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 licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser, the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

PCK

CHU KONG PETROLEUM AND NATURAL GAS STEEL PIPE HOLDINGS LIMITED

珠江石油天然氣鋼管控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1938)

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF 80% EQUITY INTEREST IN AN INDIRECT SUBSIDIARY – PANYU CHU KONG STEEL PIPE CO., LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

Capitalised terms used in this cover page shall have the same meaning as those defined in the section headed "Definitions" of this circular.

A notice convening the EGM (as defined herein) of the Company to be held at Portion 2, 12/F., The Centre, 99 Queen's Road Central, Hong Kong, at 11 a.m. on Tuesday, 16 April 2019 is set out on pages 101 to 102 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the enlcosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding 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 wish and in such event, the form of proxy shall be deemed to be revoked.

26 March 2019

CONTENTS

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

"1H2017"	the six months ended 30 June 2017
"2018 Announcement"	the announcement of the Company dated 12 February 2018 regarding a very substantial disposal of the Company in relation to the Change of Land Use and the disposal of 59% of the equity interest in the Target Company
"Asset Reorganisation"	the reorganisation of the assets and liabilities of the Target Company pursuant to the Previous Agreement
"Board"	the board of Directors from time to time
"Bournam"	Bournam Profits Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Chen Chang
"Change of Land Use"	the proposed change of the use of the Land from "industrial" to "commercial and residential"
"2018 Circular"	the circular of the Company dated 27 March 2018 regarding a very substantial disposal of the Company in relation to the Change of Land Use and the disposal of 59% of the equity interest in the Target Company
"Company"	Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (珠江石油天然氣鋼管控股有限公司), a company established in the Cayman Islands with limited liability and the shares of which are listed on the main board of the Stock Exchange (Stock Code: 1938)
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"controlling shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	the director(s) of the Company (including the independent non-executive directors) from time to time

"Disposal"	(i) the nomination of Xingchen by the Investment Manager under the terms of the Previous Agreement (being the subject matter of the 2018 Announcement and the 2018 Circular) as its nominee to acquire 40% equity interest of the Target Company; and (ii) the disposal of the remaining 40% equity interest of the Target Company to Xingchen pursuant to the terms of the Disposal Agreement
"Disposal Agreement"	the share investment agreement dated 27 February 2019 and entered into between the Vendor, Xingchen, the Target Company, the Guarantors and the Investment Manager, Guangdong Yuecai Trust and Guangzhou Pearl River Coating in respect of, among other things, the Disposal
"EGM"	the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, to approve the Disposal contemplated under the Disposal Agreement
"Equity Transfer"	the transfer of 40% of the equity interest in the Target Company by the Vendor to the Nominee pursuant to the Previous Agreement
"GDC"	the property development project of a large scale integrated commercial complex located in Panyu with a total permitted construction area of 550,000 square meters and named Golden Dragon City Fortune Plaza (金龍城財富廣場), which is held by Guangdong Pearl Steel Investment
"Group"	collectively, the Company and its subsidiaries from time to time
"Guangdong Pearl Steel Investment"	Guangdong Pearl Steel Investment Management Co., Limited (廣東珠鋼投資管理有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company

"Guangdong Yuecai Trust"	Guangdong Yuecai Trust Co. Limited* (廣東粵財信托有限公司), a company established in the PRC with limited liability, being a finance trust company formed by Guangdong Yuecai Investment Holdings Limited (廣東粵財投資控股有限公司) and Guangdong Science and Technology Venture Capital Co., Limited (廣東省科技創業投資有限公司) and is currently holding 20% issued share capital of the Target Company and a connected person of the Company at the subsidiary level
"Guangzhou Pearl River Coating"	Guangzhou Pearl River Petroleum Steel Pipe Coating Co. Limited (廣州珍珠河石油鋼管防腐有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
"Guarantors"	The Vendor, the Company, and Mr. Chen Chang (the Chairman of the Board, an Executive Director and a Controlling Shareholder)
"HKD"	Hong Kong Dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons and not otherwise a connected person of the Company
"Investment Manager"	Guangzhou Asset Management Company Limited* (廣州資產管理有限公司), a company established in the PRC with limited liability, being an asset investment company, acting as investment manager in respect of the obligations under the Previous Agreement
"Land"	a piece of land (of approximately 280,227 square meters) located at Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong Province, the PRC (中國廣東省廣州市番禺區石基鎮清河路) held by the Target Company
"Latest Practicable Date"	21 March 2019
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange

"Loans"	the loan in the amount of RMB400 million granted by Xingchen to Guangzhou Pearl River Coating for a period of two years pursuant to the investment agreement dated 30 November 2018 and the loan in the amount of RMB300 million which may be granted by Xingchen to Guangzhou Pearl River Coating, which is under negotiation as at the date of this circular, the proceeds of which shall be used for the repayment of certain existing loans owed by the Group in the amount of RMB700 million
"Nominee"	a company which may be nominated by the Investment Manager to, among other things, acquire 40% of the equity interest in the Target Company from the Vendor under the Equity Transfer as detailed in the 2018 Announcement and the 2018 Circular
"Panyu Factory"	the factory building and the office building located in the Land which are used by the Group in relation to the manufacture and sale of welded steel pipes
"PRC"	the People's Republic of China, which, for the purpose of this circular, excludes Hong Kong, Macau Special Administrative Region and Taiwan
"Previous Agreement"	the capital injection and the cooperation agreement dated 12 February 2018 entered into among the Vendor, Guangdong Yuecai Trust, the Target Company, the guarantors (including the Company, Guangdong Pearl Steel Investment and Mr. Chen Chang) and the Investment Manager, being the subject matter of the 2018 Announcement and the 2018 Circular
"Remaining Group"	the Group other than the Land
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HKD0.1 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of issued Shares

"Shareholder's Loan"	the Shareholder's Loan granted by Guangdong Yuecai Trust to the Target Company as stated in the 2018 Announcement and the 2018 Circular
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder(s)"	has the meaning ascribed thereto in the Listing Rules
"Target Company" or "PCKSP"	Panyu Chu Kong Steel Pipe Co., Limited (番禺珠江鋼管有限公司), a company established in the PRC with limited liability and an indirect non-wholly owned subsidiary of the Company
"Vendor"	Chu Kong Steel Pipe Group Co., Limited (珠江鋼管集團有限公司), a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
"Xingchen"	Guangzhou Xingchen Consultation Company Limited* (廣州星宸諮詢有限公司), a company established in the PRC with limited liability, being an investment company owned by limited partnership funds which are managed by Guangzhou Yuexiu Industry Investment Fund Management Co., Ltd. (廣州越秀產業投資基金管理股份有限公司) and ultimately owned by certain state-owned enterprises in the PRC including Guangzhou Yuexiu Group Company Limited (廣州越秀集團有限公司)

* *The English translation of the Chinese names or words in this circular, where indicated, is included for identification purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

CHU KONG PETROLEUM AND NATURAL GAS STEEL PIPE HOLDINGS LIMITED
珠江石油天然氣鋼管控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1938)

Executive Directors:
Mr. CHEN Chang *(Chairman)*
Ms. CHEN Zhao Nian
Ms. CHEN Zhao Hua

Independent non-executive Directors:
Mr. CHEN Ping
Mr. SEE Tak Wah
Mr. Tian Xiao Ren

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head office and principal place of business in the PRC:
Qinghe Road
Shiji Town
511450 Panyu District
Guangzhou City
Guangdong Province
The PRC

Head office and principal place of business in Hong Kong:
Suite Nos. 1, 2 and 19
15th Floor, Tower 3
China Hong Kong City
33 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

26 March 2019

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL AND CONNECTED TRANSACTION IN RELATION TO DISPOSAL OF 80% EQUITY INTEREST IN AN INDIRECT SUBSIDIARY – PANYU CHU KONG STEEL PIPE CO., LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Company's announcement dated 27 February 2019. Reference is also made to the 2018 Announcement, the 2018 Circular and the Company's announcement dated 15 October 2018 regarding a very substantial disposal of the Company in relation to Change of Land Use and the disposal of 59% of the equity interest in the Target Company.

On 27 February 2019 (after trading hours), the Vendor (an indirect wholly-owned subsidiary of the Company), Xingchen, the Target Company (a subsidiary of the Vendor), Guangzhou Pearl River Coating, Guangdong Yuecai Trust, the Investment Manager, the Guarantors and the Company entered into the Disposal Agreement in relation to (i) the nomination of Xingchen by the Investment Manager under the terms of the Previous Agreement (being the subject matter of the 2018 Announcement and the 2018 Circular) as its nominee to acquire 40% equity interest of the Target Company; and (ii) the disposal of the remaining 40% equity interest of the Target Company by the Vendor to Xingchen, for a total consideration of RMB2,448 million with a possible payment of the Premium (as defined below) of RMB272 million.

As at the date of this circular, the Target Company is held as to 20% by Guangdong Yuecai Trust and 80% by the Vendor, an indirectly wholly-owned subsidiary of the Company.

Upon completion of the Disposal, the Group will cease to have any equity interest in the Target Company, and the Target Company will cease to be a subsidiary of the Company.

As one or more of the applicable percentage ratios, calculated by reference to Rule 14.07 of the Listing Rules, is more than 75%, the Disposal constitutes a very substantial disposal for the Company and is subject to the requirements of reporting, announcement and approval by the shareholders at the EGM under Chapter 14 of the Listing Rules.

As at the date of this circular, Guangdong Yuecai Trust holds 20% issued share capital of the Target Company, and accordingly is its substantial shareholder. Guangdong Yuecai Trust is a connected person at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. Accordingly, the Disposal contemplated under the Disposal Agreement, to which Guangdong Yuecai Trust is a party, constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (1) Guangdong Yuecai Trust is a connected person of the Company at the subsidiary level; (2) the Board has approved the Disposal; and (3) the independent non-executive Directors have confirmed that the terms of the Disposal are fair and reasonable and the Disposal is on normal commercial terms or better and in the interests of the Company and its shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As no Director has a material interest in the Disposal, no Director is required to abstain from voting on the Board resolution approving the Disposal. Save as aforesaid, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Xingchen, the Investment Manager and their respective ultimate beneficial owners are Independent Third Parties.

The Disposal shall be conditional upon the approval by the Shareholders at the EGM in accordance with the requirements under the Listing Rules.

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Disposal. As no Shareholder has a material interest in the transactions contemplated in the Disposal Agreement, no Shareholder is required to abstain from voting to approve the above.

The purpose of this circular is to provide you with, among other things, (i) further details of the Disposal Agreement and the transactions contemplated therein and such other information as required to be included in this circular by the Listing Rules; and (ii) notice of the EGM.

THE DISPOSAL AGREEMENT

The principal terms of the Disposal Agreement are as follows:

Date

27 February 2019

Parties

Vendor:	Chu Kong Steel Pipe Group Co., Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of the Company
Xingchen:	Guangzhou Xingchen Consultation Company Limited (廣州星宸諮詢有限公司), a company established in the PRC with limited liability, being an investment company owned by limited partnership funds which are managed by Guangzhou Yuexiu Industry Investment Fund Management Co., Ltd. (廣州越秀產業投資基金管理股份有限公司) and ultimately owned by certain state-owned enterprises in the PRC including Guangzhou Yuexiu Group Company Limited (廣州越秀集團有限公司)
Investment Manager:	Guangzhou Asset Management Company Limited* (廣州資產管理有限公司), a company established in the PRC with limited liability, being an asset management company, acting as manager in respect of the transactions contemplated under the Previous Agreement

Target Company:	Panyu Chu Kong Steel Pipe Co., Limited (番禺珠江鋼管有限公司), a company established in the PRC with limited liability and held as to 80% by the Vendor and 20% by Guangdong Yuecai Trust as at the date of this circular
Guangdong Yuecai Trust:	Guangdong Yuecai Trust Co., Limited* (廣東粵財信托有限公司), a company established in the PRC with limited liability, being a finance trust company and is currently holding 20% issued share capital of the Target Company
Guangzhou Pearl River Coating:	Guangzhou Pearl River Petroleum Steel Pipe Coating Co. Limited (廣州珍珠河石油鋼管防腐有限公司), a company established in the PRC with limited liability and a wholly-owned subsidiary of the Company
Guarantors:	the Vendor, the Company and Mr. Chen Chang (the Chairman of the Board, an executive Director and a controlling shareholder of the Company), acting as guarantors in respect of the respective obligations of the Vendor and Guangzhou Pearl River Coating under the Disposal Agreement until the expiry of two years from the due date of the performance of the obligations under the Disposal Agreement

Guangdong Yuecai Trust, by virtue of being a substantial shareholder of the Target Company, is a connected person of the Company at the subsidiary level. Save as aforesaid, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Xingchen, the Investment Manager and their respective ultimate beneficial owners are Independent Third Parties.

Assets to be disposed of

Pursuant to the terms of the Previous Agreement, after four months upon signing of the Previous Agreement and immediately before the completion of Change of Land Use, the Vendor shall transfer 40% of the equity interest in the Target Company to the Nominee as nominated by the Investment Manager. In this connection, pursuant to the Disposal Agreement, (i) the Investment Manager has nominated Xingchen under the terms of the Previous Agreement (being the subject matter of the 2018 Announcement and the 2018 Circular) as its nominee to acquire 40% equity interest of the Target Company; (ii) the parties to the Previous Agreement and the Disposal Agreement have also acknowledged that the transfer of the 40% equity interest in the Target Company to Xingchen shall be carried out pursuant to terms of the Disposal Agreement instead of the Previous Agreement.

