a non-wholly owned subsidiary of CNOOC, has been maintaining its annual results in a profitable position since the Group acquired it in late 2008. Following the completion of a technical enhancement project in September 2016, Zhong Hai You Qi was capable to produce a full range of petrochemical products with a drastic increase in the annual production capacity from 1.5 million tons in 2015 to 4.5 million tons in 2016. As a moderate increase was recorded in 2017 in the overall selling prices of petrochemical products in China, along with the enhancement in production efficiency and effectiveness under the joint production arrangements, Zhong Hai You Qi recorded a significant increase in net profit for the financial year ended 31 December 2017 to approximately HK$762.0 million and generated profit contribution before non-controlling interests of the Group of approximately HK$251.5 million. For the year ended 31 December 2018, the net profit of Zhong Hai You Qi recorded a prominent decrease to approximately HK$201.1 million mainly attributable to (a) the five months suspended production of TZ United East which affected its petrochemical products mix; and (b) turbulence of the international crude oil price. Its profit contribution before non-controlling interests of the Group for the year ended 31 December 2018 is approximately HK$66.4 million.

In addition, with reference to the interim report of the Company for the six months period ended 30 June 2018, the Board has been considering a proposal regarding a collective restructure of the Group's petrochemical investments located in Tai Zhou for the purpose of achieving a more efficient and effective operation model in the long run. With over a year's successful operation under the joint production arrangement, the Group agreed to proceed with the Merger of Zhong Hai You Qi, TZ United East and COBT on 28 November 2018 in view of the benefits to jointly operate the Merged Entity as mentioned in the section headed "V. Reasons for and Benefits of Conducting the Merger" of the letter from the Board of this Circular.

Business Plans of the Enlarged Group after the Merger

There will be no change to the principal business of the Enlarged Group as a result of the Merger. Upon Completion, the Enlarged Group will continue to be principally engaged in the above-mentioned three core business segments, namely the Petrochemical Segment, the Property Segment and the Investment Segment.

In the Petrochemical Segment, upon completion of the Merger, the Merged Enterprise will be treated as a joint venture invested by the Enlarged Group and the financial results of the Merged Enterprise will be accounted for by the Company using the equity accounting method. Notwithstanding that the disposal of TZ United East will constitute a very substantial disposal under the Listing Rules, the entire operation and assets of TZ United East will be retained under the Merged Enterprise in the form of a joint venture. Further, for the purpose of responding actively towards the economic reforms under the mixed ownership reform, the Merged Enterprise will be jointly managed and operated by the Group and CNOOC through TZ Dong Thai and CRCL, which equips the Merged Enterprise with resources of a state-own-enterprise group and the technology and management efficiency of TZ United East, enabling the Merged Enterprise to better adapt to the market competition. The Board considers the international economy is expected to show a slower growth rate in the midst of a complex and uncertain global political and economic environment. However, continued growth of China's economy with its gross domestic product (GDP) up by 6.6% in 2018 will further drive up domestic demand for high-end refined oil products and petrochemicals. The Merged Enterprise targets to become an integrated refining and chemical enterprise with flexible management mechanism under the mix ownership reform, reliable resources supported by CNOOC Group, advanced technology and strong market competitive. In light of the above and the benefits of the Merger as mentioned in the section headed "V. Reasons for and Benefits of Conducting the Merger" in the Letter from the Board of this circular, the Board considers the Merger represents a valuable opportunity to the development of the Enlarged Group's existing Petrochemical Segment and will be able to generate stable recurring profit and cash flow to the Petrochemcial Segment in the long run.

The Property Segment will continue to be contributed primarily by the recurring rental income generated from the leasing of East Gate Plaza with GFA of commercial portion and residential portion of property under the management of 1,086,985 square feets in aggregate. The value of properties portfolio of the Group as at 31 December 2018 amounted to HK$2,846 million in comparison to the net assets attributable to the owners of the Company amounted to HK$6,749 million 31 December 2018. On the other hand, The Investment Segment mainly comprises of strategic investments in the fields of power and financial services amounted to approximately HK$806 million as at 31 December 2018. The Group has been actively looking for investment opportunities and considers the existing properties portfolio and financial investments under management will provide recurring and stable income to the Group in long term.

In the future, to expand its existing investments in petrochemical products production remain the growth strategy of the Group. The Group is also actively searching and identifying investment and/or merger and acquisition opportunities which is capable of generating enormous profit and ample cash flows to the Group.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE ENLARGED GROUP AFTER THE MERGER

There will be no change to the principal business of the Enlarged Group as a result of the Merger. Upon Completion, the Enlarged Group will continue to be principally engaged in the three core business segments, namely the Petrochemical Segment, the Property Segment and the Investment Segment. Details of the financial and trading prospects have been disclosed under the paragraph headed "Financial and Trading Prospect of the Group" under "Appendix I – Financial Information of the Group" in this circular.

The management discussion and analysis of the Group for the three years ended 31 December 2016, 2017 and 2018 is set out below. The financial data in respect of the Enlarged Group, for the purpose of this circular, is derived from the consolidated financial statements of the Group for the respective period.

Segment Information

The Group has determined the operating segments based on the information reported to the Group's most senior executive management, the chief operating decision maker. The most senior executive management regards the Group's businesses of (a) production and trading of petrochemical products and provision of sub-contracting service, (b) properties leasing and management and (c) investment.

Revenue

The following table sets forth the sources of revenue:

	For the Year Ended 31 December					
	2018		**2017**		**2016**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Production and trading of petrochemical products and provision of sub-contracting services	406,122	79.3	805,301	86.7	48,814	28.0
Property Leasing and management	105,624	20.6	100,439	10.8	120,280	69.0
Investments	103	0.02	23,494	2.5	5,216	3.0
Total	511,849	100.0	929,234	100.0	174,310	100.0

For the year ended 31 December 2017, the Group recorded turnover of approximately HK$929.2 million, representing a significant increase of 433.1% from approximately HK$174.3 million recorded in the previous financial year. Such increase was mainly attributable to the significant improvement in the operating results of in the Petrochemical Segment achieved by TZ United East and Zhong Hai You Qi during through joint production arrangement during the year. For the year ended 31 December 2017, TZ United East and Zhong Hai You Qi have agreed to increase their production effectiveness and efficiency under the joint production arrangements, Under the joint production arrangements (the "**joint production arrangements**"), Zhong Hai You Qi provides key production raw materials such as crude oil and fuel oil and authorizes TZ United East to process the production by sub-contracting and receive sub-contracting income by TZ United East. The turnover attributable to Petrochemical segment increased by approximately 1,549.7% to HK$805.3 million in comparison to that of the previous year amounted to approximately HK$48.8 million.

For the year ended 31 December 2018, the Group recorded turnover of approximately HK$511.8 million, representing a significant decrease of 44.9% from approximately HK$929.2 million recorded in the previous financial year. Such decrease was mainly due to the five months suspension in production of TZ United East to carry out the necessary major overhaul on its production facilities which resulted in a significant reduction in sub-contracting income from Zhong Hai You Qi under the joint production arrangement. The results of Zhong Hai You Qi was also affected due to such suspended production as Zhong Hai You Qi had to change its production method to produce and sell petrocehmical products with much lower profit margins. Moreover, international crude oil prices suddenly dropped significantly in the last two months of 2018, which resulted in a significant decrease in the profit contribution from Zhong Hai You Qi from approximately HK$251.5 million for the year ended 31 December 2017 to approximately HK$66.4 million for the year ended 31 December 2018.

Other Income

Other income mainly consisted of interest income from bank deposits, amount due from an associate and loan receivables. For the three years ended 31 December 2016, 2017 and 2018, other income amounted to approximately HK$72.5 million, HK$95.4 million and HK$78.8 million respectively.

Share of results of associates

Share of results of associates are mainly attributable to the profits or losses contributed from Cinda Jianrun Property Company Limited ("**Cinda Jianrun**") and Zhong Hai You Qi during the three years ended 31 December 2016, 2017 and 2018.

For the year ended 31 December 2017, the share of results of associates increased significantly to HK$311.1 million (31 December 2016: HK$12.9 million), which was mainly due to the significant improvement in the operating results of Zhong Hai You Qi and the realisation of an investment by Cinda Jianrun.

For the year ended 31 December 2018, there was a 80.6% decrease in share of profit of associates to approximately HK$60.2 million (2017: HK$311.1 million) which was mainly attributable to the decrease in the share of results of Zhong Hai You Qi. The production method of and products produced by Zhong Hai You Qi was affected to a certain extent by the five months' suspension in productions of TZ United East during the period which imposed negative impact to its profitability.

Administrative expenses

Administrative expenses mainly consisted of staff cost, repair and maintenance, depreciation charged and professional fees.

For the three years ended 31 December 2016, 2017 and 2018, administrative expenses amounted to approximately HK$290.1 million, HK$295.4 million and HK$331.0 million, respectively.

For the year ended 31 December 2017, there was no material change on administration expenses.

For the year ended 31 December 2018, the administrative expenses increased by approximately HK$35.6 million or 12.0% to approximately HK$331.0 million (2017: HK$295.4 million). Such increase was mainly attributable to the special bonus amounting to HK$25 million in aggregate paid to three key staffs in relation to the restructuring of the Taizhou businesses during the year ended 31 December 2018 and the redundancy costs amounting to approximately HK$6.3 million in aggregate paid to four laid off staffs in the fourth quarter of 2018 as a result of business realignment.

Finance costs

Finance costs comprised of interest charges on bank and other loans. For the three years ended 31 December 2016, 2017 and 2018, finance cost amounted to HK$173.2 million, HK$178.4 million, and HK$113.3 million.

For the year ended 31 December 2017, there is no material change on finance costs.

For the year ended 31 December 2018, finance costs decreased by approximately 36.5% mainly due to decrease in average borrowings during the year.

Other expenses

Other expenses are all attributed to the direct costs, such as wages, depreciation expenses, consumables and other direct attributable costs incurred by TZ United East for inspection and maintenance of production plant. For the three years ended 31 December 2016, 2017 and 2018, other expenses amounted to approximately HK$22.3 million, Nil and HK$164.9 million, respectively.

For the year ended 31 December 2018, other expenses sharply increased to approximately HK$164.9 million due to the direct costs incurred by TZ United East related to voluntary suspension of production for inspection and maintenance of production plants during the months from May to September 2018.

Taxation

For the three years ended 31 December 2016, 2017 and 2018, taxation expenses amounted to approximately HK$39.4 million, HK$45.3 million and HK$17.4 million respectively.

For the year ended 31 December 2017, the increase in taxation expenses was mainly due to the tax charge on the under-provision of income tax expenses in prior years.

For the year ended 31 December 2018, the decrease in taxation expenses was mainly due to the decrease in taxable income recorded for the Group during the year.

Loss/profit for the year attributable to owners of the Company

Taking into account of the aforementioned, The Company recorded loss attributable to owners of the Company of approximately HK$35.1 million for the year ended 31 December 2016 and a profit of approximately HK$260.2 million for the year ended 31 December 2017 and a loss of approximately HK$49.4 million for the year ended 31 December 2018 respectively.

For the year ended 31 December 2017, the Group turn from net loss attributable to owners of the Company of approximately HK$35.1 million for the year ended 31 December 2016 to net profit attributable to owners of the Company of approximately HK$260.2 million which is in line with the substantial increase in revenue in Petrochemical Segment of the Group due to the joint production arrangements between the subsidiary TZ United East and Zhong Hai You Qi.

The Group recorded a change from net profit to net loss attributable to owners of the Company for the year ended 31 December 2018 which amounted to approximately HK$49.4 million which is mainly attributable to the reduction in sub-contracting income recorded by TZ United East and the recognition of direct costs incurred by it to the profit or loss as other expenses during its period of suspended production, along with the significant decrease in the profit contribution from Zhong Hai You Qi during the year.

Analysis of financial position

Non-current assets

Non-current assets mainly included property, plant and equipment, investment properties and interests in associates. As at 31 December 2016, 2017 and 2018, non-current assets amounted to approximately HK$7.49 billion, HK$8.60 billion and HK$8.37 billion respectively.

Current assets

Current assets mainly comprised of inventories, deposits, prepayments and other receivables, amounts due from an associate, financial assets at fair value through profit or loss and bank and cash equivalents. As at 31 December 2016, 2017 and 2018, current assets amounted to approximately HK$3.25 billion, HK$3.35 billion and HK$2.98 billion respectively.

Current liabilities

Current included trade and bills payables, bank and other borrowings, and accrued charges, rental deposits and other payables and taxation payable. As at 31 December 2016, 2017 and 2018, current liabilities amounted to approximately HK$2.44 billion, HK$3.24 billion and HK$2.29 billion respectively.

Borrowings – current and non-current portions

The borrowings represented the (i) bank loan, (ii) loans from related companies (iii) loan from a shareholder of the Company. The aggregated carrying amount repayable by the Company as at 31 December 2016, 2017 and 2018 were approximately HK$3.11 billion, HK$3.23 billion and HK$2.92 billion, respectively.

Liquidity, financial resources and capital structure

For the three years ended 31 December 2016, 2017 and 2018, the Company funded its working capital mainly through its operating activities by trading of petrochemical products and provision of sub-contracting service, rental income from its investment properties and also the borrowings from banks and related companies. The Company had bank balances and cash denominated in HK$ amounting to approximately HK$735.0 million, HK$301.9 million and HK$497.2 million respectively. The current ratio for the respective years and period, expressed as the ratio of the currents assets over the current liabilities, were 1.3, 1.0 and 1.3 respectively. Total borrowings which consisted bank borrowings, loans from related companies and loan from a shareholder of the Company denominated in HK$ (which were mostly secured, interest bearing and had fixed repayment date), were approximately HK$3.11 billion, HK$3.23 billion and HK$2.92 billion respectively. The gearing ratio, as a ratio of total borrowings to net assets attributable to owners of the Company, was 0.49, 0.45 and 0.43 respectively.

Funding and treasury policies and objectives

The Company generally finances its operations with internally generated resources, bank and other borrowings. The Company had no formal treasury policies or objectives.

Capital commitments

As at 31 December 2016, 2017 and 2018, the Group has the capital commitment amounting to HK$274.9 million, HK$319.3 million and HK$281.4 million in which were all attributed to the property, plant and equipment and unlisted equity securities contracted for but not provided in the consolidated financial statement during the year.

Pledge of assets

As at 31 December 2016, 2017 and 2018, the Group pledged certain investment properties, leasehold land and buildings, land use right and factory, plant and machinery with an aggregate carrying value of approximately HK$3.31 billion, HK$3.60 billion and HK$3.56 billion respectively to secure general banking facilities granted to the Group. As at 31 December 2016 and 2017, the Group also pledged approximately HK$1.7 million and HK$0.8 million bank deposits to secure settlements for certain of Group's purchase of raw materials. As at 31 December 2018, the Group pledged approximately HK$322.4 million bank deposit to secure bank borrowing advanced to the Group.

Material acquisitions and disposals of subsidiaries and associated companies

During the three years ended 31 December 2016, 2017 and 2018, except for the disposal of the Company's entire interest in Straight View Investment Limited and its subsidiary Beijing Yinda Property Management Limited ("**Yinda**") whose principal business is the provision of property management services Beijing at a cash consideration of approximately HK$31.7 million in aggregate on 30 June 2017, the Company did not have any material acquisition and disposal of subsidiaries and associated company.

Significant investments

The Group strategically invested in certain PRC enterprises, securities, structured bank deposits and structured financial securities. The management considered these investments includes enterprises with good potential for separate listing and securities with good earning prospect. As at 31 December 2016, 2017 and 2018, the carrying value of these investments was approximately HK$442.4 million, HK$2,196.9 million and HK$805.8 million.

Contingent liabilities

As at 31 December 2016, 2017 and 2018, The Company did not have any material contingent liabilities.

Exchange risk and hedging

The Group's principal assets, liabilities, revenue and payments were denominated in HKD and RMB. Moreover, the Board was capable of maintaining a net monetary asset position denominated in RMB for the Group. Therefore, the Board was confident that the Group's exposure to exchange rate fluctuations in respect of RMB would not have material adverse effect on the financial position of the Group given that the RMB to HKD exchange rate is maintained at a relatively stable range. In addition, the Board did not anticipate that there was any material exchange exposure in respect of other currencies.

As at 31 December 2016, 2017 and 2018, the Group had no material liability denominated in other foreign currencies other than RMB. There was also no hedging transaction contracted for by the Group during the year.

Employee and remuneration policies

As at 31 December 2016, 2017 and 2018, the Group employed 1,453, 559 and 588 employees respectively in Hong Kong and in the PRC. The Group offers its employees competitive remuneration packages, which are consistent with the prevailing market practices. The Group's remuneration policies remained unchanged during the aforementioned periods. Total staff costs for the three years ended 31 December 2016, 2017 and 2018 amounted to approximately HK$115.3 million, HK$159.5 million and HK$174.0 million respectively.

1. FINANCIAL INFORMATION OF TZ UNITED EAST, ZHONG HAI YOU QI AND COBT

Pursuant to Rule 14.68(2)(a)(i) of the Listing Rules, a circular issued in relation to a very substantial disposal must contain, on a disposal of a business, company or companies, financial information of either the business, company or companies being disposed of; or the listed issuer's group with the business, company or companies being disposed of shown separately as (a) disposal group(s) or (b) discontinuing operation(s), for the relevant period. Further, the financial information must be reviewed by the listed issuer's auditors or reporting accountants according to the relevant standards published by the Hong Kong Institute of Certified Public Accountants or the International Auditing and Assurance Standards Board of the International Federation of Accountants.

Alternatively, pursuant to Note 1 to Rule 14.68(2)(a)(i) of the Listing Rules, the listed issuer may include an accountants' report instead of a review by its auditors or reporting accountants. Please refer to the accountants' report of TZ United East set out in this appendix for the financial information of the TZ United East Group, being the disposal group.

2. ACCOUNTANTS' REPORT OF TZ UNITED EAST

The following is the text of the report dated 23 April, 2019, prepared for the purpose of incorporation in this circular, received from the reporting accountant Tyrone Chiu C.P.A. Limited, Certified Public Accountant, Hong Kong.

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SLIVER GRANT INTERNATIONAL INSUDTRIES LIMITED

Introduction

We report on the historical financial information of 泰州東聯化工有限公司Tai Zhou United East Petrochemical Company Limited (the "Target Company") and its subsidiary (together, the "Target Group") set out on pages 51 to 89, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2016, 31 December 2017 and 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the three years ended 31 December 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 51 to 89 forms an integral part of this report, which has been prepared for inclusion in the circular of Silver Grant International Industries Limited (the "Company") dated 23 April, 2019 (the "Circular") in connection with the proposed merger of the Target Company, Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited and China Offshore Bitumen (Taizhou) Co., Ltd. (the "Proposed Merger").

Directors' responsibility for Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information and for such internal control as the director determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investments Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 December 2016, 31 December 2017 and 31 December 2018 and of the Target Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 51 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid or declared by Target Company in respect of the Track Record Period.

Tyrone Chiu C.P.A. Limited
Certified Public Accountants
Hong Kong

Chiu Wai Hon, Tyrone
Practising Certificate Number: P00847

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Tyrone Chiu C.P.A. Limited under separate terms of engagement with the Target Group in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong Dollar ("HK$"), and all values are rounded to the nearest thousand ("HK$'000"), except where otherwise indicated.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2016	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue				
— Sales of petrochemical products	*5*	48,814	90,143	20,178
— Sub-contracting income	*5*	—	715,158	385,944
		48,814	805,301	406,122
Cost of sales		(47,947)	(569,003)	(371,453)
Gross profit		867	236,298	34,669
Other income	*6*	1,701	6,468	5,237
		2,568	242,766	39,906
Changes in fair value of financial assets through profit or loss		—	—	1,058
Other expenses		(22,318)	—	(164,948)
Administrative expenses		(183,395)	(134,859)	(179,059)
(Loss)/profit from operation		(203,145)	107,907	(303,043)
Finance costs	*7*	(154,624)	(134,993)	(97,681)
Loss before tax	*8*	(357,769)	(27,086)	(400,724)
Income tax expenses	*11*	—	—	—
Loss for the year		(357,769)	(27,086)	(400,724)
Other comprehensive (expenses)/ income				
Item that will not be reclassified to profit or loss:				
Exchange differences arising on translation from functional currency to presentation currency		(17,068)	9,598	3,653
Total comprehensive expenses for the year		(374,837)	(17,488)	(397,071)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December		
		2016	2017	2018
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets				
Property, plant and equipment	*14*	3,501,507	3,672,253	3,508,531
Land use rights	*15*	182,465	191,955	178,435
		3,683,972	3,864,208	3,686,966
Current assets				
Inventories	*16*	97,845	102,425	93,340
Trade receivables	*17*	18,878	62,600	62,044
Other receivables and prepayment	*18*	309,657	271,600	261,909
Pledged bank deposits	*19*	1,730	845	68,493
Bank balances and cash	*19*	96,585	227,742	56,943
		524,695	665,212	542,729
Current liabilities				
Trade payables	*20*	3,287	3,664	11,955
Bills payables	*20*	8,202	4,222	—
Receipt in advance and other payables	*21*	381,245	277,825	290,644
Amount due to intermediate holding company	*22*	669,643	720,288	550,136
Amount due to immediate holding company	*22*	278,768	126,948	119,524
Amount due to fellow subsidiaries	*22*	681,202	834,904	—
Bank and other borrowings	*23*	1,208,503	1,870,401	1,210,501
		3,230,850	3,838,252	2,182,760
Net current liabilities		(2,706,155)	(3,173,040)	(1,640,031)
Total assets less current liabilities		977,817	691,168	2,046,935

		As at 31 December		
		2016	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities				
Bank and other borrowings	*23*	850,913	329,651	600,939
Deferred tax liabilities	*24*	1,899	1,899	1,899
		852,812	331,550	602,838
Net assets		125,005	359,618	1,444,097
Equity				
Paid up capital	*25*	620,001	620,001	2,101,551
Contribution reserve		—	252,101	252,101
Exchange reserve		(5,464)	4,134	7,787
Revaluation reserve		5,315	5,315	5,315
Accumulated losses		(494,847)	(521,933)	(922,657)
		125,005	359,618	1,444,097

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Paid up capital	Contribution Reserve	Exchange Reserve	Revaluation Reverse	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	620,001	—	11,604	5,315	(137,078)	499,842
Loss for the year	—	—	—	—	(357,769)	(357,769)
Other comprehensive expenses for the year	—	—	(17,068)	—	—	(17,068)
Total comprehensive expenses for the year	—	—	(17,068)	—	(357,769)	(374,837)
At 31 December 2016	620,001	—	(5,464)	5,315	(494,847)	125,005
Loss for the year	—	—	—	—	(27,086)	(27,086)
Other comprehensive income for the year	—	—	9,598	—	—	9,598
Total comprehensive expenses for the year	—	—	9,598	—	(27,086)	(17,488)
Shareholder contribution	—	252,101	—	—	—	252,101
At 31 December 2017	620,001	252,101	4,134	5,315	(521,933)	359,618
Loss for the year	—	—	—	—	(400,724)	(400,724)
Other comprehensive income for the year	—	—	3,653	—	—	3,653
Total comprehensive expenses for the year	—	—	3,653	—	(400,724)	(397,071)
Capital contribution *(note 25)*	1,481,550	—	—	—	—	1,481,550
At 31 December 2018	2,101,551	252,101	7,787	5,315	(922,657)	1,444,097

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Loss before tax	(357,769)	(27,086)	(400,724)
Adjustments for:			
Depreciation	54,729	217,306	226,794
Amortisation	4,194	4,140	4,243
Fair value change through profit or loss	—	—	(1,058)
Finance cost	154,624	134,993	97,681
Interest income	(1,698)	(2,508)	(1,706)
Loss on disposal on property, plant and equipment	—	—	15
Reversal of impairment loss on inventories	—	(27,678)	—
Operating (loss)/gain before working capital changes	(145,920)	299,167	(74,755)
(Increase)/decrease in inventories	(21,211)	23,097	4,057
(Increase)/decrease in trade and other receivables and prepayment	(21,462)	40,566	(6,158)
Decrease in pledged bank deposit	28,258	885	—
(Decrease)/increase in trade payables and bills payables	(45,596)	(3,603)	8,846
Increase in receipt in advance and other payables	—	103,240	7,141
Interest paid	(101,954)	(98,650)	(92,057)
Net cash (used in)/generated from operating activities	(307,885)	364,702	(152,926)
Investing activities			
Acquisition of property, plant and equipment	(72,634)	(118,015)	(198,035)
Interest received	1,698	2,508	1,706
Increase in pledged bank deposit	—	—	(67,690)
Decrease in receipt in advance and other payables	(294,998)	(2,508)	—
Proceed in disposal of financial assets at fair value through profit or loss	—	—	1,058
Net cash used in investing activities	(365,934)	(118,015)	(262,961)

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Financing activities			
Increase in amount due from a related company	(18,878)	(43,722)	—
Increase in amount due to intermediate holding company	669,643	50,645	222,603
Decrease in amount due to immediate holding company	(9,738)	(151,820)	(142,337)
(Decrease)/increase in amount due to fellow subsidiary	(520,873)	153,702	(44,924)
New bank borrowings and other loans raised	1,389,772	1,524,940	1,666,438
Repayments of bank borrowings and other loans	(1,076,440)	(1,383,885)	(1,451,131)
Net cash generated from financing activities	433,486	149,860	250,649
Net (decrease)/increase in cash and cash equivalents	(240,333)	396,547	(165,238)
Cash and cash equivalents at beginning of the year	69,827	96,585	227,742
Effect of foreign exchange rate changes	267,091	(265,390)	(5,561)
Cash and cash equivalents at end of the year	96,585	227,742	56,943

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL

泰州東聯化工有限公司 Tai Zhou United East Petrochemical Company Limited (the "Target Company") is a limited liability company incorporated in the People's Republic of China ("PRC"). The address of its registered office is located at No. 9 Tai Zhen Road, Tai Zhou Binjiang Industrial Park, Tai Zhou, PRC. The principal activities of the Company are retailing of petrochemical and provision of subcontracting. The principal activity of the subsidiary is provision of petrochemical loading.

In order to reorganise the business operations and consolidate the assets, the Target Group was entered into the Merger Agreement with Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited ("Zhong Hai You Qi") and China Offshore Bitumen (Taizhou) Co., Ltd ("COBT") on 28 November 2018, pursuant to which Zhong Hai You Qi will absorb and merge with the Target Group and COBT. Upon Completion, the Merged Enterprise, Zhong Hai You Qi, will be the surviving company and will assume all the assets, liabilities, operations, personnel, contracts, qualifications and all other rights and obligations of the Target Group and COBT. The Target Group and COBT will be dissolved and deregistered. Further, on 28 November 2018, the Post-Merger Shareholders also entered into the Shareholders Cooperation Agreement to set out their respective rights and obligations in the Merged Enterprise, in accordance with the Merger.

2. BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Periods, the Target Company has consistently applied all HKFRSs which are effective for its accounting period beginning on 1 January 2018 throughout the Track Record Periods. The significant accounting policies that have been used in the preparation of the Historical Financial Information have been consistently applied throughout the Track Record Period. The adoption of new or amended HKFRSs that are issued but not yet effective and their impact on Target Group's Historical Financial Information, if any, are disclosed in note 3.

In preparing the Historical Financial Information, the directors of the Target Company have given due and careful considerations to the future liquidity of the Target Group in light of the Target Group's net current liabilities as at 31 December 2018. The directors of the Target Company have carefully assessed the Target Group liquidity position. Having taken into account the intention of the Company is to provide sufficient financial support to the Target Group to enable its operations for the ensuring twelve months, the Historical Financial Information has been prepared on a going concern basis.

The Historical Financial Information has been prepared on the historical cost basis except for the financial assets at fair value through profit or loss. The measurement bases are fully described in the accounting policies below.

The Historical Financial Information is presented in HK$, which is different from the functional currency of the Target Company, i.e. Renmibi ("RMB") as the directors of the Company manage and monitor the performance and financial position of the Target Group by using HK$.

3. ISSUED BUT NOT YET EFFECTIVE HKFRSs

The Target Group has not early applied the following new or amended HKFRSs which have been issued but are not yet effective for the Track Record Period:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRSs	Annual improvement to HKFRSs 2015-2017 cycle[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for annual periods beginning on or after 1 January 2020

The directors of the Target Company anticipate that all the relevant new and amended HKFRSs will be adopted in the Target Group's accounting policy for the first period beginning after the effective date of such standards. The directors of the Target Group considered that the adoption of these new and amended HKFRSs is unlikely to have material impact on the Target Group's results of operations and financial position however may result additional disclosures.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation of the Historical Financial Information

The measurement basis used in preparing the Historical Financial Information is historical cost convention.

Basis of consolidation

The Historical Financial Information incorporate the financial statements of the Target Company and entities controlled by the Target Company and its subsidiaries. Control is achieved where the Target Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Target Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Target Company obtains control over the subsidiary and ceases when the Target Company loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date of the Target Company gains until the control date when the Target Company ceases to control the subsidiary. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Target Company's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Group are eliminated in full on consolidation.

