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## **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)**

## **MAJOR ACQUISITION AND VERY SUBSTANTIAL DISPOSAL INVOLVING THE MERGER OF ZHONG HAI YOU QI, TZ UNITED EAST AND COBT AND RESUMPTION OF TRADING**

### **THE MERGER**

In order to reorganise the business operations and consolidate the assets, Zhong Hai You Qi, TZ United East and COBT entered into the Merger Agreement on 28 November 2018 (after trading hours), 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.

### **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 reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

### **RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares has been halted from 9:00 a.m. on 29 November 2018 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 5 December 2018.

## **INTRODUCTION**

The petrochemical industry in the PRC experienced a consistent rise in production cost and recession of the commodity prices in recent years, thereby resulting in a margin squeeze of all the petrochemical factories in the PRC. In order to reorganise the business operations and consolidate the assets, Zhong Hai You Qi, TZ United East and COBT entered into the Merger Agreement on 28 November 2018 (after trading hours), 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.

### **The Merger Agreement**

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

Date: 28 November 2018 (after trading hours)

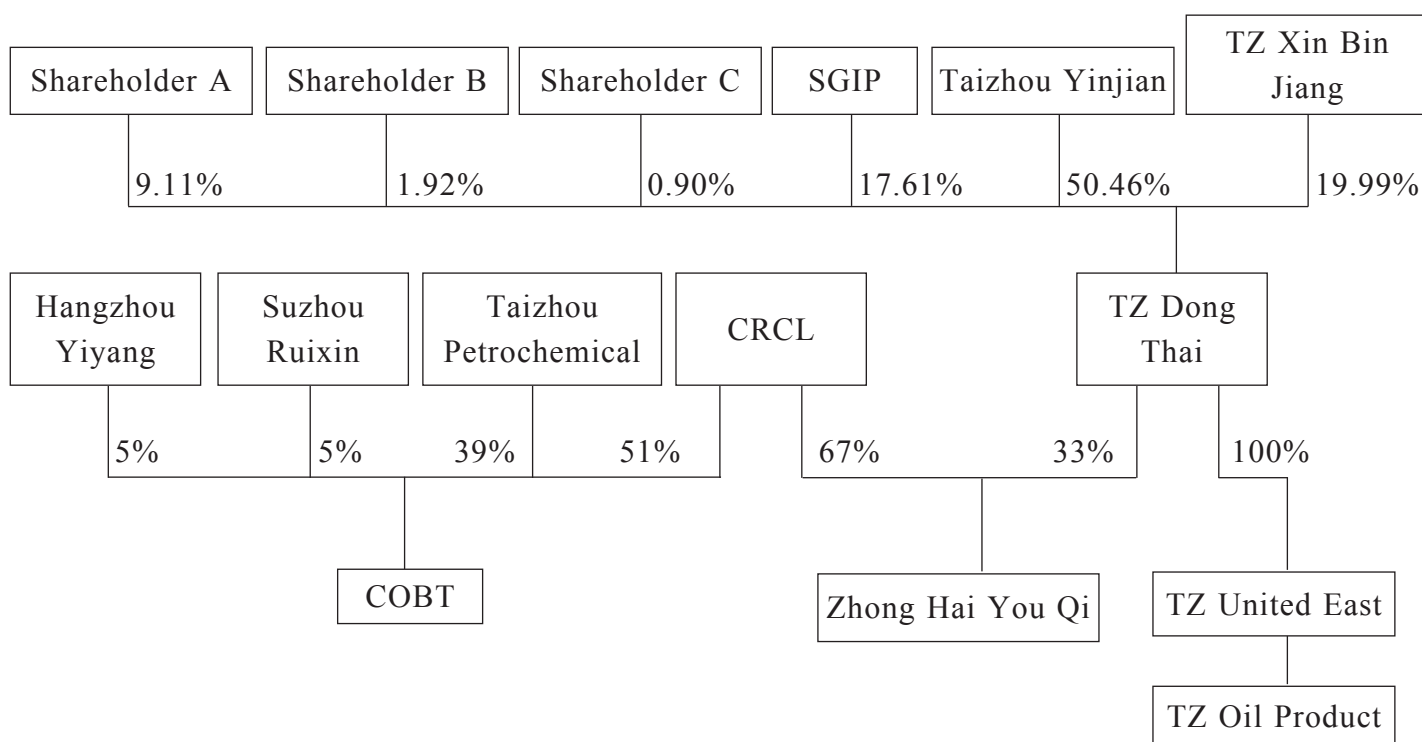
Parties: (1) Zhong Hai You Qi;  
(2) TZ United East; and  
(3) COBT.