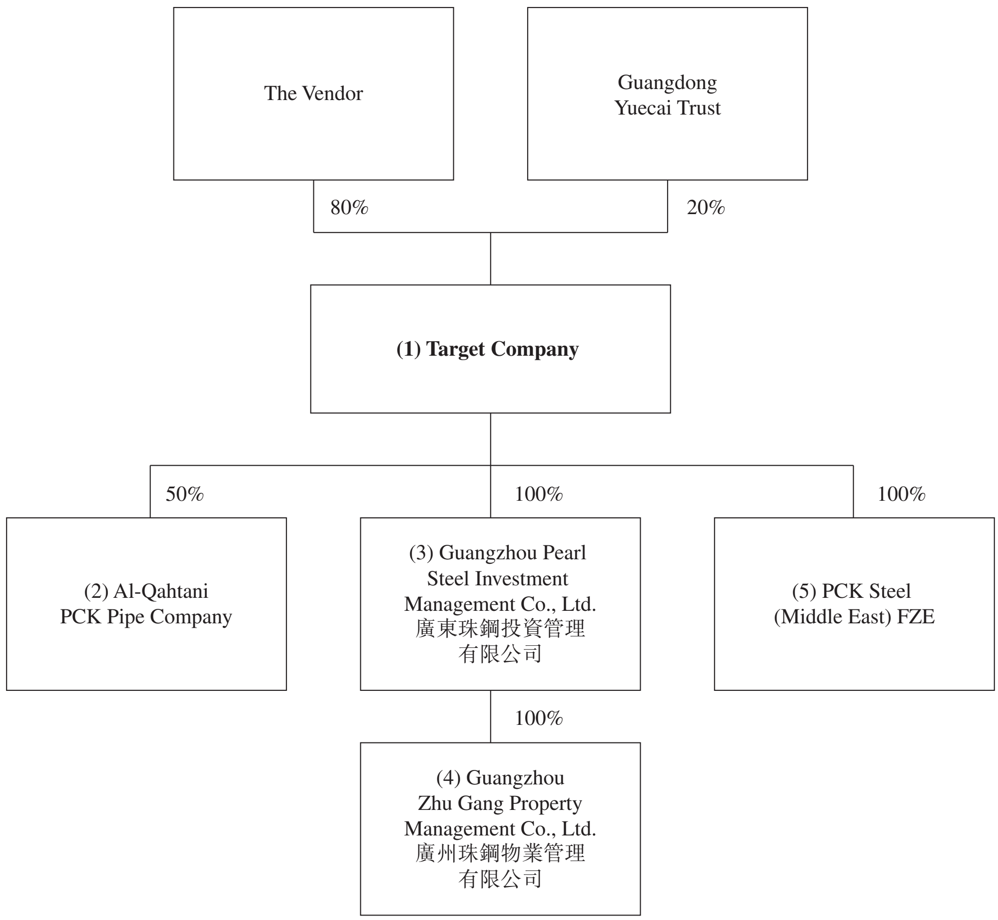
In addition, Xingchen shall also purchase and the Vendor shall sell the remaining 40% equity interest of the Target Company pursuant to the Disposal Agreement.

As a result, Xingchen shall acquire a total of 80% equity interest of the Target Company from the Vendor.

Upon completion of the Disposal, the Target Company will be owned as to 20% by Guangdong Yuecai Trust and 80% by Xingchen. The Group will cease to have any equity interest in the Target Company, and the Target Company will cease to be a subsidiary of the Company.

The Land will be the only asset of the Target Company upon completion of the Disposal. All the assets and liabilities, except the Land, will be carved out from the Target Company and be transferred to wholly-owned members of the Group prior to completion of the Disposal. The Land as at the date of this circular is for industrial use only.

The graph below illustrates the corporate structure of the Target Company as at the date of this circular:



Notes:

(1) The Target Company was established in the PRC and is principally engaged in the manufacture and sale of welded steel pipes. As at the date of this circular, it owns the Land and the Panyu Factory.

(2) Al-Qahtani PCK Pipe Company was incorporated in Saudi Arabia and is principally engaged in the manufacture and sale of steel pipes.

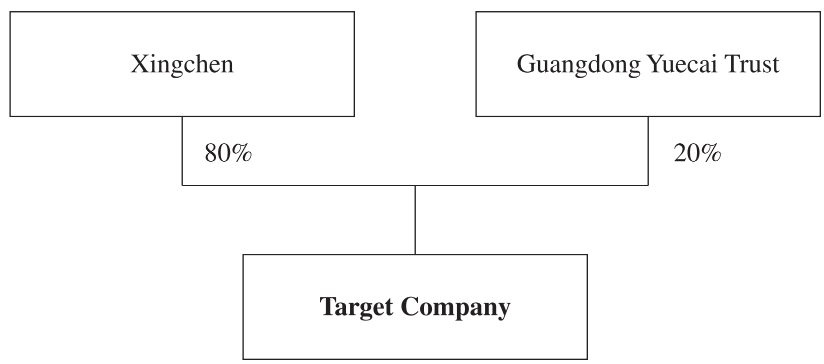
(3) Guangdong Pearl Steel Investment Management Co., Ltd.*（廣東珠鋼投資管理有限公司）was established in the PRC and is principally engaged in property development and investment. Its major asset is the GDC.

(4) Guangzhou Zhu Gang Property Management Co., Ltd*（廣州珠鋼物業管理有限公司）was established in the PRC and is principally engaged in property management.

(5) PCK Steel (Middle East) FZE was incorporated in Dubai and is principally engaged in the trading of steel products.

The above subsidiaries of the Target Company will be carved out from the Target Company and be transferred to wholly-owned members of the Group or disposed of to independent third parties prior to completion of the Disposal. Should the disposal of above subsidiaries to independent third parties constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules, the Company will comply with the relevant Listing Rules requirements.

The graph below illustrates the corporate structure of the Target Company upon completion of the Disposal:



Consideration and Payment Terms

The total consideration for the Disposal is RMB2,448 million, with a possible payment of the Premium (as defined below).

The consideration for the Disposal (assuming no Premium is payable) will be payable in the following manner:

(1) Upon completion of the transfer of 80% of the issued share capital of the Target Company;

(a) RMB1,440 million, representing approximately 58.8% of the consideration, shall be set off against the outstanding balance of the Shareholder's Loan;

(b) RMB700 million, representing approximately 28.6% of the consideration, shall be settlement of the Loans;

(c) RMB108 million, representing approximately 4.4% of the consideration, shall be payable by Xingchen to the Vendor in cash;

(d) not more than RMB159 million, representing approximately 6.5% of the consideration, shall be retained by the Target Company or payable directly to the creditors of the Target Company for settlement of other liabilities of the Target Company as part of the carve-out in the Asset Reorganisation;

(e) not more than RMB41 million, representing approximately 1.7% of the consideration, shall be payable for payment of land restoration fee of the Land. It is the responsibility of the Company to restore the Land to a state that is suitable for restoration as required by the government and the relevant restoration fee was to be borne by the Company which was also set out in the Previous Agreement. During the negotiation of the Disposal Agreement, the amount of the restoration fee of not more than RMB41 million was estimated by all parties based on their past experience; and

(2) if the expenses in relation to the Disposal are less than RMB41 million, the remaining balance, if any, shall be payable to the Vendor in cash two years after the completion of the transfer of 80% issued share capital of the Target Company to Xingchen.

According to the relevant laws and regulations, the Target Company shall apply to the relevant government authorities for the resumption of the Land, which includes the adjustment of regulatory detailed planning(控規調整)and the restoration and resale of the Land by the government(政府收儲再出讓). After the renewal and alteration(更新改造)of the Land and change the use of the Land from "industrial" to "commercial and residential", the relevant government authorities will resell the Land and certain amount of the resale price will be returned to the Target Company as compensation of the Land. The Target Company has not yet entered into any compensation arrangement with the government and therefore no compensation rate (as defined below) has been determined.

After commercial discussion between the Vendor and Xingchen, an amount of RMB272 million (the "**Premium**") will be paid by Xingchen to the Vendor if the Guangzhou Municipal Government officially promulgates and implements the new urban renewal policy within 1.5 years from the date of the signing the Disposal Agreement such that the "compensation rate(返還收益比例)"(the "**compensation rate**") (i.e. the proportion of the resale price to be returned to the Target Company as compensation after the resale of the Land) shall increase to 60%. The allocation of the additional compensation will be in proportion to the Target Company's shareholders prevailing shareholdings in the Target Company. Such policy is at the consultation stage and if effective, the Vendor can obtain the Premium. Xingchen will pay to the Vendor such Premium within 30 days after the government agrees to change the use of the Land from "industrial" to "residential and commercial". The Premium was determined by Xingchen and the Vendor after arms' length negotiations with reference to, among other things, (i) the expected value of the Land; (ii) the prevailing usual compensation rate(返還收益比例)of 50% for land with an area of not less than 120,000 square meters; and (iii) the contributions from Guangdong Yuecai Trust, the Investment Manager and Xingchen to bring about the Change of Land Use. The Premium, if any, will be used by the Company as general working capital.

As stated in the 2018 Announcement and the 2018 Circular, based on the opinion letter prepared by an independent property valuer, the fair value of the Land after the Change of Land Use was expected to be approximately RMB5.0 billion (the "**Initial Valuation**"). According to a preliminary valuation made by the independent property valuer, the fair value of the Land under "commercial and residential" use as at 31 January 2019 was revised to approximately RMB4.53 billion (the "**Updated Valuation**").

To the best of the Directors' knowledge and belief having made all reasonable enquiries, the Updated Valuation was less than the Initial Valuation because:

(i) the value of the Land has been adversely affected by the promulgation of a new policy that 20% of the residential development are required to be retained by the developer for leasing, and such factor has not been taken into account in the Initial Valuation;

(ii) the Initial Valuation was based on the assumption that the Land will be 100% for residential purposes. As a result of the negotiation between the Investment Manager and the relevant government authorities, the Company was given to understand that 30% of the total net site area of the development on the Land is required to be designated for commercial use (which usually carries lower valuation than residential development in developing areas). The Updated Valuation has therefore been prepared on the assumption that 70% of the development will be for residential use and 30% of the development will be for commercial purpose.

The Directors are of the view that the consideration under the Disposal Agreement is fair and reasonable and is in the interests of the Company and its shareholders as a whole after considering the following factors:

(i) Under the terms of the Previous Agreement, it is expected that the consideration for the Equity Transfer will be received only after the completion of the Change of Land Use which could take as long as three years after the signing of the Previous Agreement[1]. Under the Disposal Agreement, the Company is expected to receive the proceeds from the Disposal much sooner by the end of July 2019 which will help the Group to meet its existing debt obligations.

1 The expected time needed for carrying out the Change of Land Use is around four years, which is longer than that as disclosed in the 2018 Announcement and the 2018 Circular because there is a change in the government's planning of the transportation infrastructure that connects the area where the Land is located. Accordingly, it is anticipated that such a change would likely push back the relevant development schedule. Based on the Board's understanding of the procedures for the application and implementation of the change of Land Use, the Board is of the view that the expected time for the completion of Change of Land Use in four years is reasonable and feasible.

(ii) Part of the proceeds from the Disposal in the amount of approximately RMB1.44 billion will be used to repay the outstanding balance of the Shareholder's Loan, which is expected to help the Group save interest expenses in the coming four years, assuming the Shareholder's Loan bearing interest rate of 11.25% per annum would only be repaid around four years later upon the completion of the Change of Land Use.

(iii) In conjunction with the Disposal, Guangzhou Pearl River Coating was granted a loan of RMB400 million by Xingchen and is negotiating a loan of RMB300 million with Xingchen (details of which are set out in the section headed ''Loans from Xingchen'' below), which, together with the third payment of the consideration, shall be used for the repayment of certain existing loans owed by the Group in the amount of RMB808 million. The Loans will be interest-free if the Disposal is completed and will help the Group save interest expenses in the coming four years, assuming such existing loans would only be repaid around four years later upon the completion of the Change of Land Use and interest will accrue at an interest rate of 8.35% per annum, which is the average interest rate for the total interest payments to the total interest-bearing debts of the Group as at 30 June 2018.

(iv) To make it possible to complete the Disposal and obtain the proceeds early, it is necessary to lock the consideration for the Disposal upon signing of the Disposal Agreement. It has become impracticable to determine the consideration based on the future valuation of the Land after the Change of Land Use (which was the mechanism adopted under the Previous Agreement for the Investment Manager to acquire 40% equity interest of the Target Company) which would not occur until three years later. Thus the Directors are of the view that it is reasonable to determine the consideration with reference to, among other things, the Updated Valuation which is prepared based on the information currently available.

(v) The Vendor will also receive the Premium from Xingchen if the Guangzhou Municipal Government officially promulgates and implements the new urban renewal policy within 1.5 years from the date of signing the Disposal Agreement such that the compensation rate (as defined above) will increase to 60%.

(vi) Being able to complete the Disposal soon will reduce the uncertainty relating to the policy in the PRC towards the property sector and the prevailing economic outlook of the PRC which may have unfavourable effect on the Company.

The chart below sets out the illustrative cost-benefit analysis of early receiving the proceeds from the Disposal by the end of July 2019 with reference to the consideration under the Disposal and the value of the Vendor's existing interest in the Target Company on a hypothetical basis:

	Under the Disposal Agreement			Under the Previous Agreement				
	Consideration of the Disposal **(A)** *RMB million*	**Estimated savings of interest expenses in the coming four year** *(Note 1)* **(B)** *RMB million*	**Consideration of the Disposal plus savings of interest expenses** **(C)=(A)+(B)** *RMB million*	**Consideration of the Equity Transfer** *(Note 2)* **(D)** *RMB million*	**Value of remaining 40% interest of Target Company attributable to the Vendor after Equity Transfer** *(Note 3)* **(E)** *RMB million*	**Total value of the equity Transfer and the remaining 40% interest in the Target Company after Equity Transfer ("Existing Interest")** **(F)=(D)+(E)** *RMB million*	**Premium/ (Discount) of consideration of the Disposal to the total value of the Existing Interest** **(A)-(F)/(F)** *%*	**Premium/ (Discount) of consideration of the Disposal plus savings of interest expenses to the total value of the Existing Interest** **(C)-(F)/(F)** *%*
No premium	2,448	961	3,409	1,182	1,087	2,889	(15.6)%	17.6%
With premium	2,720	961	3,681	1,812	1,087	2,899	(6.2)%	27.0%

Notes:

(1) Savings of interest expenses of approximately (i) RMB648 million for the Shareholder's Loan of RMB1,440 million; (ii) RMB153 million for interest-bearing debts of approximately RMB400 million comprising a bond of approximately RMB160 million granted by a bank and a loan of RMB240 million due to a fund; (iii) RMB109 million for interest-bearing debts of RMB300 million comprising a bond of approximately RMB150 million granted by a bank and a loan of RMB150 million due to a fund; (iv) RMB36 million for a loan of RMB108 million due to a fund; and (v) RMB15 million of other liabilities of the Target Company amounting to RMB159 million should be settled within 21 months after signing the Previous Agreement, i.e. before October 2020.