Property, plant and equipment

Property, plant and equipment including leasehold land (classified as finance leases) and buildings held for use in production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost or revalued amount less subsequent accumulated depreciation and accumulated impairment loss, if any.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, on straight line method basis over their estimated useful lives as follows:

Building	5 % on cost in the year of acquisition
Plant and machinery	5%-10% on cost in the year of acquisition
Office and computer equipment	20% on cost in the year of acquisition
Motor vehicles	10%-16.67% on cost in the year of acquisition

The residual value and the useful life of an asset are reviewed at least at each financial year-end.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Factory for the use in the production or supply of goods or services are stated in the consolidated statement of financial position at cost less any recognised impairment loss. For those leasehold land and buildings used for administrative purposes, are stated in the consolidated statement of financial position at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated impairment losses and subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Depreciation is recognised so as to write off the cost or fair value of property, plant and equipment other than construction in progress less residual value over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Intangible assets (other than goodwill)

Intangible assets other than expenditure on research activities, that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses. Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Land used rights	50 years

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful life assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

Impairment loss

At each reporting period, the Target Group reviews internal and external sources of information to determine whether the carrying amounts of its property, plant and equipment have suffered an impairment loss or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its net selling price and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognised in prior years. Reversal of impairment losses is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour and an attributable proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs

Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in consolidated statement of profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in consolidated statement of profit or loss in the period in which they become receivable.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

Other receivables

Other receivables are amounts due from debtors for services performed in the ordinary course of business. If collection of other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

Cash comprises cash on hand and at bank and demand deposits with bank. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank and other loan borrowings

Bank and other loan borrowings are recognised initially at fair value, net of transaction costs incurred. Bank and other loan borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in consolidated statement of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facilities will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facilities will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates. Bank and other borrowings are classified as current liabilities unless the Target Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future event are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Leases

Leases of assets are classified as finance leases when the leases transfer substantially all risks and rewards incidental to ownership of the assets to the Target Group. All other leases are classified as operating leases.

Operating leases

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services. Specifically, the Target Group uses a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Target Company satisfies a performance obligation.

The Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if:

— the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;

— the Target Group's performance creates and enhances an asset that the customer controls as the Target Group performs; or

— the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer. Deposit and prepayments are typically received from purchasers in advance of revenue recognition and they are presented as contract liabilities under current liabilities.

Revenue from sales of petrochemical products is recognised when the respective petrochemical products have been completed and delivered to the customers which is a point in time when customers have the ability to direct the use of the petrochemical products and obtain substantially all of the remaining benefits of the petrochemical products.

Sub-contracting income is recognised when the services are rendered.

Existence of significant financing component

In determining the transaction price, the Target Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Target Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Target Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Financial instruments

Financial assets and financial liabilities are recognised when the group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

— the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

— the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured subsequently at fair value through profit or loss ("FVTPL").

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Track Record Period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECLs"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income" line item.

Impairment of financial assets

The Target Group recognises loss allowances for ECLs on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, other receivables and prepayment, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Target Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Target Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Target Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and quantitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the macroeconomic factors affecting the industries in which the Target Group's debtors operate and the impact that may result in debtors' ability to make payments,

In particular, the following information taken into account when assessing whether credit risk has increased significantly since initial recognition:

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

— existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

— an actual or expected significant deterioration in the operating results of the debtor; significant increases in credit risk on other financial instruments of the same debtor; and

— an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Target Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

— when there is a breach of financial covenants by the counterparty; or

— information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

Irrespective of the above analysis, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

(a) significant financial difficulty of the borrower or issuer;

(b) a breach of contract such as a default or past due event;

(c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECLs

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at the original effective interest rate.

If the Target Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date.

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the combined are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including trade payables, bills payables, other payables, amount due to intermediate holding company, immediate holding company, fellow subsidiaries and bank and other borrowings, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Foreign currencies translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for exchange differences arising on the retranslation of nonmonetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HKD) using exchange rates prevailing at the end of the reporting period. Income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes for staff in the PRC are recognised as expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Segment reporting

The Target Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Target Group's business components for their review of the performance of those components.

Employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period. The sick leave and maternity or paternity leave are not recognised until the time of leave.

Income tax

Income tax for the period includes current tax and deferred tax. Current tax and deferred are recognised in consolidated statement of profit or loss, except to the extent that the tax arises from a transaction or event which is recognised directly in equity. In the case if the tax relates to items that are recognised directly to equity, current tax and deferred tax are also recognised directly to equity.

Current tax liabilities and assets are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the reporting period. Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or loss for a period.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively. Temporary differences are the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Related parties

For the purposes of the Historical Financial Information, a party is considered to be related to the Target Group if:

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

  (i) has control or joint control over the Target Group;

  (ii) has significant influence over the Target Group; or

  (iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same Target Group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (for an associate or joint venture of a member of a Target Group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the Target Group;

(vi) The entity is controlled or jointly controlled by a person identified in (a);

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); or

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

5. REVENUE AND SEGMENT INFORMATION

Turnover represents the invoiced value of goods supplied to customers, and also the provision of subcontracting service. The amount of each significant category of revenue recognised in turnover during the Track Record Period is as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Sales of petrochemical products	48,814	90,143	20,178
Sub-contracting income	—	715,158	385,944
	48,814	805,301	406,122

The Target Group derives its revenue from the sales of petrochemical products recognised at a point of time and provision of subcontracting income recognised over time.

Information reported to the chief operating decision makers who are the directors of Target Group for the resource allocation and performance assessment is based on the Target Group's overall performance which is considered as a single operating and reportable segment. Accordingly, no segment information is presented other than entity-wide disclosures.

During the Track Record Period, all the Target Group's revenue was derived from the PRC. As at 31 December 2016, 2017 and 2018, all of the Target Group's non-current assets were all located in the PRC.

Major customers

The following are major customers with revenue equal or more than 10% of the Target Group's total revenue during the Track Record Period:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Customer A	N/A	98.9%	100%
Customer B	44%	N/A	N/A
Customer C	17%	N/A	N/A

N/A: Revenue from this customer during the respective year did not exceed 10% of the Target Group's total revenue.

6. OTHER INCOME

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Bank interest income	1,698	2,508	1,706
Government grant	—	3,717	—
Sundry income	3	243	3,531
	1,701	6,468	5,237

7. FINANCE COSTS

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Interest on bills payables	—	231	—
Interest on bank and other borrowings	101,954	98,650	92,057
Interest on amount due to a related party	11,866	27,562	—
Interest on amount due to fellow subsidiaries	30,329	8,550	—
Interest on amount due to immediate holding Company	10,475	—	5,624
	154,624	134,993	97,681

8. LOSS BEFORE TAX

Loss before tax is stated at after charging/(credit) the following items:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Cost of inventories recognised as expenses	47,947	92,332	19,827
Depreciation	54,729	217,306	226,794
Loss on disposal on property, plant and equipment	—	—	15
Operating lease rental in respect of land and buildings	1,501	1,073	2,179
Release of land use rights	4,194	4,140	4,243
Reversal of impairment loss on inventories	—	(27,678)	—
Staff costs (including directors' and supervisors' emoluments)	72,887	92,194	93,922

9. DIRECTOR'S AND SUPERVISOR'S REMUNERATION

No emoluments have been received by the directors and supervisors in the capacity as a director, supervisor or an employee of the Target Group during the Track Record Period

10. EMPLOYEES' REMUNERATION

The aggregate of the emoluments in respect of the five highest paid individuals during the Track Record Period were as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	992	1,144	1,345
Retirement benefits scheme contribution	7	5	4
	999	1,149	1,349

The emoluments fell within the following bands:

	Number of employees Year ended 31 December		
	2016	**2017**	**2018**
Emolument band:			
HK$nil – HK$1,000,000	5	5	5

During the Track Record Period, no emoluments were paid by the Target Group to the director or the above highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office as a director or management of the Target Group. No director or the five highest paid individual has waived or agreed to waive any emoluments during the Track Record Period.

11. INCOME TAX

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group is 25% for the Track Record Period.

Reconciliation between tax expenses and accounting loss at applicable tax rates:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Loss before tax	(357,769)	(27,086)	(400,724)
Tax at the applicable tax rate of 25%	(89,442)	(6,772)	(100,181)
Tax effect of unused tax losses not recognised	89,442	6,772	100,181
Income tax expenses	—	—	—

12. EARNINGS PER SHARES

No earnings per share information was presented for the purpose of this report as its inclusions was not considered meaningful.

13. DIVIDEND

No dividend was paid or proposed by the Target Company during the Track Record Period.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Motor vehicles	Office equipment	Computer equipment	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:							
At 1 January 2016	12,648	195,196	9,810	443	1,100	3,625,028	3,844,225
Additions	—	1,583	1,588	67	52	72,738	76,028
Transfer	—	3,465,335	—	1,177	254	(3,466,766)	—
Exchange realignment	(833)	(167,627)	(717)	(84)	(86)	(87,182)	(256,529)
At 31 December 2016	11,815	3,494,487	10,681	1,603	1,320	143,818	3,663,724
Additions	—	8,399	—	—	—	186,740	195,139
Disposal	—	(67,807)	—	—	—	—	(67,807)
Exchange realignment	894	261,854	807	121	100	18,529	282,305
At 31 December 2017	12,709	3,696,933	11,488	1,724	1,420	349,087	4,073,361
Additions	—	5,717	451	92	59	237,205	243,524
Transfer	—	155,470	—	—	—	(155,470)	—
Disposals	—	—	(308)	—	—	—	(308)
Exchange realignment	(624)	(186,992)	(569)	(88)	(72)	(19,934)	(208,279)
At 31 December 2018	12,085	3,671,128	11,062	1,728	1,407	410,888	4,108,298
Aggregate depreciation:							
At 1 January 2016	4,649	107,609	4,346	435	640	—	117,679
Charge for the year	1,067	51,322	2,028	112	200	—	54,729
Exchange realignment	(735)	(8,995)	(375)	(34)	(52)	—	(10,191)
At 31 December 2016	4,981	149,936	5,999	513	788	—	162,217
Charge for the year	1,054	214,134	1,907	68	143	—	217,306
Exchange realignment	831	20,115	530	42	67	—	21,585
At 31 December 2017	6,866	384,185	8,436	623	998	—	401,108
Charge for the year	1,080	223,722	1,838	55	99	—	226,794
Elimination on disposals	—	—	(293)	—	—	—	(293)
Exchange realignment	(374)	(26,916)	(467)	(32)	(53)	—	(27,842)
At 31 December 2018	7,572	580,991	9,514	646	1,044	—	599,767
Net carrying amount:							
At 31 December 2016	6,834	3,344,551	4,682	1,090	532	143,818	3,501,507
At 31 December 2017	5,843	3,312,748	3,052	1,101	422	349,087	3,672,253
At 31 December 2018	4,513	3,090,137	1,548	1,082	363	410,888	3,508,531

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line over the following years less their estimated residual values:

Leasehold land and buildings	20 years
Plant and machinery	10-20 years
Motor vehicles	6-10 years
Office equipment	5 years

15. LAND USE RIGHTS

	HK$'000
Cost:	
At 1 January 2016	199,615
Exchange adjustments	(12,956)
Release for the year	(4,194)
At 31 December 2016	182,465
Exchange adjustments	13,630
Release for the year	(4,140)
At 31 December 2017	191,955
Exchange adjustments	(9,277)
Release for the year	(4,243)
At 31 December 2018	178,435

During the Track Record Period, the land use rights of the Target Group were held under medium-term lease in the PRC and released over the term of the lease of 50 years and are pledged to banks to secure the banking facilities granted to the Target Group.

16. INVENTORIES

	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	53,823	92,138	83,520
Consumables	44,022	10,287	9,820
	97,845	102,425	93,340

17. TRADE RECEIVABLES

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	18,878	62,600	62,044

The aged analysis of trade receivables was stated based on invoice date as follows:

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
1 — 30 days	12,066	62,600	62,044
31 — 90 days	2,432	—	—
91 — 180 days	1,412	—	—
180 — 360 days	1,403	—	—
Over 360 days	1,565	—	—
	18,878	62,600	62,044

As at 31 December 2016, 2017 and 2018, the trade receivables comprised of the amount due from a related company amounting to HK$18,878,000, HK$62,600,000 and HK$62,044,000 respectively were unsecured and interest free.

The aged analysis of trade receivables which are past due but not yet impaired as follows:

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
1 — 30 days	—	—	—
31 — 90 days	1,150	—	—
91 — 180 days	1,412	—	—
180 — 360 days	1,403	—	—
Over 360 days	1,565	—	—
	5,530	—	—

The Target Group's trade receivables that are neither past due nor impaired are those debtors with satisfactory credit quality under the management's assessment and with good past repayment records.

As at 31 December 2016, 2017 and 2018, no allowance for bad and doubtful debt was made to the trade receivables.

The Target Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9 which permits the use of lifetime expected loss provision for all trade receivables. The ECL rate for the trade receivables is minimal for all the above bands of the trade receivables.

18. OTHER RECEIVABLES AND PREPAYMENT

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Prepayments	22,646	26,423	16,312
Other receivables	20,867	21,698	27,632
Value-added tax receivable *(note)*	266,144	223,479	217,965
	309,657	271,600	261,909

Note:
The value-added tax recoverable from the purchase of property, plant and equipment and raw materials by the Target Group. The amount will be sequently utilised to offset the value-added tax generated from sales of goods.

19. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Pledge bank deposits represented deposits pledged general banking facilities granted to the Target Group. The pledged bank deposits and bank balances were denominated in RMB which was not freely convertible into other currencies.

20. TRADE AND BILLS PAYABLES

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	3,287	3,664	11,955
Bills payables	8,202	4,222	—
	11,489	7,886	11,955

The aged analysis of trade and bill payables was stated based on invoice date as follows:

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
1 – 30 days	3,211	7,886	11,955
31 – 90 days	8,166	—	—
91 – 180 days	112	—	—
	11,489	7,886	11,955

21. RECEIPT IN ADVANCE AND OTHER PAYABLES

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Construction costs payables	288,826	226,543	272,932
Receipt in advance	84,249	1,960	1,830
Accruals	8,170	49,322	15,882
	381,245	277,825	290,644

As at 31 December 2016, 2017 and 2018, the accruals comprised of the amount due to a related company amounting to HK$5,556,000, HK$34,770,000 and HK$6,990,000 respectively were unsecured, interest-free and have no fixed term of repayment.

22. AMOUNT DUE TO INTERMEDIATE HOLDING COMPANY / IMMEDIATE HOLDING COMPANY AND FELLOW SUBSIDIARIES

The amount due to immediate holding company amounting to HK$223,214,000 and HK$114,155,000, in the year of 2016 and 2018 respectively were unsecured, bears interest 4.41% p.a. and 4.35% p.a. respectively and have fixed term of repayment.

The amount due to intermediate holding company in the years of 2016, 2017 and 2018 were unsecured, interest-free, and have fixed term of repayment.

The amount due to fellow subsidiaries amounting to HK$546,875,000 and HK$144,058,000 in the years of 2016, 2017 respectively were unsecured, bears interest 4.35% p.a. – 5.35% p.a. and 4.35% p.a. respectively and have fixed term of repayment.

Except for the above, the amounts are unsecured, interest free and have no fixed terms of repayment.

23. BANK AND OTHER BORROWINGS

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Bank loans – secured and unguaranteed	669,643	468,187	344,749
Bank loans – secured and guaranteed	502,232	660,264	627,854
Other loans – secured	664,327	447,081	649,575
Other loans – unsecured	223,214	624,520	189,262
	2,059,416	2,200,052	1,811,440

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Portion of loans due for repayment within one year	1,208,503	1,870,401	1,210,501
More than one year, but not exceeding two years	544,440	329,651	459,586
More than two years, but not exceeding five years	306,473	—	141,353
	2,059,416	2,200,052	1,811,440
Less: Amounts due within one year shown under current liabilities	(1,208,503)	(1,870,401)	(1,210,501)
Amount shown under non-current liabilities	850,913	329,651	600,939

Bank and other borrowings were arranged at fixed rates. The range of the interest rates at 31 December 2016, 31 December 2017 and 31 December 2018 were 4.79% to 7.00% p.a., 4.79% to 7.50% p.a. and 4.75% to 7.50% p.a., respectively.

Bank and other borrowings were secured by land used right of the Target Group, pledged bank deposits of the Target Group and corporate guarantees provided by banking facilities of the immediate holding company, intermediate holding company, fellow subsidies and related parties.

As at 31 December 2016, 2017 and 2018, the other loans comprised of the amount due to a related company amounting to HK$223,214,000, HK$624,520,000 and HK$189,262,000 respectively were unsecured, bears interest 7% p.a., 6.25% p.a. – 7.5% p.a. and 4.75% p.a. – 7.5% p.a. respectively and have no fixed term of repayment.

During the year ended 31 December 2018, the other loans comprised of amount due to a related company amounting to RMB434,431,000 was capitalized as Capital Contribution in proportion to each others Shareholders in Target Company.

24. DEFERRED TAX LIABILITIES

The components of deferred tax liabilities recognised in the Historical Financial Information and the movements during the Track Record Period are arising from depreciation in excess of related depreciation allowances as follows:

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax liabilities arising from depreciation in excess of related depreciation allowances	1,899	1,899	1,899

At 31 December 2016, 2017 and 2018, the Target Group's unused estimated tax losses of HK$220,315,000, HK$212,782,000 and HK$626,734,000, respectively, were available for offset against future profits. No deferred tax assets has been recognised in respect of the estimated tax losses as for the Track Record Period due to the unpredictability of future profits stream. The unrecognised tax losses as at 2016, 2017 and 2018 will be expire in 2021, 2022 and 2023, respectively.

25. PAID UP CAPITAL

	HK$'000
As at 1 January 2016, 31 December 2016 and 31 December 2017	620,001
Capital Contribution	1,481,550
As at 31 December 2018	2,101,551

As at 31 December 2016 and 2017, the paid up capital of Target Company was RMB508,115,000 (equivalent to approximately HK$620,001,000).

During the year ended 31 December 2018, the increased amount represents the capitalisation of the Group's amounts due from Target Company of RMB873,080,000 and capitalisation of a borrowing due to a related party of Target Company of RMB434,431,000 in proportion to each other's shareholdings in Target Company. The capitalisation of amounts has been completed on October 2018.

As at 31 December 2018, the paid up capital of Target Company was RMB1,815,628,000 (equivalent to approximately HK$2,101,551,000).

26. RELATED PARTY TRANSACTIONS

Except for the transactions and balances disclosed elsewhere in these Historical Financial Information, the Target Group had the following material related party transactions during the Track Record Period:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Sales of finished goods to a related party	—	80,957	20,178
Interest expenses paid to a related party	11,866	27,562	—
Interest expenses paid to fellow subsidiaries	30,329	8,550	—
Interest expenses paid to immediate holding company	10,475	—	5,624
Subcontracting income from a related party	—	715,158	385,944

The bank and other borrowings of the Target Group as at 31 December 2016, 2017 and 2018 amounting to RMB450,000,000, RMB550,000,000 and RMB550,000,000 were secured by corporate guarantees provided by banking facilities of immediate holding company, intermediate holding company and related parties. The Target Group did not pay any charges for the guarantee granted.

27. CAPITAL COMMITMENTS

The capital commitments outstanding in respect of the addition of property, plant and equipment not provided for in the Historical Financial Information were as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Contract for but not provided in the Historical Financial Information	20,409	69,624	110,192

28. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Target Group's major financial instruments include other receivables, amount due from a related company, pledged bank deposits, bank balances and cash, trade payables, bill payables, receipt in advance and other payables, amount due to intermediate holding company, immediate holding company and fellow subsidiaries and bank and other borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group's interest rate risk arises primarily from amount due from a related company, pledged bank deposits, bank balances and borrowings (including bank and other borrowing) which carry interests at variable rates.

The Target Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. In addition, the Target Group has concentration risk on its floating-rate borrowings and amount due from immediate holding company which expose the Target Group significantly towards the change in RMB benchmark lending rate and deposit rate published by the People's Bank of China.

As at 31 December 2016, 2017 and 2018, it is estimated that if there was an increase of 50 basis points in interest rate, with all other variables remaining constant, the Target Group's loss for the year would increased by approximately HK$18,377,000, HK$19,029,000 and HK$17,845,000, respectively. The same degree of decrease in basis point would have the same magnitude on the Target Group's loss for the year and equity as at 31 December 2016, 2017 and 2018 but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate.

Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Target Group do not have any significant exposures to the foreign currency risk as the Target Group conducts its business in the PRC and all of its business activities were denominated and settled in RMB. In addition, as at end of each reporting date, all of its financial instruments were denominated in RMB.

Credit risk

As at end of each reporting date, the Target Group's maximum exposure to credit risk on recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

In order to minimise the credit risk, the monitoring procedures are carried out to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group also makes periodic collective assessments as well as individual assessment on the recoverability of trade receivables based on historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The directors estimated that the expected credit losses for trade receivables are insignificant.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

The Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings, finance lease and loans from related parties and ensures compliance with loan covenants.

The table below summaries the maturity profile of the Target Group's financial liabilities at the end of each reporting period based on contractual undiscounted payments, including interest payments computed using contractual rates or, if floating, based on rates current at the end of each reporting period.

As at 31 December, 2016	**On demand** *HK$'000*	**Less than 1 year** *HK$'000*	**1 to 2 years** *HK$'000*	**2 to 5 years** *HK$'000*	**Total contractual undiscounted cash flow** *HK$'000*	**Total** *HK$'000*
Trade payables	3,287	—	—	—	3,287	3,287
Bills payables	8,202	—	—	—	8,202	8,202
Other payables	296,996	—	—	—	296,996	296,996
Amount due to intermediate holding company	669,643	—	—	—	669,643	669,643
Amount due to immediate holding company	278,768	—	—	—	278,768	278,768
Amount due to fellow subsidiary	681,202	—	—	—	681,202	681,202
Bank and other borrowings	—	1,297,441	587,873	315,075	2,200,389	2,059,416
	1,938,098	1,297,441	587,873	315,075	4,138,487	3,997,514

As at 31 December, 2017	On demand *HK$'000*	Less than 1 year *HK$'000*	1 to 2 years *HK$'000*	2 to 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Total *HK$'000*
Trade payables	3,664	—	—	—	3,664	3,664
Bills payables	4,222	—	—	—	4,222	4,222
Other payables	275,865	—	—	—	275,865	275,865
Amount due to intermediate holding company	720,288	—	—	—	720,288	720,288
Amount due to immediate holding company	126,948	—	—	—	126,948	126,948
Amount due to fellow subsidiary	834,904	—	—	—	834,904	834,904
Bank and other borrowings	—	1,938,973	345,720	—	2,284,693	2,200,052
	1,965,891	1,938,973	345,720	—	4,250,584	4,165,943

As at 31 December, 2018	On demand *HK$'000*	Less than 1 year *HK$'000*	1 to 2 years *HK$'000*	2 to 5 years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*	Total *HK$'000*
Trade payables	11,955	—	—	—	11,955	11,955
Other payables	288,814	—	—	—	288,814	288,814
Amount due to intermediate holding company	550,136	—	—	—	550,136	550,136
Amount due to fellow subsidiary	119,524	—	—	—	119,524	119,524
Bank and other borrowings	—	1,273,736	483,995	153,047	1,910,778	1,811,440
	970,429	1,273,736	483,995	153,047	2,881,207	2,781,869

Capital management

The Target Group's objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital.

The Target Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Target Group may adjust the dividend payments to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. No changes in the objectives, policies or processes were made within the Track Record Period. The Target Group does not subject to externally imposed capital requirements.

Categories of financial instruments

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period of the Historical Financial Information are as follows:

	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Financial assets:			
At amortised cost	404,204	536,364	433,077
Financial liabilities:			
At amortised cost	3,997,514	4,165,943	2,781,869

Fair value

The carrying amounts of the Target Group's financial assets and financial liabilities as reflected in the Historical Financial Information approximate to their fair values.

29. RECONCILIATIONS OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those which cash flows were, or future cash flow will be, classified in the statement of cash flows as cash flows from financing activities.

	Bank and other borrowings	Loan from intermediate holding company	Loan from fellow subsidiaries	Loan from immediate holding company	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2016	1,744,324	—	1,202,075	288,506	3,234,905
Cash-flows:					
— Interest paid	—	(11,866)	(30,329)	(10,475)	(52,670)
— Proceeds from bank and other loans	1,389,772	—	—	—	1,389,772
— Repayment of bank and other loans	(1,076,440)	—	—	—	(1,076,440)
— Repayment to a fellow subsidiaries	—	—	(520,873)	—	(520,873)
— Repayment to immediate holding company	—	—	—	(9,738)	(9,738)
— Loan from intermediate holding company	—	669,643	—	—	669,643
Non-cash changes:					
— Exchange adjustments	1,760	—	—	—	1,760
— Interest expenses	—	11,866	30,329	10,475	52,670
As at 31 December 2016 and 1 January 2017	2,059,416	669,643	681,202	278,768	3,689,029
Cash-flows:					
— Interest paid	—	(27,562)	(8,550)	—	(36,112)
— Loan from fellow subsidiaries	—	—	153,702	—	153,702
— Proceeds from bank and other loans	1,524,940	—	—	—	1,524,940
— Repayment to immediate holding company	—	—	—	(151,820)	(151,820)
— Loan from intermediate holding company	—	50,645	—	—	50,645
— Repayment of bank and other loans	(1,383,885)	—	—	—	(1,383,885)
Non-cash changes:					
— Exchange adjustments	(419)	—	—	—	(419)
— Interest expenses	—	27,562	8,550	—	36,112

	Bank and other borrowings	Loan from intermediate holding company	Loan from fellow subsidiaries	Loan from immediate holding company	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2017 and 1 January 2018	2,200,052	720,288	834,904	126,948	3,882,192
Cash-flows:					
— Interest paid	—	—	—	(5,624)	(5,624)
— Repayment of bank and other loans	(1,451,131)	—	—	—	(1,451,131)
— Repayment to intermediate holding company	—	(399,543)	—	—	(399,543)
— Repayment of immediate holding company	—	—	—	(91,066)	(91,066)
— Proceeds from bank and other loans	1,666,438	—	—	—	1,666,438
— Proceeds from intermediate holding company	—	622,146	—	—	622,146
— Repayment to immediate holding company	—	—	—	(51,271)	(51,271)
— Repayment to fellow subsidiaries	—	—	(44,924)	—	(44,924)
Non-cash changes:					
— Exchange adjustments	(111,662)	139,917	(13,526)	(2,073)	12,656
— Capital contribution *(note 25)*	(492,257)	(989,293)	—	—	(1,481,550)
— Repayment to intermediate holding company	—	(684,932)	—	—	(684,932)
— Repayment from fellow subsidiaries	—	—	(1,461,386)	—	(1,461,386)
— Proceed from immediate holding company	—	—	—	136,986	136,986
— Proceeds from intermediate holding company	—	1,141,553	—	—	1,141,553
— Proceeds from fellow subsidiaries	—	—	684,932	—	684,932
— Interest expenses	—	—	—	5,624	5,624
As at 31 December 2018	1,811,440	550,136	—	119,524	2,481,100

30. PARTICULAR OF SUBSIDIARY

The following is a list of the subsidiary as of 31 December 2018:

Name of company	Place and date of incorporation and operations	Particulars of issued share capital	Equity interest attributable to the Target Group as at 31 December 2016	2017	2018	Principal activity	*Note*
泰州東聯油品裝卸有限公司	PRC, 11 September 2014	RMB90,000,000	100%	100%	100%	Oil products loading and unloading	*(a)*

Note:

(a) The statutory financial statements of the 泰州東聯油品裝卸有限公司 for the year ended 31 December 2016, 31 December 2017 and 31 December 2018 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 北京中天恒會計師事務所有限責任公司 and 北京興華會計師事務所(特殊普通合作), certified public accountants registered in the PRC, respectively.

(b) The statutory financial statements of the Target Company for the year ended 31 December 2016, 31 December 2017 and 31 December 2018 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 北京中天恒會計師事務所有限責任公司 and 北京興華會計師事務所(特殊普通合作), certified public accountants registered in the PRC, respectively.

31. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Target Group and the Target Company have been prepared in respect of any period subsequent to 31 December 2018.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.

Grant Thornton
致同

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SILVER GRANT INTERNATIONAL INDUSTRIES LIMITED

Introduction

We report on the historical financial information of Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited (the "Target Company") and its subsidiary (together, the "Target Group") set out on pages 93 to 142, which comprises the consolidated statements of financial position of the Target Group as at 31 December 2016, 2017 and 2018, the statements of financial position of the Target Company as at 31 December 2016, 2017 and 2018, and the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows, for each of the years ended 31 December 2016, 2017 and 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 93 to 142 forms an integral part of this report, which has been prepared for inclusion in the circular of Silver Grant International Industries Limited (the "Company") dated 23 April 2019 (the "Circular") in connection with the proposed merger of the Target Company, Tai Zhou United East Petrochemical Company Limited and China Offshore Bitumen (Taizhou) Co., Ltd. (the "Proposed Merger").