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 date of this announcement, the shareholding structure of Zhong Hai You Qi, TZ United East and COBT is as follows:



*Note: The percentages may not add up to 100% due to rounding.*

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 are determined with reference to their respective capital contribution in Zhong Hai You Qi, TZ United East and COBT before the Merger and the assessed value of equity interest of Zhong Hai You Qi, TZ United East and COBT according to the adjusted net asset values on 30 November 2017 (the “**Reference Date**”) assessed by the valuer of Zhong Hai You Qi which is required to be filed by CRCL to the State-owned Assets Supervision and Administration Commission of the State Council according to the Interim Measures for the Administration of Assessment of State-owned Assets of Enterprises published in July 2013 (the “**Adjusted Net Asset Values**”) and agreed by the parties after consideration by the Independent Valuer of the Group, namely Jones Lang LaSalle Corporate Appraisal and Advisory Limited. As agreed by the parties under the Merger Agreement, the Adjusted Net Asset Values of Zhong Hai You Qi, TZ United East and COBT are approximately RMB4,384,466,000, RMB1,877,105,200 and RMB256,034,600 respectively. The preliminary valuation of Zhong Hai You Qi, TZ United East and COBT are respectively in the ranges of RMB4,441 million to RMB4,749 million, RMB1,679 million to RMB1,803 million, and RMB224 million to RMB241 million as at 31 October 2018 according to the valuation analysis prepared by the Independent Valuer of the Group applying the market approach.

As at the date of this announcement, 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.

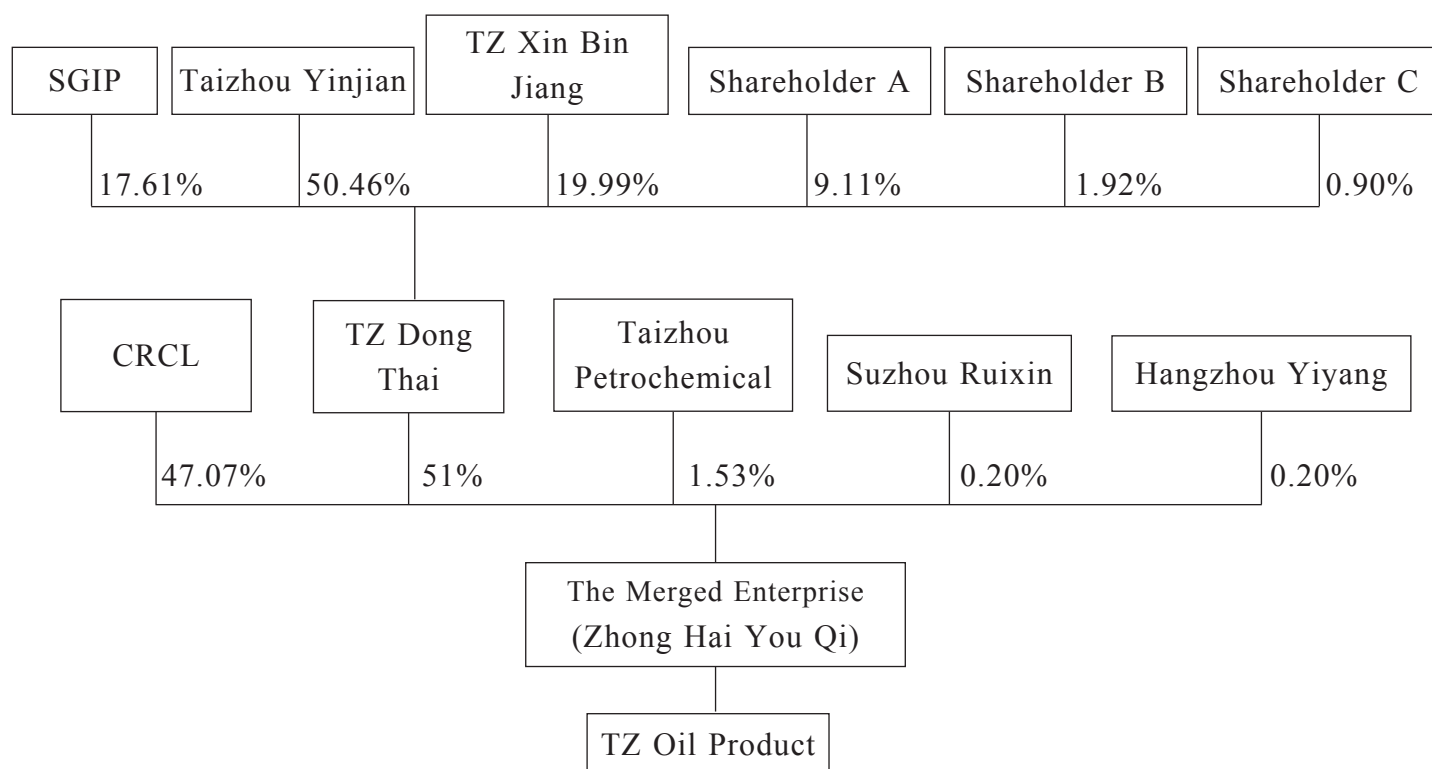
Pursuant to the abovementioned equity interests of the Post-Merger Shareholders before the Merger, the respective assessed value of equity interest of and the resultant amount and proportion of the respective capital contribution of the Post-Merger Shareholders in the Merged Enterprise upon Completion are set out in the table below:

Name of shareholder	Approximate assessed 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%
<b>Total</b>	<b><u>6,517,605,800</u></b>	<b><u>3,550,705,800</u></b>	<b><u>100%</u></b>

*Notes:*

1. The approximate assessed value of equity interest of each Post-Merger Shareholder in the Merged Enterprise is 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:



*Note: The percentages may not add up to 100% due to rounding.*

Having considered (i) the preliminary valuation of Zhong Hai You Qi, TZ United East and COBT as at 31 October 2018 according to the valuation analysis prepared by the Independent Valuer of the Group against the Adjusted Net Asset Values, and (ii) the business prospect of the Merged Enterprise upon the Merger as mentioned in the section headed “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 is 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.