(2) Based on the Updated Valuation, the consideration from the Equity Transfer for 40% interest of the Target Company would be RMB1,812 million.

(3) Taking into account the Updated Valuation and assuming a compensation rate (as defined above) of 60%.

As shown in the hypothetical analysis above, under the Previous Agreement, the consideration from the Equity Transfer for 40% interest of the Target Company would be RMB2 billion under the Initial Valuation. Based on the Updated Valuation, the consideration from the Equity Transfer for 40% interest of the Target Company would be adjusted to RMB1,812 million. As the Vendor would retain 40% interest of the Target Company under the Previous Agreement, taking into account the Updated Valuation and assuming a compensation rate (as defined above) of 60%, the Vendor's remaining 40% interest in the Target Company implies that the Company would be entitled to RMB1,087 million thereof. As a result, the Vendor's existing 80% interest in the Target Company would entitle the Vendor to a total amount of RMB2,899 million under the Previous Agreement.

Based on the above, the consideration of the Disposal represents (i) a discount of approximately 15.6% to the total value of the consideration of the Equity Transfer and the remaining 40% interest in the Target Company after the Equity Transfer (the "**Total Value of Existing Interest**") under the Previous Agreement (assuming that there will no Premium payable); and (ii) a discount of approximately 6.2% to the Total Value of Existing Interest under the Previous Agreement (assuming that the Premium will be received). If taking into account the savings of interest expenses of the Group, the consideration of the Disposal represents (i) a premium of approximately 17.6% to the Total Value of Existing Interest under the Previous Agreement (assuming that there will no Premium payable); and (ii) a premium of approximately 27.0% to the Total Value of Existing Interest under the Previous Agreement (assuming that the Premium will be received).

The above analysis is for illustration purpose only, and is based on certain assumptions, including but not limited to (i) the value of the Land upon completion of the Change of Land Use will be the same as the Updated Valuation; (ii) if the Disposal does not proceed, the Shareholder's Loan, the Loans and the amount due to the creditors of the Target Company will remain outstanding until completion of the Change of Land Use and the interest rates associated therewith will remain the same during the period when such loans and the amount due to creditors remain outstanding; and (iii) the applicable compensation rate (as defined above) is 60%. These assumptions are significant to an appraisal of the costs and benefits of the Disposal. As these assumptions of future events are by nature subject to uncertainty and are subject to events which are unforeseeable and beyond the Group's control, the actual costs and benefits in relation to the Disposal may differ significantly from the above analysis.

Taking into account the early receipt of the proceeds from the Disposal to meet the Group's existing debt obligations, the savings of interest expenses and the uncertainty relating to the property sector in the PRC as explained above, the Board is of the view that the terms under the Disposal Agreement (including the consideration) is better off than the Previous Agreement.

Condition precedent and termination

The Group has to discharge the liabilities and guarantees of the Target Company, discharge or terminate existing contracts of the Target Company, and carve-out the Target Company's interests in its subsidiaries before the transfer of the 80% equity interest of the Target Company. Otherwise, Xingchen has the option to terminate the Disposal Agreement. In order to save interest expenses of the Group, the Board will use its best endeavours to complete the above condition precedent as soon as possible.

The Vendor and Xingchen have reached the following consensus for implementing the Asset Reorganisation before the completion of the Disposal:

1) Discharge the liabilities and guarantees of the Target Company

The Company is negotiating with individual creditors of the Target Company to repay or assign the indebtedness owed to them. The Company expects the Target Company's liabilities could be reduced to below RMB159 million by 30 June 2019.

As regard the setting-off of inter-company payables between the Target Company and other members of the Group, it is entirely within the Company's control. The Company is finalising the figures and preparing the relevant documentations, and expects to complete the setting-off by 30 June 2019.

The Company is also negotiating with banks to release the guarantees which have been given by the Target Company. That may involve (i) provision of a replacement guarantee; or (ii) partial repayment of the underlying indebtedness. The Company does not expect any major obstacles to have such bank guarantees released by 31 May 2019.

2) Discharge or terminate existing contracts

As at the date of this circular, there are outstanding sales contracts and engineering contracts to which the Target Company is a party. The Company is negotiating with the relevant parties to terminate or discharge these sales contracts and engineering contracts by 30 June 2019. The Company does not envisage any major obstacles in terminating or discharging these contracts.

3) Carve out the Target Company's interests in its subsidiaries

There are three companies to be carved out.

The first one is Guangdong Pearl Steel Investment Management Co., Ltd. (廣東珠鋼投資管理有限公司) ("**Guangdong Pearl Steel Investment**"). This will be done by the Target Company transferring the entire equity interest of Guangdong Pearl Steel Investment to another member of the Group, which is entirely within the Company's control. This will involve the administrative procedures of filing with the State Administration of Industry and Commerce of the PRC which will take around one month to complete. The Company expects to complete this by 30 June 2019.

The Company also expects to carve out the Target Company's interest in Al-Qahtani PCK Pipe Company, a joint venture company owned as to 50% by the Target Company, and PCK Steel (Middle East) FZE, a wholly owned subsidiary of the Target Company, by transferring such equity interest to independent third party or another member of the Group. To implement the transfers, the Company will arrange to execute the sale and purchase agreements and register the transfers with the relevant government authorities in Saudi Arabia and Dubai. It is expected the transfers will take around three months and be completed by 31 July 2019.

The Disposal shall also be conditional upon the approval by the Shareholders at the EGM in accordance with the requirements under the Listing Rules.

In the event that the Land could not be changed from "industrial" to "commercial and residential" use within three years after the completion of the Disposal, Xingchen may request the Vendor or the Company to repurchase 80% of the equity interest of the Target Company at a consideration of RMB2,448 million plus an amount equal to an annualised percentage gain of 11%, payable within 30 days after the issue of notice from Xingchen regarding the failure of the Change of Land Use.

If Xingchen's equity interest in the Target Company is repurchased by the Vendor, it may constitute a notifiable transaction of the Company under Chapter 14 of the Listing Rules and the Company will comply with the relevant Listing Rules requirements.

In the event that the Disposal Agreement lapses, the Previous Agreement will remain effective. Pursuant to the terms of the Previous Agreement, the Vendor shall transfer 40% of the equity interest in the Target Company to the Nominee which shall be a company to be nominated by the Investment Manager but may not be Xingchen. Furthermore, the Shareholder's Loan and the Loans will continue to subsist and interests will continue to accrue pursuant to their respective terms. In addition, Xingchen has the right at any time to demand repayment of the principal and interest under the Loans with 10 days' notice.

LOANS FROM XINGCHEN

On 30 November 2018, Xingchen entered into a loan agreement with Guangzhou Pearl River Coating, pursuant to which Xingchen granted a loan in the amount of RMB400 million to Guangzhou Pearl River Coating.

Guangzhou Pearl River Coating (as borrower) is now negotiating with Xingchen (as lender) for another loan of RMB300 million.

The Loans shall be used for the repayment of certain existing loans owed by the Group in the amount of RMB700 million.

The Loans will be interest-free if the Disposal is completed. In the event the Disposal is not completed, the Loans will carry interest at the rate of 11.25% per annum starting from the date of drawing down.

INFORMATION OF THE COMPANY, THE VENDOR, THE TARGET COMPANY AND THE LAND

The Company is an investment holding company, the subsidiaries of which are principally engaged in the manufacture and sales of welded steel pipes, provision of related manufacturing services and property development and investment.

The Vendor is an indirect wholly-owned subsidiary of the Company which is principally engaged in investment holding and trading of steel pipes.

The Target Company is an indirect subsidiary of the Company principally engaged in the manufacturing and trading of steel pipes. As at the date of this circular, it owns the Panyu Factory, the Land and, through its subsidiaries, the GDC. The Target Company also holds certain investments in subsidiaries and joint venture. All the Target Company's assets (except the Land) and liabilities will be carved out from it prior to completion of the Disposal. The Land will be the only asset of the Target Company upon completion of the Disposal.

The Land has an area of approximately 280,227 square meters and is located at Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong Province, the PRC (中國廣東省廣州市番禺區石基鎮清河路). Currently, the Land is used by the Group to house the Panyu Factory at which the Group's principal production facilities of welded steel pipes were previously located. As at the date of this circular, the Group has already relocated the production lines to Lianyungang and Zhuhai. Currently the Group's production activities are mainly carried out in the production base in Lianyungang and Zhuhai.

According to the preliminary valuation made by an independent valuer as at 31 January 2019, the market value of the Land in industrial use is approximately RMB418 million.

According to the Updated Valuation, the fair value of the Land as at 31 January 2019 is around RMB4,530 million. The valuer has confirmed that as the current planning condition at redevelopment basis is preliminary and there is no any official supporting documents, their estimation is based on certain assumptions and no factual information can be relied on.

Set out below is the financial information of the Target Company (without considering its subsidiaries and joint ventures) for the two financial years ended 31 December 2017 and six months ended 30 June 2018:

	For the six months ended 30 June	For the year ended 31 December	
	2018	**2017**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	*(audited)*	*(audited)*
Turnover	181,581	498,564	493,159
Loss before tax	(137,748)	(211,853)	(290,897)
Loss after tax	(31,573)	(211,853)	(339,088)

Set out below is the consolidated financial information of the Target Company for the two financial years ended 31 December 2017 and six months ended 30 June 2018:

	For the six months ended 30 June	For the year ended 31 December	
	2018	**2017**	**2016**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	*(audited)*	*(audited)*
Turnover	194,490	516,851	543,985
Profit/(loss) before tax	(177,363)	80,621	(985,074)
Profit/(loss) after tax	(67,632)	94,792	(1,025,780)

As at 31 December 2018, the unaudited net book value of the Land (before the completion of the Change of Land Use) amounted to approximately RMB52.1 million.

INFORMATION OF XINGCHEN AND THE INVESTMENT MANAGER

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries:

(i) Xingchen is a company established in the PRC with limited liability which is an investment company owned by limited partnership funds which are managed by Guangzhou Yuexiu Industry Investment Fund Management Co., Ltd. (廣州越秀產業投

資基金管理股份有限公司) and ultimately owned by certain state-owned enterprises in the PRC including Guangzhou Yuexiu Group Company Limited (廣州越秀集團有限公司);

(ii) the Investment Manager is owned as to 38%, 22%, 20% and 20% by Guangzhou Yuexiu Financial Holdings Group Co., Ltd (廣州越秀金融控股集團股份有限公司), Guangdong Private Investment Company Limited (廣東民營投資股份有限公司), Guangdong Yueke Financial Group Co., Ltd. (廣東省粵科金融集團有限公司) and Guangdong Heng Jian Investment Holdings Limited (廣東恒健投資控股有限公司), respectively. Guangzhou Yuexiu Financial Holdings Group Co., Ltd is listed on the Shenzhen Stock Exchange (stock code: SZ000987) and is one of the largest property developers specialised in property investment and development in the PRC. The Investment Manager was responsible for executing the Previous Agreement;

(iii) Guangdong Yuecai Trust is a finance trust company established in the PRC with limited liability whose principal business is finance trust and is owned as to 98.14% and 1.86% by Guangdong Yuecai Investment Holdings Limited (廣東粵財投資控股有限公司) and Guangdong Science and Technology Venture Capital Co., Limited (廣東省科技創業投資有限公司), both of which are state-owned enterprises in the PRC; and

(iv) the Investment Manager is within the group of Guangzhou Yuexiu Group Company Limited (廣州越秀集團有限公司) and Xingchen is managed by Guangzhou Yuexiu Industry Investment Fund Management Co., Ltd. (廣州越秀產業投資基金管理股份有限公司), whereas Xingchen, the Investment Manager and Guangdong Yuecai Trust are state-owned enterprises. Xingchen, the Investment Manager and their respective ultimate beneficial owners are Independent Third Parties.

REASONS AND BENEFITS FOR THE DISPOSAL UNDER THE DISPOSAL AGREEMENT

The Group is principally engaged in the manufacture and sale of welded steel pipes and property development and investment.

The Group currently has two steel pipe production bases in the PRC, which are located in Zhuhai and Lianyungang.

As detailed in the 2018 Announcement and the 2018 Circular, the Group wanted to maximise the value of the Land by changing its use from "industrial" to "commercial and residential".

As at the date of this circular, part of the Asset Reorganisation as set out in the 2018 Announcement and the 2018 Circular has been completed as follows:

(i) all the bank loans (except the Shareholder's Loan) of the Target Company have been discharged;

(ii) two direct subsidiaries and the designated branch of the Target Companies have been closed or sold;

(iii) the purchase contracts of steel and materials of the Target Company have been completed;

(iv) the existing employment contracts of the Target Company have been terminated; and

(v) the designated intellectual property rights owned by the Target Company have been transferred to the members of the Group.

The Group has to do, including but not limited to, the following in relation to the Asset Reorganisation as per the 2018 Announcement and the 2018 Circular:

(i) disposal of the Target Company's interests in designated foreign enterprises;

(ii) the discharge of liabilities, contingent liabilities and resolution of specified litigation cases of the Target Company; and

(iii) the discharge of the existing contracts of the Target Company.

The Asset Reorganisation is now carried out under the direct supervision of the Board. The Board will ensure sufficient resources will be allocated to complete the outstanding steps of the Asset Reorganisation. The Directors are confident that Xingchen will grant the remaining Loans in the amount of RMB300 million to Guangzhou Pearl River Coating to repay the Company's bank loans and other borrowings before their maturity (i.e. the end of April 2019).

The Company will also ensure an open communication channel with the Investment Manager before the completion of the Disposal. The Company will keep the Investment Manager abreast of the status of the Asset Reorganisation and promptly discuss with the Investment Manager if there is any contingent event which may affect the timely completion of the Asset Reorganisation.