Directors' responsibility for Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information and for such internal control as the director determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investments Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's and the Target Company's financial position as at 31 December 2016, 2017 and 2018 and of the Target Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 93 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid or declared by Target Company in respect of the Track Record Period.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

23 April 2019

Chiu Wing Ning
Practising Certificate Number: P04920

HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Target Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited under separate terms of engagement with the Target Group in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong Dollar ("HK$"), and all values are rounded to the nearest thousand ("HK$'000"), except where otherwise indicated.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Notes	**Year ended 31 December** **2016**	**2017**	**2018**
		HK$'000	*HK$'000*	*HK$'000*
Revenue	*4*	2,978,084	19,003,632	21,912,639
Cost of sales		(2,840,966)	(17,753,552)	(21,382,942)
Gross profit		137,118	1,250,080	529,697
Other income	*6*	160,362	71,424	131,257
Selling expenses		(13,107)	(39,156)	(55,433)
Administrative expenses		(127,465)	(65,401)	(128,109)
Finance costs	*7*	(47,667)	(200,239)	(203,817)
Profit before tax	*10*	109,241	1,016,708	273,595
Taxation	*11*	(21,499)	(254,686)	(72,488)
Profit for the year		87,742	762,022	201,107
Other comprehensive (expenses)/ income				
Item that maybe reclassified subsequently to profit or loss:				
Exchange (loss)/gain on translation of financial statement		(156,548)	226,604	(193,926)
Total comprehensive (expenses)/ income for the year		(68,806)	988,626	7,181
Earnings per share attributable to owner of the Target Company				
Basic and diluted	*12*	N/A	N/A	N/A

Consolidated Statements of Financial Position

		As at 31 December		
	Notes	**2016**	**2017**	**2018**
		HK$'000	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*14*	7,541,212	7,640,194	6,851,068
Land use rights	*15*	284,836	299,598	317,297
Financial assets at fair value through profit or loss	*16*	—	3,601	3,425
Goodwill	*17*	1,129	1,215	1,155
Deferred tax assets	*19*	2,837	864	41,199
		7,830,014	7,945,472	7,214,144
Current assets				
Inventories	*20*	1,789,229	2,340,676	2,777,643
Land use rights	*15*	7,864	8,459	8,043
Trade receivables	*21*	141,022	4,813	—
Deposits, prepayments and other receivables	*22*	1,546,149	1,882,381	2,254,374
Cash and cash equivalents	*23*	113,996	43,236	4,792
		3,598,260	4,279,565	5,044,852
TOTAL ASSETS		11,428,274	12,225,037	12,258,996
EQUITY				
Capital and reserves				
Share capital	*24*	2,170,493	2,407,316	2,458,040
Reserves	*25(a)*	325,508	1,314,134	1,321,315
TOTAL EQUITY		2,496,001	3,721,450	3,779,355

		As at 31 December		
	Notes	**2016**	**2017**	**2018**
		HK$'000	*HK$'000*	*HK$'000*
LIABILITIES				
Non-current liabilities				
Borrowings	*26*	4,157,125	4,114,810	3,399,392
Current liabilities				
Trade payables	*27*	1,294,315	1,298,070	1,978,127
Accrued charges and other payables	*28*	2,218,129	2,314,474	2,412,268
Borrowings	*26*	1,262,704	774,154	687,080
Taxation payable		—	2,079	2,774
		4,775,148	4,388,777	5,080,249
TOTAL LIABILITIES		8,932,273	8,503,587	8,479,641
TOTAL EQUITY AND LIABILITIES		11,428,274	12,225,037	12,258,996
Net current liabilities		(1,176,888)	(109,212)	(35,397)
Total assets less current liabilities		6,653,126	7,836,260	7,178,747

Statements of Financial Position

		As at 31 December		
	Notes	**2016**	**2017**	**2018**
		HK$'000	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment		7,438,560	7,539,276	6,746,085
Land use rights		284,836	299,598	317,297
Investment in a subsidiary	*18*	79,390	85,394	81,202
Financial assets at fair value through profit or loss		—	3,601	3,425
Deferred tax assets		1,210	864	41,191
		7,803,996	7,928,733	7,189,200
Current assets				
Inventories		1,789,229	2,340,676	2,777,643
Land use rights		7,864	8,459	8,043
Trade receivables		141,022	4,813	—
Deposits, prepayments and other receivables		1,546,306	1,846,456	2,167,061
Cash and cash equivalents		113,839	43,236	4,792
		3,598,260	4,243,640	4,957,539
TOTAL ASSETS		11,402,256	12,172,373	12,146,739
EQUITY				
Capital and reserves				
Share capital	*24*	2,170,493	2,407,316	2,458,040
Reserves	*25(b)*	311,656	1,261,977	1,212,707
TOTAL EQUITY		2,482,149	3,669,293	3,670,747

		As at 31 December		
	Notes	**2016**	**2017**	**2018**
		HK$'000	*HK$'000*	*HK$'000*
LIABILITIES				
Non-current liabilities				
Borrowings		4,157,126	4,114,810	3,399,392
Current liabilities				
Trade payables		1,296,086	1,297,897	1,977,563
Accrued charges and other payables		2,217,635	2,314,650	2,411,957
Borrowings		1,249,260	774,154	687,080
Taxation payable		—	1,569	—
		4,762,981	4,388,270	5,076,600
TOTAL LIABILITIES		8,920,107	8,503,080	8,475,992
TOTAL EQUITY AND LIABILITIES		11,402,256	12,172,373	12,146,739
Net current liabilities		(1,164,721)	(144,630)	(119,061)
Total assets less current liabilities		6,639,275	7,784,103	7,070,139

Consolidated Statements of Changes in Equity

	Share capital *HK$'000*	Statutory reserve *HK$'000*	Retained profits *HK$'000*	Translation reserve *HK$'000*	Total *HK$'000*
At 1 January 2016	1,674,934	110,052	450,423	(166,161)	2,069,248
Profit for the year	—	—	87,742	—	87,742
Other comprehensive expenses for the year	—	—	—	(156,548)	(156,548)
Total comprehensive expenses for the year	—	—	87,742	(156,548)	(68,806)
Transactions with owner:					
Capital contribution *(note 24)*	495,559	—	—	—	495,559
Appropriation to statutory reserve	—	10,834	(10,834)	—	—
At 31 December 2016	2,170,493	120,886	527,331	(322,709)	2,496,001
Profit for the year	—	—	762,022	—	762,022
Other comprehensive income for the year	—	—	—	226,604	226,604
Total comprehensive income for the year	—	—	762,022	226,604	988,626
Transactions with owner:					
Capital contribution *(note 24)*	236,823	—	—	—	236,823
Appropriation to statutory reserve	—	74,487	(74,487)	—	—
At 31 December 2017	2,407,316	195,373	1,214,866	(96,105)	3,721,450
Profit for the year	—	—	201,107	—	201,107
Other comprehensive income for the year	—	—	—	(193,926)	(193,926)
Total comprehensive income for the year	—	—	201,107	(193,926)	7,181
Transactions with owner:					
Capital contribution *(note 24)*	50,724	—	—	—	50,724
Appropriation to statutory reserve	—	26,733	(26,733)	—	—
At 31 December 2018	2,458,040	222,106	1,389,240	(290,031)	3,779,355

Consolidated Statements of Cash Flows

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Profit before tax	109,241	1,016,708	273,595
Adjustments for:			
Depreciation	76,117	526,138	540,491
Exchange gain	(33,333)	67,097	(31,487)
Interest income from bank deposits	—	(489)	(316)
Interest income from immediate holding company	—	(5,072)	(11,855)
Finance costs	47,667	200,239	203,817
Release of land use rights	6,978	6,514	7,300
Write-down of inventories to net realisable value	—	—	165,485
Operating cash flows before movements in working capital	206,670	1,811,135	1,147,030
Increase in inventories	(1,301,469)	(416,127)	(717,348)
Decrease in trade receivables	60,886	146,875	4,577
Increase in deposits, prepayments and other receivables	(550,445)	(183,639)	(224,538)
Increase/(Decrease) in trade payables	1,059,980	(94,134)	743,775
Increase in accrued charges and other payables	373,377	303,242	486,806
Cash (used in)/generated from operations	(151,001)	1,567,352	1,440,302
Tax paid	(44,468)	(259,319)	(109,586)
Net cash (used in)/from operating activities	(195,469)	1,308,033	1,330,716

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Investing activities			
Advance to immediate holding company	—	(35,765)	(239,855)
Payment for acquisition of financial assets	—	(3,601)	—
Payment for purchase of property, plant and equipment	(2,225,073)	(449,462)	(384,345)
Payment for purchase of land use rights	—	—	(39,455)
Proceed of disposal of property, plant and equipment	20	36	48
Interest received	—	5,561	12,171
Net cash used in investing activities	(2,225,053)	(483,231)	(651,436)
Financing activities			
Capital contribution from shareholders	495,559	236,823	50,724
Proceeds from bank loans	655,761	—	—
Repayment of bank loans	(11,161)	—	—
Loan from a fellow subsidiary	1,799,954	355,539	173,644
Repayment to a fellow subsidiary	(1,900,670)	—	—
Loan from immediate holding company	3,704,234	11,460,848	5,918,812
Repayment to immediate holding company	(2,441,530)	(12,626,400)	(6,102,006)
Proceeds from sales and leaseback arrangement	662,946	117,647	—
Repayment of finance lease liabilities	(336,181)	(248,402)	(552,959)
Interest paid	(192,381)	(200,239)	(203,817)
Net cash from/(used in) financing activities	2,436,531	(904,184)	(715,602)

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Net increase/(decrease) in cash and cash equivalents	16,009	(79,382)	(36,322)
Cash and cash equivalents at the beginning of year	104,894	113,996	43,236
Effect of foreign exchange rate changes	(6,907)	8,622	(2,122)
Cash and cash equivalents at end of year	113,996	43,236	4,792
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	113,996	43,236	4,792

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company is a limited liability company incorporated in the People's Republic of China (the "PRC"). The registered address of its office and the principal place of business is No. 1, Haiyou Road, Binjiang Industrial Park, Pharmaceutical High-tech Zone, Taizhou City, Jiangsu Province, the PRC.

At 31 December 2018, in the opinion of the directors of the Target Company, the immediate holding company and ultimate holding company of the Target Company are CNOOC Refinery Co., Ltd. 中海石油煉化有限責任公司 and China National Offshore Oil Corporation 中國海洋石油集團有限公司, companies incorporated in the PRC, respectively.

The principal activity of the Target Company is the production and trading of petroleum and petrochemical products. The principal activity of its subsidiary is the provision of handling services on petroleum and petrochemical products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and presentation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Periods, the Target Group has consistently applied all HKFRSs which are effective for its accounting period beginning on 1 January 2018 throughout the Track Record Periods. The significant accounting policies that have been used in the preparation of the Historical Financial Information have been consistently applied throughout the Track Record Period. The adoption of new or amended HKFRSs that are issued but not yet effective and their impact on Target Group's Historical Financial Information, if any, are disclosed in note 2.2.

The Historical Financial Information has been prepared on the historical cost basis except for the financial assets at fair value through profit or loss. The measurement bases are fully described in the accounting policies below.

In preparing the Historical Financial Information, the directors of the Target Company have given due and careful considerations to the future liquidity of the Target Group in light of the Target Group's net current liabilities as at 31 December 2018. The directors of the Target Company have carefully assessed the Target Group liquidity position. Having taken into account (i) the contract liabilities of HK$687,901,000 that are not expected to have a cash outflow impact; (ii) facilities provided by certain banks and a fellow subsidiary that the Target Group will have sufficient working capital for its present requirement. Accordingly, the Historical Financial Information has been prepared on a going concern basis.

The functional currency of the Target Company is Renminbi ("RMB"), which is the currency of the primary economic environment in which the Target Group and its subsidiary operate. For the convenience of the users of Historical Financial Information, the Historical Financial Information is presented in HK$.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of Target Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3 below.

2.2 Issued but not yet effective HKFRSs

The Target Group has not early applied the following new or amended HKFRSs which have been issued but are not yet effective for the Track Record Period:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
HK(IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective date not yet determined

The directors of the Target Company anticipate that all the relevant new and amended HKFRSs will be adopted in the Target Group's accounting policy for the first period beginning after the effective date of such standards. The directors of the Target Company considered that the adoption of these new and amended HKFRSs is unlikely to have material impact on the Target Group's results of operations and financial position however may result additional disclosures.

2.3 Basis of consolidation

The Historical Financial Information incorporate the financial statements of the Target Company and an entity controlled by the Target Company. Control is achieved where the Target Company:

— has power over the investee;

— is exposed, or has rights, to variable returns from its involvement with the investee; and

— has the ability to use its power to affect its returns.

The Target Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Target Company obtains control over the subsidiary and ceases when the Target Company loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date of the Target Company gains the control until the date when the Target Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Target Company's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Target Company are eliminated in full on consolidation.

2.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Target Group, liabilities incurred by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

2.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the relevant cash-generating units that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit ("CGU") to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. When the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

2.6 Property, plant and equipment

Property, plant and equipment (other than construction in progress) held for use in the production or supply of goods or services, or for administration purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment loss, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost or fair value of property, plant and equipment other than construction in progress less residual value over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

2.8 Provision

Provisions are recognised when the Target Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

2.9 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Target Group expects to be entitled in exchange for those goods or services. Specifically, the Target Group uses a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Target Group satisfies a performance obligation.

The Target Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if:

— the customer simultaneously receives and consumes the benefits provided by the Target Group's performance as the Target Group performs;

— the Target Group's performance creates and enhances an asset that the customer controls as the Target Group performs; or

— the Target Group's performance does not create an asset with an alternative use to the Target Group and the Target Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

A contract liability represents the Target Group's obligation to transfer goods or services to a customer for which the Target Group has received consideration (or an amount of consideration is due) from the customer. Deposit and prepayments are typically received from purchasers in advance of revenue recognition and they are presented as contract liabilities under current liabilities.

Revenue from sales of petroleum and petrochemical products is recognised when the respective petroleum and petrochemical products have been completed and delivered to the customers which is a point in time when customers have the ability to direct the use of the petroleum and petrochemical products and obtain substantially all of the remaining benefits of the petroleum and petrochemical products.

Existence of significant financing component

In determining the transaction price, the Target Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Target Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Target Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

2.10 Financial instruments

Financial assets and financial liabilities are recognised when the group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

— the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

— the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured subsequently at fair value through profit or loss ("FVTPL").

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Track Record Period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECLs"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income, gains and losses" line item.

Impairment of financial assets

The Target Group recognises loss allowances for ECLs on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Target Group always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Target Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Target Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and quantitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the macroeconomic factors affecting the industries in which the Target Group's debtors operate and the impact that may result in debtors' ability to make payments,

In particular, the following information taken into account when assessing whether credit risk has increased significantly since initial recognition:

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

— existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

— an actual or expected significant deterioration in the operating results of the debtor; significant increases in credit risk on other financial instruments of the same debtor; and

— an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Target Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

— when there is a breach of financial covenants by the counterparty; or

— information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

Irrespective of the above analysis, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

a) significant financial difficulty of the borrower or issuer;

b) a breach of contract such as a default or past due event;

c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECLs

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at the original effective interest rate.

If the Target Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Group measures the loss allowance at an amount equal to 12m ECL at the current reporting date.

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Target Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the combined are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including trade payables, accrued charges and other payables and borrowings, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.11 Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of qualified assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.12 Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

2.13 Impairment of tangible assets

At the end of the reporting period, the Target Group reviews the carrying amounts of its assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

2.14 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.15 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Target Group's operations are translated into the presentation currency of the Target Group (i.e. HK$) using exchange rates prevailing at the end of the reporting period. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

2.16 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Group As lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When the Target Group makes payments for a property interest which includes both leasehold land and building elements, the Target Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Target Group, unless it is clear that both elements are operating leases in which case the entire property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

2.17 Retirement benefit costs

Payments to the state-managed retirement benefit schemes for staff in the People's Republic of China (the "PRC") are recognised as expense when employees have rendered service entitling them to the contributions.

2.18 Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount alreadypaid.

2.19 Segment reporting

The Target Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Target Group's business components for their review of the performance of those components.

2.20 Related parties

For the purposes of the Historical Financial Information, a party is considered to be related to the Target Group if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over of the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or of a parent of the Target Group .

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Target Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Target Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group (if the Target Group is itself such a plan) and the sponsoring employers are also related to the Target Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Group or to the parent of the Target Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In application of the Target Group's accounting policies, which are described in note 2 above, the director of the Target Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimated and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimate is recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment assessment for trade receivables

The policy for impairment of trade receivables of the Target Group is based on the evaluation of collectively and ageing analysis of trade receivables as well as other quantitative and qualitative information and calculated the lifetime ECLs based on historical credit loss experience, and on management's judgement and assessment of the forward-looking information. Significant judgement and estimates is required in assessing the ultimate realisation of these receivables, based on the current creditworthiness, the past collection history and subsequent settlements of each customer. If the financial conditions of customers of the Target Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions may be required.

4. REVENUE

Revenue represents the fair value of amounts received and receivable from the sales of petroleum and petrochemical products which is recognised at a point in time.

5. SEGMENT INFORMATION

The Target Group has determined the operating segments based on the information reported to the Target Group's most senior executive management, the chief operating decision-maker. The most senior executive management regards the Target Group's business of sales of petroleum and petrochemical products as a single operating segment and assesses the operating performance and allocates the resources of the Target Group as a whole. Accordingly, no segment analysis information is presented.

During the Track Record Period, all the Target Group's revenue was derived from the PRC. As at 31 December 2016, 2017 and 2018, all of the Target Group's non-current assets were all located in the PRC.

Major customers

The following are major customers with revenue equal or more than 10% of the Target Group's total revenue during the Track Record Period:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Customer A	45%	N/A	N/A
Customer B	N/A	18%	15%

N/A: Revenue from this customer during the respective year did not exceed 10% of the Target Group's total revenue.

6. OTHER INCOME

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Interest income from bank deposits	—	489	316
Interest income from immediate holding company	—	5,072	11,855
Government grants *(note)*	160,147	65,851	119,084
Others	215	12	2
	160,362	71,424	131,257

Note: Government grants mainly represent unconditional grants received from local government to encourage the Target Group's development.

7. FINANCE COSTS

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Interests charges on:			
Bank loans	98,443	100,029	102,395
Finance lease liabilities	14,261	18,944	19,060
Loans from fellow subsidiaries	59,793	67,532	79,864
Loan from immediate holding company	19,884	13,734	2,498
	192,381	200,239	203,817
Less: amount capitalised on self-constructed property, plant and equipment *(note)*	(144,714)	—	—
	47,667	200,239	203,817

Note: Borrowing costs capitalised during the year ended 31 December 2016 arose from specific borrowings.

8. DIRECTOR'S REMUNERATION

No emoluments have been received by the directors in the capacity as a director/an employee of the Target Group during the Track Record Period

9. EMPLOYEES' REMUNERATION

The aggregate of the emoluments in respect of the five highest paid individuals during the Track Record Period were as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	2,367	2,301	2,506
Retirement benefits scheme contribution	638	720	733
	3,005	3,021	3,239

The emoluments fell within the following bands:

	Number of employees Year ended 31 December		
	2016	**2017**	**2018**
Emolument bands:			
HK$nil – HK$1,000,000	5	5	5

During the Track Record Period, no emoluments were paid by the Target Group to the director or the above highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office as a director or management of the Target Group. No director or the five highest paid individual has waived or agreed to waive any emoluments during the Track Record Period.

10. PROFIT BEFORE TAX

Profit before tax is stated after charging:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Auditor's remuneration	209	185	255
Cost of inventories recognised as an expense, including	2,840,966	17,753,552	21,217,457
— Write-down of inventories to net realisable value	—	—	165,485
Depreciation for property, plant and equipment			
— Owned assets	68,580	459,679	487,313
— Leased assets	7,537	66,459	53,178
Release of land use rights	6,978	6,514	7,300
Staff costs (including director's remuneration *(note 8)*	175,494	188,817	238,230

Note: Cost of inventories includes HK$234,549,000, HK$681,492,000 and HK$693,623,000 relating to depreciation and staff costs for the years ended 31 December 2016, 2017 and 2018, respectively, which amount were also included in the respective total amounts disclosed separately for each of these types of expenses.

11. TAXATION

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Tax charge comprises:			
PRC Enterprise Income Tax — current PRC Enterprise Income Tax ("EIT")	23,031	252,561	115,964
PRC Enterprise Income Tax – under/(over)-provision in prior years	243	24	(1,669)
Deferred tax *(note 19)* — current year	(1,775)	2,101	(41,807)
	21,499	254,686	72,488

Under the Law of the PRC Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the Target Group is subject to the PRC EIT at the applicable tax rate of 25%. Of which, the PRC subsidiary of the Target Company was entitled to an exemption from the PRC EIT for the three years starting from 2012, followed by a 50% reduction for the next three years.

Taxation for the Track Record Period can be reconciled to the profit in the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Profit before tax	109,241	1,016,708	273,595
Tax on profit before tax, calculated at the rate of 25%	27,310	254,177	68,399
Tax effects of non-deductible expenses	2,118	4,383	11,546
Tax effect of tax exemption granted to the PRC subsidiary	1,710	(4,669)	—
Under/(Over)-provision in prior year	243	24	(1,669)
Others	(9,882)	771	(5,788)
Income tax expenses for the year	21,499	254,686	72,488

12. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful since the Target Company was a limited liability enterprise during the Track Record Period.

13. DIVIDENDS

No dividends have been paid or declared by the Target Company and the group entity during the Track Record Period.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings	Office equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2016	189,002	23,570	7,595	539,423	3,566,630	4,326,220
Additions	—	1,714	2,594	7,372	3,690,694	3,702,374
Interest capitalised	—	—	—	—	144,714	144,714
Disposals	—	—	(397)	—	—	(397)
Transferred upon completion	936,580	—	—	6,228,090	(7,164,670)	—
Exchange adjustments	(12,446)	(1,552)	(501)	(56,055)	(204,524)	(275,078)
At 31 December 2016	1,113,136	23,732	9,291	6,718,830	32,844	7,897,833
Additions	72	2,631	—	8,259	63,845	74,807
Disposals	—	(18)	(360)	—	—	(378)
Transferred upon completion	7,366	—	—	15,381	(22,747)	—
Exchange adjustments	84,187	1,795	703	509,703	2,484	598,872
At 31 December 2017	1,204,761	28,140	9,634	7,252,173	76,426	8,571,134
Additions	24	2,777	340	20,627	85,175	108,943
Disposals	—	(715)	—	(48)	—	(763)
Transferred upon completion	—	—	—	19,650	(19,650)	—
Exchange adjustments	(59,138)	(1,380)	(473)	(356,996)	(3,751)	(421,738)
At 31 December 2018	1,145,647	28,822	9,501	6,935,406	138,200	8,257,576
DEPRECIATION						
At 1 January 2016	46,063	21,712	2,773	233,769	—	304,317
Provided for the year	18,850	584	1,230	55,453	—	76,117
Eliminated on disposals	—	—	(377)	—	—	(377)
Exchange adjustments	(3,874)	(1,456)	(238)	(17,868)	—	(23,436)
At 31 December 2016	61,039	20,840	3,388	271,354	—	356,621
Provided for the year	54,728	956	1,468	468,986	—	526,138
Eliminated on disposals	—	—	(342)	—	—	(342)
Exchange adjustments	6,858	1,616	317	39,732	—	48,523
At 31 December 2017	122,625	23,412	4,831	780,072	—	930,940
Provided for the year	56,514	1,479	1,472	481,026	—	540,491
Eliminated on disposals	—	(713)	—	(2)	—	(715)
Exchange adjustments	(7,954)	(1,201)	(288)	(54,765)	—	(64,208)
At 31 December 2018	171,185	22,977	6,015	1,206,331	—	1,406,508
NET BOOK VALUE						
At 31 December 2016	1,052,097	2,892	5,903	6,447,476	32,844	7,541,212
At 31 December 2017	1,082,136	4,728	4,803	6,472,101	76,426	7,640,194
At 31 December 2018	974,462	5,845	3,486	5,729,075	138,200	6,851,068

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line over the following years less their estimated residual values:

Leasehold buildings	20 years
Office equipment	3 — 5 years
Motor vehicles	4 — 5 years
Plant and machinery	10 — 15 years

The carrying amount of property, plant and equipment held under a sale and leaseback agreement is as follows:

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Leasehold buildings	58,980	58,636	—
Office equipment	922	812	—
Motor vehicles	3,556	2,809	—
Plant and machinery	717,626	709,398	—
	781,084	771,655	—

15. LAND USE RIGHTS

	HK$'000
At 1 January 2016	320,468
Released for the year	(6,978)
Exchange adjustments	(20,790)
At 31 December 2016	292,700
Released for the year	(6,514)
Exchange adjustments	21,871
At 31 December 2017	308,057
Additions	39,455
Released for the year	(7,300)
Exchange adjustments	(14,872)
At 31 December 2018	325,340

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Analysed for reporting purpose as:			
Current assets	7,864	8,459	8,043
Non-current assets	284,836	299,598	317,297
	292,700	308,057	325,340

The land use rights of the Target Group were held under medium-term lease in the PRC and released over the term of the lease of 50 years.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Unlisted equity securities	—	3,601	3,425

17. GOODWILL

Goodwill arose on the acquisition of the entire interest in Taizhou Tongjiang Oil Handling Co., Ltd. 泰州市通江油品裝卸有限公司 in past year under business combination. The carrying amount of goodwill is allocated to the cash-generating units of provision of handling services on petroleum and petrochemical products. The recoverable amounts of the cash-generating units are determined based on value-in-use calculation. This calculation uses cash flow projections based on financial budgets approved by management. The cash flows are discounted using a discount rate which is pre-tax and reflects specific risks relating to the relevant segments. The values assigned to the key assumptions on market development and discount rates are consistent with external information sources. During the Track Record Period, the directors of the Company conducted a review of goodwill and no impairment loss in respect of goodwill has been recognised.

18. INVESTMENT IN A SUBSIDIARY

Particulars of the subsidiary are as follows:

Name of company	Date and place of incorporation /registration and operations	Particulars of issued and paid up capital	Attributable equity interest directly held by the Target Company 31 December			Principal activities
			2016	**2017**	**2018**	
Taizhou Tongjiang Oil Handling Co., Ltd. 泰州市通江油品裝卸有限公司	The PRC, 13 February 2009	RMB70,120,698	100%	100%	100%	Provision of handling services on petroleum and petrochemical products

19. DEFERRED TAX ASSETS

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable tax rate of 25%.

The major component of recognised deferred tax assets and its movements during the Track Record Period were as follows:

	Unused tax losses	Impairment loss on inventories	Accelerated tax depreciation	Provision and others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As 1 January 2016	—	—	861	360	1,221
Exchange adjustments	(77)	—	(56)	(26)	(159)
Credited to the profit or loss *(note 11)*	1,704	—	—	71	1,775
As 31 December 2016	1,627	—	805	405	2,837
Exchange adjustments	54	—	60	14	128
Charged to the profit or loss *(note 11)*	(1,681)	—	(1)	(419)	(2,101)
As 31 December 2017	—	—	864	—	864
Exchange adjustments	—	(1,416)	(41)	(15)	(1,472)
Credited to the profit or loss *(note 11)*	—	41,370	—	437	41,807
As 31 December 2018	—	39,954	823	422	41,199

20. INVENTORIES

	As at 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	917,857	1,124,622	1,341,621
Work in progress	536,248	738,771	681,008
Finished goods	335,124	477,283	755,014
	1,789,229	2,340,676	2,777,643

21. TRADE RECEIVABLES

Sales are generally made without prescribed credit terms. The Target Group usually requests the trade customers to fully pay the deposit before the delivery. The following is an ageing analysis of the trade receivables, based on invoice date and net of loss allowance, at the reporting date:

	As at 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
0 to 180 days	136,548	—	—
Over 360 days	4,474	4,813	—
	141,022	4,813	—

The Target Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9 which permits the use of lifetime expected loss provision for all trade receivables. The ECL rate for the trade receivables is minimal for all the above bands of the trade receivables.

22. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Deposits and other receivables	362	367	14,766
Prepayments	556	47,536	44,893
Amount due from immediate holding company *(note)*	—	35,765	273,864
Value-added tax and other taxes receivable	1,545,231	1,798,713	1,920,851
	1,546,149	1,882,381	2,254,374

Note:

The amount due was unsecured, repayable on demand and carries interest at the annual rate being the RMB benchmark deposit rate published by the People's Bank of China for one year increased by 30%.

23. CASH AND CASH EQUIVALENTS

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Bank balances and cash	4,479	—	—
Deposits in CNOOC Finance Corporation Ltd.	109,517	43,236	4,792
	113,996	43,236	4,792

As at 31 December 2016, 2017 and 2018, all the bank balances and cash and deposit in CNOOC Finance Corporation Ltd. denominated in RMB. The RMB is not freely convertible into other currencies.

Cash at banks earns interest at floating rates based on daily bank deposit rates.

24. SHARE CAPITAL

	HK$'000
As at 1 January 2016	1,674,934
Capital contribution	495,559
As at 31 December 2016	2,170,493
Capital contribution	236,823
As at 31 December 2017	2,407,316
Capital contribution	50,724
As at 31 December 2018	2,458,040

During the year ended 31 December 2016, the shareholders of the Target Company paid capital injection of approximately RMB414,783,000 (equivalent to approximately HK$495,559,000) to the Target Company as additional working capital.

During the year ended 31 December 2017, the shareholders of the Target Company paid capital injection of approximately RMB201,493,000 (equivalent to approximately HK$236,823,000) to the Target Company as additional working capital.

During the year ended 31 December 2018, the shareholders of the Target Company paid capital injection of approximately RMB41,492,000 (equivalent to approximately HK$50,724,000) to the Target Company as additional working capital.