### **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 “Merger Agreement” in this announcement.
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:	<p>Each term of office shall be for a term of 3 years.</p> <p>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.</p> <p>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.</p> <p>Vice general managers and the financial controller shall be appointed by the board while the financial manager shall be appointed by the general manager.</p>
Provision of resources:	After the 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.

## **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 date of this announcement, 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 two years ended 31 December 2017 is as follows:

	<b>For the year ended 31 December 2016 <i>HK\$'000</i></b>	<b>For the year ended 31 December 2017 <i>HK\$'000</i></b>
Net profit before tax	109,241	1,016,708
Net profit after tax	87,742	762,022

The net asset value of Zhong Hai You Qi as at 31 December 2017 was approximately HK\$3,721 million.

### **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 date of this announcement, TZ United East is wholly-owned by TZ Dong Thai.

The financial information of TZ United East for the two years ended 31 December 2017 is as follows:

	<b>For the year ended 31 December 2016 <i>HK\$'000</i></b>	<b>For the year ended 31 December 2017 <i>HK\$'000</i></b>
Net loss before tax	(357,769)	(27,086)
Net loss after tax	(357,769)	(27,086)

The net asset value of TZ United East as at 31 December 2017 was approximately HK\$360 million.

### **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 date of this announcement, 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 two years ended 31 December 2017 is as follows:

	<b>For the year ended 31 December 2016 RMB'000 (Audited)</b>	<b>For the year ended 31 December 2017 RMB'000 (Audited)</b>
Net profit (loss) before tax	4,377	(47,221)
Net profit (loss) after tax	3,194	(47,588)

The audited net asset value of COBT as at 31 December 2017 was approximately RMB240 million.

### **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.

## **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%.

As disclosed in the subsection headed "Joint operation and management of the Merged Enterprise" in the section headed "REASONS FOR AND BENEFITS OF CONDUCTING THE MERGER", 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.

## **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.

### **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 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. 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 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 factory 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, 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 in order to relieve its financial burden from TZ United East after the Merger. 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. 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 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 legal representative of the Merged Enterprise. On the other hand, CRCL will be entitled to nominate the general manager of the Merged Enterprise. The Directors consider the above management arrangement will allow the Group to participate in the key decision making process of the Merged Enterprise which will become and remain a major investment of the Group in its petrochemical joint venture. 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.

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 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 abovementioned 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; 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 it 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.



## **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 reporting, announcement and 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.

## **EGM**

The EGM will be convened for the Shareholders to consider and, if thought fit, approve, among other things, the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder.

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.

A circular containing, among other things, details of the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder, together with the notice of the EGM, will be despatched to the Shareholders as soon as practicable in accordance with the Listing Rules. The circular is expected to be despatched by the Company within 15 business days after the publication of this announcement.

**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 securities of the Company.**

## DEFINITIONS

“Board”	board of Directors
“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 date of this announcement
“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 date of this announcement
“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
“Director(s)”	director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be convened to consider, among other things, the ordinary resolutions to be proposed to approve the Merger Agreement, the Shareholders Cooperation Agreement and the respective transactions contemplated thereunder
“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 date of this announcement
“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

“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Merger”	merger by absorption of TZ United East and COBT by Zhong Hai You Qi
“Merged Enterprise”	Zhong Hai You Qi after absorption of TZ United East and COBT upon Completion
“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 announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“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 date of this announcement
“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
“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 date of this announcement

“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 date of this announcement
“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 date of this announcement
“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 date of this announcement
“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 wholly-owned subsidiary of TZ United East as at the date of this announcement
“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 date of this announcement
“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 and a shareholder of TZ Dong Thai as at the date of this announcement
“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 date of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“RMB” Renminbi, the lawful currency of the PRC

“%” per cent

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

Hong Kong, 4 December 2018

*As at the date of this announcement, the Board comprises Mr. Gao Jian Min (Managing Director), Mr. Liu Tianni (Deputy Managing Director) and Mr. Ma Yilin as executive Directors; Mr. Luo Zhenhong (Chairman), Mr. Hui Xiao Bing (Vice Chairman) and Mr. Chen Qiming (Vice Chairman) as non-executive Directors and Mr. Liang Qing, Mr. Zhang Lu and Mr. Hung Muk Ming as independent non-executive Directors.*

*In this announcement, the translation of Renminbi into Hong Kong dollars is based on the exchange rate of RMB1.00 to HK\$1.13.*

\* *For identification purpose only*