According to the terms of the Previous Agreement, the payment of the consideration of the Equity Transfer will only be made after completion of the Change of Land Use, which may take at least three years after the signing of the Previous Agreement.

As stated in the interim report of the Company for the six months ended 30 June 2018, the Company's short-term interest-bearing bank and other borrowings were approximately RMB2,346 million which were expected to mature within one year, of which approximately RMB700 million were expected to mature by April 2019. Furthermore, the Group is required to settle other liabilities of the Target Company including the discharge of liabilities, contingent liabilities and resolution of specified litigation cases in relation to certain purchase contracts of steel and materials of the Target Company as part of the Asset Reorganisation as required under the Previous Agreement. As at 30 November 2018, the Company has cash and cash equivalent of RMB120.7 million.

In view of the funding needs and tight cash position of the Company, the Company has approached and engaged discussions with a number of potential financiers. These discussions did not culminate in financing terms acceptable to the Company primarily because, among other things, the security required by the financiers would not be available (e.g. because the relevant assets had already been pledged or there were legal issues with enforceability) or high value dilution based on the terms proposed by the financiers. Having considered the uncertainty of the policy in the PRC towards property sector and the prevailing economic outlook of the PRC which may have unfavourable effect to the Company, and the immediate availability of net proceeds from the Disposal which can solve the immediate funding needs of the Company to meet its current debt obligations, the Company initiated the negotiation of the Disposal Agreement.

Having considered the factors in (i) to (vi) in the section headed "Consideration and Payment Terms" above, the Directors are of the view that early availability of the net proceeds from the Disposal which would otherwise be only receivable four years later pursuant to the Previous Agreement will allow the Company to save interest expenses for the Shareholder's Loan, the Loans and other liabilities of the Group, reduce the Group's existing debt level and strengthen the Group's cashflow position.

In addition, if the Previous Agreement should proceed to completion pursuant to its terms, the Vendor would retain 40% of the equity interest of the Target Company and participate in the future development of the Land after the Change of Land Use. However, after considering the Company's cash flow and financial position, the Directors believe that it is difficult to secure sufficient resources to satisfy the potential financial commitment that may come with the development of the Land. Accordingly, the Directors consider it is fair and reasonable to dispose of all equity interest of the Target Company instead of retaining 40% of the Target Company's equity interest and participate in the future development of the Land. There is no contractual commitment between the Company and any parties on the future development of the Land.

The Disposal will not have material effect on the business and operation of the Group. After the Disposal, the Group's core business, being the manufacture and sales of welded steel pipes, provision of related manufacturing services and property development and investment, will remain unchanged.

In view of the above, the cost-benefit analysis set out in the section headed "Consideration and Payment Terms" above and with reference to the preliminary valuation of the Land in industrial use made by an independent valuer as at 31 January 2019 of approximately RMB418 million, the Directors (including the independent non-executive Directors) considers that the terms of the Disposal Agreement and the Disposal are fair and reasonable, on normal commercial terms or better and in the interests of the Company and its shareholders as a whole.

The Group will continue to focus on its steel pipe business and property development after the Disposal.

The Group has relocated its production facilities from Panyu to Lianyungang and Zhuhai, which will become the Group's key production bases in the PRC in the future. The production bases in both Lianyungang and Zhuhai have obtained relevant qualification, certification and awards for the manufacturing of various types of steel pipes. The Zhuhai base and Lianyungang base have respectively been rewarded national and provincial titles and they will focus on securing orders of marine engineering equipment and oil and gas national projects by leveraging the Group's geographical advantages in southern part and northern part of the PRC. Following the 13th Five-Year Plan for Natural Gas Development, the Group is optimistic in capturing more business opportunities in the steel pipe business.

The Group will continue to develop GDC, its property development project in Panyu. GDC is a large-scale integrated commercial complex which was divided into three phases for development, of which phase one and phase two have already been pre-sold. GDC is part of the Group's strategy to widen its income sources.

INTENDED USE OF THE PROCEEDS OF THE DISPOSAL

After deducting expenses, the net proceeds from the Disposal before tax will amount to approximately RMB2,446 million assuming no Premium will be received and RMB2,718 million assuming the Premium will be received.

It is intended that the net proceeds from the Disposal will be applied as to RMB2,405 million for repayment of debts of the Group assuming no Premium will be received and as to RMB41 million for payment of land restoration fee. If the Premium is received, the Premium will be applied as working capital of the Company.

FINANCIAL EFFECT OF THE DISPOSAL

Upon completion of the Disposal, the Target Company will cease to be owned by the Group, and the results of the Target Company will no longer be consolidated into the consolidated financial statements of the Company.

The estimated net assets position and the estimated loans and liabilities (including trade and bills payables, other payables and accruals, interest-bearing bank and other borrowings, and fixed rate bonds and notes) of the Company upon the completion of the Disposal are RMB2,879.9 million (as at 30 June 2018: RMB501.6 million) and RMB5,118.2 million (as at 30 June 2018: RMB7,657.2 million) respectively.

The Board currently has no plan of any equity fund raising exercise in the coming 12 months. The Board will review its financial and liquidity position from time to time and explore various means to secure sufficient financial resources to support its operational and financial needs.

The gain on Disposal would be approximately RMB2,179.3 million if no Premium is received and RMB2,424.1 million if the Premium is received.

IMPLICATIONS UNDER THE LISTING RULES

As one or more of the applicable percentage ratios, calculated by reference to Rule 14.07 of the Listing Rules, is more than 75%, the Disposal constitutes a very substantial disposal for the Company and is subject to the requirements of reporting, announcement and approval by the Shareholders at the EGM under Chapter 14 of the Listing Rules.

As at the date of this circular, Guangdong Yuecai Trust holds 20% issued share capital of the Target Company, and accordingly is its substantial shareholder. Guangdong Yuecai Trust is a connected person at the subsidiary level according to Rule 14A.07(1) of the Listing Rules. Accordingly, the Disposal contemplated under the Disposal Agreement, to which Guangdong Yuecai Trust is a party, constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (1) Guangdong Yuecai Trust is a connected person at the subsidiary level, (2) the Board has approved the Disposal; and (3) the independent non-executive Directors have confirmed that the terms of the Disposal are fair and reasonable and the Disposal is on normal commercial terms or better and in the interests of the Company and its shareholders as a whole, the Disposal is subject to the reporting and announcement requirements, and is exempt from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As no Director has a material interest in the Disposal, no Director is required to abstain from voting on the Board resolution approving the Disposal.

EGM

The EGM will be convened and held for the Shareholders to consider and, if thought fit, to approve the Disposal. As no Shareholder has a material interest in the transactions contemplated in the Disposal Agreement, no Shareholder is required to abstain from voting at the EGM.

Notice of the EGM is set out on pages 101 to 102 of this circular and a form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the proxy from will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you wish and in such event, the form of proxy shall be deemed to be revoked.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the Shareholders' entitlement to attend and vote at the EGM, the register of members of the Company will be closed from Thursday, 11 April 2019 to Tuesday, 16 April 2019, both days inclusive, during which no transfer of Shares will be registered. In order to qualify for attending and voting at the EGM or any adjournment thereof, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 10 April 2019.

RECOMMENDATION

Based on the information set out in this circular, the Directors (including the independent non-executive Directors) are of the opinion that the Disposal is in the interests of the Company and the Shareholders as a whole, and the terms of the Disposal Agreement are fair and reasonable. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Disposal.

As the Disposal are subject to the fulfillment of conditions precedent and may or may not proceed, Shareholders and potential investors should exercise caution when dealing in the Shares.

ADDITIONAL INFORMATION

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

Your faithfully,
On behalf of the Board
Chu Kong Petroleum and Natural Gas
Steel Pipe Holdings Limited
Chen Chang
Chairman

1. FINANCIAL INFORMATION OF THE GROUP INCORPORATED BY REFERENCE

The audited consolidated financial statements of the Group for the years ended 31 December 2015, 2016 and 2017 and the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2018, including the notes thereto, have been disclosed in the following documents which are available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pck.com.cn) or (www.pck.todayir.com).

- Interim report of the Company for the six months ended 30 June 2018 published on 12 September 2018, from pages 19 to 54;
- Annual report of the Company for the year ended 31 December 2017 published on 19 April 2018, from pages 115 to 234;
- Annual report of the Company for the year ended 31 December 2016 published on 28 April 2017, from pages 111 to 226;
- Annual report of the Company for the year ended 31 December 2015 published on 15 April 2016, from pages 62 to 130.

2. STATEMENT OF INDEBTEDNESS

Bank and other borrowings

As at the close of business on 31 January 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the total borrowings of the Group comprising the following:

	RMB'000
Bank loans	
– Secured	2,725,794
– Unsecured	79,174
Government loans	
– Secured	378,400
Other borrowing	
– Secured	2,081,853
– Unsecured	716,782
Fixed rate bonds	
– HKD155 million 8% Bonds due 2020	119,433
– USD3 million 7% Bonds due 2020	17,260
– HKD10 million 6% Bonds due 2020	6,386
– HKD10 million 7% Bonds due 2021	6,773
	6,131,855

As at 31 January 2019, the Group's bank and other borrowings were secured by:

(a) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB831,064,000;

(b) a charge over certain leasehold land of the Group with a net carrying amount of approximately RMB617,377,000;

(c) certain of the Group's time deposits amounting to RMB408,220,000; and

(d) a charge of certain of the properties under development and completed properties held for sale of the Group amounting to RMB1,505,040,000.

Fixed rate bonds

As at the close of business on 31 January 2019, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding fixed rate bonds with aggregated principal amount of RMB150 million and interest accrued of RMB4 million.

Contingent liabilities

As at 31 January 2019, the Group had the following outstanding contingent liabilities:

(a) guarantee RMB161.8 million to certain purchasers of the Group's properties for mortgage facilities; and

(b) guarantee RMB518.7 million to joint venture for banking facilities in Saudi Arabia of which RMB331.8 million was utilized by the joint venture.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, the Group did not have any debt securities, any other outstanding loan capital, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills and payables) or other similar indebtedness, debentures, mortgages, charges, loans, acceptance credits, hire purchase commitments, guarantees or other material contingent liabilities at the close of business on 31 January 2019.

The Directors have confirmed that there has been no material change in the borrowings and contingent liabilities of the Group since 31 January 2019.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into RMB at the rates of exchange prevailing at the close of business on 31 January 2019.

3. WORKING CAPITAL

As at the Latest Practicable Date, the Directors, after due and careful enquiry, are of the opinion that taking into account the Disposal, the present internal resources of the Group as well as the banking and other facilities available to the Group, the Group will have sufficient working capital for at least next 12 months from the date of this circular in the absence of unforeseeable circumstances.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

After the completion of the Disposal, the only asset to be held by the Target Company shall be the Land. The Remaining Group will continue to carry out its existing businesses. The management discussion and analysis of the Remaining Group for each of the years ended 31 December 2015, 2016 and 2017 and the six months ended 30 June 2018 is set out below. The financial data in respect of the Remaining Group, for the purpose of this circular, is derived from the consolidated financial statements of the Company for the relevant financial years/period which are available on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (pck.todayir.com).

(a) For the six months ended 30 June 2018

(i) Financial review

Revenue

During the six months ended 30 June 2018, the Remaining Group recorded a revenue of approximately RMB475.7 million (1H2017: RMB418.0 million), representing an increase of approximately 13.8% as compared with the corresponding period in 2017. The increase in revenue was due to rebound of steel pipes demand in the PRC.

During the six months ended 30 June 2018, the revenue from domestic sales and overseas sales of the Remaining Group represented approximately 72.4% (1H2017: 46.7%) and approximately 27.6% (1H2017: 53.3%) respectively of the total revenue of the Remaining Group. Domestic sales increased as compared with the corresponding period in 2017 due to rebound of steel pipes demand in the PRC.

Gross Profit and Gross Profit Margin

During the six months ended 30 June 2018, gross profit of the Remaining Group was approximately RMB43.2 million (1H2017: RMB33.6 million), representing an increase of approximately 28.6% as compared with the corresponding period in 2017. The overall gross profit margin of the Remaining Group was approximately 9.1%, which was higher than that for the same period in 2017 which was approximately 8.0%. The increase in gross profit and gross profit margin of the Remaining Group was because the sales of steel pipes manufacturing services increased where its gross profit margin was generally high.

Other income and gains

Other income and gains of the Remaining Group for the six months ended 30 June 2018 were approximately RMB44.9 million (1H2017: RMB103.1 million), representing a decrease of approximately 56.5% as compared with the corresponding period in 2017. Such decrease was due to a forfeiture of customer deposit in the first half of 2017 but nil in the first half of 2018.

Selling and distribution expenses

Selling and distribution expenses of the Remaining Group for the six months ended 30 June 2018 were approximately RMB32.8 million (1H2017: RMB53.1 million), representing a decrease of approximately 38.2% as compared with the corresponding period in 2017. Such decrease was mainly due to a decrease in selling expenses for property sector.

Administrative expenses

Administrative expenses of the Remaining Group for the six months ended 30 June 2018 were approximately RMB230.4 million (1H2017: RMB227.5 million), representing an increase of approximately 1.3% as compared with the corresponding period in 2017. The increase in administrative expenses was mainly due to expenses of around RMB41 million incurred for asset reorganisation which was one-off in nature during the six months ended 30 June 2018.

Finance costs

Finance costs of the Remaining Group for the six months ended 30 June 2018 were approximately RMB187.0 million (1H2017: RMB199.5 million), representing a decrease of 6.3% as compared with the corresponding period in 2017. The decrease was due to a decrease in average borrowing balance during the six months ended 30 June 2018.

Other expenses

The Remaining Group recorded other expenses of approximately RMB44.3 million for the six months ended 30 June 2018, representing an increase of approximately 855.8% as compared with the corresponding period in 2017. The increase was due to loss of disposal of a subsidiary and property, plant and equipment during the six months ended 30 June 2018.

Income tax expenses

Income tax expenses of the Remaining Group of approximately RMB2.1 million was recorded for the six months ended 30 June 2017 while tax credit of approximately RMB109.9 million was recorded for the six months ended 30 June 2018. Deferred tax credit of the Remaining Group was recorded as the Remaining Group expects there was gain on disposal of land in Panyu.