25. RESERVES

(a) Target Group

Details of the movements in the reserves of the Target Group during the Track Record Period are set out in the consolidated statements of changes in equity.

Statutory reserve

In accordance with the Company Law of the PRC, each of the company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC Generally Accepted Accounting Principles, to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital. Upon approval from the board of directors, the statutory reserve fund can be used to offset accumulated losses or to increase capital.

(b) Target Company

	Statutory reserve *HK$'000*	Translation reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2016	110,052	(124,408)	398,791	384,435
Profit for the year	—	—	99,920	99,920
Other comprehensive expenses for the year	—	(172,699)	—	(172,699)
Total comprehensive expenses for the year	—	(172,699)	99,920	(72,779)
Appropriation to statutory reserve	10,834	—	(10,834)	—
At 31 December 2016	120,886	(297,107)	487,877	311,656
Profit for the year	—	—	727,725	727,725
Other comprehensive income for the year	—	222,596	—	222,596
Total comprehensive income for the year	—	222,596	727,725	950,321
Appropriation to statutory reserve	74,487	—	(74,487)	—
At 31 December 2017	195,373	(74,511)	1,141,115	1,261,977
Profit and total comprehensive income for the year	—	—	160,224	160,224
Other comprehensive expenses for the year	—	(209,494)	—	(209,494)
Total comprehensive expenses for the year	—	(209,494)	160,224	(49,270)
Appropriation to statutory reserve	26,733	—	(26,733)	—
At 31 December 2018	222,106	(284,005)	1,274,606	1,212,707

26. BORROWINGS

		As at 31 December		
		2016	2017	2018
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Non-current				
— Bank loans, unsecured	*(a)*	2,210,683	2,377,877	2,202,812
— Loan from a fellow subsidiary	*(b)*	1,284,265	1,736,933	1,196,580
— Finance lease liabilities	*(d)*	662,177	—	—
		4,157,125	4,114,810	3,399,392
Current				
— Bank loans, unsecured	*(a)*	—	—	58,344
— Loan from a fellow subsidiary	*(b)*	—	—	628,736
— Loan from immediate holding company	*(c)*	1,262,704	192,651	—
— Finance lease liabilities	*(d)*	—	581,503	—
		1,262,704	774,154	687,080
		5,419,829	4,888,964	4,086,472

(a) Bank loans

As at 31 December 2016, 2017 and 2018, the bank loans were repayable as follows:

	As at 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount repayable *(note)*			
Within one year	—	—	58,344
More than one year, but not exceeding two years	—	61,355	757,477
More than two years, but not more than five years	1,365,691	2,316,522	1,445,335
Over five years	844,992	—	—
	2,210,683	2,377,877	2,261,156

Note: The amounts are based on the scheduled repayment dates set out in the loan agreements.

As at 31 December 2016, 2017 and 2018, the bank loans carry floating interest at the annual rate being the RMB benchmark lending rate published by the People's Bank of China for the same period decreased by 11%.

(b) Loan from a fellow subsidiary

As at 31 December 2016, 2017 and 2018, the loan from a fellow subsidiary was repayable as follows:

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount repayable *(note)*			
Within one year	—	—	628,736
More than one year, but not exceeding two years	—	478,585	390,709
More than two years, but not more than five years	864,748	1,258,348	805,871
Over five years	419,517	—	—
	1,284,265	1,736,933	1,825,316

Note: The amounts are based on the scheduled repayment dates set out in the loan agreements.

As at 31 December 2016, 2017 and 2018, the loan was unsecured and carried floating interest at the annual rate being the RMB benchmark lending rate published by the People's Bank of China for the same period decreased by 11%.

(c) Loan from immediate holding company

As at 31 December 2016 and 2017, the loan was unsecured, repayable on demand and carried interest at the annual rate being the RMB benchmark lending rate published by the People's Bank of China for the same period decreased by 16%.

(d) Finance lease liabilities

The analysis of the Target Group's obligations under finance leases is as follows:

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Total minimum lease payments:			
Due within one year	43,670	600,858	—
Due in the second to fifth years	662,177	—	—
	705,847	600,858	—
Future finance charges on finance leases	(43,670)	(19,355)	—
Present value of finance lease liabilities	662,177	581,503	—
Present value of minimum lease payments:			
Due within one year	12,347	581,503	—
Due in the second to fifth years	649,830	—	—
	662,177	581,503	—
Less: Portion due within one year included under current liabilities	—	(581,503)	—
Portion due after one year included under non-current liabilities	662,177	—	—

During the Track Record Period, the Target Group and CNOOC International Financial Leasing Limited (the "Lessor"), a fellow subsidiary owned by Target Company's ultimately holding company, has entered into certain sale and leaseback agreements for items of property, plant and machinery. The Target Group received proceeds of HK$662,946,000, HK$117,647,000 for the years ended 31 December 2016 and 2017. The lease periods are for two years. At the end of the lease term the Target Group has the option to purchase the leased asset at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the lease. The effective interest rate on these finance leases was 2.83% to 4.35% for the years ended 31 December 2016 and 2017.

Finance lease liabilities are effectively secured by the underlying assets as the rights to the leased asset would be reverted to the lessor in the event of default by repayment by the Target Group. Furthermore, the finance lease liabilities are secured by the corporate guarantees given by the minority shareholder of the Target Company which are limited to 33%.

27. TRADE PAYABLES

The following is an ageing analysis of trade payables, based on invoice date, at the end of each reporting date:

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
0 to 180 days	1,293,034	1,285,212	1,978,067
181 to 360 days	529	2,666	33
Over 360 days	752	10,192	27
	1,294,315	1,298,070	1,978,127

28. ACCRUED CHARGES AND OTHER PAYABLES

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Contract liabilities *(note)*	276,489	534,170	687,901
Accrued charges	62,473	133,671	184,472
Payables for acquisition of property, plant and equipment	1,879,167	1,646,633	1,290,404
Value-added tax and other taxes payables	—	—	249,491
	2,218,129	2,314,474	2,412,268

Note:

The amounts represent the advance payments from customers for goods, which revenue will be recognised when the performance obligation was satisfied through the goods were transferred to the customers.

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue recognised during the year that was included in the contract liabilities at the beginning of the year	(12,848)	(276,489)	(534,170)

The Target Group's contracts with customers are for period of one year or less. The entire contract liabilities balance at the period end would be recognised into revenue in the next period. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts which have an original expected duration of one year or less is not disclosed.

29. CAPITAL COMMITMENTS

	As at 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Capital commitments in respect of property, plant and equipment:			
— contracted for but not provided in the consolidated financial statements	—	—	196,666

30. RETIREMENT BENEFITS PLANS

The employees of the Target Group are member of state-managed retirement benefit schemes operated by the PRC government. The Target Group is required to contribute certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Target Group with respect to the retirement benefit schemes is to make the specified contributions.

During the years ended 31 December 2016, 2017 and 2018, the Target Group made contributions to the retirement benefits schemes of HK$45,252,000, HK$46,296,000 and HK$48,486,000, respectively.

31. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Target Group had the following material transactions with related parties during the Track Record Period:

(a) Names and relationship

Name of related party	Relationship with the Target Group
China National Offshore Oil Corporation 中國海洋石油集團有限公司	Ultimate holding company
CNOOC Refinery Co., Ltd. 中海石油煉化有限責任公司	Immediate holding company
Zhong Hai You Qi Development and Utilisation Co., Ltd. 中海油氣開發利用有限公司	Entity controlled by the ultimate holding company
China Offshore Bitumen (Taizhou) Co., Ltd. 中海瀝青(泰州)有限責任公司	Entity controlled by the ultimate holding company
CNOOC Sales Shanghai Co., Ltd. 中海油銷售上海有限公司	Entity controlled by the ultimate holding company
CNOOC Sales Tianjin Co., Ltd. 中海油銷售天津有限公司	Entity controlled by the ultimate holding company
CNOOC Sales Hubei Co., Ltd. 中海油銷售湖北有限公司	Entity controlled by the ultimate holding company

Name of related party	Relationship with the Target Group
CNOOC Sales Jiangsu Co., Ltd. 中海油銷售江蘇有限公司	Entity controlled by the ultimate holding company
CNOOC Sales (Beijing) Co., Ltd. 中海油銷售(北京)有限公司	Entity controlled by the ultimate holding company
CNOOC (China) Co., Ltd. 中海石油(中國)有限公司	Entity controlled by the ultimate holding company
CNOOC Zhongjie Petrochemical Co., Ltd. 中海石油中捷石化有限公司	Entity controlled by the ultimate holding company
CNOOC Huizhou Petrochemical Co., Ltd. 中海油惠州石化有限公司	Entity controlled by the ultimate holding company
CNOOC Information Technology Co., Ltd. 中海油資訊科技有限公司	Entity controlled by the ultimate holding company
China Offshore Bitumen (Guangdong) Co., Ltd. 中海瀝青(廣東)有限公司	Entity controlled by the ultimate holding company
China Offshore Bitumen Co. Ltd. 中海瀝青股份有限公司	Entity controlled by the ultimate holding company
CNOOC Daxie Trading Co., Ltd. 中海油大榭貿易有限公司	Entity controlled by the ultimate holding company
CNOOC Huadong Sales Co., Ltd. 中海油華東銷售有限公司	Entity controlled by the ultimate holding company
CNOOC Sales Fujian Co., Ltd. 中海油銷售福建有限公司	Entity controlled by the ultimate holding company
CNOOC Sales Zhejiang Co., Ltd. 中海油銷售浙江有限公司	Entity controlled by the ultimate holding company
CNOOC Energy Development Zhuhai Petrochemical Sales Co., Ltd. 中海油能源發展珠海石化銷售有限公司	Entity controlled by the ultimate holding company
CNOOC Energy Development Equipment Technology Co., Ltd. 中海油能源發展裝備技術有限公司	Entity controlled by the ultimate holding company
CNOOC Energy Development Co., Ltd. 中海油能源發展股份有限公司	Entity controlled by the ultimate holding company
CNOOC Tianjin Chemical Research and Design Institute Co., Ltd. 中海油天津化工研究設計院有限公司	Entity controlled by the ultimate holding company

Name of related party	Relationship with the Target Group
CNOOC Energy Logistics Co., Ltd. 中海油能源物流有限公司	Entity controlled by the ultimate holding company
Shanghai Beihai Shipping Co., Ltd. 上海北海船務股份有限公司	Entity controlled by the ultimate holding company
Ningbo CNOOC Shipping Co., Ltd. 寧波中海油船務有限公司	Entity controlled by the ultimate holding company
Offshore Oil Services (Shenzhen) Co., Ltd. 近海石油服務(深圳)有限公司	Entity controlled by the ultimate holding company
CNOOC Finance Corporation Limited 中海石油財務有限責任公司	Entity controlled by the ultimate holding company
CNOOC International Financial Leasing Limited 中海油國際融資租賃有限公司	Entity controlled by the ultimate holding company
Tai Zhou United East Petrochemical Company Limited 泰州東聯化工有限公司	Non-controlling shareholder

(b) Balances with related parties

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Amount due from immediate holding company *(note (i))*:			
— CNOOC Refinery Co., Ltd.	—	35,765	273,864
Trade receivable *(note (ii))*:			
— China Offshore Bitumen (Taizhou) Co., Ltd.	4,474	4,813	—
Prepayments *(note (ii))*:			
— CNOOC Huizhou Petrochemical Co., Ltd.	—	18,822	17,900
— Offshore Oil Services (Shenzhen) Co., Ltd.	—	—	4,205
Trade payable *(note (ii))*:			
— China Offshore Bitumen (Taizhou) Co., Ltd.	—	7,131	24,354
— CNOOC Daxie Trading Co., Ltd.	—	—	123,073
— CNOOC (China) Co., Ltd.	1,196,549	1,000,798	1,362,747
— China National Offshore Oil Corporation	9,031	—	—

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Accrued charges *(note (ii))*:			
— Shanghai Beihai Shipping Co., Ltd.	2,700	9,377	19,521
— Tai Zhou United East Petrochemical Company Limited	—	62,600	62,044
Contract liabilities *(note (ii))*:			
— CNOOC Huadong Sales Co., Ltd.	—	—	132,216
— CNOOC Energy Development Zhuhai Petrochemical Sales Co., Ltd.	9,100	13,848	17,283
— CNOOC Sales Shanghai Co., Ltd.	3,142	5,047	8,073
— CNOOC Sales Zhejiang Co., Ltd.	—	2,090	4,102
— CNOOC Sales Tianjin Co., Ltd.	3,456	383	—
— CNOOC Sales Jiangsu Co., Ltd.	35,782	—	—
Loan from a fellow subsidiary *(note (iii))*:			
— CNOOC Finance Corporation Limited	1,284,265	1,736,933	1,825,316
Loan from immediate holding company *(note (iv))*:			
— CNOOC Refinery Co., Ltd.	1,262,704	192,651	—

Notes:

(i) The amount due was unsecured, repayable on demand and carries interest at the annual rate being the RMB benchmark deposit rate published by the People's Bank of China for one year increased by 30%.

(ii) The amount due was unsecured, interest-free and repayable on normal trade terms.

(iii) The loan was unsecured and carried floating interest at the annual rate being the RMB benchmark lending rate published by the People's Bank of China for the same period decreased by 11%.

(iv) The loan was unsecured, repayable on demand and carried interest at the annual rate being the RMB benchmark lending rate published by the People's Bank of China for the same period decreased by 16%.

(c) Related party transactions

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Purchase from:			
— China Offshore Bitumen (Taizhou) Co., Ltd.	89,513	—	33,509
— CNOOC Sales Tianjin Co., Ltd.	4,505	2,316	8,441
— CNOOC (China) Co., Ltd	3,454,643	11,724,388	15,646,777
— CNOOC Zhongjie Petrochemical Co., Ltd.	37,529	—	—
— CNOOC Huizhou Petrochemical Co., Ltd.	7,667	141,001	—
— CNOOC Information Technology Co., Ltd.	574	11,253	—
— China Offshore Bitumen (Guangdong) Co., Ltd.	—	116,802	—
— China Offshore Bitumen Co. Ltd.	—	60,557	—
— CNOOC Refinery Co., Ltd.	—	4,360	4,142
— CNOOC Daxie Trading Co., Ltd.	—	370,168	852,592
— Tai Zhou United East Petrochemical Company Limited	—	80,957	20,178
Sales to:			
— Zhong Hai You Qi Development and Utilisation Co., Ltd.	35,001	23,485	—
— CNOOC Sales Jiangsu Co., Ltd.	27,446	1,938,092	—
— CNOOC Huadong Sales Co., Ltd.	—	—	1,961,291
— CNOOC Energy Development Zhuhai Petrochemical Sales Co., Ltd.	7,335	773,048	868,009
— CNOOC Sales Hubei Co., Ltd.	2,832	38,224	10,362
— CNOOC Sales Tianjin Co., Ltd.	6,974	7,549	73
— CNOOC Sales Shanghai Co., Ltd.	2,797	276,244	279,564
— CNOOC Sales Liaoning Co., Ltd.	1,113	25,370	21,352
— CNOOC Sales (Beijing) Co., Ltd.	540	114,886	44,422
— CNOOC Sales Zhejiang Co., Ltd.	—	190,044	202,809
— CNOOC Sales Fujian Co., Ltd.	—	—	3,100
Acquisition of property, plant and equipment from:			
— CNOOC Energy Development Equipment Technology Co., Ltd.	19,034	20,480	16,317
— CNOOC Information Technology Co., Ltd.	7,382	12,343	2,187
Shipping charges to:			
— Shanghai Beihai Shipping Co., Ltd.	97,729	386,868	455,370
— Ningbo CNOOC Shipping Co., Ltd.	5,674	16,977	16,580
— CNOOC Energy Logistics Co., Ltd.	5,161	3,888	3,846

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Agency fee to:			
— China National Offshore Oil Corporation	49,466	67,210	67,035
Sub-contracting charge to:			
— Tai Zhou United East Petrochemical Company Limited	—	715,158	385,944
Interest expense to:			
— CNOOC Finance	56,117	67,532	79,864
— China Offshore Bitumen (Taizhou) Co., Ltd.	1,597	—	—
— Zhong Hai You Qi Development and Utilisation Co., Ltd.	2,079	—	—
— CNOOC Refinery Co., Ltd.	19,884	13,734	2,498
— CNOCC International Financial Leasing Limited	14,261	18,944	19,060
Interest income from:			
— CNOOC Refinery Co., Ltd.	—	5,072	11,855

The related party transactions were conducted in the normal course of business and at prices and terms no less than those charged to and conducted with other third parties of the Target Group.

32. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Target Group consists of debts, which include the borrowing disclosed in note 26, net of bank balances and cash and equity attributable to the owners of the Target Company, comprising share capital and reserves.

The director reviews the capital structure periodically. As a part of this review, the director considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director, the Target Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt, if necessary. The strategy remains unchanged from prior year and throughout the Track Record Period.

33. FINANCIAL INSTRUMENTS

Categories of financial assets and liabilities

The carrying amounts presented in the consolidated statements of financial position relate to the following categories of financial assets and liabilities:

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Financial assets at fair value through profit or loss:			
— Unlisted equity securities	—	3,601	3,425
Financial assets at amortised cost:			
— Trade receivables	141,022	4,813	—
— Deposits and other receivables	362	36,132	288,630
— Cash and cash equivalents	113,996	43,236	4,792
	255,380	87,782	296,847

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Financial liabilities			
At amortised costs:			
— Trade payables	1,294,315	1,298,070	1,978,127
— Accrued charges and other payables	1,941,640	1,780,304	1,474,876
— Borrowings	5,419,829	4,888,964	4,086,472
	8,655,784	7,967,338	7,539,475

Financial risk management objectives and policies

The Target Group's major financial instruments include trade receivables, deposit and other receivables, amount due from immediate holding company, cash and cash equivalents, trade payables, accrued charges and other payables, loans from a fellow subsidiary and immediate holding company and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Group's interest rate risk arises primarily from amount due from immediate holding company and borrowings (including bank loans and loans from a fellow subsidiary and immediate holding company) which carry interests at variable rates.

The Target Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to interest cash flows. However, management monitors interest rate exposure and will consider other necessary actions when significant interest rate exposure is anticipated. In addition, the Target Group has concentration risk on its floating-rate borrowings and amount due from immediate holding company which expose the Target Group significantly towards the change in RMB benchmark lending rate and deposit rate published by the People's Bank of China.

As at 31 December 2016, 2017 and 2018, it is estimated that if there was an increase of 50 basis points in interest rate, with all other variables remaining constant, the Target Group's profit for the year and equity would have decreased by approximately HK$15,682,000, HK$15,389,000 and HK$17,832,000, respectively.

The same degree of decrease in basis point would have the same magnitude on the Target Group's profit for the year and equity as at 31 December 2016, 2017 and 2018 but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate.

Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Target Group do not have any significant exposures to the foreign currency risk as the Target Group conducts its business in the PRC and all of its business activities were denominated and settled in RMB. In addition, as at end of each reporting date, all of its financial instruments were denominated in RMB.

Credit risk

As at end of each reporting date, the Target Group's maximum exposure to credit risk on recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

In order to minimise the credit risk, the monitoring procedures are carried out to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Group also makes periodic collective assessments as well as individual assessment on the recoverability of trade and other receivables and amounts due from related parties based on historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The director estimated that the expected credit losses for trade and other receivables and amounts due from related parties are insignificant. The Target Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

The Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings, finance lease and loans from related parties and ensures compliance with loan covenants.

The following table details the Target Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows.

	Weighted average interest rate	On demand or within one year	Over 1 year but within 2 years	Over 2 year but within 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2016							
Trade payables	N/A	1,294,315	—	—	—	1,294,315	1,294,315
Accrued charges and other payables	N/A	1,941,640	—	—	—	1,941,640	1,941,640
Borrowings	3.98%	1,457,296	813,098	2,568,873	1,302,619	6,141,886	5,419,829
		4,693,251	813,098	2,568,873	1,302,619	9,377,841	8,655,784

	Weighted average interest rate	On demand or within one year	Over 1 year but within 2 years	Over 2 year but within 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2017							
Trade payables	N/A	1,298,070	—	—	—	1,298,070	1,298,070
Accrued charges and other payables	N/A	1,780,304	—	—	—	1,780,304	1,780,304
Borrowings	4.25%	970,875	705,068	3,820,071	—	5,496,014	4,888,964
		4,049,249	705,068	3,820,071	—	8,574,388	7,967,338

	Weighted average interest rate	On demand or within one year	Over 1 year but within 2 years	Over 2 year but within 5 years	Over 5 years	Total undiscounted cash flow	Carrying amount
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2018							
Trade payables	N/A	1,978,127	—	—	—	1,978,127	1,978,127
Accrued charges and other payables	N/A	1,474,876	—	—	—	1,474,876	1,474,876
Borrowings	4.31%	845,755	1,262,948	2,369,360	—	4,478,063	4,086,472
		4,298,758	1,262,948	2,369,360	—	7,931,066	7,539,475

Fair value measurement of financial instruments

The director of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

34. RECONCILIATIONS OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those which cash flows were, or future cash flow will be, classified in the statement of cash flows as cash flows from financing activities.

	Bank loans	Finance lease liabilities	Loan from a fellow subsidiary	Loan from immediate holding company	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 January 2016	1,676,476	359,055	1,482,607	—	3,518,138
Cash-flows:					
— Interest paid	(98,443)	(14,261)	(59,793)	(19,884)	(192,381)
— Proceeds from bank loans	655,761	—		—	655,761
— Repayment of bank loans	(11,161)	—		—	(11,161)
— Loan from a fellow subsidiary	—	—	1,799,954	—	1,799,954
— Repayment to a fellow subsidiary	—	—	(1,900,670)	—	(1,900,670)
— Loan from immediate holding company	—	—	—	3,704,234	3,704,234
— Repayment to immediate holding company	—	—	—	(2,441,530)	(2,441,530)
— Proceeds from sales and leaseback arrangement	—	662,946	—	—	662,946
— Repayment of finance lease liabilities	—	(336,181)	—	—	(336,181)
Non-cash changes:					
— Exchange adjustments	(110,393)	(23,643)	(97,626)	—	(231,662)
— Interest expenses	98,443	14,261	59,793	19,884	192,381
As at 31 December 2016 and 1 January 2017	2,210,683	662,177	1,284,265	1,262,704	5,419,829
Cash-flows:					
— Interest paid	(100,029)	(18,944)	(67,532)	(13,734)	(200,239)
— Loan from a fellow subsidiary	—	—	355,539	—	355,539
— Loan from immediate holding company	—	—	—	11,460,848	11,460,848
— Repayment to immediate holding company	—	—	—	(12,626,400)	(12,626,400)
— Proceeds from sales and leaseback arrangement	—	117,647	—	—	117,647
— Repayment of finance lease liabilities	—	(248,402)	—	—	(248,402)
Non-cash changes:					
— Exchange adjustments	167,194	50,081	97,129	95,499	409,903
— Interest expenses	100,029	18,944	67,532	13,734	200,239

	Bank loans	Finance lease liabilities	Loan from a fellow subsidiary	Loan from immediate holding company	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2017 and 1 January 2018	2,377,877	581,503	1,736,933	192,651	4,888,964
Cash-flows:					
— Interest paid	(102,395)	(19,060)	(79,864)	(2,498)	(203,817)
— Loan from a fellow subsidiary	—	—	173,644	—	173,644
— Loan from immediate holding company	—	—	—	5,918,812	5,918,812
— Repayment to immediate holding company	—	—	—	(6,102,006)	(6,102,006)
— Repayment of finance lease liabilities	—	(552,959)	—	—	(552,959)
Non-cash changes:					
— Exchange adjustments	(116,721)	(28,544)	(85,261)	(9,457)	(239,983)
— Interest expenses	102,395	19,060	79,864	2,498	203,817
As at 31 December 2018	2,261,156	—	1,825,316	—	4,086,472

35. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group is respect of any period subsequent to 31 December 2018.

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.

Grant Thornton
致同

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SILVER GRANT INTERNATIONAL INDUSTRIES LIMITED

Introduction

We report on the historical financial information of China Offshore Bitumen (Taizhou) Co., Ltd. (the "Target Company") set out on pages 146 to 176, which comprises the statements of financial position of the Target Company as at 31 December 2016, 2017 and 2018 and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows, for each of the years ended 31 December 2016, 2017 and 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages 146 to 176 forms an integral part of this report, which has been prepared for inclusion in the circular of Silver Grant International Industries Limited (the "Company") dated 23 April 2019 (the "Circular") in connection with the proposed merger of Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited, Tai Zhou United East Petrochemical Company Limited and the Target Company (the "Proposed Merger").

Directors' responsibility for Historical Financial Information

The directors of the Target Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investments Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Company's financial position as at 31 December 2016, 2017 and 2018 and of the Target Company's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page 146 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends declared by Target Company in respect of the Track Record Period.

Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

23 April 2019

Chiu Wing Ning
Practising Certificate Number: P04920

HISTORICAL FINANCIAL INFORMATION OF THE TARGET COMPANY

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Target Company for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited under separate terms of engagement with the Target Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong Dollar ("HK$"), and all values are rounded to the nearest thousand ("HK$'000"), except where otherwise indicated.

Statements of Profit or Loss and Other Comprehensive Income

		Year ended 31 December		
		2016	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	*4*	2,799,186	5,315	33,807
Cost of sales		(2,782,488)	(6,173)	(32,229)
Gross profit/(loss)		16,698	(858)	1,578
Other income, gains and losses	*6*	30,620	4,872	7,136
Selling expenses		(18,236)	—	—
Administrative expenses		(23,970)	(58,471)	(51,630)
Profit/(loss) before tax	*9*	5,112	(54,457)	(42,916)
Taxation	*10*	(1,382)	(423)	—
Profit/(loss) for the year		3,730	(54,880)	(42,916)
Other comprehensive (expenses)/ income				
Item that maybe reclassified subsequently to profit or loss:				
Exchange (loss)/gain on translation of financial statement		(23,069)	22,025	(12,672)
Total comprehensive expense for the year		(19,339)	(32,855)	(55,588)
Earnings per share attributable to owner of the Target Company				
Basic and diluted	*11*	N/A	N/A	N/A

Statements of Financial Position

		As at 31 December		
		2016	**2017**	**2018**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS				
Non-current assets				
Property, plant and equipment	*13*	159,136	154,450	123,463
Land use rights	*14*	15,730	16,495	15,281
		174,866	170,945	138,744
Current assets				
Inventories	*15*	41,713	38,831	15,780
Trade receivables	*16*	12,426	—	—
Deposits, prepayments and other receivables	*17*	49,536	60,490	61,779
Amount due from immediate holding company	*22(b)*	146,304	36,762	29,959
Cash and cash equivalents		419	—	—
		250,398	136,083	107,518
TOTAL ASSETS		425,264	307,028	246,262
EQUITY				
Capital and reserves				
Share capital	*18(a)*	73,167	73,167	73,167
Reserves	*18(b)*	247,758	214,903	159,315
TOTAL EQUITY		320,925	288,070	232,482
LIABILITIES				
Current liabilities				
Trade payables	*19*	7,405	4,813	—
Accrued charges and other payables	*20*	95,586	14,145	13,780
Taxation payable		1,348	—	—
		104,339	18,958	13,780
TOTAL EQUITY AND LIABILITIES		425,264	307,028	246,262
Net current assets		146,059	117,125	93,738
Total assets less current liabilities		320,925	288,070	232,482

Statements of Changes in Equity

	Share capital	Statutory reserve	Retained profits	Translation reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	73,167	36,666	245,531	8,264	363,628
Profit for the year	—	—	3,730	—	3,730
Other comprehensive expense for the year	—	—	—	(23,069)	(23,069)
Total comprehensive expenses for the year	—	—	3,730	(23,069)	(19,339)
Dividends declared *(note 12)*	—	—	(23,364)	—	(23,364)
At 31 December 2016	73,167	36,666	225,897	(14,805)	320,925
Loss for the year	—	—	(54,880)	—	(54,880)
Other comprehensive income for the year	—	—	—	22,025	22,025
Total comprehensive expenses for the year	—	—	(54,880)	22,025	(32,855)
At 31 December 2017	73,167	36,666	171,017	7,220	288,070
Loss for the year	—	—	(42,916)	—	(42,916)
Other comprehensive expense for the year	—	—	—	(12,672)	(12,672)
Total comprehensive expenses for the year	—	—	(42,916)	(12,672)	(55,588)
At 31 December 2018	73,167	36,666	128,101	(5,452)	232,482

Statements of Cash Flows

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Operating activities			
Profit/(loss) before tax	5,112	(54,457)	(42,916)
Adjustments for:			
Depreciation for property, plant and equipment	16,270	15,522	15,156
Exchange difference	275	(1,555)	813
Impairment loss on property, plant and equipment	—	—	8,213
Interest income from bank deposits	(604)	(2)	(1)
Interest income from related parties	(2,617)	(983)	(617)
Net (gain)/loss on disposal of property, plant and equipment	(1,382)	64	(3,955)
Release of land use rights	414	408	418
Operating cash flows before movements in working capital	17,468	(41,003)	(22,889)
Decrease in inventories	221,419	6,037	21,145
Decrease in trade receivables	59,475	13,366	—
Increase in deposits, prepayments and other receivables	(22,285)	(7,208)	(4,258)
Decrease in trade payables	(231,211)	(3,152)	(4,577)
(Decrease)/increase in accrued charges and other payables	(29,293)	(88,670)	329
Cash generated from/(used in) operations	15,573	(120,630)	(10,250)
Tax paid	(3,685)	(1,891)	—
Net cash from/(used in) operating activities	11,888	(122,521)	(10,250)

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Investing activities			
(Advance to)/repayment from immediate holding company	(135,144)	120,607	4,998
Proceeds from disposal of property, plant and equipment	5,678	516	4,655
Payment for purchase of property, plant and equipment	(14,096)	(15)	—
Interest received	3,077	1,026	597
Net cash (used in)/from investing activities	(140,485)	122,134	10,250
Financing activities			
Dividends paid *(note 12)*	(23,364)	—	—
Net cash used in financing activities	(23,364)	—	—
Net decrease in cash and cash equivalents	(151,961)	(387)	—
Cash and cash equivalents at the beginning of year	163,121	419	—
Effect of foreign exchange rate changes	(10,741)	(32)	—
Cash and cash equivalents at end of year	419	—	—
Analysis of the balances of cash and cash equivalents			
Bank balances and cash	419	—	—

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION

The Target Company is a limited liability company incorporated in the People's Republic of China (the "PRC"). The registered address of its office and the principal place of business is No. 258, Wuzhou North Road, Hailing District, Taizhou City Jiangsu Province, the PRC.

At 31 December 2018, in the opinion of the directors of the Target Company, the immediate holding company and ultimate holding company of the Target Company are CNOOC Refinery Co., Ltd. 中海石油煉化有限責任公司 and China National Offshore Oil Corporation 中國海洋石油集團有限公司, companies incorporated in the PRC, respectively.

The principal activity of the Target Company is the production and sales of bitumen and fuel oil.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation and presentation

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Periods, the Target Company has consistently applied all HKFRSs which are effective for its accounting period beginning on 1 January 2018 throughout the Track Record Periods. The significant accounting policies that have been used in the preparation of the Historical Financial Information have been consistently applied throughout the Track Record Period. The adoption of new or amended HKFRSs that are issued but not yet effective and their impact on Target Company's Historical Financial Information, if any, are disclosed in note 2.2.

The Historical Financial Information has been prepared on the historical cost basis. The measurement bases are fully described in the accounting policies below.

The functional currency of the Target Company is Renminbi ("RMB"), which is the currency of the primary economic environment in which the Target Company operates. For the convenience of the users of Historical Financial Information, the Historical Financial Information is presented in HK$.

The preparation of the Historical Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of Target Company. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 3 below.

2.2 Issued but not yet effective HKFRSs

The Target Company has not early applied the following new or amended HKFRSs which have been issued but are not yet effective for the Track Record Period:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]
HK(IFRIC) – Interpretation 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective date not yet determined

The directors of the Target Company anticipate that all the relevant new and amended HKFRSs will be adopted in the Target Company's accounting policy for the first period beginning after the effective date of such standards. The directors of the Target Company considered that the adoption of these new and amended HKFRSs is unlikely to have material impact on the Target Company's results of operations and financial position however may result additional disclosures.

2.3 Property, plant and equipment

Property, plant and equipment (other than construction in progress) held for use in the production or supply of goods or services, or for administration purposes, are stated in the statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment loss, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost or fair value of property, plant and equipment other than construction in progress less residual value over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

2.4 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sales.

2.5 Provision

Provisions are recognised when the Target Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Target Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

2.6 Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Target Company expects to be entitled in exchange for those goods or services. Specifically, the Target Company uses a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the Target Company satisfies a performance obligation.

The Target Company recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control of the asset may be transferred over time or at a point in time. Control of the asset is transferred over time if:

— the customer simultaneously receives and consumes the benefits provided by the Target Company's performance as the Target Company performs;

— the Target Company's performance creates and enhances an asset that the customer controls as the Target Company performs; or

— the Target Company's performance does not create an asset with an alternative use to the Target Company and the Target Company has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

A contract liability represents the Target Company's obligation to transfer goods or services to a customer for which the Target Company has received consideration (or an amount of consideration is due) from the customer. Deposit and prepayments are typically received from purchasers in advance of revenue recognition and they are presented as contract liabilities under current liabilities.

Revenue from sales of fuel oil and bitumen is recognised when the respective fuel oil and bitumen have been completed and delivered to the customers which is a point in time when customers have the ability to direct the use of the fuel oil and bitumen and obtain substantially all of the remaining benefits of the fuel oil and bitumen.

For contracts where the period between payment and transfer of the associated goods or services is less than one year, the Target Company applies the practical expedient of not adjusting the transaction price for any significant financing component.

2.7 Financial instruments

Financial assets and financial liabilities are recognised when the group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

— the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

— the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured subsequently at fair value through profit or loss ("FVTPL").

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the Track Record Period.

For financial instruments other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses ("ECLs"), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Interest income is recognised in profit or loss and is included in the "Other income, gains and losses" line item.

Impairment of financial assets

The Target Company recognises loss allowances for ECLs on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposit and other receivables and cash and cash equivalents). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

The Target Company always recognises lifetime ECL for trade receivables. The ECL on these financial assets are estimated using a provision matrix based on the Target Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Target Company recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Target Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Company compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instruments as at the date of initial recognition. In making this assessment, the Target Company considers both quantitative and quantitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the macroeconomic factors affecting the industries in which the Target Company's debtors operate and the impact that may result in debtors' ability to make payments.

In particular, the following information taken into account when assessing whether credit risk has increased significantly since initial recognition:

— an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

— existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

— an actual or expected significant deterioration in the operating results of the debtor; significant increases in credit risk on other financial instruments of the same debtor; and

— an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Company presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Company has reasonable and supportable information that demonstrates otherwise.

The Target Company regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Target Company considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

— when there is a breach of financial covenants by the counterparty; or

— information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Company, in full (without taking into account any collaterals held by the Target Company).

Irrespective of the above analysis, the Target Company considers that default has occurred when a financial asset is more than 90 days past due unless the Target Company has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is "credit-impaired" when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of credit-impairment includes observable data about the following events:

a) significant financial difficulty of the borrower or issuer;

b) a breach of contract such as a default or past due event;

c) the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;

d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

e) the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Target Company writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECLs

The measurement of ECLs is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Company in accordance with the contract and all the cash flows that the Target Company expects to receive, discounted at the original effective interest rate.

If the Target Company has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Company measures the loss allowance at an amount equal to 12m ECL at the current reporting date.

The Target Company recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

The Target Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Target Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Target Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Target Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Target Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Target Company are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities, including trade payables and accrued and other payables, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the Track Record Period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Target Company derecognises financial liabilities when, and only when, the Target Company's obligations are discharged, canceled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.8 Borrowing costs

Borrowing costs are directly attributable to the acquisition, construction or production of qualified assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.9 Government grants

Government grants are not recognised until there is reasonable assurance that the Target Company will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Company recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Company should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Company with no future related costs are recognised in profit or loss in the period in which they become receivable.

2.10 Impairment of tangible assets

At the end of the reporting period, the Target Company reviews the carrying amounts of its assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Target Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

2.11 Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Target Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

2.12 Foreign currencies

In preparing the financial statements of the Target Company, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Target Company's operations are translated into the presentation currency of the Target Company (i.e. HK$) using exchange rates prevailing at the end of the reporting period. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

2.13 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Target Company As lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When the Target Company makes payments for a property interest which includes both leasehold land and building elements, the Target Company assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Target Company, unless it is clear that both elements are operating leases in which case the entire property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "land use rights" in the statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

2.14 Retirement benefit costs

Payments to the state-managed retirement benefit schemes for staff in the PRC are recognised as expense when employees have rendered service entitling them to the contributions.

2.15 Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

2.16 Segment reporting

The Target Company identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker for their decisions about resources allocation to the Target Company's business components for their review of the performance of those components.

2.17 Related parties

For the purposes of the Historical Financial Information, a party is considered to be related to the Target Company if:

(a) the party is a person or a close member of that person's family and if that person:

(i) has control or joint control over of the Target Company;

(ii) has significant influence over the Target Company; or

(iii) is a member of the key management personnel of the Target Company or of a parent of the Target Company .

(b) the party is an entity and if any of the following conditions applies:

(i) the entity and the Target Company are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Target Company are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Target Company or an entity related to the Target Company (if the Target Company is itself such a plan) and the sponsoring employers are also related to the Target Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Target Company or to the parent of the Target Company.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In application of the Target Company's accounting policies, which are described in note 2 above, the directors of the Target Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimated and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimate is recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment assessment for trade receivables

The policy for impairment of trade receivables of the Target Company is based on the evaluation of collectively and ageing analysis of trade receivables as well as other quantitative and qualitative information and calculated the lifetime ECLs based on historical credit loss experience, and on management's judgement and assessment of the forward-looking information. Significant judgement and estimates is required in assessing the ultimate realisation of these receivables, based on the current creditworthiness, the past collection history and subsequent settlements of each customer. If the financial conditions of customers of the Target Company were to deteriorate, resulting in an impairment of their ability to make payments, additional provisions may be required.

4. REVENUE

Revenue represents the fair value of amounts received and receivable from the sales of fuel oil and bitumen which is recognised at a point in time.

5. SEGMENT INFORMATION

The Target Company has determined the operating segments based on the information reported to the Target Company's most senior executive management, the chief operating decision-maker. The most senior executive management regards the Target Company's business of sales of fuel oil and bitumen as a single operating segment and assesses the operating performance and allocates the resources of the Target Company as a whole. Accordingly, no segment analysis information is presented.

During the Track Record Period, all the Target Company's revenue was derived from the PRC. As at 31 December 2016, 2017 and 2018, all of the Target Company's non-current assets were all located in the PRC.

Major customers

The following are major customers with revenue equal or more than 10% of the Target Company's total revenue during the Track Record Period:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Customer A	N/A	100%	N/A
Customer B	N/A	N/A	99%

N/A: Revenue from this customer during the respective year did not exceed 10% of the Target Company's total revenue.

6. OTHER INCOME, GAINS AND LOSSES

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Interest income from bank deposits	604	2	1
Interest income from related parties	2,617	983	617
Rental and storage income	1,117	1,394	1,043
Government grants *(note)*	24,450	685	111
Net gain/(loss) on disposal of property, plant and equipment	1,382	(64)	3,955
Gain on disposal of scrap materials	117	1,872	1,238
Others	333	—	171
	30,620	4,872	7,136

Note: Government grants mainly represent unconditional grants received from local government to encourage the Target Company's development.

7. DIRECTORS' REMUNERATION

No emoluments have been received by the directors in the capacity as a director/an employee of the Target Company during the Track Record Period.

8. EMPLOYEES' REMUNERATION

The aggregate of the emoluments in respect of the five highest paid individuals during the Track Record Period were as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Salaries and other benefits	1,421	1,470	1,496
Retirement benefits scheme contribution	478	512	559
	1,899	1,982	2,055

The emoluments fell within the following bands:

	Number of employees Year ended 31 December		
	2016	2017	2018
Emolument bands:			
HK$nil – HK$1,000,000	5	5	5

During the Track Record Period, no emoluments were paid by the Target Company to the directors or the above highest paid individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office as a director or management of the Target Company. No director or the five highest paid individual has waived or agreed to waive any emoluments during the Track Record Period.

9. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is stated after charging:

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Auditor's remuneration	22	22	22
Cost of inventories recognised as an expense	2,782,488	6,173	32,229
Depreciation for property, plant and equipment	16,270	15,522	15,156
Impairment loss on property, plant and equipment	—	—	8,213
Release of land use rights	414	408	418
Staff costs (including directors' remuneration *(note 7)*)	42,417	42,921	43,927

Note: Cost of inventories includes HK$40,562,000, HK$1,477,000 and HK$3,176,000 relating to depreciation and staff costs for the years ended 31 December 2016, 2017 and 2018, respectively, which amount were also included in the respective total amounts disclosed separately for each of these types of expenses.

10. TAXATION

	Year ended 31 December		
	2016	2017	2018
	HK$'000	*HK$'000*	*HK$'000*
Tax charge comprises:			
PRC Enterprise Income Tax — Current PRC EIT	1,411	—	—
PRC Enterprise Income Tax — (over)/under-provision in prior years	(29)	423	—
	1,382	423	—

Under the Law of the PRC Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the Target Company is subject to the PRC Enterprise Income Tax ("EIT") at the applicable tax rate of 25%.

Taxation for the Track Record Period can be reconciled to the profit/(loss) per the statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) before tax	5,112	(54,457)	(42,916)
Tax on (loss)/profit before tax, calculated at the rate of 25%	1,278	(13,614)	(10,729)
Tax effects of non-deductible expenses	133	2,237	2,290
Tax effect of tax losses not recognised	—	11,377	8,439
(Over)/Under-provision in prior year	(29)	423	—
Income tax expenses for the year	1,382	423	—

As at 31 December 2016, 2017 and 2018, the Target Company has unused tax losses of approximately HK$nil, HK$47,371,000 and HK$77,644,000, respectively, available for offset against future profits that may be carried forward for five years since the year of the losses incurred. No deferred tax asset has been recognised in respect of the unrecognised tax losses due to the unpredictability of future profit streams.

11. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful since the Target Company was a limited liability enterprise during the Track Record Period.

12. DIVIDENDS

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Dividends paid	23,364	—	—

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings	Office equipment	Motor vehicles	Plant and machinery	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST						
At 1 January 2016	55,216	16,154	2,362	405,595	—	479,327
Exchange adjustments	(3,635)	(1,063)	(156)	(26,707)	—	(31,561)
Additions	—	741	—	2,050	11,302	14,093
Transfer upon completion	12	—	—	11,290	(11,302)	—
Disposals	(1,689)	(18)	—	(32,200)	—	(33,907)
At 31 December 2016	49,904	15,814	2,206	360,028	—	427,952
Exchange adjustments	3,774	1,196	167	27,229	—	32,366
Additions	—	—	—	16	—	16
Disposals	—	(5)	(2,360)	(3,473)	—	(5,838)
At 31 December 2017	53,678	17,005	13	383,800	—	454,496
Exchange adjustments	(2,635)	(835)	—	(18,840)	—	(22,310)
Disposals	—	—	—	(16,712)	—	(16,712)
At 31 December 2018	51,043	16,170	13	348,248	—	415,474
DEPRECIATION						
At 1 January 2016	19,591	13,119	2,245	267,803	—	302,758
Exchange adjustments	(1,413)	(918)	(148)	(18,182)	—	(20,661)
Provided for the year	2,762	1,235	—	12,273	—	16,270
Eliminated on disposals	(1,055)	(17)	—	(28,479)	—	(29,551)
At 31 December 2016	19,885	13,419	2,097	233,415	—	268,816
Exchange adjustments	1,611	1,053	158	18,143	—	20,965
Provided for the year	2,626	953	—	11,943	—	15,522
Eliminated on disposals	—	(5)	(2,242)	(3,010)	—	(5,257)
At 31 December 2017	24,122	15,420	13	260,491	—	300,046
Exchange adjustments	(1,453)	(784)	—	(13,290)	—	(15,527)
Provided for the year	2,691	792	—	11,673	—	15,156
Impairment loss	5,189	—	—	3,024	—	8,213
Eliminated on disposals	—	—	—	(15,877)	—	(15,877)
At 31 December 2018	30,549	15,428	13	246,021	—	292,011
NET BOOK VALUE						
At 31 December 2016	30,019	2,395	109	126.613	—	159,136
At 31 December 2017	29,556	1,585	—	123,309	—	154,450
At 31 December 2018	20,494	742	—	102,227	—	123,463

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line over the following years less their estimated residual values:

Leasehold buildings	20 years
Office equipment	3 — 5 years
Motor vehicles	4 years
Plant and machinery	10 — 15 years

14. LAND USE RIGHT

	HK$'000
At 1 January 2016	17,262
Exchange adjustments	(1,118)
Released for the year	(414)
At 31 December 2016	15,730
Exchange adjustments	1,173
Released for the year	(408)
At 31 December 2017	16,495
Exchange adjustments	(796)
Released for the year	(418)
At 31 December 2018	15,281

The land use rights of the Target Company were held under medium-term lease in the PRC and released over the term of the lease of 50 years.

15. INVENTORIES

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials	22,675	24,390	7,140
Finished goods	19,038	14,441	8,640
	41,713	38,831	15,780

16. TRADE RECEIVABLES

Sales are generally made without prescribed credit terms. The Target Company usually requests the trade customers to fully pay the deposit before the delivery. The following is an ageing analysis of the trade receivables, based on invoice date and net of loss allowance, at the reporting date:

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
181 to 360 days	3,812	—	—
Over 360 days	8,614	—	—
	12,426	—	—

The Target Company applies the simplified approach to provide for ECLs prescribed by HKFRS 9 which permits the use of lifetime expected loss provision for all trade receivables. The ECL rate for the trade receivables is minimal for all the above bands of the trade receivables.

17. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Deposits and other receivables	17,731	22,437	30,276
Prepayments	193	78	—
Value-added tax and other taxes receivable	31,612	37,975	31,503
	49,536	60,490	61,779

18. SHARE CAPITAL AND RESERVES

(a) Share capital

As at 31 December 2016, 2017 and 2018, the registered and paid-up capital of Target Company was RMB60,000,000 (equivalent to approximately HK$73,167,000).

(b) Reserves

Details of the movements in the reserves of the Target Company during the Track Record Period are set out in the statements of changes in equity.

Statutory reserve

In accordance with the Company Law of the PRC, each of the company that was registered in the PRC is required to appropriate 10% of the annual statutory profit after tax (after offsetting any prior years' losses), determined in accordance with the PRC Generally Accepted Accounting Principles, to the statutory reserve until the balance of the reserve funds reaches 50% of the entity's registered capital. Upon approval from the board of directors, the statutory reserve fund can be used to offset accumulated losses or to increase capital.

19. TRADE PAYABLES

The following is an ageing analysis of trade payables, based on invoice date, at the end of each reporting date:

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
0 to 180 days	6,422	—	—
181 to 360 days	155	—	—
Over 360 days	828	4,813	—
	7,405	4,813	—

20. ACCRUED CHARGES AND OTHER PAYABLES

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Contract liabilities *(note)*	5,810	1,051	125
Accrued charges	25,202	8,098	12,458
Other payables	17,297	4,639	581
Value-added tax and other taxes payables	47,277	357	616
	95,586	14,145	13,780

Note:

The amounts represent the advance payments from customers for goods, which revenue will be recognised when the performance obligation was satisfied through the goods were transferred to the customers.

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue recognised during the year that was included in the contract liabilities at the beginning of the year	(33,833)	(5,810)	(1,051)

The Target Company contracts with customers are for period of one year or less. The entire contract liabilities balance at the period end would be recognised into revenue in the next period. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts which have an original expected duration of one year or less is not disclosed.

21. RETIREMENT BENEFITS PLANS

The employees of the Target Company are member of state-managed retirement benefit schemes operated by the PRC government. The Target Company is required to contribute certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the Target Company with respect to the retirement benefit schemes is to make the specified contributions.

During the years ended 31 December 2016, 2017 and 2018, the Target Company made contributions to the retirement benefits schemes of approximately HK$11,234,000, HK$11,487,000 and HK$10,740,000, respectively.

22. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Company had the following transactions with related parties during the Track Record Period:

(a) Names and relationship

Name of related party	Relationship with the Target Company
China National Offshore Oil Corporation 中國海洋石油集團有限公司	Ultimate holding company
CNOOC Refinery Co., Ltd. 中海石油煉化有限責任公司	Immediate holding company
CNOOC Limited 中國海洋石油有限公司	Entity controlled by the ultimate holding company
CNOOC Ningbo Daxie Petrochemical Co., Ltd. 中海石油寧波大榭石化有限公司	Entity controlled by the ultimate holding company
Zhong Hai You Qi Development and Utilisation Co., Ltd. 中海油氣開發利用有限公司	Entity controlled by the ultimate holding company
Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited 中海油氣(泰州)石化有限公司	Entity controlled by the ultimate holding company
CNOOC Sales Tianjin Co., Ltd. 中海油銷售天津有限公司	Entity controlled by the ultimate holding company
CNOOC Zhoushan Petrochemical Co., Ltd. 中海石油舟山石化有限公司	Entity controlled by the ultimate holding company
Shanghai Beihai Shipping Co., Ltd. 上海北海船務股份有限公司	Entity controlled by the ultimate holding company
Ningbo CNOOC Shipping Co., Ltd. 寧波中海油船務有限公司	Entity controlled by the ultimate holding company
Taizhou Petrochemical Co., Ltd. 泰州石油化工有限責任公司	Non-controlling shareholder

(b) Balances with related parties

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Deposits and other receivables *(note (i))*:			
— CNOOC Ningbo Daxie Petrochemical Co., Ltd.	5,786	6,223	5,918
— Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited	—	7,131	24,354
Trade payable *(note (ii))*:			
— Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited	4,474	4,813	—
Amount due from immediate holding company *(note (iii))*:			
— CNOOC Refinery Co., Ltd.	146,304	36,762	29,959

Notes:

(i) The amount due is unsecured, interest-free and repayable on demand.

(ii) The amount due is unsecured, interest-free and repayable on normal trade terms.

(iii) The amount due is unsecured, repayable on demand and carries interest at the annual rate being the RMB benchmark deposit rate published by the People's Bank of China for one year increased by 30%.

(c) Related party transactions

	Year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Sales to:			
— Zhong Hai You Qi Development and Utilisation Co., Ltd.	161,768	5,315	—
— Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited	89,513	—	33,509
— CNOOC Sales Tianjin Co., Ltd.	2,799	—	—
— CNOOC Zhoushan Petrochemical Co., Ltd.	2,329	—	—
Purchase from:			
— CNOOC Limited	1,973,425	—	—
— Taizhou Petrochemical Co., Ltd.	3,685	3,649	—
Shipping charges to:			
— Shanghai Beihai Shipping Co., Ltd.	92,812	—	—
— Ningbo CNOOC Shipping Co., Ltd.	3,811	—	—
Agency fee to:			
— China National Offshore Oil Corporation	57,508	—	—
Interest income from:			
— CNOOC Refinery Co., Ltd.	1,020	983	617
— Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited	1,597	—	—

The related party transactions were conducted in the normal course of business and at prices and terms no less than those charged to and conducted with other third parties of the Target Company.

23. CAPITAL RISK MANAGEMENT

The Target Company manages its capital to ensure to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Target Company consists of debts, net of bank balances and cash and equity attributable to the owners of the Target Company, comprising share capital and reserves.

The director reviews the capital structure periodically. As a part of this review, the director considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the director, the Target Company will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt, if necessary. The strategy remains unchanged from prior year and throughout the Track Record Period.

24. FINANCIAL INSTRUMENTS

Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and liabilities:

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
At amortised cost:			
— Trade receivables	12,426	—	—
— Deposits and other receivables	17,731	22,437	30,276
— Amount due from immediate holding company	146,304	36,762	29,959
— Cash and cash equivalents	419	—	—
	176,880	59,199	60,235

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Financial liabilities			
At amortised costs:			
— Trade payables	7,405	4,813	—
— Accrued charges and other payables	42,499	12,737	13,039
	49,904	17,550	13,039

Financial risk management objectives and policies

The Target Company's major financial instruments include trade receivables, deposits and other receivables, amount due from immediate holding company, cash and cash equivalents, trade payables, accrued charges and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Target Company does not have any significant exposures to the interest rate risk as all of the interest bearing assets bears fixed interest rate.

Currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Target Company do not have any significant exposures to the foreign currency risk as the Target Company conducts its business in the PRC and all of its business activities were denominated and settled in RMB. In addition, as at end of each reporting date, all of its financial instruments were denominated in RMB.

Credit risk

As at end of each reporting date, the Target Company's maximum exposure to credit risk on recognised financial assets is the carrying amount of those assets as stated in the statement of financial position.

In order to minimise the credit risk, the monitoring procedures are carried out to ensure that follow-up action is taken to recover overdue debts. In addition, the Target Company also makes periodic collective assessments as well as individual assessment on the recoverability of trade and other receivables and amount due from immediate holding company based on historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions. The director estimated that the expected credit losses for trade and other receivables and amount due from immediate holding company are insignificant. The Target Company has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Liquidity risk

The Target Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Company's operations and mitigate the effects of fluctuations in cash flows.

As at 31 December 2016, 2017 and 2018, the Target Company's remaining contractual maturities for its financial liabilities will be either on demand or within one year. The carrying amounts of its financial liabilities approximate their contractual undiscounted cash flows.

Fair value measurement of financial instruments

The director of the Target Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

25. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Company is respect of any period subsequent to 31 December 2018.

The following discussion is based on the accountants' report of TZ United Ease for the three years ended 31 December 2016, 2017 and 2018 set out in Appendix III(A) to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF TZ UNITED EAST

Business Overview

TZ United East is a company established in the PRC with limited liability. The principal activities of TZ United East are the production and trading of petrochemical products and provision of subcontracting service.

Segment Information

TZ United East is currently organised into two operating segments: (a) sales of petrochemical products; and (b) provision of sub-contracting services. These operating divisions are the basis of the internal reports about components of TZ United East that are regularly reviewed by the executive Directors of the Company, being the chief operating decision maker, in order to allocate resources to segments and to assess their performance. TZ Oil Product, a wholly-owned subsidiary of the Company, owns a terminal and is principally engaged in terminal operations (loading and unloading of crude oil, solvent oil, gasoline and diesel).

During the year of 2016, TZ United East was only represented the revenue received from the direct selling of the raw materials acquired through previously contracted supply contracts by ways of production and trading of petrochemical products. TZ United East cooperated with Zhong Hai You Qi and resumed production by the end of the year of 2016 by way of joint production.

During the year of 2017, under the joint production arrangement, Zhong Hai You Qi provided the critical raw material including crude oil and fuel oil and appointed the Company to carry out the production processes as a subcontractor. As such, the joint production arrangements carried out by TZ United East and Zhong Hai You Qi have indicated that profitability of both companies were enhanced and translated into much improved operating results as a whole.

Prospect

Since 2017, TZ United East and Zhong Hai You Qi entered into a sub-contracting arrangement, pursuant to which, Zhong Hai You Qi oversaw sales on a group basis and provided key production raw materials (mainly crude oil and fuel oil) and sub-contracted the production processes to TZ United East. Through such joint production arrangement, production effectiveness and efficiency of both parties were enhanced in terms of centralising the processing of resources, reducing logistic costs and consolidating complimentary advantages in the raw materials structure, the manufacturing processes and the common engineering systems employed in production. Therefore, the Board has been considering a proposal regarding a collective restructure of the Group's petrochemical investments located in Tai Zhou for the purpose of achieving a more efficient and effective operation model in the long run. With over a year's successful operation under the joint production arrangement, the Group agreed to proceed with the Merger of Zhong Hai You Qi, TZ United East and COBT in view of the benefits to jointly operate the Merged Entity as mentioned in the section headed "V. Reasons for and Benefits of Conducting the Merger" of the Letter from the Board of this Circular.

Revenue

The following table sets forth the sources of revenue, both in absolute amount and as a percentage of revenue:

	For the Year Ended					
	2018		**2017**		**2016**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Sales of petrochemical products	20,178	5	90,143	11	48,814	100
Sub-contracting income related to production of petrochemical products	385,944	95	715,158	89	—	—
Total	406,122	100	805,301	100	48,814	100

Revenue from the sale of petrochemical products is recognised when the goods are delivered and titles have passed. Sub-contracting income is recognised when the services are rendered.

TZ United East was in a non-producing condition for a majority time for the year ended 31 December 2016. As there was limited formal production activities during the year, limited quantities of raw materials were processed and sold during the year ended 31 December 2016.

During the year ended 31 December 2017, TZ United East entered into a joint production arrangement with Zhong Hai You Qi, in which the Company received the sub-contracting income related to production of petrochemical products which substantially increased its revenue.

During the year ended 31 December 2018, TZ United East had voluntarily suspended its productions for five months during the period between May to September 2018 for the purpose of carrying out a biennial major overhaul of its production facilities resulting a substantial decrease of sub-contracting income.

Other Income

Other income mainly consisted of bank interest income, government grant and other miscellaneous income. For the three years ended 31 December 2016, 2017 and 2018, other income amounted to approximately HK$1.7 million, HK$6.5 million and HK$5.2 million respectively.

Other expenses

Other expenses represented the direct costs, such as wages, depreciation expenses, consumables and other direct attributable costs incurred by TZ United East during voluntary suspension of production for inspection and maintenance of production plant. For the three years ended 31 December 2016, 2017 and 2018, other expenses amounted to approximately HK$22.3 million, Nil and HK$164.9 million respectively.

For the year ended 31 December 2018, other expenses sharply increased to approximately 164.9 million was mainly due to the directs and overhead costs incurred related to suspended productions for the months between May to September 2018.

Administrative expenses

Administrative expenses mainly consisted of staff cost, repair and maintenance, depreciation expenses, and professional fees.

For the three years ended 31 December 2016, 2017 and 2018, administrative expenses amounted to approximately HK$183.4 million, HK$134.9 million and HK$179.1 million respectively.

For the year ended 31 December 2016, administrative expenses included the costs incurred for newly completed product plant so that such related administrative expenses, e.g. labour cost, repair and maintenance and rental expenses, were not capitalized and therefore recognized as expenses in the year.

For the year ended 31 December 2017, administrative expenses decreased by 26.5% was mainly due to the reclassification of labour cost to cost of sales during the year.