Loss for the period

The net loss attributable to the owners of the Remaining Group was approximately RMB311.8 million (1H2017: RMB361.3 million).

(ii) Business review

Steel pipe business

During the six months ended 30 June 2018, the Remaining Group received new orders of approximately 180,000 tonnes of steel pipes. Orders received during the six months ended 30 June 2018 including orders from Sinopec for supplying approximately 10,000 tons of steel pipes for its New Gas Pipeline Project in Qianjiang-Shaoguan（潛江－韶關新輸氣管道工程）and 8,000 tons of steel pipes for its oil pipeline in Shandong（魯豫原油管道）; and 25,000 tons of longitudinal submerged arc welded steel pipes for the construction projects in Hong Kong. We delivered approximately 159,000 tonnes of welded steel pipes during the six months ended 30 June 2018.

The Remaining Group's joint venture company-AHQ (the "**JV Company**") in Saudi Arabia also entered into a local delivery procurement agreement with Saudi Arabian Oil Company ("**Saudi Aramco**"), an independent third party, for supplying longitudinal submerged arc welded steel pipes for a period of one year (with the option to extend by mutual agreement) to its gas and oil project in Saudi Arabia. The JV Company enabled the Group to expand its market shares in Saudi Arabia and other neighboring countries.

Property development

Apart from the steel pipe manufacturing, the Remaining Group also engaged in property development and investment. Following the conversion of a land in Panyu, PRC in 2013, the Remaining Group grasped the opportunity of asset appreciation to convert the land use right of the Panyu production plant from industrial use to commercial use. The property project, named Golden Dragon City Fortune Plaza GDC (the "**Development**"), is a large scale integrated commercial complex of offices, shops, apartments and villas. The land area of the converted land accounted for approximately 25% of the total land area of our factory in Panyu. The total permitted construction area of the land (including underground construction area) is approximately 550,000 square meters.

The Remaining Group has pre-sold the first phase and second phase of GDC and the total contracted sales were approximately RMB1,487.5 million. The Group will recognize such property sales in 2018.

(iii) Liquidity and financial resources and capital structure

As at 30 June 2018, cash and bank balances and current ratio of the Remaining Group, as a ratio of current assets to current liabilities, were approximately RMB56.8 million (as at 31 December 2017: RMB36.4 million) and 0.87 (as at 31 December 2017: 0.66) respectively.

On 27 April 2017, the Remaining Group entered into a note purchase agreement (the "**Note Purchase Agreement**") with an investment fund, pursuant to which the Company agreed to issue, and the investment fund agreed to purchase from the Company, HKD155,000,000 8% notes due in April 2020 (the "**Notes**"). Pursuant to the Note Purchase Agreement, specific performance obligations (the "**Specific Performance Obligations**") are imposed on Mr. Chen, the controlling shareholder of the Company, during the term of the Note Purchase Agreement including (i) Mr. Chen, directly or indirectly, holds or owns more than 50% of the voting rights of the Company; or (ii) the controlling shareholder of the Company, has management control of the Company. Any breach of the Specific Performance Obligations may constitute a breach under the Note Purchase Agreement, pursuant to which the investment fund is entitled to redeem the Notes immediately upon the occurrence of the breach in accordance with the terms and conditions of the Notes.

On 1 June 2017, the Remaining Group entered into a facility agreement with an investment company (the "**Investment Company**"), in respect of a one-year loan in an aggregate amount of HKD350 million (the "**Loan**"). Under the terms of the Loan, Mr. Chen Chang and Bournam shall remain as shareholders of the Company interested in an aggregate of no less than 69.42% of the shareholding in the Company.

On 22 June 2018, the Remaining Group entered into a loan amendment deed with the Investment Company, pursuant to which the Investment Company agreed to provide a further advance of HKD250 million (together with the Loan, the "**Loans**"). In return for the further advance, the Company agreed to provide further security for the Loans and to issue unlisted warrants to the Investment Company. The issue of the warrants is pending, and subject to, the approvals of the shareholders of the Company and the Stock Exchange. Upon the issue of the warrants, the Loans will be converted into a three-year term loan.

On 30 April 2018, the Remaining Group failed to redeem the bonds (the "**Bonds**") with a principal amount of USD72 million. On 22 June 2018, the Company entered into a rescheduling agreement with all holders of the Bonds (the "**Bondholders**"), pursuant to which, the Company shall make partial payments to the Bondholders in accordance with a new repayment schedule, with the last payment being due on 30 April 2019. The Company is to pay interest on the Bonds at the rate of 7.6% per annum during the standstill period.

As at 30 June 2018, aggregate borrowings of the Remaining Group were approximately RMB6,137.3 million (as at 31 December 2017: approximately RMB5,821.3 million), of which approximately RMB5,981.4 million (as at 31 December 2017: RMB5,059.7 million) were bank loans, other borrowings and government loans, approximately RMB8.9 million (as at 31 December 2017: RMB153.2 million) were for obligations under finance leases, and approximately RMB147.0 million (as at 31 December 2017: RMB608.4 million) were USD and HKD bonds.

Included in the aggregate borrowings of the Remaining Group as at 30 June 2018, there were onshore guarantees for offshore loan（內保外貸）of around RMB471 million, property development loan of around RMB1,481 million and shareholder loan from Guangdong Yuecai of around RMB1.68 billion. Excluding the above loans, the loans for steel pipe business as at 30 June 2018 were around RMB2,505 million. The Remaining Group has to finance our working capital by short term borrowings as around 90% of the cost of sales is incurred on the procurement of steel plates and steel coils. Once the Remaining Group receives sales proceeds from our customers, it will repay the short term borrowings.

The maturity profile of total borrowings of the Remaining Group as at 30 June 2018 was spread over a period of over five years, with approximately 38% (as at 31 December 2017: 65%) of the total borrowings repayable within one year, approximately 43% (as at 31 December 2017: 16%) repayable between two to five years and the remaining 19% (as at 31 December 2017: 19%) repayable after five years. The Remaining Group has net current liabilities of approximately RMB671.7 million as at 30 June 2018 as some long term interest-bearing loans will be repayable within one year and is classified as current portion of the borrowings and the Group has received around RMB1,184.2 million from pre-sale of Phase I and Phase II of GDC as at 30 June 2018. Net current liabilities of the Remaining Group as at 30 June 2018 decreased as compared with that of 31 December 2017 as the Remaining Group has received a 3-year shareholder loan of RMB1.68 billion from Guangdong Yuecai to repay all of the short-team borrowings of Panyu Chu Kong Steel Pipe Co., Ltd（番禺珠江鋼管有限公司）(“**PCKSP**”). The Remaining Group is also actively seeking other funding opportunities to meet the short term obligations, e.g. considering a possible disposal of part of the Remaining Group’s interest in Guangdong Pearl Steel Investment Management Co. Ltd with a view to achieving the effective sale of the Remaining Group’s interest in Phase III of GDC.

As at 30 June 2018, approximately 44% (as at 31 December 2017: 62%) of total borrowings of the Remaining Group were denominated in RMB which carried interest rates linked to the benchmark lending rate published by the People's Bank of China, approximately 40% (as at 31 December 2017: 22%) of our total borrowings were denominated in RMB which carried fixed interest rate, approximately 1% (as at 31 December 2017: nil) of our total borrowings were denominated in HKD with interest rate linked to Hong Kong Interbank Offered Rate and approximately 15% (as at 31 December 2017: 16%) of total borrowings of the Remaining Group were denominated in USD and HKD which carried fixed interest rate.

(iv) Significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures

On 12 February 2018, the Remaining Group has entered into an agreement (the "**Agreement**") with Guangdong Yuecai Trust Co. Limited*(廣東粵財信托有限公司)("**Guangdong Yuecai**" together with its nominee, the "**Investors**") and Guangzhou Asset Management Company Limited*(廣州資產管理有限公司)("**Guangzhou Asset Management**") in relation to the cooperation to facilitate the change of use of land (the "**Land**") held by PCKSP from "industrial" to "residential and commercial" and the disposal of (actual and deemed) an aggregate of 59% of the equity interest in PCKSP to the Investor. Chu Kong Steel Pipe Group Co. Limited ("**CKSPG**"), a wholly-owned subsidiary of the Company, which owned 99% of PCKSP and CKSPG shall reorganise the assets and liabilities of PCKSP (the "Asset Reorganisation"). After the Asset Reorganisation, the only asset held by PCKSP shall be the Land. Pursuant to the Agreement, the Investors shall, by stages, (i) inject capital into PCKSP and acquire 19% of the equity interest in the PCKSP for RMB240 million; (ii) implement the Asset Reorganisation; (iii) apply for the change of Land use; and (iv) acquire 40% of the equity interest in PCKSP from CKSPG for a consideration equivalent to 40% of the fair value of the Land (after the change of Land use).

Except for the above, the Remaining Group had no other significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the six months ended 30 June 2018.

(v) Employees and remuneration

As at 30 June 2018, the Remaining Group had 1,200 full time employees in total (as at 31 December 2017: 1,600). The Remaining Group provided competitive remuneration package including salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory retirement benefit schemes for employees in their respective countries.

(vi) Charge on assets

As at 30 June 2018, the Remaining Group pledged certain property, plant and equipment, land use rights, time deposits and certain properties under development with an aggregate net book value of RMB1,274.8 million (as at 31 December 2017: RMB1,477.5 million), RMB529.3 million (as at 31 December 2017: RMB949.9 million), RMB420.1 million (as at 31 December 2017: RMB413.7 million) and RMB1,451.9 million (as at 31 December 2017: RMB1,355.9 million) respectively, to secure bank loans granted to the Remaining Group.

(vii) Gearing ratio

The gearing ratio of the Remaining Group, expressed as a percentage of the summation of interest-bearing borrowings, finance lease and bonds over total assets of approximately RMB10,598.3 million (as at 31 December 2017: RMB10,153.1 million) was approximately 58.2% (as at 31 December 2017: 57.6%) as at 30 June 2018.

(viii) Exposure to fluctuations in exchange rates and any related hedges

During the six months ended 30 June 2018, most of the Remaining Group's operating transactions are settled in RMB except for export sales which are mostly denominated in USD. Apart from the 16% of borrowings and bonds denominated in USD/HKD, most of our assets and liabilities are denominated in RMB. The Remaining Group did not adopt formal hedging policies nor instruments of foreign currency for hedging purposes during the six months ended 30 June 2018.

(ix) Contingent liabilities

As at 30 June 2018, the Remaining Group guaranteed RMB221.2 million (as at 31 December 2017: RMB174.1 million) to certain purchases of the Remaining Group's properties for mortgage facilities.

As at 30 June 2018, the Remaining Group guaranteed RMB520.1 million (as at 31 December 2017: RMB217.8 million) to joint venture for banking facilities in Saudi Arabia of which RMB306.0 million (as at 31 December 2017: RMB200.5 million) was utilized by the joint venture.

(b) For the year ended 31 December 2017

(i) Financial review

Revenue

For the year ended 31 December 2017, revenue of the Remaining Group was approximately RMB873.3 million, representing a decrease of approximately RMB570.2 million or 39.5% as compared with that of 2016. The decrease in revenue was mainly due to the decrease in both overseas and domestic orders received by the Remaining Group. This was due to the slowdown in the rolling out of major oil and gas projects.

Overseas sales of the Remaining Group accounted for approximately 46.4% of our total revenue in 2017, as compared to approximately 56.9% in 2016.

Gross profit and gross profit margin

Gross profit of the Remaining Group for 2017 was approximately RMB58.1 million as compared with approximately RMB81.6 million in 2016, representing a decrease of approximately 28.8% or RMB23.5 million. Gross profit margin of the Remaining Group for 2017 was approximately 6.7% which was at similar with that of last year.

Other income and gains

Other income and gains of the Remaining Group in 2017 mainly represented bank interest income, subsidy income from government and forfeiture of customer deposit. Other income and gains increased by approximately 274.2% or RMB103.0 million from approximately RMB37.6 million in 2016 to approximately RMB140.6 million in 2017. Increase in other income and gains was mainly due to increase in bank interest income and forfeiture of customer deposit during 2017.

Selling and distribution expenses

Selling and distribution expenses of the Remaining Group decreased by approximately 25.7% or RMB37.1 million from approximately RMB144.4 million in 2016 to approximately RMB107.3 million in 2017. The decrease was mainly due to the decrease in sales.

Administrative expenses

Administrative expenses of the Remaining Group increased by approximately 1.0% or RMB4.6 million from approximately RMB469.5 million in 2016 to approximately RMB474.1 million in 2017. Administrative expenses in 2017 was at similar level with that of last year.

Finance costs

The finance costs of the Remaining Group for 2017 was approximately RMB426.3 million which were higher than that of 2016 which was approximately RMB237.1 million. The effective interest rate of the Remaining Group in 2017 was approximately 7.3% (2016: 3.7%). Increase in finance cost was due to increase in average interest rate.

Impairment of property, plant and equipment

The Remaining Group recorded an impairment on property, plant and equipment of approximately RMB18.0 million for the year ended 2017 (2016: RMB516.3 million).

Other expenses

Other expenses of the Remaining Group decreased by approximately 87.8% or RMB92.4 million from approximately RMB105.3 million in 2016 to approximately RMB12.9 million in 2017. The decrease was mainly due to provision for inventories and trade and other receivables of approximately RMB99.3 million in last year.

Exchange loss

The Remaining Group recorded exchange loss of approximately RMB44.1 million in 2017 as compared to exchange loss of approximately RMB86.4 million in 2016. The decrease in exchange loss was mainly due to depreciation of RMB against USD to a lesser extent this year.

Income tax expenses

Income tax expenses of the Remaining Group decreased from RMB56.2 million in 2016 to income tax credit of RMB14.6 million in 2017. Income tax expense in last year was mainly related to the reversal of deferred tax assets in last year. Income tax credit in 2017 was related to deferred tax liability of property business sector decreased. PCKSP, and Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd. ("**PCKSP (Zhuhai)**"), wholly-owned subsidiaries of the Company, were qualified as High and New Technology Enterprises and thus entitled to a reduced tax rate of 15% in 2017 (2016: 15%).