For the year ended 31 December 2018, administrative expenses increased by 32.8% was attributed to the increase of provision of repair and maintenance for the plant and machinery. Further, the Company also paid the one-off consultation fee for the corporate financial consulting services amounted to approximately HK$8.5 million.

Taxation

No income tax was paid during the three years ended 31 December 2018 because no assessable profits was made.

Loss/profit for the year

Taking into account of the aforementioned, The Company recorded loss of approximately HK$357.8 million, HK$27.1 million and HK$400.7 million for the three years ended 31 December 2018.

Analysis of financial position

Non-current assets

Non-current assets mainly included property, plant and equipment and investment properties. As at 31 December 2016, 2017 and 2018, non-current assets amounted to approximately HK$3,684.0 million, HK$3,864.2 million and HK$3,687.0 million respectively.

Current assets

Current assets mainly comprised of inventories, other receivables and prepayment and cash and cash equivalents. As at 31 December 2016, 2017 and 2018, current assets amounted to approximately HK$524.7 million, HK$665.2 million and HK$542.7 million respectively.

Current and non-current liabilities

Current and non-current liabilities included trade and other payables, short and long term of bank and other borrowings, and other liabilities with related companies. As at 31 December 2016, 2017 and 2018, current and non-current liabilities amounted to approximately HK$4,083.7 million, HK$4,169.8 million and HK$2,785.6 million respectively.

The slight fluctuation of the amounts of current and non-current liabilities for the financial years ended 31 December 2016 and 2017 is mainly due to the increase of bank borrowing for the acquisition of plant and machinery for the financial year ended 31 December 2017.

The decrease of current and non-current liabilities for the years of 2017 to 2018 approximately 33% is mainly due to the capitalisation of its shareholders loan to enhance its capital base.

Liquidity, financial resources and capital structure

For the three years ended 31 December 2016, 2017 and 2018, the Company funded its working capital mainly through operating activities by sales of petrochemical products and provision of sub-contracting service, and also the loans from banks and related companies, financial assistance from the shareholders. The Company had cash and cash equivalents denominated in HK dollars amounting to approximately HK$96.6 million, HK$227.7 million and HK$56.9 million respectively. The current ratio for the respective years, expressed as the ratio of the currents assets over the current liabilities, were 0.16, 0.17 and 0.25 respectively. Total borrowings which consisted bank borrowings and other loans denominated were approximately HK$2,059.4 million, HK$2,200.0 million and HK$1,811.4 million respectively. The gearing ratio, as a ratio of total borrowings to total assets, was 0.49, 0.49 and 0.43 respectively.

The terms, interest rate structure and the maturity profile of the borrowings are reflected in note 23 to the financial statements of TZ United East as set out in the Appendix II(A) of this circular.

Funding and treasury policies and objectives

The Company generally finances its operations with internally generated resources, bank loans and other loans. The Company had no formal treasury policies or objectives.

Capital commitments

As at 31 December 2016, 2017 and 2018, it has the capital commitment amounting to HK$20.4 million, HK$69.6 million and HK$110.2 million respectively in which were all attributed to the construction agreement against the building and acquisition of machineries during the respective year.

Charges on assets

During the years of 2016, 2017 and 2018, the land use rights with net carrying amount of approximately HK$182.5 million, HK$192.0 million and HK$178.4 million were pledged to banks to secure the banking facilities granted to the Company respectively.

Material acquisitions and disposals of subsidiaries and associated companies

For each of the three years ended 31 December 2016 to 2018, The Company did not have any material acquisition and disposal of subsidiaries and associated company.

Significant investments

As at 31 December 2016, 2017 and 2018, except for the wholly owned investment in subsidiary in TZ Oil Product, the Company did not have any significant investment.

Contingent liabilities

As at 31 December 2016, 2017 and 2018, The Company did not have any material contingent liabilities.

Exchange risk and hedging

As the functional currency and reporting currency are both denominated in HK dollar and the currency risk is minimal, The Company does not have a foreign currency hedging policy and did not use any financial arrangement for hedging. However, the management will consider hedging policy should currency risk arise.

Employee and remuneration policies

As at 31 December 2016 2017 and 2018 and, the Company employed 483, 504 and 536 employees respectively. The total remuneration of employees amounted to approximately HK$72.9 million, HK$92.2 million and HK$93.9 million respectively for the years ended 31 December 2018.

The following discussion is based on the accountants' report of Zhong Hai You Qi for the three years ended 31 December 2016, 2017 and 2018 set out in Appendix II(B) to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF ZHONG HAI YOU QI

Business Overview

Zhong Hai You Qi is a company established in the PRC with limited liability. The principal activity of Zhong Hai You Qi is the production and sales of petroleum and petrochemical products.

Segment Information

Zhong Hai You Qi has determined the operating segments based on the information reported to the Group's most senior executive management, the chief operating decision-maker. The most senior executive management regards Zhong Hai You Qi's business of sales of petroleum and petrochemical products as a single operating segment and assesses the operating performance and allocates the resources of Zhong Hai You Qi as a whole.

Prospect

Since 2017, in pursuant to a sub-contracting arrangement entered into between TZ United East and Zhong Hai You Qi, Zhong Hai You Qi oversaw sales on a group basis and provided key production raw materials (mainly crude oil and fuel oil) and sub-contracted the production processes to TZ United East. Through such joint production arrangement, production effectiveness and efficiency of both parties were enhanced in terms of centralising the processing of resources, reducing logistic costs and consolidating complimentary advantages in the raw materials structure, the manufacturing processes and the common engineering systems employed in production. Therefore, the Board has been considering a proposal regarding a collective restructure of the Group's petrochemical investments located in Tai Zhou for the purpose of achieving a more efficient and effective operation model in the long run. In view of the success of the joint production arrangement, the Group agreed to proceed with the Merger of Zhong Hai You Qi, TZ United East and COBT to crystalise the benefits to jointly operate the Merged Entity as mentioned in the section headed "V. Reasons for and Benefits of Conducting the Merger" of the letter from the Board of this circular.

For the purpose of responding actively towards the economic reforms under the Mixed Ownership Reform, Zhong Hai You Qi, being the Merged Enterprise, after the Merger will be jointly managed and operated by the Group and CNOOC through TZ Dong Thai and

CRCL, which equips the Merged Enterprise with resources of a state-own-enterprise group and the technology and management efficiency of TZ United East, enabling the Merged Enterprise to better adapt to the market competition.

The short term goal of the Merged Enterprise is to become the largest scale oil refinery factory in Jiangsu Province of the PRC in terms of the scale of production facilities and product mix while the long term goal of the Merged Enterprise is to consolidate the following business objectives and optimise the production technology and efficiency by utilising the raw materials and production facilities of Zhong Hai You Qi and TZ United East so as to strengthen the market position of the Merged Enterprise in the PRC and raise its competitiveness and efficiency through technological transformation, equipping new batches of devices, full usage of resources, optimizing the supply of raw materials for existing production facilities and expanding the production capacity of high value-added products.

In the long run and subject to the change of market conditions after the integration of Zhong Hai You Qi, TZ United East and COBT, the Merged Enterprise plans to increase its crude oil processing capacity from 4.5 million tons per year at present to 8 million tons per year and the production capacity of aromatic hydrocarbon and alkene product series shall be further expanded so as to achieve a better product mix. The further increase of production capacity is expected to generate more income streams to the Merged Enterprise.

Revenue

The following table sets forth the sources of revenue, both in absolute amount and as a percentage of revenue:

	Year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Sales of petroleum and petrochemical products	2,978,084	100.0	19,003,632	100.0	21,912,639	100.0

Revenue from sales of petroleum and petrochemical products are recognised when the products are delivered to the customers which is the point in time when customers have the ability to direct the use of the petroleum and petrochemical products and obtain substantially all of the remaining benefits of the petroleum and petrochemical products.

Revenue represents the fair value of amounts received and receivable from the sales of petroleum and petrochemical products.

For the year ended 31 December 2017, revenue increased by 538.1% to approximately HK$19.0 billion (2016: HK$2,978.1 million) mainly due to the increase in sales volume as well as the change in product mix (i.e. more high-value and high-margin products) after the completion of the integration project in 2016 in order to cooperate with TZ United East under the sub-contracting arrangement. The integration project was a renovation project aiming at expanding production capacity and extending products line. The renovation project composing a portfolio of nine principal production devices, a storage and transportation system and the related supporting public engineering system.

For the year ended 31 December 2018, revenue increased by 15.3% to approximately HK$21.9 billion (2017: HK$19.0 billion). Such increase was mainly due to the increase in sales volume as the strong market demand in petroleum and petrochemical products.

The gross profit margin increased from 4.6% in the year ended 31 December 2016 to 6.6% in the year ended 31 December 2017, as Zhong Hai You Qi produced and sold more high-value and high-margin products after completion of the integration project in 2016.

The gross profit margin decreased from 6.6% in the year ended 31 December 2017 to 2.4% in the year ended 31 December 2018. Such decrease was due to (a) the suspension of production of TZ United East led to the adjustment of product mix of Zhong Hai You Qi (i.e. less high-value and high-margin products); and (b) the turbulence on the price of crude oil, being a common market risk of petrochemical industry, during the year ended 31 December 2018.

Other Income

Other income mainly consisted of government grant, interest income from bank deposits and immediate holding company. For the three years ended 31 December 2016, 2017 and 2018, other income amounted to approximately HK$160.4 million, HK$71.4 million and HK$131.3 million respectively.

Government grants mainly represent unconditional grants received from local government to encourage Zhong Hai You Qi's development.

Selling expenses

Selling expenses mainly consisted of transportation expenses, salaries and benefits of employees, and advertising and promotional expenses.

For the year ended 31 December 2017, selling expenses amounted to approximately HK$39.2 million, representing an increase of 198.7% in comparison to that of the year ended 31 December 2016. Such increase was mainly caused by increase of transportation expenses as a result of the decrease in sales volume.

For the year ended 31 December 2018, selling expenses increased by 41.6% to approximately HK$55.4 million in comparison to that of the year ended 31 December 2017. Such increase was mainly caused by increase of transportation expenses as the increase in sales volume.

Administrative expenses

Administrative expenses mainly consisted of the staff salaries and benefits, depreciation expenses and amortization expenses.

For the three years ended 31 December 2016, 2017 and 2018, administrative expenses amounted to approximately HK$127.5 million, HK$65.4 million and HK$128.1 million respectively.

For the year ended 31 December 2017, following the completion of the production processes integration project in 2016 and the one-off of staff salaries cost incurred during the year ended 31 December 2016 was not required which caused the decrease in administrative expense during the year ended 31 December 2017.

For the year ended 31 December 2018, the increase in administrative expenses was mainly caused by the increase in (i) overall staff costs as there were increase in number of staff and (ii) the increase in depreciation expenses and amortization expenses.

Finance costs

Finance costs comprised of interest charges on bank loans, finance lease liabilities, loans from fellow subsidiaries and immediate holding company.

For the year ended 31 December 2017, finance costs increased by 320.1% in comparison to that of the year ended 31 December 2016. Such increase was caused by no finance cost on specific borrowings can be capitalized into property, plant and equipment after the completion of the integration project in September 2016.

For the year ended 31 December 2018, there is no material change on finance costs.

Taxation

Income tax expenses of HK$21.5 million, HK$254.7 million and HK$72.5 million were recorded for the three years ended 31 December 2016, 2017 and 2018.

Income tax expense of Zhong Hai You Qi for the year ended 31 December 2017 was increased by 1,084.6% as compared that of the year ended 31 December 2016. Such increase was caused by the increase in assessable income.

Income tax expense of Zhong Hai You Qi for the year ended 31 December 2018 decreased by 71.5% as compared with that of the year ended 31 December 2017. Such decrease was caused by the decrease in assessable income.

Profit for the year

Taking into account of the aforementioned, Zhong Hai You Qi recorded profit of approximately HK$87.7 million, HK$762.0 million and HK$201.1 million for the three years ended 31 December 2016, 2017 and 2018.

Analysis of financial position

Non-current assets

Non-current assets mainly included property, plant and equipment and land use rights. As at 31 December 2016, 2017 and 2018, non-current assets amounted to approximately HK$7,830 million, HK$7,945.4 million and HK$7,214.1 million respectively. Property, plant and equipment and land use rights mainly represented the production plants and facilities and the land located in Taizhou.

Current assets

Current assets mainly comprised of deposits, prepayments and other receivables, inventories and cash and cash equivalents. As at 31 December 2016, 2017 and 2018, current assets amounted to approximately HK$3,598.3 million, HK$4,279.6 million and HK$5,044.9 million respectively. The increase mainly caused by the increase in inventories to meet the demand of increased in production volume after the completion of the integration project.

Current liabilities

Current liabilities included trade payables, accrued charges, other payables and borrowings. As at 31 December 2016, 2017 and 2018, current liabilities amounted to approximately HK$4,775.1 million, HK$4,388.8 million and HK$5,080.2 million respectively. The increase mainly caused by (i) the increase in advanced deposits recorded in contract liabilities as the increase in the products demand from the customers and (ii) the increase in trade payables as the increase in the purchase of raw material to meet the production demand.

Borrowings — current and non-current portions

The borrowings represented the (i) bank loan, (ii) loan from a fellow subsidiary, (iii) loan from immediate holding company and (iv) finance lease liabilities.

The loan from immediately holding company and finance lease liabilities were fully repaid in 2018.

Liquidity, financial resources and capital structure

For the three years ended 31 December 2016, 2017 and 2018, Zhong Hai You Qi funded its working capital mainly through its operating activities, bank loans, loans from a fellow subsidiary and immediate holding company. Zhong Hai You Qi had cash and cash equivalents denominated in RMB amounting to approximately HK$114.0 million, HK$43.2 million and HK$4.8 million respectively. The current ratio for the respective years ended 31 December 2016, 2017 and 2018, expressed as the ratio of the currents assets over the current liabilities, were 0.75, 0.98 and 0.99 respectively. Total borrowings which consisted bank borrowings, finance lease liabilities, loans from a fellow subsidiary and loans from immediate holding company denominated in RMB, were approximately HK$5,419.8 million, HK$4,889.0 million and HK$4,086.5 million as at years ended 31 December 2016, 2017 and 2018 respectively. The gearing ratio, as a ratio of total borrowings to total assets, was 0.47, 0.40 and 0.33 respectively.

The terms, interest rate structure and the maturity profile of the borrowings are reflected in note 26 to the Historical Financial Information of Zhong Hai You Qi as set out in the Appendix II(B) of this circular.

Funding and treasury policies and objectives

Zhong Hai You Qi generally finances its operations with internally generated resources, bank loans and loans from related companies. Zhong Hai You Qi had no formal treasury policies or objectives.

Capital commitments

As at 31 December 2016 and 2017, Zhong Hai You Qi did not have any capital commitment.

As at 31 December 2018, the capital commitment of Zhong Hai You Qi in respect of property, plant and equipment is amounted to approximately HK$196.7 million.

Charges on assets

For the year ended 31 December 2016 and 2017, the Zhong Hai You Qi and CNOOC International Financial Leasing Limited, a fellow subsidiary owned by Zhong Hai You Qi's ultimate holding company, have entered into certain sale and leaseback agreements for items of property, plant and machinery. The lease periods are for two years. At the end of the lease term, Zhong Hai You Qi has the option to purchase the leased asset at a price that is expected to be sufficiently lower than the fair value of the leased asset at the end of the lease.

As at 31 December 2018, the property, plant and machinery under the sale and leaseback agreements were returned back to Zhong Hai You Qi. There is no charges on assets as at 31 December 2018.

Material acquisitions and disposals of subsidiaries and associated companies

Save as discussed above, for each of the three years ended 31 December 2018, Zhong Hai You Qi did not have any material acquisition and disposal.

Significant investments

As at 31 December 2016, 2017 and 2018, Zhong Hai You Qi did not have any significant investment.

Contingent liabilities

As at 31 December 2016, 2017 and 2018, Zhong Hai You Qi did not have any material contingent liabilities.

Exchange risk and hedging

Exchange risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. Zhong Hai You Qi do not have any significant exposures to the foreign currency risk as Zhong Hai You Qi conducts its business in the PRC and all of its business activities were denominated and settled in RMB. In addition, as at end of each reporting date, all of its financial instruments were denominated in RMB. Zhong Hai You Qi does not have a foreign currency hedging policy and did not use any financial arrangement for hedging. However, the management will consider hedging policy should currency risk arise.

Employee and remuneration policies

As at 31 December 2016, 2017 and 2018, Zhong Hai You Qi employed 732, 744 and 712 employees respectively. The total remuneration of employees amounted to approximately HK$175.5 million, HK$188.8 million and HK$238.2 million respectively for the years ended 31 December 2016, 2017 and 2018 respectively. The employees were remunerated based on their working performance and experience, with consideration to the prevailing market conditions.

The employees of the Zhong Hai You Qi are members of state-managed retirement benefit schemes operated by the PRC government. Zhong Hai You Qi is required to contribute certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of Zhong Hai You Qi with respect to the retirement benefit schemes is to make the specified contributions.

The following discussion is based on the accountants' report of COBT for the three years ended 31 December 2016, 2017 and 2018 set out in Appendix III (C) to this circular.

MANAGEMENT DISCUSSION AND ANALYSIS OF COBT

Business Overview

COBT is a company established in the PRC with limited liability. The principal activity of COBT is the production and sales of bitumen and fuel oil.

Segment Information

COBT has determined the operating segments based on the information reported to the Target Company's most senior executive management, the chief operating decision-maker. The most senior executive management regards COBT's business of sales of petroleum and petrochemical products as a single operating segment and assesses the operating performance and allocates the resources of the COBT as a whole.

Prospect

CRCL, being the controlling shareholder of COBT has been considering a proposal regarding a collective restructure of its petrochemical businesses located in Tai Zhou, including Zhong Hai You Qi and COBT, for the purpose of achieving a more efficient and effective operation model in the long run. With over a year's successful operation under the joint production arrangement between TZ United East and Zhong Hai You Qi, CRCL agreed to proceed with the Merger of Zhong Hai You Qi, TZ United East and COBT in view of the benefits to jointly operate the Merged Entity as mentioned in the section headed "V. Reasons for and Benefits of Conducting the Merger" of the letter from the Board of this Circular.

Revenue

The following table sets forth the sources of revenue, both in absolute amount and as a percentage of revenue:

	Year ended 31 December					
	2016		**2017**		**2018**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Sales of fuel oil and bitumen	2,799,186	100	5,315	100	33,807	100

Revenue from sales of fuel oil and bitumen are recognized when the products are delivered to the customers, which is at the point in time when customers have the ability to direct the use of the fuel oil and bitumen and obtain substantially all of the remaining benefits of the products.

For the year ended 31 December 2017, revenue decreased by 99.8% to approximately HK$5.3 million (2016: HK$2,799.2 million) due to the decision of CNOOC, the ultimate holding company of COBT, to cease the production of petrochemical and related products in Tai Zhou area since the late of 2016. As a result, the production, and hence the sales of the fuel oil and bitumen of COBT ceased in 2017. The revenue represented the sales of remaining inventories.

For the year ended 31 December 2018, revenue increased by 536% to approximately HK$33.8 million (2017: HK$5.3 million). The revenue represented the continued sales of remaining inventories.

Other Income, gains or losses

Other income, gains or losses mainly consisted of government grants, interest from related parties and gain from disposal of non-current assets. For the three years ended 31 December 2016, 2017 and 2018, other income, gains or losses amounted to approximately HK$30.6 million, HK$4.9 million and HK$7.1 million respectively.

Government grants mainly represent unconditional grants received from local government to encourage COBT's development.

Selling expenses

Operating expenses mainly consisted of transportation expenses, salaries and benefits of employees, and advertising and promotional expenses.

For the year ended 31 December 2016, selling expenses mainly consisted of transportation expenses.

For the years ended 31 December 2017 and 2018, there was no selling expenses as there was only internal sales of the fuel oil and bitumen to the CNOOC group.

Administrative expenses

Administrative expenses mainly consisted of staff salaries and benefits, depreciation expenses, and amortization.

For the years ended 31 December 2016, 2017 and 2018, administrative expenses amounted to approximately HK$24.0 million, HK$58.5 million and HK$51.6 million respectively. Such increase in the year ended 31 December 2017 and 2018 was mainly due to increase of salaries and benefits of employees and depreciation expenses.

Taxation

Income tax expenses of approximately HK$1.4 million, HK$0.4 million and nil were recorded for the years ended 31 December 2016, 2017 and 2018. The small amounts of tax expenses in the years ended 31 December 2017 and 2018 were mainly due to no material assessable income in both years.

Profit/loss for the year

Taking into account of the aforementioned, COBT recorded profit of approximately HK$3.7 million for the year ended 31 December 2016, a loss of approximately HK$54.9 million and approximately HK$42.9 million for the two years ended 31 December 2017 and 2018.

Analysis of financial position

Non-current assets

Non-current assets mainly consists of property, plant and equipment and intangible assets. As at 31 December 2016 and 2017 and 2018, non-current assets amounted to approximately HK$174.9 million, HK$170.9 million and HK$138.7 million respectively.

Current assets

Current assets mainly comprised of trade receivables, inventories, deposits, prepayments and other receivables, amount due from immediate holding company, and cash and cash equivalents. As at 31 December 2016 and 2017 and 2018, current assets amounted to approximately HK$250.4 million, HK$136.1 million and HK$107.5 million respectively.

Current liabilities

Current liabilities included trade payables, accrued charges and other payables and taxation payables. As at 31 December 2016 and 2017 and 2018, current liabilities amounted to approximately HK$104.3 million, HK$19.0 million and HK$13.8 million respectively.

Liquidity, financial resources and capital structure

For the three years ended 31 December 2016, 2017 and 2018, COBT funded its working capital mainly through operating activities. COBT had cash and cash equivalents denominated in RMB amounting to approximately HK$0.4 million, nil and nil respectively. The current ratio for the respective years and period, expressed as the ratio of the currents assets over the current liabilities, were 2.4, 7.2 and 7.8 respectively. There was no borrowing for the three years ended 31 December 2016, 2017 and 2018.

Funding and treasury policies and objectives

COBT generally finances its operations with internally generated resources. COBT had no formal treasury policies or objectives.

Capital commitments

As at 31 December 2016, 2017 and 2018, COBT did not have any capital commitment.

Charges on assets

There was no charge on assets as at 31 December 2016, 2017 and 2018.

Material acquisitions and disposals of subsidiaries and associated companies

Save as discussed above, for each of the three years ended 31 December 2018, COBT did not have any material acquisition and disposal.

Significant investments

As at 31 December 2016, 2017 and 2018, COBT did not have any significant investment. COBT has no future plans for material investments or capital assets.

Contingent liabilities

As at 31 December 2016, 2017 and 2018, COBT did not have any material contingent liabilities.

Exchange risk and hedging

As the COBT conducts its business in the PRC and all of its business activities were denominated and settled in RMB and the currency risk is minimal, COBT does not have a foreign currency hedging policy and did not use any financial arrangement for hedging. However, the management will consider hedging policy should currency risk arise.

Employee and remuneration policies

As at 31 December 2016, 2017 and 2018, COBT employed 220, 200 and 174 employees respectively. The total remuneration of employees amounted to approximately HK$42.4 million, HK$42.9 million and HK$43.9 million respectively for the three years ended 31 December 2016, 2017 and 2018. Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. No share option scheme was launched as at 31 December 2016 and 2017 and 2018.

The employees of the COBT are members of state-managed retirement benefit schemes operated by the PRC government. The COBT is required to contribute certain percentage of payroll costs to the retirement benefit schemes to fund the benefits. The only obligation of the COBT with respect to the retirement benefit schemes is to make the specified contributions.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP UPON COMPLETION OF THE MERGER

Introduction

On 28 November 2018, an indirect non-wholly owned subsidiary of the Group, namely Tai Zhou United East Petrochemical Company Limited ("**TZ United East**"), entered into a merger agreement ("**Merger Agreement**") with Zhong Hai You Qi (Taizhou) Petrochemical Company Limited ("**Zhong Hai You Qi**") and China Offshore Bitumen (Taizhou) Co., Ltd. ("**COBT**"), pursuant to which, Zhong Hai You Qi will absorb and merge with TZ United East and COBT (the "**Proposed Merger**"). Prior to the completion of the Proposed Merger, Zhong Hai You Qi is an associate of the Group through its holding of 33% equity interest in Zhong Hai You Qi under Taizhou Dong Thai Petrochemical Company Limited ("**TZ Dong Thai**"), a non-wholly owned subsidiary of the Group whereas Zhong Hai You Qi and COBT are non-wholly owned subsidiaries of CNOOC Refinery Co., Ltd. ("**CRCL**"), a state-owned enterprise.

Upon completion of the Proposed Merger, TZ United East and COBT will be dissolved and deregistered. Zhong Hai You Qi will be the surviving entity (the "**Merged Entity**"). The Group will own 51% of the equity interest in the Merged Entity through TZ Dong Thai.

The management of the Group is in the view that the relevant activities of the Merged Entity require the unanimous consent of the Group and CRCL through shareholder's meeting and board of directors meeting of the Merged Entity, hence the Group's interest in Merged Entity (i.e. Zhong Hai You Qi) is considered as interest in a joint venture after the completion of Proposed Merger. The Proposed Merger is accounted for as disposal of subsidiary, namely TZ United East, settled by joint venture interest in the Merged Entity.

The following is the unaudited pro forma financial information of the Group (collectively referred to as the "**Unaudited Pro Forma Financial Information**"), which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Proposed Merger as if the Proposed Merger had been completed as of 31 December 2018 in the case of the unaudited pro forma consolidated statement of financial position as at 31 December 2018, or 1 January 2018 in the case of the unaudited pro forma consolidated statement of profit or loss for the year ended 31 December 2018 and the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2018, after making the pro forma adjustments that are factually supportable and directly attributable to the Proposed Merger.

The Unaudited Pro Forma Financial Information of the Group after the Proposed Merger has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of: (i) the consolidated statement of financial position as at 31 December 2018 had the Proposed Merger been completed as of 31 December 2018; and (ii) the consolidated statement of profit or loss for the year ended 31 December 2018 and consolidated statement of cash flows for the year ended 31 December 2018 had the Proposed Merger been completed as at 1 January 2018, or at any future dates.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	The Group	Pro forma adjustments				Pro forma total for the Group after the Proposed Merger
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note a)	*(Note b)*	*(Note c)*	*(Note d & e)*	*(Note f)*	
ASSETS						
Non-current assets						
Investment properties	2,522,430					2,522,430
Property, plant and equipment	3,783,615	(3,508,531)				275,084
Land use rights	178,435	(178,435)				—
Goodwill	39,462	(39,462)				—
Interests in associates	1,335,113			(1,247,187)		87,926
Interest in a joint venture	—			3,313,197		3,313,197
Financial assets at fair value through profit or loss	228,810					228,810
Loan receivables	277,515					277,515
	8,365,380					6,704,962
Current assets						
Inventories	93,340	(93,340)				—
Trade receivables	68,058	(62,044)				6,014
Deposit, prepayment and other receivables	343,946	(261,909)				82,037
Amount due from an associate	383,684					383,684
Amount due from a joint venture	—		669,660			669,660
Loan receivables	653,888					653,888
Financial assets at fair value through profit or loss	576,985					576,985
Pledged bank deposits	322,432	(68,493)				253,939
Restricted bank balance	40,056					40,056
Bank balances and cash	497,244	(56,943)			(15,000)	425,301
	2,979,633					3,091,564
TOTAL ASSETS	11,345,013					9,796,526

	The Group	Pro forma adjustments				Pro forma total for the Group after the Proposed Merger
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note a)	(Note b)	(Note c)	(Note d & e)	(Note f)	
EQUITY						
Capital and reserves						
Share capital	3,626,781					3,626,781
Reserves	3,121,978	(1,444,097)		1,741,453	(15,000)	3,404,334
Equity attributable to owners of the Company	6,748,759					7,031,115
Non-controlling interests	854,447			139,482		993,929
TOTAL EQUITY	7,603,206					8,025,044
LIABILITIES						
Non-current liabilities						
Borrowings	1,200,254	(600,939)				599,315
Deferred tax liabilities	253,103	(1,899)				251,204
	1,453,357					850,519
Current liabilities						
Trade and bills payables	11,955	(11,955)				—
Accrued charges, rental deposits and other payables	520,901	(290,644)				230,257
Amount due to group companies	—	(669,660)	669,660			—
Borrowings	1,723,536	(1,210,501)				513,035
Taxation payable	32,058			145,613		177,671
	2,288,450					920,963
TOTAL LIABILITIES	3,741,807					1,771,482
TOTAL EQUITY AND LIABILITIES	11,345,013					9,796,526
Net current assets	691,183					2,170,601
Total assets less current liabilities	9,056,563					8,875,563

Notes:

(a) Figures are extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2018.

(b) Amount represents the deconsolidation of TZ United East which is extracted from the Group's accounting records.

(c) Amount represents the amounts due from the TZ United East payable to the Group which will be assumed by the Merged Entity per agreement. The amount is extracted from the Group's accounting records.