Loss for the year

The Remaining Group recorded a loss of approximately RMB872.2 million in 2017 (2016: RMB1,497.5 million).

(ii) Business review

Steel pipe business

In 2017, the Remaining Group received new orders of approximately 127,000 tonnes and approximately 33% were received from overseas customers. During the year, the Group has entered into a global frame agreement with Petroliam Nasional Berhad ("**Petronas**"). The Group will become a qualified supplier of Petronas to supply steel pipes of LSAW, HFW and bends up to December 2019 with two years extension option. PCKSP will be entitled to receive orders from projects of Petronas' approved contractors. The Remaining Group has received some sizeable overseas orders like offshore windfarm project in the United Kingdom. The Remaining Group delivered approximately 214,000 tonnes of welded steel pipes during 2017.

Property development

In 2013, the Remaining Group has converted a piece of land in Panyu into commercial use. The total land area of such piece of land is 125,000 square meters which accounted for 25% of the total area of the parcels of land owned by the Group in Panyu (the "**Panyu Land**"). The total construction area of the Panyu Land is 550,000 square meters. The Panyu Land will be divided into three phases for development.

The Remaining Group had pre-sold the first phase and second phase of GDC and the total contracted sales were approximately RMB1,079.6 million as at 31 December 2017. The Remaining Group will record the sale of properties in 2018.

(iii) Liquidity and financial and capital structure

On 27 April 2017, the Remaining Group entered into a note purchase agreement (the "**Note Purchase Agreement**") with an investment fund, pursuant to which the Company agreed to issue, and the investment fund agreed to purchase from the Company, HKD155,000,000 8% notes due in April 2020 (the "**Notes**"). Pursuant to the Note Purchase Agreement, specific performance obligations (the "**Specific Performance Obligations**") are imposed on Mr. Chen Chang, the controlling shareholder of the Company, during the term of the Note Purchase Agreement including (i) Mr. Chen Chang, directly or indirectly, holds or owns more than 50% of the voting rights of the Company; or (ii) the controlling shareholder of the Company has management control of the Company. Any breach of the Specific Performance Obligations may constitute a breach under the Note Purchase Agreement, pursuant to which the investment fund is entitled to redeem the Notes immediately upon the occurrence of the breach in accordance with the terms and conditions of the Notes.

On 28 April 2017, the Remaining Group issued a bond with a principal amount of US dollar 3,000,000 to an investor, Ms Fang, Lisa Qiu (邱運鳳). The bond will be repayable in full by April 2020. The bond bears a fixed coupon interest rate at 7% per annum for three years payable semi-annually, commencing on 28 October 2017. The bond is unsecured.

On 24 August 2017, the Remaining Group issued a bond with a principal amount of HKD10 million to an investor, Mr. Ye Hong Xiang (葉弘翔). The bond will be repayable in full by August 2021. The bond bears a fixed coupon interest rate at 7% per annum for four years payable semi-annually, commencing on 24 February 2018. The bond is unsecured.

On 26 September 2017, the Remaining Group issued a bond with a principal amount of HKD10 million to an investor, Mr. Hu Gan Ming (胡淦銘). The bond will be repayable in full by September 2020. The bond bears a fixed coupon interest rate at 6% per annum for three years payable semi-annually, commencing on 26 March 2018. The bond is unsecured.

As at 31 December 2017, the Remaining Group's total borrowings amounted to approximately RMB5,821.3 million, of which approximately 35% (2016: 30%) were long term borrowings and approximately 65% (2016: 70%) were short term borrowings. Approximately 60% of total borrowings of the Group were for financing working capital of the Remaining Group, and approximately 40% of total borrowings of the Remaining Group were financing capital expenditure of the Remaining Group. The Remaining Group had to finance its working capital by short term borrowings as around 90% of the cost of sales was incurred on the procurement of steel plates and steel coils. Once the Remaining Group received sales proceeds from its customers, it would then repay the short term borrowings. Taking into account the Remaining Group's cash in hand and the available banking facilities of RMB515.5 million, the Remaining Group had sufficient liquidity and was in a strong financial position to repay its short term borrowings.

As at 31 December 2017, the current liabilities of the Remaining Group exceeded its current assets by approximately RMB2,167.0 million. Phase I and phase II of GDC has been pre-sold in order to increase the cashflow of the Remaining Group. Furthermore, subsequent to 31 December 2017, the Remaining Group has received a 3-year shareholders loan of RMB1.68 billion from Guangdong Yuecai. The Group has sufficient cashflow to meet its short term obligations.

As at 31 December 2017, approximately 61% (2016: 43%) of the total borrowings of the Remaining Group were denominated in Renminbi, which carried interest rates linked to the benchmark lending rate published by the People's Bank of China; approximately 15% (2016: 15%) of the total borrowings were denominated in Renminbi which carried fixed interest rate; approximately 0% (2016: 9%) of the total borrowings were denominated in US dollar and HK dollar with interest rates linked to the London interbank offered rates for US dollar loans and Hong Kong interbank offered rates for HK dollar loans; and approximately 24% (2016: 33%) of the total borrowings were denominated in US dollar which carried fixed interest rate.

(iv) ***Significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures***

In November 2016, the Remaining Group entered into a subscription agreement with Fang Yang Commerce Trade Company Limited(中國方洋商貿有限公司)(“**Fangyang**”), pursuant to which the Remaining Group would inject its existing land and equipment at a market value of RMB982 million and Fangyang would inject RMB500 million by cash to the registered capital of Lianyungang Zhujiang Metal Composite Materials Co., Ltd.*(連雲港珠江金屬複合材料有限公司)(the “**JV Company**”). Upon completion of the capital injection, Fangyang held 33.33% of the enlarged registered capital of the JV Company and the Remaining Group’s equity interest in the JV Company reduced from 100% to 66.67%. The Remaining Group also entered into a non-legally binding memorandum of understanding with Fangyang, pursuant to which Fangyang would further inject RMB200 million by cash to the registered capital of the JV Company. If this further capital injection materializes, Fangyang would hold 41.2% of the further enlarged registered capital of the JV Company and the Remaining Group’s equity interest in the JV Company would further reduce to 58.8%. The JV Company entered into construction agreements for the purchase of bimetal composite plate processing equipment and construction of the processing plant for an aggregate consideration of not more than RMB2.5 billion. The Company has obtained written approval of the capital injection from Mr. Chen Chang and Bournam Profits Limited. The construction agreements for the purchase of bimetal composite plate processing equipment and construction of the processing plant was duly passed by the shareholders of the Company (the “**Shareholders**”) at the extraordinary general meeting on 25 January 2017. The principal business of the JV Company is the manufacturing and sales of bimetal composite plates. The construction of the processing plant will provide the Remaining Group with a stable supply of raw materials located near its production base at costs under its control. The capital injection will provide the start-up capital for the construction plant and the introduction of a reliable partner located in Lianyungang. The JV Company will be consolidated in the Company’s financial statements.

On 30 December 2016, the Remaining Group entered into a purchase agreement with Guangzhou City Pearl River Machine Tool Works Co., Ltd.*(廣州市珠江機床廠有限公司)("**GZMT**") for the purchase of spare parts and production line ("**Purchase Transaction**") from the latter for the maintenance of machines, installation of rolling line electrical drive system equipment and transformation of steel transportation system of bimetal composite plate processing plant in Lianyungang, the PRC. The consideration for the Purchase Transaction is approximately RMB173.6 million. The purchase of the spare parts and production line is mainly for the construction of the bimetal composite plate processing plant in Lianyungang, the PRC as per the Company's announcement dated 18 November 2016 and the circular dated 9 January 2017. GZMT is ultimately, wholly and beneficially, owned by Mr. Chen Chang, the controlling shareholder and chairman of the Company, and is therefore an associate of Mr. Chen Chang and a connected person of the Company. The Purchase Transaction was duly passed by the independent shareholders of the Company at the extraordinary general meeting on 19 June 2017. As at 31 December 2017, the amount due from a related party of approximately RMB84.6 million was the advance payment to GZMT for the Purchase Transaction.

On 19 April 2017, the Remaining Group and (Jiangsu Yungang Investment Development Company Limited*(江蘇雲港投資發展有限公司)("**Yungang**") entered into an Asset Transfer Agreement, pursuant to which, the Group agreed to sell, and Yungang agreed to purchase, the right of use of four land parcels and six production plants (the "**Assets**") of 連雲港艾可新型建材有限公司 (Lianyungang Aike New Construction Materials Limited*) ("**Lianyungang Aike**") at a total consideration of RMB76 million. The total net book value of the Assets of Lianyungang Aike as at 31 March 2017 was approximately RMB76.2 million. The disposal of the Assets is to enhance the working capital position by disposing non-core assets of the Remaining Group. The net proceeds from the disposal of the Assets was for the general working capital of the Remaining Group for its future business development.

On 11 September 2017, the Remaining Group and Jiangyin City ChangPeng Recycled Resources Company Limited*(江陰市長鵬再生資源有限公司)("**Jiangyin ChangPeng**") entered into an asset transfer agreement, pursuant to which the Remaining Group agreed to sell, and Jiangyin ChangPeng agreed to purchase, the right of use of land parcel and production plant of Jiangsu production plant at a total consideration of RMB43.8 million. The total net book value of the disposed assets of Jiangyin production plant as at 31 July 2017 was approximately RMB42.4 million. The Jiangyin production plant was acquired by the Group before listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). Since there is only one production line in the Jiangyin production base and the space for its expansion is limited, the Remaining Group has developed the production bases in Lianyungang and Zhuhai. Now that the production bases in Lianyungang and Zhuhai are in operation, the Group can centralize its administration in the two major production bases. The disposal is to enhance the effectiveness of the Remaining Group's management. The net proceeds from the disposal will be used as repayment of bank loan by the Remaining Group. The disposal will not have material effect on the business and operation of the Remaining Group.

On 25 October 2017, the Remaining Group and Guangzhou Ningjin Decoration Works Company Limited*（廣州寧進裝飾工程有限公司）(''**Guangzhou Ningjin**'') entered into a transfer agreement, pursuant to which, the Remaining Group agreed to sell, and Guangzhou Ningjin agreed to purchase, the property in Panyu at a total consideration of RMB55 million. The property is located at No. 9, 11, Dalong Street, Limin Street, Shiji Town, Panyu District, Guangzhou, the PRC*（中國廣州番禺區石基鎮大龍街利民街9號11號）with construction area of approximately 14,000 square meters. The book value of the property as at 30 September 2017 was approximately RMB42.89 million. The property is a non-core asset of the Remaining Group. The disposal has no impacts on the business operation of the Remaining Group. The disposal of property is to enhance the cashflow position of the Remaining Group.

Except the above, the Remaining Group had no other material acquisitions or disposals during the year.

(v) Employees and remuneration

For the year ended 31 December 2017, staff costs of the Remaining Group (including Directors' remuneration in the form of salaries and other benefits) were approximately RMB178.0 million (2016: RMB212.2 million).

The Remaining Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. Package of the Remaining Group includes salaries, medical insurance, discretionary bonuses, on-job training, other benefits as well as mandatory provident funds schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC. Pursuant to the Company's share option scheme and share award scheme, options to subscribe respectively for shares in the Company or share awards of the Company may be granted to eligible employees. No share option or share award was granted under the share option scheme or share award scheme during the year ended 31 December 2017.

As at 31 December 2017, the Remaining Group had a total of 1,600 full time employees (2016: 2,100 employees).

(vi) Charge on assets

The Remaining Group pledged certain property, plant and equipment, land use rights, time deposits and certain properties under development with an aggregate net book value of approximately RMB1,477.5 million (2016: RMB1,512.5 million), RMB949.9 million (2016: RMB1,006.7 million), RMB413.7 million (2016: RMB410.2 million) and RMB1,355.9 million (2016: RMB442.7 million) respectively as at 31 December 2017 to secure bank loans granted to the Remaining Group.

(vii) Gearing ratio

The Remaining Group's gearing ratio is calculated based on the sum of bank loans, other borrowings and short term notes divided by total assets. The gearing ratio of the Remaining Group as at 31 December 2017 and 2016 were approximately 57.6% and 58.2%, respectively.

(viii) Exposure to fluctuations in exchange rates and any related hedges

The Remaining Group mainly operates in the PRC and most of its operating transactions are settled in Renminbi except for export sales and overseas borrowings which are mostly denominated in US dollar. Most of its assets and liabilities of the Remaining Group are denominated in Renminbi. Although the Remaining Group may be exposed to foreign currency exchange risks, the Board does not expect that future currency fluctuations would materially impact the Remaining Group's operations. The Remaining Group did not adopt formal hedging policies nor instruments of foreign currency for managing the exchange risk exposure during the year ended 31 December 2017.

(ix) Contingent liabilities

As at 31 December 2017, the Remaining Group guaranteed RMB174.1 million (2016: RMB136.6 million) to certain purchasers of the Remaining Group's properties for mortgage facilities.

As at 31 December 2017, the Remaining Group guaranteed RMB217.8 million (2016: RMB231.8 million) to joint venture for banking facilities in Saudi Arabia of which RMB200.5 million (2016: RMB185.4 million) was utilized by the joint venture.

(c) For the year ended 31 December 2016

(i) Financial review

Revenue

For the year ended 31 December 2016, the revenue of the Remaining Group was approximately RMB1,443.5 million, representing a decrease of approximately RMB1,095.7 million or 43.2% as compared with that of 2015. The decrease in revenue was mainly due to the decrease in both overseas and domestic orders received by the Remaining Group. This was due to the slowdown in the rolling out of major oil and gas projects. In addition, there was a drop in average selling price in 2016 as compared with that of 2015.

Overseas sales of the Remaining Group accounted for approximately 56.9% of the Remaining Group's total revenue in 2016, as compared to approximately 53.0% in 2015.