(d) HK$3,313,197,000 represents the Group's 51% interest in the Merged Entity upon the completion of the Proposed Merger which comprise (i) the carrying amount of the Group's interest in Zhong Hai You Qi as interest in an associate amounting to HK$1,247,187,000 as at 31 December 2018 which is being reclassified to interest in a joint venture upon completion of the Proposed Merger; and (ii) HK$2,066,010,000 represents the fair value of the consideration for the additional interest in Zhong Hai You Qi acquired by the Group after the completion of the Proposed Merger which fair value as at 31 December 2018 is HK$2,066,010,000.

The fair value of the consideration for the additional interest in Zhong Hai You Qi acquired by the Group after the completion of the Proposed Merger as at 31 December 2018 is determined by reference to the valuation prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer. For the purpose of Unaudited Pro Forma Consolidated Statement of Financial Position, valuation as at 31 December 2018 of the consideration for the additional interest in Zhong Hai You Qi acquired by the Group after the completion of the Proposed Merger is used in illustrating the effect upon completion of the Proposed Merger as if the Proposed Merger had been completed on 31 December 2018. The Group will reassess the fair value of the consideration for the additional interest in Zhong Hai You Qi acquired by the Group after the completion of the Proposed Merger at the actual completion date of the Proposed Merger and the actual gain or loss resulting from the Proposed Merger could be significantly different from the estimated amounts stated herein.

The fair value of the identifiable assets and liabilities of the Merged Entity may be different from fair value of the Merged Entity on the completion date of the Proposed Merger, and the excess/deficit of the fair value of the Merged Entity fair value of identifiable assets and liabilities of the Merged Entity, if any, will be included in investment in joint venture/ recognised in bargain purchase in profit and loss respectively. In the preparation of the Unaudited Pro Forma Consolidated Statement of Financial Position of the Group after the Proposed Merger, the management of the Group had assessed the investment in the joint venture for indicators of impairment and concluded that no impairment on the investment in joint venture is necessary as there is no objective evidence that the investment in joint venture is impaired. The management of the Group will adopt consistent accounting policies to assess the interest in the joint venture for impairment in subsequent reporting periods in accordance with the requirements of HKAS 36.

(e) Amount of HK$1,741,453,000 comprises of (i) the post tax amount of remeasurement gain attributable to the owners of the Company of HK$297,356,000 and (ii) the carrying value of net asset value of TZ United East acquired by Zhong Hai You Qi upon the Completion of the Proposed Merger of HK$1,444,097,000.

Estimated remeasurement gain

Amount represents the estimated remeasurement gain of HK$582,451,000 (post-tax amount of HK$436,838,000) from the Proposed Merger assuming the Proposed Merger completed on 31 December 2018.

According to Hong Kong Financial Reporting Standard 10 ("HKFRS 10"), upon loss of control of TZ United East, the Group as a parent derecognises the assets and liabilities of TZ United East (including any non-controlling interests) in full and measures any investment retained in TZ United East at its fair value. A remeasurement gain or loss that forms part of the total gain or loss on the disposal of TZ United East is recognised in profit or loss. The remeasurement gain represents the fair value of the additional interest in Zhong Hai You Qi acquired by the Group after the Proposed Merger as at 31 December 2018 less the carrying values of net assets and non-controlling interest of TZ United East as at 31 December 2018.

The Group selected to early adopt Amendments to HKFRS 10 and HKAS 28 "Sale or Contributing of Assets between an Investor and its Associate or Joint Venture" ("HKFRS 10 September 2014 Amendments"). The determination of the remeasurement gain on the unaudited pro forma consolidated statement of financial position as at 31 December 2018 is as follows:

	HK$'000
Fair value of additional interest of Zhong Hai You Qi acquired by the Group after the Proposed Merger *(Note 1)*	2,066,010
Less: Carrying amounts of assets and liabilities of TZ United East and goodwill of TZ United East as at 31 December 2018 *(Note 2)*	(1,483,559)
Gain from the Proposed Merger	582,451
Less: Tax charge *(Note 3)*	(145,613)
Post-tax gain from the Proposed Merger	436,838
Post-tax gain from the Proposed Merger attributable to:	
— Owners of the Company	297,356
— Non-controlling interests	139,482
	436,838

Notes:

1. Amount represents the fair value of 51% of TZ United East, 51% of COBT and additional 18% of Zhong Hai You Qi acquired by the Group immediately prior to the Proposed Merger. The fair value of TZ United East, Zhong Hai You Qi and COBT as at 31 December 2018 are extracted from the valuation prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent valuer. As at 31 December 2018, the aggregated fair value of 51% of TZ United East, 51% of COBT and additional 18% of Zhong Hai You Qi is HK$2,066,010,000.

   For the purpose of Unaudited Pro Forma Consolidated Statement of Financial Position, valuation as at 31 December 2018 of TZ United East, Zhong Hai You Qi and COBT used in illustrating the effect upon completion of the Proposed Merger if the Proposed Merger had been completed on 31 December 2018. The Group will reassess the fair value of TZ United East, Zhong Hai You Qi and COBT at the actual completion date of the Proposed Merger and the actual gain or loss resulting from the Proposed Merger could be significantly different from the estimated amounts stated herein. In the preparation of the Unaudited Pro Forma Consolidated Statement of Financial Position of the Group after the Proposed Merger, the management of the Group had assessed the investment in the joint venture for indicators of impairment and concluded that no impairment on the investment in joint venture is necessary as there is no objective evidence that the investment in joint venture is impaired. The management of the Group will adopt consistent accounting policies to assess the interest in the joint venture for impairment in subsequent reporting periods in accordance with the requirements of HKAS 36.

2. Amounts are extracted from the Group's accounting records.

3. The estimated remeasurement gain is subject to enterprise income tax of the People's Republic of China (the "PRC") at 25% over the gain.

(f) Estimated legal and professional fees and other direct expenses in relation to the Proposed Merger of approximately HK$15 million.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	The Group	Pro forma adjustments				Pro forma total for the Group after the Proposed Merger
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note g)	*(Note h)*	*(Note i)*	*(Note j)*	*(Note k)*	
Continuing operations						
Rental income	105,624					105,624
Sales of petrochemical products	20,178	(20,178)				—
Sub-contracting income	385,944	(385,944)				—
	511,746					105,624
Cost of sales and services	(377,403)	371,453				(5,950)
	134,343					99,674
Dividend income from listed and unlisted securities	103					103
Other income, gains and losses	78,761	(5,237)				73,524
Change in fair value of financial assets at fair value through profit or loss	122,429	(1,058)				121,371
Administrative expenses	(330,955)	179,059				(151,896)
Other expenses	(164,948)	164,948			(15,000)	(15,000)
Change in fair value of investment properties	62,477					62,477
Gain on disposal of a subsidiary	2,167					2,167
Finance costs	(113,333)	97,681				(15,652)
Share of results of associates	60,203	(66,365)				(6,162)
Share of result of a joint venture	—		(123,692)			(123,692)
Gain from the Proposed Merger	—			387,221		387,221
(Loss) profit before taxation	(148,753)					434,135
Taxation	(17,414)			(96,805)		(114,219)
(Loss) profit for the year	(166,167)					319,916
(Loss) profit attributable to:						
— Owners of the Company	(49,375)	227,598	(84,197)	197,686	(15,000)	276,712
— Non-controlling interests	(116,792)	106,761	(39,495)	92,730		43,204
	(166,167)					319,916

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	The Group	Pro forma adjustments					Pro forma total for the Group after the Proposed Merger
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note g)	*(Note h)*	*(Note i)*	*(Note j)*	*(Note k)*	*(Note l)*	
OPERATING ACTIVITIES							
(Loss) profit before taxation from continuing operations	(148,753)	334,359	(123,692)	387,221	(15,000)		434,135
Adjustments for:							
Share of results of associates	(60,203)	66,365					6,162
Share of results of a joint venture	—		123,692				123,692
Gain from the Proposed Merger	—			(387,221)			(387,221)
Depreciation of property, plant and equipment	240,232	(226,794)					13,438
Legal and professional and other direct expense in relation to the Proposed Merger	—				15,000		15,000
Amortisation of land use rights	4,243	(4,243)					—
Finance costs	113,333	(97,681)					15,652
Dividend income from listed and unlisted securities	(103)						(103)
Interest income	(54,531)	1,706					(52,825)
Gain on disposal of a subsidiary	(2,167)						(2,167)
Net loss on disposal of property, plant and equipment	47	(15)					32
Change in fair value of investment properties	(62,477)						(62,477)
Gain on fair value change of financial assets at fair value through profit or loss	(122,429)	1,058					(121,371)
Net reversal of impairment loss of amount due from an associate and loan receivables	(18,476)						(18,476)

	The Group	Pro forma adjustments					Pro forma total for the Group after the Proposed Merger
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note g)	*(Note h)*	*(Note i)*	*(Note j)*	*(Note k)*	*(Note l)*	
Operating cash flows before movements in working capital	(111,284)						(36,529)
Decrease in inventories	4,057	(4,057)					—
Decrease in financial assets at fair value through profit or loss	121,703						121,703
Increase in trade receivables	(1,161)	6,158					4,997
Decrease in deposits, prepayments and other receivables	15,778						15,778
Increase (decrease) in trade payables	4,456	(8,846)					(4,390)
Increase in accrued charges, rental deposits and other payables	137,453	(7,141)					130,312
Cash generated from operations	171,002						231,871
Dividend received	103						103
Interest paid	(111,909)	92,057					(19,852)
Tax paid	(5,844)						(5,844)
NET CASH FROM OPERATING ACTIVITIES	53,352						206,278

	The Group	Pro forma adjustments					Pro forma total for the Group after the Proposed Merger
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note g)	*(Note h)*	*(Note i)*	*(Note j)*	*(Note k)*	*(Note l)*	
INVESTING ACTIVITIES							
Purchase of property, plant and equipment	(199,208)	198,035					(1,173)
Settlement of construction costs payables	(128,898)						(128,898)
Interest received	12,696	(1,706)					10,990
Net cash from disposal of subsidiaries	5,000						5,000
Repayment from an associate	191,617						191,617
Advance of loan receivables	(837,381)						(837,381)
Receipt of loan receivables	119,749						119,749
Deposit paid for acquisition of an equity investment	(39,970)						(39,970)
Proceeds on disposal of financial assets at fair value through profit or loss	1,421,737	(1,058)					1,420,679
Tax paid for disposal of a financial assets at fair value through profit or loss	(42,092)						(42,092)
Proceeds on disposal of property, plant and equipment	127						127
Capital injection to an associate	(16,742)					16,742	—
Capital injection to a joint venture	—					(16,742)	(16,742)
Deposit to restricted bank balance	(40,056)						(40,056)
Deposit to pledged bank deposits	(322,473)	67,690					(254,783)
Withdrawal of pledged bank deposits	844						844
Settlement of legal and professional and other direct expense in relation to the Proposed Merger	—				(15,000)		(15,000)
Advance to TZ United East	—	(35,342)					(35,342)
Net cash outflow arising from the Proposed Merger	—	(227,742)					(227,742)
NET CASH FROM INVESTING ACTIVITIES	124,950						109,827

	The Group	Pro forma adjustments					Pro forma total for the Group after the Proposed Merger
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note g)	*(Note h)*	*(Note i)*	*(Note j)*	*(Note k)*	*(Note l)*	
FINANCING ACTIVITIES							
Other loans raised	981,735	(981,735)					—
Repayment of other loans	(662,100)	662,100					—
Bank loans raised	1,042,922	(692,922)					350,000
Repayment of bank loans	(917,892)	797,250					(120,642)
Settlement of proceeds received on behalf of an entity controlled by a director of the Company	(414,147)						(414,147)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	30,518						(184,789)
NET INCREASE CASH AND CASH EQUIVALENTS	208,820						131,316
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	301,850						301,850
Effect of foreign currency rate changes	(13,426)	5,561					(7,865)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	497,244						425,301

Notes:

(g) Figures are extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2018.

(h) Amount represents the deconsolidation of TZ United East and derecognition of share of result of Zhong Hai You Qi as an associate of the Group, of which amounts are extracted from the Group's accounting records.

(i) Amount represents the share of result of the Merged Entity as a joint venture of the Group for the year ended 31 December 2018 as if the Proposed Merger was completed as at 1 January 2018. The amount presented is 51% of the aggregate of the profit attributable to owners of TZ United East, Zhong Hai You Qi and COBT for the year ended 31 December 2018, which are extracted from the respective accounting records.

(j) Amounts represent the estimated remeasurement gain of HK$387,221,000 from the Proposed Merger assuming Proposed Merger completed on 1 January 2018.

According to HKFRS 10, upon loss of control of TZ United East, the Group as a parent derecognises the assets and liabilities of TZ United East (including any non-controlling interests) in full and measures any investment retained in TZ United East at its fair value. A remeasurement gain or loss that forms part of the total gain or loss on the disposal of TZ United East is recognised in profit or loss. The remeasurement gain represents the fair value of the additional interest in Zhong Hai You Qi acquired by the Group after the Proposed Merger as at 1 January 2018 less the carrying values of net assets and non-controlling interest of TZ United East as at 1 January 2018 after the adjustment of capitalisation of certain of amounts due from TZ United East to the Group and non-controlling interest of TZ United East as part of the Proposed Merger.

The Group selected to early adopt HKFRS 10 September 2014 Amendments "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture". The determination of the remeasurement gain on the unaudited pro forma consolidated statement of profit or loss for year ended 31 December 2018 is as follows:

	HK$'000
Fair value of additional interest of Zhong Hai You Qi acquired by the Group after the Proposed Merger *(Note 4)*	2,149,611
Less: Carrying amounts of goodwill, assets and liabilities of TZ United East less non-controlling interests of TZ United East as at 1 January 2018 *(Note 5)*	(280,840)
Less: Adjusted for capitalisation of amount due from TZ United East during the year ended 31 December 2018 *(Note 6)*	(1,481,550)
Gain from the Proposed Merger	387,221
Less: Tax charge *(Note 7)*	(96,805)
Post-tax gain from the Proposed Merger	290,416
Post-tax gain from the Proposed Merger attributable to:	
— Owners of the Company	197,686
— Non-controlling interests	92,730
	290,416

Notes:

4. Amount represents the fair value of 51% of TZ United East, 51% of COBT and additional 18% of Zhong Hai You Qi acquired by the Group immediately prior to the Proposed Merger. The fair value of TZ United East, Zhong Hai You Qi and COBT as at 1 January 2018 are extracted from the valuation prepared by Jones Lang La Salle Corporate Appraisal and Advisory Limited. As at 1 January 2018, the aggregated fair value of 51% of TZ United East, 51% of COBT and additional 18% of Zhong Hai You Qi is HK$2,149,611,000.

   For the purpose of Unaudited Pro Forma Consolidated Statement of Profit or Loss, valuation as at 1 January 2018 of TZ United East, Zhong Hai You Qi and COBT, is used in illustrating the effect upon completion of the Proposed Merger had been completed on 1 January 2018. The Group will reassess the fair value of TZ United East, Zhong Hai You Qi and COBT at the actual completion date of the Proposed Merger and the actual gain or loss resulting from the Proposed Merger could be significantly different from the estimated amounts stated herein. In the preparation of the Unaudited Pro Forma Consolidated Statement of Profit or Loss of the Group after the Proposed Merger, the management of the Group had assessed the investment in the joint venture for indicators of impairment and concluded that no impairment on the investment in joint venture is necessary as there is no objective evidence that the investment in joint venture is impaired. The management of the Group will adopt consistent accounting policies to assess the interest in the joint venture for impairment in subsequent reporting periods in accordance with the requirements of HKAS 36.

5. The amount is extracted from the Group's accounting record.

6. The capitalisation of amount due from TZ United East of HK$1,481,550,000 during the year ended 31 December 2018, which is for the purpose to strengthen the capital base of TZ United East before the completion of the Proposed Merger. The amount is extracted from the Group's accounting record.

7. The estimated remeasurement gain is subject to enterprise income tax of the PRC at 25% over the gain.

(k) Estimated legal and professional fees and other direct expenses in relation to the Proposed Merger of approximately HK$15 million.

(l) The management of the Group is in the view that the relevant activities of the Merged Entity require the unanimous consent of the Group and CNOOC Refinery Co., Ltd. through shareholder's meeting and board of directors meeting of the Merged Entity, hence the Group's interest in Zhong Hai You Qi is considered as interest in a joint venture after the completion of Proposed Merger.

(m) The above pro forma adjustments are not expected to have a continuing effect on the unaudited pro forma consolidated statement of profit or loss and unaudited pro forma consolidated statement of cash flows.

(n) No adjustments has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2018.

(o) The unaudited pro forma consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of cash flows contained in the Circular do not constitute the Company's statutory annual consolidated financial statements for the year ended 31 December 2018 but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

    The Company will deliver the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

    The Company's auditor has reported on these financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis; and did not contain a statement under either sections 406(2), 407(2) or (3) of the Companies Ordinance.

The following is the text of the independent reporting accountant's assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

Deloitte. 德勤

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF SILVER GRANT INTERNATIONAL INDUSTRIES LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Silver Grant International Industries Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2018, the unaudited pro forma consolidated statement of profit or loss for the year ended 31 December 2018, the unaudited pro forma consolidated statement of cash flows for the year ended 31 December 2018 and related notes as set out on pages 197 to 208 of the circular issued by the Company dated 23 April 2019 (the "Circular") in connection with the merger of Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited, Tai Zhou United East Petrochemical Company Limited and China Offshore Bituman (Taizhou) Co., Ltd, (the "Proposed Merger"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages 197 to 208 of the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Proposed Merger on the Group's financial position as at 31 December 2018 and the Group's financial performance and cash flows for the year ended 31 December 2018 as if the Proposed Merger had taken place at 31 December 2018 and 1 January 2018 respectively. As part of this process, information about the Group's financial position, financial performance and cash flows have been extracted by the Directors from the Group's financial statements for the year ended 31 December 2018, on which an auditor's report has been issued.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" above ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2018 or 1 January 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 April 2019

Our reference number: CON000445755
23 April 2019

The Board of Directors
SILVER GRANT INTERNATIONAL INDUSTRIES LIMITED
Suite 4901, 49th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Dear Sirs,

In accordance with the instructions received from Silver Grant International Industries Limited (the "Company"), we have undertaken a valuation exercise which requires Jones Lang LaSalle Corporate Appraisal and Advisory Limited to express an independent opinion on the market value of 100 per cent equity interest in 泰州東聯化工有限公司 ("TZ United East"), 中海油氣(泰州)石化有限公司 ("Zhong Hai You Qi") and 中海瀝青(泰州)有限責任公司 ("COBT") as at 31 December 2018 (the "Valuation Date").

The purpose of this valuation is for public disclosure reference.

Our valuation was carried out on a market value basis. Market value is defined as "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 and where the parties had each acted knowledgeably, prudently and without compulsion".

INTRODUCTION

TZ United East

TZ United East is principally engaged in the production and trading of petrochemical products and provision of subcontracting service. As at the Valuation Date, it is wholly owned by 泰州東泰石化有限公司("TZ Dong Thai"), a company that is principally engaged in investment holding and investment.

Zhong Hai You Qi

Zhong Hai You Qi is principally engaged in the production and trading of petroleum and petrochemical products. As at the Valuation Date, it is owned as to 33% and 67% by TZ Dong Thai and 中海石油煉化有限責任公司 ("CRCL") respectively. CRCL is a company established in the PRC with limited liability, which is principally engaged in (i) the wholesale and storage business of gasoline, kerosene and diesel; (ii) the storage business of crude oil; (iii) the production, sales and warehousing of petrochemical products; and (iv) the petroleum refining and petrochemical technology development and technology transfer respectively.

COBT

COBT is principally engaged in (i) the production and sales of products such as naphtha, heavy duty bitumen, modified bitumen, solvent oil, fuel oil and lubricant oil materials; (ii) the leasing of selfowned transportation facilities, terminals and other port facilities services such as cargo handling and warehousing services; and (iii) consultation on bitumen production technology and technological research and development services. As at the Valuation Date, it is owned as to 51%, 39%, 5% and 5% by CRCL, 泰州石油化工有限責任公司 ("Taizhou Petrochemical"), 蘇州工業園區瑞新公路物資有限公司 ("Suzhou Ruixin") and 杭州奕陽投資合夥企業（有限合夥）("Hangzhou Yiyang"), respectively.

Preliminary Assessment

At the request by the Company, prior to receiving the accountant reports on TZ United East, Zhong Hai You Qi and COBT as at 31 December 2018, we have prepared a preliminary assessment using the market approach with certain market multiples based on the latest available financial information of TZ United East, Zhong Hai You Qi and COBT. The Company did not intend to obtain from us and we did not intend to provide a formal valuation opinion in this preliminary assessment. Details about the market multiples are disclosed in the paragraph under the heading "MARKET MULTIPLES" below. The market multiples were then adjusted by an estimated range of discount for lack of marketability from 9.46% to 17.35%. Further information about discount for lack of marketability can be found in the paragraph under the heading "ADDITIONAL CONSIDERATION". The preliminary valuation of Zhong Hai You Qi, TZ United East and COBT were calculated to be in the ranges of RMB4,441 million (equivalent to approximately HK$5,018 million) to RMB4,749 million (equivalent to approximately HK$5,366 million), RMB1,679 million (equivalent to approximately HK$1,897 million) to RMB1,803 million (equivalent to approximately HK$2,037 million), and RMB224 million (equivalent to approximately HK$253 million) to RMB241 million (equivalent to approximately HK$272 million) respectively.

BASIS OF OPINION

We have conducted our valuation with reference to the International Valuation Standards issued by the International Valuation Standards Council. The valuation procedures employed include a review of legal status and economic conditions of TZ United East, Zhong Hai You Qi and COBT and an assessment of key assumptions, estimates, and representations made by the proprietor. All matters essential to the proper understanding of the valuation are disclosed in this report.

The following factors form an integral part of our basis of opinion:

- The economic outlook in general;
- The nature of business and history of the operation concerned;
- The financial condition of TZ United East, Zhong Hai You Qi and COBT;
- Market-driven investment returns of companies engaged in similar lines of business;
- Financial and business risk of the business including continuity of income and the projected future results;
- Consideration and analysis on the micro and macro economy affecting the subject business; and
- Assessment of the liquidity of the subject business.

We planned and performed our valuation so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence to express our opinions on TZ United East, Zhong Hai You Qi and COBT.

VALUATION METHODOLOGY

Given the unique characteristics of the business, there are substantial limitations for the income approach and the cost approach for valuing the underlying business. Firstly, the income approach requires subjective assumptions to which the valuation is highly sensitive. Detailed operational information and long-term financial projections are also needed to arrive at an indication of value but such information is not available as at the Valuation Date. Secondly, the cost approach does not directly incorporate information about the economic benefits contributed by the subject business.

In view of the above, we have adopted the market approach for the valuation. The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparable. Assets for which there is an established secondary market may be valued by this approach. Benefits of using this approach include its simplicity, clarity, speed and the need for few or no assumptions. It also introduces objectivity in application as publicly available inputs are used.

In this valuation exercise, the market value of the 100% equity interest of TZ United East, Zhong Hai You Qi and COBT were developed through the application of the market approach technique known as the guideline public company method. This method requires the research of comparable companies' benchmark multiples and proper selection of a suitable multiple to derive the market values of TZ United East, Zhong Hai You Qi and COBT.

In order to reflect TZ United East's latest financial performance, it is considered that the suitable multiple in this valuation is the current price-to-book ratio (the "P/B Ratio"), which is defined as the current market price to book value of equity of TZ United East as at the latest available date of financial statements. As TZ United East has a negative profit, the profit ratios cannot be applied. On the other hand, as it is a capital intensive business such that future earning capabilities of TZ United East can be reflected from its existing assets, the P/B Ratio can be adopted.

In order to reflect Zhong Hai You Qi's latest financial performance, it is considered that the suitable multiple in this valuation is the current enterprise value to EBITDA ratio (the "EV/EBITDA" ratio), which is defined as the enterprise value to the normalized earnings before interest, tax, depreciation and amortization of Zhong Hai You Qi for the year ending 31 December 2018. EV/EBITDA is a capital structure neutral multiple since it is before interest, tax, depreciation and amortization. EV/EBITDA is commonly used for capital intensive businesses. It allows us to compare Zhong Hai You Qi against the comparable companies without considering how each comparable companies finance its operations.

In order to reflect COBT's latest financial performance, it is considered that the suitable multiple in this valuation is the current price-to-book ratio (the "P/B Ratio"), which is defined as the current market price to book value of equity of COBT as at the latest available date of financial statements. For reasons same as TZ United East, the P/B Ratio is adopted.

VALUATION ASSUMPTIONS

In determining the market value of the equity interest in TZ United East, Zhong Hai You Qi and COBT, we make the following key assumptions

- Following our discussion with the management of the Company, the book value of equity of TZ United East as at the Valuation Date is estimated at about HK$1,444,097,000;

- Following our discussion with the management of the Company, a period of twelve months ended 31 December 2018 is adopted as the fiscal year (the "Fiscal Year") of Zhong Hai You Qi. The normalized EBITDA of Zhong Hai You Qi for the Fiscal Year is estimated at about HK$1,147,030,000;

- Following our discussion with the management of the Company, the book value of equity of COBT as at the Valuation Date is estimated at about HK$232,482,000;

- We have assumed that the projected business can be achieved with the effort of the management of TZ United East, Zhong Hai You Qi and COBT;

- In order to realize the growth potential of the business and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For this valuation exercise, we have assumed that the facilities and systems proposed are sufficient for future expansion;

- We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of TZ United East, Zhong Hai You Qi and COBT;

- We have assumed that the operational and contractual terms stipulated in the relevant contracts and agreements will be honored;

- We have assumed the accuracy of the financial and operational information provided to us by the Company and relied to a considerable extent on such information in arriving at our opinion of value; and

- We have assumed that there are no hidden or unexpected conditions associated with the asset valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

MARKET MULTIPLE

In determining the price multiple, a list of comparable companies was identified. The selection criteria include the followings:

1. The companies derive most, if not all, of their revenues from the same industry of TZ United East, Zhong Hai You Qi and COBT, i.e., petroleum and petrochemical products;

2. The comparable companies are searchable in Bloomberg;

3. The comparable companies are publicly listed in the Hong Kong Stock Exchange or the stock exchanges of Shanghai and Shenzhen; and

4. Sufficient data, including the P/B Ratios, EV/EBITDA Ratios as at the Valuation Date, on the companies are available.

As sourced from Bloomberg, the details of the comparable companies satisfying the above criteria are listed below:

Comparable Companies from the PRC:

			As at 31 October 2018*		As at 31 December 2018	
Stock Code	**Company Name**	**Company Description**	**P/B Ratio**	**EV/ EVITDA Ratio**	**P/B Ratio**	**EV/ EVITDA Ratio**
600688.CH	Sinopec Shanghai Petrochemical Co Ltd	Sinopec Shanghai Petrochemical Co., Ltd. processes crude oil into a broad range of synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products.	1.92	4.14	1.82	3.86

Stock Code	Company Name	Company Description	As at 31 October 2018* P/B Ratio	As at 31 October 2018* EV/EVITDA Ratio	As at 31 December 2018 P/B Ratio	As at 31 December 2018 EV/EVITDA Ratio
000637.CH	Maoming Petro-Chemical Shihua Co Ltd	Maoming Petro-chemical Shihua Co., Ltd. operates in the petroleum refinery industry. The Company's products include polypropylene, liquefied petroleum gas, solvent-refined oil, salt chemical, and other petrochemical products.	2.18	12.19	2.29	12.37
002778.CH	Jiangsu Gaoke Petrochemical Co Ltd	Jiangsu Gaoke Petrochemcial Co., Ltd. develops, produces and sells industrial lubricants. The Company's main products are transformer oil, engine oil, hydraulic oil, gear oil, solvent oil, and metal processing oil.	2.09	26.37	2.46	30.47
000059.CH	North Huajin Chemical Industries Co Ltd	North Huajin Chemical Industries Co., Ltd. manufactures and markets fertilizers, including urea, liquid ammonia, and compound fertilizers. The Company, through its subsidiaries, also manufactures petrochemical products and operates restaurants.	0.74	4.48	0.72	4.40
Median			2.01	8.33	2.06	8.38

Comparable Companies from Hong Kong:

Stock Code	Company Name	Company Description	As at 31 October 2018* P/B Ratio	As at 31 October 2018* EV/EVITDA Ratio	As at 31 December 2018 P/B Ratio	As at 31 December 2018 EV/EVITDA Ratio
171.HK	Silver Grant International Industries Ltd	Silver Grant International Industries Ltd. Produce and trade petrochemical products. The Company also invests in real estate properties and provides property management.	0.55	11.99	0.49	15.19
408.HK	Yip's Chemical Holdings Ltd	Yip's Chemical Holdings Limited, through its subsidiaries, manufacture and trades high molecular chemical products and mixed solvents, paints, raw solvents, lubricants, and inks. The Company also sub-leases storage of solvents in bulk.	0.45	5.29	0.44	5.35
Median			0.50	8.64	0.47	10.27

* used for the preliminary assessment only.

ADDITIONAL CONSIDERATION

Discount for Lack of Marketability ("DLOM")

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

With reference to the relevant database sourced from Bloomberg, we have applied the European put option to estimate the discount. DLOM at 8.75% is applied to the value calculated from the Comparable Companies from the PRC and DLOM at 9.22% is applied to the value calculated from the Comparable Companies from Hong Kong, in estimating the market value of the equity interest in TZ United East, Zhong Hai You Qi and COBT as at the Valuation Date. As the calculated DLOMs are different for the Comparable Companies listed in the PRC and Hong Kong, the application of the market multiples is performed in two groups.