Gross profit and gross profit margin

Gross profit of the Remaining Group for 2016 was approximately RMB81.6 million, representing a decrease of approximately 80.0% or RMB325.6 million as compared with approximately RMB407.2 million in 2015. Gross profit margin of the Remaining Group for 2016 was approximately 5.7% which was lower than that of 2015. This was due to (i) the trading of steel materials with lower gross profit margin; (ii) the sale of old stock at loss to enhance our cashflow; (iii) the decreased sales cannot cover the fixed cost of the Remaining Group; and (iv) the sale of infrastructure products during the year where its gross profit margin was low.

Change in fair values of investment property

Gains or losses arising from the changes in the fair values of investment property were reflected as profit or loss for the period concerned. The Remaining Group has transferred part of the investment property – Phase I and Phase II to properties under development as at 30 November 2015 and 31 December 2016 respectively. According to the valuation report as at 31 December 2016 issued by RHL Appraisal Limited, an independent valuer, the market value of the investment property as at 31 December 2016 was RMB1.14 billion. No gain was resulted from the fair values of investment property in 2016 (2015: the fair value gains on investment property of approximately RMB627.9 million).

Other income and gains

Other income and gains in 2016 mainly represented bank interest income. Other income and gains increased by approximately 28.6% or RMB8.3 million from approximately RMB29.2 million in 2015 to approximately RMB37.6 million in 2016. Increase in other income and gains was mainly due to increase in the subsidy income from the government during 2016.

Selling and distribution expenses

Selling and distribution expenses of the Remaining Group decreased by approximately 15.9% or RMB27.3 million from approximately RMB171.7 million in 2015 to approximately RMB144.4 million in 2016. The decrease was mainly due to the decrease in sales as discussed above.

Administrative expenses

Administrative expenses of the Remaining Group increased by approximately 7.1% or RMB31.0 million from approximately RMB438.5 million in 2015 to approximately RMB469.5 million in 2016. The increase in administrative expenses was due to the increase in bank charges and modification charges for headquarters in Panyu.

Finance costs

The finance costs of the Remaining Group for 2016 were approximately RMB237.1 million which were similar with that of 2015 of approximately RMB237.1 million. The effective interest rate in 2016 was approximately 3.7% (2015: 3.8%).

Impairment on property, plant and equipment and goodwill

The Remaining Group has provided the impairment on property, plant and equipment and goodwill of approximately RMB516.3 million for the year ended 2016 (2015: nil).

Other expenses

Other expenses of the Remaining Group increased by approximately 502.7% or RMB87.8 million from approximately RMB17.5 million in 2015 to approximately RMB105.3 million in 2016. The increase was mainly due to provision for inventories and trade and other receivables of approximately RMB99.3 million.

Exchange losses

The Remaining Group recorded exchange loss of approximately RMB86.4 million in 2016 as compared to exchange loss of approximately RMB53.6 million in 2015. The increase in exchange loss was mainly due to further depreciation of RMB against USD.

Income tax expenses

Income tax expenses of the Remaining Group decreased from RMB118.4 million in 2015 to RMB56.2 million in 2016. The Remaining Group recorded loss for 2016 but there were tax expenses of approximately RMB56.2 million mainly due to the reversal of deferred tax assets during the year as the Remaining Group recorded operating losses for consecutive years. PCKSP, PCKSP (Zhuhai) and Panyu Chu Kong Steel Pipe (Lianyungang) Co., Limited ("**PCKSP (Lianyungang)**"), wholly-owned subsidiaries of the Company, were qualified as High and New Technology Enterprises and thus entitled to a reduced tax rate of 15% in 2016 (2015: 15%).

Loss for the year

The Remaining Group recorded a loss of approximately RMB1,497.5 million in 2016 (2015: profit RMB27.0 million).

(ii) Business review

Steel pipe business

In 2016, the Remaining Group received new orders of approximately 230,000 tonnes and approximately 67% were received from overseas customers. Some sizeable overseas orders obtained were related to offshore windfarm project in the United Kingdom, the PETRONAS Refinery and Petrochemical Integrated Development (RAPID) project in Malaysia, Sinopec's natural gas project in Tianjin, PRC and MRC's Northern Gas Pipeline (NGP) project in Queensland, Australia. The Remaining Group delivered approximately 334,000 tonnes of welded steel pipes during 2016.

Property development

In 2013, the Remaining Group has converted a piece of land in Panyu (the "**Panyu Land**") into commercial use. The total land area of the Panyu Land is 125,000 square meters which accounted for 25% of area of the parcels of Panyu Land owned by the Remaining Group in Panyu Land. The total construction area of the Panyu Land is 550,000 square meters. The Panyu Land would be divided into three phases for development.

The Remaining Group had pre-sold the first phase of GDC and the total contracted sales were approximately RMB525 million as at 31 December 2016.

In October 2016, the Remaining Group also developed the second phase of GDC. The second phase is mainly composed of serviced apartments and shopping centers, and the pre-sale would be expected to commence in late-2017.

The GDC is part of the Remaining Group's strategy to widen its income sources. The Directors believed that the GDC would maximise the potential economic return of the Panyu Land to the Remaining Group. Furthermore, upon the completion of GDC, stable rental income and the proceeds from the sale of properties would support the further development of the Remaining Group's steel pipe business.

The Remaining Group would relocate the production lines in Panyu to the Lianyungang and Zhuhai production sites within three years. The Lianyungang and Zhuhai production bases would be the major production bases of the Remaining Group in the PRC, as both production bases are in proximity to the self-operated ports where the Remaining Group could minimise its transportation cost.

(iii) Liquidity and financial resources and capital structure

In December 2016, the Remaining Group entered into a loan agreement with the Industrial and Commercial Bank of China ("**ICBC**") in respect of a 8-year loan (the "**ICBC Loan**") of RMB1.5 billion at the interest rate of 5.39% per annum, which represents a 10% premium over the prevailing RMB commercial base lending rate of 4.9% per annum published by the People's Bank of China. As security for the ICBC Loan, PCKSP, one of the Company's wholly-owned subsidiaries, has pledged its shareholding in 廣東珠鋼投資管理有限公司 (Guangdong Pearl Steel Investment Management Co. Ltd.*) ("**Guangdong Pearl Steel**") and provided a corporate guarantee, and Guangdong Pearl Steel has pledged its land and properties under development in favour of ICBC.

As at 31 December 2016, the Remaining Group's total borrowings amounted to approximately RMB6,349.4 million, of which approximately 30% (2015: 55%) were long term borrowings and approximately 70% (2015: 45%) were short term borrowings. Approximately 60% of total borrowings of the Remaining Group were for financing working capital of the Remaining Group, and approximately 40% of total borrowings of the Remaining Group were financing capital expenditure of the Remaining Group. The Remaining Group had to finance its working capital by short term borrowings as around 90% of the cost of sales was incurred on the procurement of steel plates and steel coils. Once the Remaining Group received sales proceeds from its customers, it would then repay the short term borrowings. Taking into account the Remaining Group's cash in hand and the available banking facilities of RMB1,945 million, the Remaining Group had sufficient liquidity and was in strong financial position to repay its short term borrowings.

As at 31 December 2016, approximately 43% (2015: 37%) of the total borrowings of the Remaining Group were denominated in Renminbi, which carried interest rates linked to the benchmark lending rate published by the People's Bank of China; approximately 15% (2015: 16%) of the total borrowings of the Remaining Group were denominated in Renminbi which carried fixed interest rate; approximately 9% (2015: 15%) of the total borrowings of the Remaining Group were denominated in US dollar and HK dollar with interest rates linked to the London interbank offered rates for US dollar loans and Hong Kong interbank offered rates for HK dollar loans, and approximately 33% (2015: 32%) of the total borrowings of the Remaining Group were denominated in US dollar which carried fixed interest rate.

(iv) Significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures

Please refer to the paragraph headed "5. Management discussion and analysis of the Remaining Group – (b) For the six months ended 31 December 2017 – (iv) Significant investments, material acquisitions and disposal of subsidiaries, associates and joint ventures" above for further details about the capital injections in Lianyungang Zhujiang Metal Composite Materials Co., Ltd.* (連雲港珠江金屬複合材料有限公司).

(v) Employees and remuneration

For the year ended 31 December 2016, staff costs (including Directors' remuneration in the form of salaries and other benefits) of the Remaining Group were approximately RMB212.2 million (2015: RMB283.5 million).

The Remaining Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. Package includes salaries, medical insurance, discretionary bonuses, on-job training, other benefits as well as mandatory provident funds schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC. Pursuant to the Remaining Group's share option scheme and share award scheme, options to subscribe respectively for shares in the Company or share awards of the Company may be granted to eligible employees. No share option or share award was granted under the share option scheme or share award scheme during the year ended 31 December 2016.

As at 31 December 2016, the Remaining Group had a total of 2,100 full time employees (2015: 2,775 employees).

(vi) Charge on assets

The Remaining Group pledged certain property, plant and equipment, land use rights, time deposits and certain properties under development with an aggregate net book value of approximately RMB1,512.5 million (2015: RMB582.8 million), RMB1,006.7 million (2015: RMB593.6 million), RMB410.2 million (2015: RMB491.2 million) and RMB442.7 million (2015: nil) respectively as at 31 December 2016 to secure bank loans granted to the Remaining Group.

(vii) Gearing ratio

The Remaining Group's gearing ratio was calculated based on the sum of bank loans, other borrowings and short term notes divided by total assets. The gearing ratio of the Remaining Group as at 31 December 2016 and 2015 were approximately 58.2% and 52.5%, respectively.

(viii) Exposure to fluctuations in exchange rates and any related hedges

The Remaining Group mainly operates in the PRC and most of its operating transactions are settled in Renminbi except for export sales and overseas borrowings which are mostly denominated in US dollar. Most of its assets and liabilities of the Remaining Group were denominated in Renminbi. Although the Remaining Group might be exposed to foreign currency exchange risks, the Board did not expect that future currency fluctuations would materially impact the Remaining Group's operations. The Remaining Group did not adopt formal hedging policies nor instruments of foreign currency for managing the exchange risk exposure during the year ended 31 December 2016.

(ix) ***Contingent liabilities***

As at 31 December 2016, the Remaining Group guaranteed RMB136.6 million (2015: nil) to certain purchasers of the Remaining Group's properties for mortgage facilities.

As at 31 December 2016, the Remaining Group guaranteed RMB231.8 million (2015: RMB215.9 million) to a joint venture for banking facilities in Saudi Arabia of which RMB185.4 million (2015: RMB172.7 million) was utilized by the joint venture.

(d) For the year ended 31 December 2015

(i) Financial review

Revenue and gross profit

For the year ended 31 December 2015, revenue of the Remaining Group was approximately RMB2,539.2 million, representing a decrease of approximately RMB140.0 million or 5.2% as compared with that of 2014. The decrease in revenue was mainly due to the decrease in both overseas and domestic orders the Remaining Group received. The decrease in domestic orders was due to lack of sizable orders in China. In addition, there was a drop in average selling price in 2015 as compared with that of 2014.

Overseas sales of the Remaining Group accounted for approximately 53.0% of the Remaining Group's total revenue in 2015, as compared to approximately 51.2% in 2014. The amount of overseas sales in 2015 was similar to that of 2014.

Gross profit

Gross profit of the Remaining Group for 2015 was approximately RMB407.2 million, representing an increase of approximately 30.7% or RMB95.6 million as compared with approximately RMB311.6 million in 2014. Gross profit margin of the Remaining Group for 2015 was approximately 16.0% which was higher than that of last year because the Remaining Group delivered more LSAW pipes to customers in high end market with higher profit margin this year.

Change in fair values of investment properties

The Remaining Group has adopted the accounting policy of measuring investment properties by using fair values. Accordingly, gains or losses arising from the changes in the fair values of investment properties are reflected as profit or loss for the reporting period. The Remaining Group decided to transfer part of the investment properties to properties under sale as at 30 November 2015. The Remaining Group engaged RHL Appraisal Limited, an independent valuer, to value the investment properties. According to the valuation report as at 30 November 2015 issued by RHL Appraisal Limited, the market value of the investment properties as at 30 November 2015 was RMB3.1 billion. There was an increase in the fair values of investment properties of approximately RMB627.9 million and was credited as profit in 2015.

Other income and gains

Other income and gains of the Remaining Group in 2015 mainly represented bank interest income. Other income and gains decreased by approximately 76.8% or RMB96.6 million from approximately RMB125.8 million in 2014 to approximately RMB29.2 million in 2015. The decrease in other income and gains was mainly due to the decrease in government subsidies. Government subsidies were mainly related to awards to the Remaining Group for its investment in Lianyungang as well as recognition to its high product quality.

Selling and distribution costs

Selling and distribution costs of the Remaining Group increased by approximately 23.3% or RMB32.5 million from approximately RMB139.2 million in 2014 to approximately RMB171.7 million in 2015. The increase was mainly due to the increase in commission expenses for some overseas sales projects and advertising fees for property sector.

Administrative expenses

Administrative expenses of the Remaining Group decreased by approximately 3.0% or RMB13.7 million from approximately RMB452.2 million in 2014 to approximately RMB438.5 million in 2015. Decrease in administrative expenses was due to the fact that there was provision of doubtful debts in 2014 but there was a reversal of doubtful debts in 2015.

Finance costs

Finance costs of the Remaining Group decreased by approximately 8.9% or RMB23.3 million from approximately RMB260.4 million in 2014 to approximately RMB237.1 million in 2015. The effective interest rate in 2015 was approximately 3.8% (2014: 4.4%). The decrease in finance costs was mainly due to the repayment of some loans with higher interest rates which reduced the average borrowing costs.

Other expenses

Other expenses of the Remaining Group decreased by approximately 54.2% or RMB20.7 million from approximately RMB38.2 million in 2014 to approximately RMB17.5 million in 2015. The decrease was mainly due to the provision for the litigation against Nanjing Yuanchang Investment Guarantee Development Co., Ltd.* (南京源昌投資擔保發展有限公司) first commenced in 2014.

Exchange gains/(losses)

The Remaining Group recorded exchange losses of approximately RMB53.6 million in 2015 as compared to exchange gains of approximately RMB1.8 million in 2014. Exchange losses was mainly due to the depreciation of assets denominated in RMB held by the Remaining Group's Hong Kong subsidiaries that led to unrealised exchange losses of approximately RMB60.4 million in 2015 (2014: unrealised exchange losses RMB23.0 million).