CALCULATION OF VALUATION RESULT

Under the guideline public company method, the market value depends on the market multiples of the comparable companies derived from Bloomberg as at the Valuation Date. We have also taken into account the DLOM.

The calculation of the market value of 100 per cent equity interest in TZ United East as at the Valuation Date is as follows:

As at 31 December 2018	**Using Comparable Companies listed in China**	**Using Comparable Companies listed in Hong Kong**
P/B ratio for Comparable Companies	2.06	0.47
Book value of equity of TZ United East for the Fiscal Year (HK$'000)	1,444,097	1,444,097
Equity Value of TZ United East as at the Valuation Date (HK$'000)	2,967,691	674,032
DLOM	8.75%	9.22%
Equity Value of TZ United East after DLOM (HK$'000)	2,708,061	611,870
The market value of 100% equity interest in TZ United East (HK$'000)		1,659,965

The calculation of the market value of 100 per cent equity interest in Zhong Hai You Qi as at the Valuation Date is as follows:

As at 31 December 2018	**Using Comparable Companies listed in China**	**Using Comparable Companies listed in Hong Kong**
EV/EBITDA ratio for Comparable Companies	8.38	10.27
EBITDA of Zhong Hai You Qi for the Fiscal Year (HK$'000)	1,147,030	1,147,030
Enterprise Value of Zhong Hai You Qi As at the Valuation Date	9,616,241	11,777,532
Add: Cash of Zhong Hai You Qi as at the Valuation Date (HK$'000)	4,792	4,792
Less: Debt of Zhong Hai You Qi as at the Valuation Date (HK$'000)	4,086,472	4,086,472
Equity Value of Zhong Hai You Qi as at the Valuation Date (HK$'000)	5,534,561	7,695,852
DLOM	8.75%	9.22%
Equity Value of Zhong Hai You Qi after DLOM	5,050,367	6,986,104
The market value of 100% equity interest in Zhong Hai You Qi (HK$'000)		6,018,236

The calculation of the market value of 100 per cent equity interest in COBT as at the Valuation Date is as follows:

As at 31 December 2018	**Using Comparable Companies listed in China**	**Using Comparable Companies listed in Hong Kong**
P/B ratio for Comparable Companies	2.06	0.47
Book value of equity of COBT for the Fiscal Year (HK$'000)	232,482	232,482
Equity Value of COBT as at the Valuation Date (HK$'000)	477,762	108,511
DLOM	8.75%	9.22%
Equity Value of COBT after DLOM	435,965	98,504
The market value of 100% equity interest in COBT (HK$'000)		267,234

VALUATION COMMENT

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and other relevant factors are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of TZ United East, Zhong Hai You Qi, COBT, the Company and Jones Lang LaSalle Corporate Appraisal and Advisory Limited.

We do not intend to express any opinion on matters which require legal or other specialized expertise or knowledge, beyond what is customarily employed by valuers. Our conclusions assume continuation of prudent management of TZ United East, Zhong Hai You Qi and COBT over whatever period of time that is reasonable and necessary to maintain the character and integrity of the assets valued.

This report is issued subject to our Limiting Conditions as attached.

OPINION OF VALUE

Based on the results of our investigations and analyses, we are of the opinion that:

The market value of 100% equity interest in TZ United East as at the Valuation Date is reasonably stated at the amount of **HK$1,660,000,000 (HONG KONG DOLLAR ONE THOUSAND SIX HUNDRED AND SIXTY MILLION)**.

The market value of 100% equity interest in Zhong Hai You Qi as at the Valuation Date is reasonably stated at the amount of **HK$6,018,000,000 (HONG KONG DOLLAR SIX THOUSAND AND EIGHTEEN MILLION)**.

The market value of 100% equity interest in COBT as at the Valuation Date is reasonably stated at the amount of **HK$267,000,000 (HONG KONG DOLLAR TWO HUNDRED AND SIXTY SEVEN MILLION)**.

Yours faithfully,
For and on behalf of
Jones Lang LaSalle
Corporate Appraisal and Advisory Limited
Simon M.K. Chan
Executive Director

Note 1: Simon M.K. Chan is a Chartered Valuer and Appraiser, and a fellow member of Hong Kong Institute of Certified Public Accountants (HKICPA), CPA Australia as well as the Royal Institution of Chartered Surveyors (RICS). Simon has extensive experience in valuation and corporate advisory business, providing a wide range of valuation and advisory services to numerous listed and private companies in different industries, including textile-related companies, in Asia Pacific region for over 20 years.

Note 2: As requested by the Company, we have calculated the aggregate value of 51% TZ United East, additional 18% Zhong Hai You Qi and 51% COBT. The aggregate value as at the Valuation Date amounts to HK$2,066,010,000.

LIMITING CONDITIONS

1. In the preparation of our reports, we relied on the accuracy, completeness and reasonableness of the financial information, forecast, assumptions and other data provided to us by the Company/engagement parties and/or its representatives. We did not carry out any work in the nature of an audit and neither are we required to express an audit or viability opinion. We take no responsibility for the accuracy of such information. Our reports were used as part of the Company's/engagement parties' analysis in reaching their conclusion of value and due to the above reasons, the ultimate responsibility of the derived value of the subject property rests solely with the Company/engagement parties.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial information and forecast give a true and fair view and have been prepared in accordance with the relevant standards and companies ordinance.

3. Public information and industry and statistical information have been obtained from sources we deem to be reputable; however we make no representation as to the accuracy or completeness of such information, and have accepted the information without any verification.

4. The management and the board of the Company/engagement parties have reviewed and agreed on the report and confirmed that the basis, assumptions, calculations and results are appropriate and reasonable.

5. Jones Lang LaSalle Corporate Appraisal and Advisory Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this exercise, with reference to the project described herein. Should there be any kind of subsequent services required, the corresponding expenses and time costs will be reimbursed from you. Such kind of additional work may incur without prior notification to you.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise, which is out of valuers' capacity.

7. The use of and/or the validity of the report is subject to the terms of engagement letter/proposal and the full settlement of the fees and all the expenses.

8. Our conclusions assume continuation of prudent and effective management policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

9. We assume that there are no hidden or unexpected conditions associated with the subject matter under review that might adversely affect the reported review result. Further, we assume no responsibility for changes in market conditions, government policy or other conditions after the Valuation/Reference Date. We cannot provide assurance on the achievability of the results forecasted by the Company/engagement parties because events and circumstances frequently do not occur as expected; difference between actual and expected results may be material; and achievement of the forecasted results is dependent on actions, plans and assumptions of management.

10. This report has been prepared solely for the purpose as stated in the engagement letter. The report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any their party without our prior written consent. We shall not under any circumstances whatsoever be liable to any third party.

11. This report is confidential to the client and the calculation of values expressed herein is valid only for the purpose stated in the engagement letter/or proposal as of the Valuation/Reference Date. In accordance with our standard practice, we must state that this report and exercise is for the use only by the party to whom it is addressed to and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

12. Where a distinct and definite representation has been made to us by party/parties interested in the assets valued, we are entitled to rely on that representation without further investigation into the veracity of the representation.

13. You agree to indemnify and hold us and our personnel harmless against and from any and all losses, claims, actions, damages, expenses or liabilities, including reasonable attorney's fees, to which we may become subjects in connection with this engagement. Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the fee paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

14. We are not environmental, structural or engineering consultants or auditors, and we take no responsibility for any related actual or potential liabilities exist, and the effect on the value of the asset is encouraged to obtain a professional assessment. We do not conduct or provide such kind of assessments and have not considered the potential impact to the subject property.

15. This exercise is premised in part on the historical financial information and future forecast if applicable provided by the management of the Company/engagement parties and/or its representatives. We have assumed the accuracy and reasonableness of the information provided and relied to a considerable extent on such information in our calculation of value. Since projections relate to the future, there will usually be differences between projections and actual results and in some cases, those variances may be material. Accordingly, to the extent any of the above mentioned information requires adjustments, the resulting value may differ significantly.

16. This report and the conclusion of values arrived at herein are for the exclusive use of our client for the sole and specific purposes as noted herein. Furthermore, the report and conclusion of values are not intended by the author, and should not be construed by the reader, to be investment advice or as transaction reference in any manner whatsoever. The conclusion of values represents the consideration based on the information furnished by the Company/engagement parties and other sources. Actual transactions involving the subject assets/business might be concluded at a higher or lower value, depending upon the circumstances of the transaction and the business, and the knowledge and motivation of the buyers and sellers at that time.

The biographical details of the four Directors proposed to be re-elected at the EGM are set out as follows:

Mr. Chu Hing Tsung (alias Zhu Qing Yi), aged 49, was appointed as a non-executive Director, the chairman of the Board and the chairman of the nomination committee of the Company on 29 January 2019. Mr. Chu is the chairman and an executive director of Zhuguang Holdings, which is a substantial shareholder of the Company. As at the Latest Practicable Date, Zhuguang Holdings was held as to 67.08% by Rong De Investments Limited ("**Rong De**"), which was owned as to 34.06% by Mr. Chu. Mr. Chu has over 20 years of extensive experience in corporate management and property development in the PRC.

As at the Latest Practicable Date, save that Mr. Chu was (i) the chairman and an executive director of Zhuguang Holdings, a substantial shareholder of the Company; and (ii) a 34.06% shareholder of Rong De, the controlling shareholder of Zhuguang Holdings, which in turn was a substantial shareholder of the Company, he did no not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Save as disclosed above, as at the Latest Practicable Date, Mr. Chu did not hold any directorship in other listed public companies in the past three years or any other positions with the Company and other members of the Group.

As at the Latest Practicable Date, save for the 681,240,022 Shares held by Rong De, a company owned as to 34.06% by Mr. Chu, Mr. Chu was not interested in any Shares under Part XV of the SFO.

The Company has entered into an appointment letter with Mr. Chu. The term of his appointment letter is three years from 29 January 2019 to 28 January 2022 and is subject to retirement and re-election at the next general meeting and vacation of office in accordance with the provisions of the Articles of Association and applicable rules and laws. His emoluments comprise a director's fee to be proposed by the Board with authorisation from time to time given by the Shareholders in general meeting. His emoluments are determined by reference to his duties and responsibilities with the Company and the Company's remuneration policy and after considering the market emoluments for directors of other listed companies. It is expected that Mr. Chu will be granted a director's fee of HK$460,000 for the year ending 31 December 2019.

Mr. Huang Jiajue, aged 48, was appointed as an executive Director, a member of the remuneration committee and an authorised representative of the Company on 29 January 2019. Mr. Huang is a deputy chairman and an executive director of Zhuguang Holdings, which is a substantial shareholder of the Company. As at the Latest Practicable Date, Mr. Huang held 14,330,000 shares in Zhuguang Holdings. Mr. Huang obtained a Master's Degree in Business Administration from the Sun Yat-Sen University in the PRC. He has over 20 years of financial management experience in the property development industry in the PRC.

As at the Latest Practicable Date, save that Mr. Huang was a deputy chairman, an executive director and a shareholder of Zhuguang Holdings, which is a substantial shareholder of the Company that held 681,240,022 Shares, he did not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

Save as disclosed above, as at the Latest Practicable Date, Mr. Huang did not hold any directorship in other listed public companies in the past three years or any other positions with the Company and other members of the Group.

As at the Latest Practicable Date, Mr. Huang was interested in 1,600,000 Shares under Part XV of the SFO.

The Company has entered into an appointment letter with Mr. Huang. The term of his appointment letter is three years from 29 January 2019 to 28 January 2022 and is subject to retirement and re-election at the next general meeting and vacation of office in accordance with the provisions of the Articles of Association and applicable rules and laws. His emoluments comprise a director's fee to be proposed by the Board with authorisation from time to time given by the Shareholders in general meeting. His emoluments are determined by reference to his duties and responsibilities with the Company and the Company's remuneration policy and after considering the market emoluments for directors of other listed companies. It is expected that Mr. Huang will be granted a director's fee of HK$555,000 for the year ending 31 December 2019.

Mr. Luo Zhihai, aged 56, was appointed as an executive Director on 29 January 2019. Prior to joining the Company, Mr. Luo worked in China Construction Bank, Huajian International (Macau) Co., Ltd., China Cinda Asset Management Co., Ltd. ("**China Cinda**"), a substantial shareholder of the Company, and Guangdong Yuecai Asset Management Co., Ltd.. He has served successively as the head of Xiaohuayuan Office of Meixian Sub-branch of China Construction Bank, Deputy General Manager of International Business Department of China Construction Bank Meizhou Branch, General

Manager of International Business Department of Zhuhai Branch of China Construction Bank, Managing Director of Huajian International (Macau) Co., Ltd., the head of the entity department, the investment banking department, the marketing department and the business department of China Cinda Guangzhou Office and Deputy Managing Director of Guangdong Yuecai Asset Management Co., Ltd.. Mr. Luo received his Bachelor's Degree in engineering from South China University of Technology in 1983. He has accumulated more than 30 years of experiences in banking, investment banking, real estate investment and non-performing financial assets, especially with extensive practical experiences in the assets management industry. Meanwhile, Mr. Luo has a high reputation in the PRC local assets management industry.

Save as disclosed above, as at the Latest Practicable Date, Mr. Luo did not hold any directorship in other listed public companies in the past three years or any other positions with the Company and other members of the Group. Mr. Luo does not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the Latest Practicable Date, Mr. Luo has no interest in the Shares within the meaning of Part XV of the SFO.

The Company has entered into an appointment letter with Mr. Luo. The term of his appointment letter is three years from 29 January 2019 to 28 January 2022 and is subject to retirement and re-election at the next general meeting and vacation of office in accordance with the provisions of the Articles of Association and applicable rules and laws. His emoluments comprise a director's fee to be proposed by the Board with authorisation from time to time given by the Shareholders in general meeting. His emoluments are determined by reference to his duties and responsibilities with the Company and the Company's remuneration policy and after considering the market emoluments for directors of other listed companies. It is expected that Mr. Luo will be granted a director's fee of HK$555,000 for the year ending 31 December 2019.

Mr. Chen Zhiwei, aged 34, was appointed as a non-executive Director on 29 January 2019. Mr. Chen is the assistant general manager and managing director of the investment department of China Cinda (Hong Kong) Holding Limited ("**Cinda HK**"), responsible for managing Cinda HK's investment and financing businesses. Cinda HK is a wholly owned subsidiary of China Cinda, which is a substantial shareholder of the Company. Mr. Chen graduated from Tsinghua University with a bachelor's degree in Economics in 2004. He then graduated from the National University of Singapore with a master's degree in Science (Estate Management) in 2009. Mr. Chen was the executive assistant to the chairman of TIG Group in Singapore between 2007 and 2010, responsible for TIG Group's private equity investment business in the Greater China region. Between 2005 and 2007, Mr. Chen was a research scholar at the National University of Singapore. Mr. Chen is also a non-executive director of China Fortune Financial Group Limited (Stock code: 290), Modern Land (China) Co., Limited (Stock code: 1107) and South Gobi Resources Limited (Stock code: 1878), the shares of the three companies are listed on the Stock Exchange. Mr. Chen has over 10 years of investment and research experience in finance industry.

Save as disclosed above, as at the Latest Practicable Date, Mr. Chen did not hold any directorship in other listed public companies in the past three years or any other positions with the Company and other members of the Group. Mr. Chen does not have any relationship with any directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the Latest Practicable Date, Mr. Chen has no interest in the Shares within the meaning of Part XV of the SFO.

The Company has entered into an appointment letter with Mr. Chen. The term of his appointment letter is three years from 29 January 2019 to 28 January 2022 and is subject to retirement and re-election at the next general meeting and vacation of office in accordance with the provisions of the Articles of Association and applicable rules and laws. His emoluments comprise a director’s fee to be proposed by the Board with authorisation from time to time given by the Shareholders in general meeting. His emoluments are determined by reference to his duties and responsibilities with the Company and the Company’s remuneration policy and after considering the market emoluments for directors of other listed companies. It is expected that Mr. Chen will be granted a director’s fee of HK$368,000 for the year ending 31 December 2019.

Save as disclosed above, there are no other matters relating to the re-election of Mr. Chu Hing Tsung, Mr. Huang Jiajue, Mr. Luo Zhihai and Mr. Chen Zhiwei that need to be brought to the attention of the Shareholders and there is no information required to be disclosed pursuant to any of the requirements of Rules 13.51(2)(h) to 13.51(2)(v) of the Listing Rules.

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

1. DISCLOSURE OF INTERESTS

(i) Directors' and chief executives' interests and short positions in the securities of the Company or its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") to be notified to the Company and the Stock Exchange, were as follows:

Interests in Shares and Underlying Shares of the Company

Name of Director	Capacity/ Nature of interest	Number of Shares *(Note 1)*	Approximate percentage of interest in the Company
Mr. Chu Hing Tsung	Interest of controlled corporation *(Note 2)*	681,240,022 (L)	29.56%
Mr. Huang Jiajue	Beneficial owner	1,600,000 (L)	0.07%

Notes:

1. "L" denotes long position.

2. Chu Hing Tsung directly holds 34.06% of the issued share capital of Rong De Investments Limited, which in turn holds 67.08% of the issued share capital of Zhuguang Holdings, which in turn holds 100% issued share capital of Splendid Reach Limited. Therefore, Chu Hing Tsung, Rong De Investments Limited and Zhuguang Holdings are taken to be interested in the number of Shares held by Splendid Reach Limited pursuant to Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or in the shares, underlying shares or debentures of any of the associated corporations of the Company (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

As at the Latest Practicable Date, (i) Mr. Chu Hing Tsung was the chairman and an executive director of Zhuguang Holdings, a substantial shareholder of the Company and is a 34.06% shareholder of Rong De Investments Limited, the controlling shareholder of Zhuguang Holdings; (ii) Mr. Huang Jiajue was a deputy chairman, an executive director and a shareholder of Zhuguang Holdings; (iii) Mr. Chen Zhiwei was the assistant general manager and managing director of the investment department of China Cinda (Hong Kong) Holding Limited, a wholly owned subsidiary of China Cinda Asset Management Co., Ltd., a substantial shareholder of the Company; and (iv) Mr. Ma Yilin was the managing director of China Cinda (Hong Kong) Holding Company Limited, a wholly owned subsidiary of China Cinda Asset Management Co., Ltd., a substantial shareholder of the Company. Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had any interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(ii) Substantial Shareholders' interests and short positions in Shares, underlying Shares and debentures

So far as was known to the Directors, as at the Latest Practicable Date, the following persons (other than a Director or chief executive of the Company) or corporations had, or were deemed to have, an interest or short position in the Shares and underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group:

Name of Shareholder	Capacity	Number of Shares held/ interested *(Note 1)*	Approximate percentage of issued shares of the Company as at the Latest Practicable Date
China Cinda Asset Management Co., Ltd	Interest of controlled corporation *(Note 2)*	1,119,296,022 (L)	48.56%
China Cinda (HK) Holdings Company Limited	Interest of controlled corporation *(Note 2)*	1,119,296,022 (L)	48.56%
China Cinda (HK) Asset Management Co., Limited	Person having a security interest in shares *(Note 2)*	681,240,022 (L)	29.56%
Regent Star International Limited	Beneficial owner *(Note 2)*	438,056,000 (L)	19.01%
Liao Tengjia	Interest of controlled corporation *(Note 3)*	681,240,022 (L)	29.56%
Rong De Investments Limited	Interest of controlled corporation *(Note 3)*	681,240,022 (L)	29.56%
Zhuguang Holdings	Interest of controlled corporation *(Note 3)*	681,240,022 (L)	29.56%
Splendid Reach Limited	Beneficial owner *(Note 3)*	681,240,022 (L)	29.56%

Notes:

1. "L" denotes long position.

2. China Cinda Asset Management Co., Ltd directly holds 100% of the issued shares of China Cinda (HK) Holdings Company Limited, which in turn holds 100% of the issued shares of China Cinda (HK) Asset Management Co., Limited and Regent Star International Limited. Therefore, China Cinda Asset Management Co., Ltd and China Cinda (HK) Holdings Company Limited are taken to be interested in the number of Shares held by China Cinda (HK) Asset Management Co., Limited and Regent Star International Limited pursuant to Part XV of the SFO.

3. Chu Hing Tsung and Liao Tengjia directly hold 34.06% and 36% of the issued shares of Rong De Investments Limited respectively, which in turn holds 67.08% of the issued shares of Zhuguang Holdings, which in turn holds 100% issued shares of Splendid Reach Limited. Therefore, Chu Hing Tsung, Liao Tengjia, Rong De Investments Limited and Zhuguang Holdings are taken to be interested in the number of Shares held by Splendid Reach Limited pursuant to Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was aware of any other person or corporation who had, or were deemed to have, an interest or short position in the Shares or underlying Shares which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

2. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there is no existing or proposed service contract between any of the Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

3. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGMENTS

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

4. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2018, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

5. DIRECTORS' INTERESTS IN COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their respective close associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, or has or may have any other conflicts of interest with the Group pursuant to Rule 8.10 of the Listing Rules.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest audited consolidated financial statements of the Group were made up.

7. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim 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 any member of the Group.

8. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business of the Group, were entered into by the Group within two years immediately preceding the date of this circular which are or may be material:

(a) the sale and purchase agreement dated 28 April 2017 entered into among the Company as vendor and Ms. Zhang Zhenxiu and Mr. Xue Fuzhi as the purchasers in relation to the sale and purchase of the entire issued share capital of Straight View Investment Limited and the shareholder loan owed to the Company by Straight View Investment Limited at a consideration of HK$31.7 million;

(b) the trust agreement dated 24 November 2017 entered into between Beijing East Gate, a wholly owned subsidiary of the Company, as the settlor and the beneficiary and The National Trust Ltd. as the trustee in relation to the investment of a principal amount not exceeding RMB500 million in aggregate by Beijing East Gate in a portfolio of investment managed and maintained by The National Trust Ltd.;

(c) the share transfer agreement dated 10 January 2018 entered into between Beijing East Gate as the vendor and an independent third party as the purchaser in relation to the disposal of 7.5 million shares in 中國銀聯股份有限公司 (China UnionPay Co., Ltd.*) at a consideration of RMB195 million;

(d) the loan agreement dated 26 November 2018 entered into between Beijing East Gate as the lender and 河北國隆房地產開發有限公司 (Hebei Guolong Real Estate Development Co., Ltd.*) as the borrower in relation to the term loan in the principal amount of RMB200 million for a term of two years at an interest rate of 12% per annum;

(e) the Merger Agreement; and

(f) the Shareholders Cooperation Agreement.

9. EXPERT AND CONSENT

The following is the qualification of the experts who have given an opinion or advice contained in this circular:

Name	**Qualification**
Deloitte Touche Tohmatsu	Certified Public Accountants
Grant Thornton Hong Kong Limited	Certified Public Accountants
Tyrone Chiu C.P.A. Limited	Certified Public Accountants
Zhonghui Anda CPA Limited	Certified Public Accountants
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent Valuer

As at the Latest Practicable Date, none of the above experts had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

Each of the above experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or statements and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of the above experts had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Company were made up.

10. CORPORATE INFORMATION

(a) The company secretary of the Company is Mr. Chow Kwok Wai, who is a Fellow Member of the Association of Chartered Certified Accountants and a Fellow CPA of the Hong Kong Institute of Certified Public Accountants. Mr. Chow is also a Certified Tax Adviser and a Fellow Member of the Taxation Institute of Hong Kong.

(b) The registered office of the Company is at Suite 4901, 49th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

(c) The share registrar and transfer office of the Company is Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(d) Unless the context otherwise requires, the English text of this circular and the accompanying proxy form shall prevail over their respective Chinese text in case of inconsistency.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Suite 4901, 49th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM:

(a) the Articles of Association;

(b) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(c) the written consents of experts referred to in the section headed "Expert and Consent" in this appendix;

(d) the annual reports of the Company for each of the two financial years ended 31 December 2016 and 2017 and the annual results announcement of the Company for the year ended 31 December 2018;

(e) the accountants' report of TZ United East, the text of which is set out in Appendix II(A) to this circular;

(f) the accountants' report of Zhong Hai You Qi, the text of which is set out in Appendix II(B) to this circular;

(g) the accountants' report of COBT, the text of which is set out in Appendix II(C) to this circular;

(h) the unaudited pro forma financial information of the Group, the text of which is set out in Appendix IV to this circular;

(i) the valuation report of TZ United East, Zhong Hai You Qi and COBT, the text of which is set out in Appendix V to this circular; and

(j) this circular.

SILVER GRANT INTERNATIONAL INDUSTRIES LIMITED
銀建國際實業有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 171)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of Silver Grant International Industries Limited (the "**Company**") will be held at Boardroom 3 & 4, Mezzanine Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Friday, 10 May 2019 at 2:30 p.m. for the purpose of considering and, if thought fit, passing with or without modification, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

   (a) the entering into of the merger agreement dated 28 November 2018 (the "**Merger Agreement**", a copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) entered into among 中海油氣(泰州)石化有限公司 (Zhong Hai You Qi (Tai Zhou) Petrochemical Company Limited*) ("**Zhong Hai You Qi**"), 泰州東聯化工有限公司 (Tai Zhou United East Petrochemical Company Limited*) ("**TZ United East**") and 中海瀝青(泰州)有限責任公司 (China Offshore Bitumen (Taizhou) Co., Ltd.*) ("**COBT**") in respect of the merger by absorption of TZ United East and COBT by Zhong Hai You Qi (the "**Merger**") and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one or more of the directors of the Company (the "**Directors**") be and is/are hereby authorized for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he may in his absolute discretion consider necessary, desirable or expedient for the purposes of or in relation to implementing, completing and giving effect to the Merger Agreement and the transactions contemplated thereunder and to agree to such variations of the terms of the Merger Agreement as he may in his absolute discretion consider necessary or desirable."

2. "**THAT**:

(a) the entering into of the shareholders cooperation agreement dated 28 November 2018 (the "**Shareholders Cooperation Agreement**", a copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification) entered into among 中海石油煉化有限責任公司 (CNOOC Refinery Co., Ltd.*), 泰州東泰石化有限公司 (Tai Zhou Dong Thai Petrochemical Company Limited*), 泰州石油化工有限責任公司 (Taizhou Petrochemical Co., Ltd.*), 蘇州工業園區瑞新公路物資有限公司 (Suzhou Industrial Park Ruixin Highway Materials Co., Ltd.*), and 杭州奕陽投資合夥企業(有限合夥) (Hangzhou Yiyang Investment Limited Partnership*) in relation to their respective rights and obligations in Zhong Hai You Qi upon the completion of the Merger and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

(b) any one or more of the Directors be and is/are hereby authorized for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he may in his absolute discretion consider necessary, desirable or expedient for the purposes of or in relation to implementing, completing and giving effect to the Shareholders Cooperation Agreement and the transactions contemplated thereunder and to agree to such variations of the terms of the Shareholders Cooperation Agreement as he may in his absolute discretion consider necessary or desirable."

* *For identification purpose only*

3. “**THAT**:

(a) each as a separate resolution, to re-elect the following retiring directors of the Company (the “**Director(s)**”):

(1) to re-elect Mr. Chu Hing Tsung as a non-executive Director;

(2) to re-elect Mr. Huang Jiajue as an executive Director;

(3) to re-elect Mr. Luo Zhihai as an executive Director;

(4) to re-elect Mr. Chen Zhiwei as a non-executive Director; and

(b) to authorise the board of Directors (the “**Board**”) to fix the Directors’ remuneration.”

SPECIAL RESOLUTION

4. **“THAT** subject to and conditional upon the issuance of the certificate of change of name by the Registrar of Companies in the Hong Kong Special Administrative Region of the People’s Republic of China, the English name of the Company be changed from “Silver Grant International Industries Limited” to “Silver Grant International Holdings Group Limited” and the Chinese name of the Company be changed from “銀建國際實業有限公司” to “銀建國際控股集團有限公司” and the Directors be and are hereby authorised to do all such acts and things and execute all documents they consider necessary or expedient to give effect to the aforesaid change of name of the Company and to attend to any necessary registration and/or filing on behalf of the Company.”

By Order of the Board
Silver Grant International Industries Limited
Gao Jian Min
Executive Director and Managing Director

Hong Kong, 23 April 2019

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him. A proxy need not be a member of the Company.

2. A proxy form for use at the meeting is enclosed.

3. To be valid, a proxy form, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the Company's share registrar and transfer office, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.

4. To ascertain the shareholders' entitlement to attend and vote at the meeting, the register of members of the Company will be closed from Tuesday, 7 May 2019 to Friday, 10 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the meeting, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 6 May 2019.

5. Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the shareholders at the meeting except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands will be taken by poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

6. The biographical details of the retiring Directors who are proposed to be re-elected at the above meeting are set out in appendix VI to the circular of the Company dated 23 April 2019.

7. As at the date of this notice, the board of Directors comprises Mr. Gao Jian Min *(Managing Director)*, Mr. Huang Jiajue, Mr. Luo Zhihai and Mr. Ma Yilin as executive Directors; Mr. Chu Hing Tsung *(Chairman)* and Mr. Chen Zhiwei as non-executive Directors; and Mr. Liang Qing, Mr. Zhang Lu and Mr. Hung Muk Ming as independent non-executive Directors.

8. References to time and dates in this notice are to Hong Kong time and dates.