Income tax expenses

Income tax expenses of the Remaining Group increased by approximately 1,902.0% or RMB112.5 million from approximately RMB5.9 million in 2014 to approximately RMB118.4 million in 2015. The increase was mainly due to the increase in deferred tax for fair value gains on investment properties. PCKSP, PCKSP (Zhuhai) and PCKSP (Lianyungang), wholly-owned subsidiaries of the Company, were qualified as High and New Technology Enterprises and thus entitled to a reduced tax rate of 15% in 2015 (2014: 15%), 15% in 2015 (2014: 25%) and 15% in 2015 (2014: 15%) respectively.

Profit for the year

The Remaining Group recorded a profit of approximately RMB27.0 million in 2015 (2014: loss RMB357.2 million).

(ii) Business review

Steel pipe business

In March 2015, the Remaining Group entered into an agreement with Lianyungang Xuwei Port Investment Group Co., Ltd. ("**Liangyungang Xuwei Port**") to establish a joint venture ("**JV Company**") with a registered capital of RMB100 million. The JV Company is owned as to 25% by the Remaining Group and 75% by Lianyungang Xuwei Port. The initial investment in the JV Company by the Remaining Group is RMB25 million. The total investment commitment in the JV Company by the Remaining Group will not exceed RMB200 million, which is in proportion to its shareholding in the JV Company pursuant to the agreement. The principal business of the JV Company is to construct and operate the port facilities and logistics services of the port at Xuwei New District, Lianyuangang. The Remaining Group has the priority to use the port under the agreement, which the Directors believe can reduce the cost and improve the efficiency of the delivery of raw materials and finished goods. It is expected that the return on the investment in the JV Company will improve the Remaining Group's financial results.

The Saudi Arabian production plant, under the joint venture ("**Saudi JV**") with Abdel Hadi Abdullah Al Qahtani & Sons, Co. ("**AHQ**"), had started its trial production. This was the Remaining Group's first overseas LSAW production line with an annual capacity of 300,000 tonnes in Saudi Arabia. During the year, the Saudi JV obtained a 10-year interest free loan from the local government in Saudi Arabia. The Saudi Arabian plant would further develop, strengthen and expand the market penetration of the Remaining Group in Saudi Arabia and the Middle East.

In 2015, the Remaining Group received new orders of approximately 404,000 tonnes and approximately 58% were received from overseas customers. Some sizeable overseas orders obtained were related to gas project in Peru, and CNOOC's offshore drilling platforms in the Gulf of Thailand. The Remaining Group delivered approximately 444,000 tonnes of welded steel pipes during 2015.

Property development

In 2013, the Remaining Group has converted the land in Panyu (the "**Panyu land**") into commercial use. The total land area of converted land is 125,000 square meters accounted for 25% of total land in Panyu. The total construction area of converted land is 550,000 square meters. The converted land would be divided into three phases for development.

The Remaining Group was developing the first phase of the Panyu Land into the GDC, an integrated commercial complex of offices, shops, serviced apartments and villas.

The GDC was part of the Remaining Group's strategy to widen its income sources. The Directors believed that the GDC will maximise the potential economic return of the Panyu Land to the Remaining Group. Furthermore, upon the completion of the GDC, the stable rental income and the proceeds from the sale of properties would support the further development of the Remaining Group's steel pipe business. The steel pipe business would remain as the Remaining Group's core business.

The Remaining Group would relocate the production lines in Panyu to the Lianyungang production site within 3 years. The Lianyungang and Zhuhai production bases would be the major production bases of the Remaining Group in China, as both production bases are in proximity to the ports where the Remaining Group could minimise its transportation cost.

(iii) Liquidity and financial resources and capital structure

In November 2015, the Remaining Group entered into finance lease agreements with Hengqin Jintou International Finance Leasing Company Limited*（橫琴金投國際融資租賃有限公司）("**Jintou**"), pursuant to which PCKSP (Zhuhai) agreed to sell certain equipment to Jintou at a consideration of RMB100 million and Jintou agreed to lease the equipment back to PCKSP (Zhuhai) for an aggregate lease payment of approximately RMB108.6 million. PCKSP and PCKSP (Lianyungang) have agreed to guarantee the obligations of PCKSP (Zhuhai) under the finance lease arrangement. The finance lease payments were payable in 12 quarterly instalments in arrears. The total interest payable under the finance lease arrangement amounted to RMB8.6 million, which was calculated at a fixed annual interest rate of 5.225%.

In December 2015, PCKSP entered into a finance lease arrangement with Jin Wo International Finance Leasing Company Limited* (金沃國際融資租賃有限公司) ("**Jin Wo**"). Under the finance lease arrangement, the Remaining Group sold certain equipment to Jin Wo at a consideration of RMB60 million and the Remaining Group leased back the equipment at a total lease payments of approximately RMB77.8 million. The finance lease payments were payable in 60 monthly instalments in arrears. The total interest payable under the finance lease arrangement amounts to RMB17.8 million, which was calculated at a fixed annual interest rate of 9.36%. PCKSP (Zhuhai) has also provided a guarantee in favour of Jin Wo for the total lease payments of approximately RMB77.8 million.

As at 31 December 2015, the Remaining Group's total borrowings amounted to approximately RMB6,309.4 million, of which approximately 55% (2014: 47%) were long term borrowings and approximately 45% (2014: 53%) were short term borrowings. Approximately 65% of total borrowings of the Remaining Group were financing working capital of the Remaining Group, and approximately 35% of total borrowings of the Remaining Group were financing capital expenditure of the Remaining Group. The Remaining Group had to finance its working capital by short term borrowings as around 90% of the cost of sales was incurred on the procurement of steel plate and steel coil. Once the Remaining Group received sales proceeds from its customers, it would then repay the short term borrowings. Taking into account the Remaining Group's cash in hand and the available banking facilities of RMB1,365.9 million, the Remaining Group had sufficient liquidity and was in strong financial position to repay its short term borrowings.

As at 31 December 2015, approximately 37% (2014: 41%) of the total borrowings of the Remaining Group was denominated in Renminbi, which carried interest rates linked to the benchmark lending rate published by the People's Bank of China; approximately 16% (2014: 15%) of the total borrowings of the Remaining Group were denominated in Renminbi which carried fixed interest rate; approximately 15% (2014: 29%) of the total borrowings of the Remaining Group were denominated in US dollar and HK dollar with interest rates linked to the London interbank offered rates for US dollar loans and Hong Kong interbank offered rates for HK dollar loans and approximately 32% (2014: 15%) of the total borrowings of the Remaining Group were denominated in US dollar which carried fixed interest rate.

(iv) Significant investments, material acquisitions and disposals of subsidiaries, associates and joint ventures

On 27 March 2015, the Remaining Group entered into an agreement with Lianyungang Xuwei Port Investment Group Co. Ltd.* (連雲港徐圩港口投資集團有限公司) ("**Lianyungang Xuwei Port**") to establish a joint venture company with registered capital of RMB100 million. The joint venture company was owned as to 25% by the Remaining Group and 75% by Lianyungang Xuwei Port. The initial investment in the joint venture company by the Remaining Group was RMB25 million. The total investment commitment in the joint venture company by the Remaining Group will not exceed RMB200 million. The principal business of the joint venture company is the construction and operation of port facilities and logistics services of the port located in Xuwei New District of Lianyungang. The Remaining Group had the priority to use the port and would make deliveries at a lower cost and at a faster pace. The investment is recorded as investment in an associate in the Company's financial statements.

(v) Employees and remuneration

For the year ended 31 December 2015, staff cost (including Directors' remuneration in the form of salaries and other benefits) of the Remaining Group was approximately RMB283.5 million (2014: RMB283.9 million).

The Remaining Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. The Remaining Group's package includes salaries, medical insurance, discretionary bonuses, on-job training, other benefits as well as mandatory provident funds schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC. Pursuant to the Company's share option scheme and share award scheme, options to subscribe respectively for shares in the Company or share awards of the Company may be granted to eligible employees. No share option or share award was granted under the share option scheme or share award scheme during the year ended 31 December 2015.

As at 31 December 2015, the Remaining Group had a total of 2,775 full time employees (2014: 3,892 employees).

(vi) Charge on assets

The Remaining Group pledged certain property, plant and equipment, land use rights and time deposits with an aggregate net book value of approximately RMB582.8 million (2014: RMB279.0 million), RMB593.6 million (2014: RMB442.0 million) and RMB491.1 million (2014: RMB90.8 million) respectively as at 31 December 2015 to secure bank loans granted to the Remaining Group.

(vii) Gearing ratio

The Remaining Group's gearing ratio is calculated based on the sum of bank loans, other borrowings and short term notes divided by total assets. The gearing ratio of the Remaining Group as at 31 December 2015 and 2014 were approximately 52.5% and 52.3%, respectively.

(viii) Exposure to fluctuations in exchange rates and any related hedges

The Remaining Group mainly operates in the PRC and most of its operating transactions are settled in Renminbi except for export sales and overseas borrowings which are mostly denominated in US dollar. Most of its assets and liabilities are denominated in Renminbi. Although the Remaining Group might be exposed to foreign currency exchange risks, the Board did not expect that future currency fluctuations would materially impact the Remaining Group's operations. The Remaining Group did not adopt formal hedging policies nor instruments of foreign currency for managing the exchange risk exposure during the year ended 31 December 2015.

(ix) Contingent liabilities

As at 31 December 2015, the Remaining Group guaranteed RMB172.7 million to joint venture for banking facilities in Saudi Arabia.

6. FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

Upon completion of the Disposal, the Remaining Group will continue to carry out its principal businesses, namely (i) manufacturing and trading of steel pipe; and (ii) property development and investment.

The steel pipe business will remain as the core business of the Remaining Group. As disclosed in the interim report of the Company for the six months ended 30 June 2018, in light of the "13th Five-Year Plan" and the "One Belt One Road" initiated by the Chinese government, it is expected that more oil and gas projects will be launched, the Group anticipates that the demand of steel pipes will rebound at a strong pace. And given that the Chinese government intends to promote clean energy as the major sources of energy in the future, the gas consumption in China is expected to increase and the demand of steel pipes will be strong. Lianyungang and Zhuhai production bases are the major production bases of the Remaining Group in China. The Directors believed that operating costs will be reduced as (i) Lianyungang and Zhuhai production bases are close to the wharf which reduced costs of transporting raw materials and steel pipes; and (ii) centralisation of administration and operations in the two production bases. In addition, finance costs will be reduced as immediate availability of net proceeds from the Disposal can reduce the Group's existing debt level.

Apart from the steel pipe business, the Remaining Group will continue the development of the GDC. The GDC is a large scale integrated commercial complex of offices, shops, apartments and villas. The total permitted construction area of the Land is approximately 550,000 square meters. GDC is divided into three phases for development. The Remaining Group has pre-sold the first phase and second phase of GDC. GDC provides a stable income source to provide solid financial support to the Remaining Group in the long run. It will also help improving the cash flow of the Remaining Group.

The following is the text of a report received from the Company's Reporting Accountants, Ernst & Young, Certificate Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

22/F, CITIC Tower
1 Tim Mei Avenue,
Central, Hong Kong

Report on Review of the Financial Information of the Target Company of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

To the board of directors of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the Financial Information set out on pages 64 to 73 which comprise the unaudited consolidated statements of financial position of Panyu Chu Kong Steel Pipe Co., Ltd. (the "**Target Company**") as at 31 December 2015, 2016 and 2017 and 30 June 2018 and the unaudited consolidated statements of profit or loss and other comprehensive income, unaudited consolidated statements of changes in equity and unaudited consolidated statements of cash flows for each of the periods then ended and explanatory notes (the "**Financial Information**"). The Financial Information has been prepared solely for the purpose of inclusion in the circular (the "**Circular**") to be issued by Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "**Company**") in connection with the disposal of the Target Company in accordance with paragraph 14.68(2)(a)(i)(A) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rule**").

The directors of the Company are responsible for the preparation and presentation of the Financial Information of the Target Company in accordance with the basis of preparation set out in note 2 to the Financial Information and paragraph 14.68(2)(a)(i) of the Listing Rule. The directors are also responsible for such internal control as management determines is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error. The Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in International Accounting Standard 1 "Presentation of Financial Statements" or an interim financial report as defined in International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. Our responsibility is to express a conclusion on this Financial Information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and with reference to Practice Note 750 "Review of Financial Information under the Hong Kong Listing Rules for a Very Substantial Disposal" issued by the Hong Kong Institute of Certified Public Accountants. A review of the Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Financial Information of the Target Company for the relevant periods is not prepared, in all material respects, in accordance with the basis of preparation set out in note 2 to the Financial Information.

Certified Public Accountants
Hong Kong
26 March 2019

UNAUDITED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE	847,403	543,985	516,851	140,057	194,490
Cost of sales	(616,083)	(572,418)	(515,710)	(143,469)	(196,100)
Gross profit	231,320	(28,433)	1,141	(3,412)	(1,610)
Other income and gains	24,011	30,378	540,545	37,095	27,956
Selling and distribution expenses	(126,088)	(109,161)	(81,093)	(36,225)	(15,783)
Administrative expenses	(300,429)	(330,621)	(224,934)	(145,086)	(81,978)
Exchange gain/(loss), net	35,556	(13,685)	(9,873)	(4,937)	(10,864)
Finance costs	(126,700)	(110,048)	(139,308)	(94,626)	(76,704)
Impairment of property, plant and equipment and goodwill	–	(315,742)	–	–	–
Other expenses	(8,851)	(106,302)	(3,078)	(4,270)	(5,214)
Fair value gains on investment Properties	627,882	–	–	–	–
Share of a loss of a joint venture	(582)	(1,460)	(2,779)	(670)	(13,166)
PROFIT/(LOSS) BEFORE TAX	356,119	(985,074)	80,621	(252,131)	(177,363)
Income tax expense	(120,753)	(40,706)	14,171	(1,331)	109,731
PROFIT/(LOSS) FOR THE YEAR/PERIOD	235,366	(1,025,780)	94,792	(253,462)	(67,632)
Attributable to:					
Owners of the parent	235,839	(1,025,196)	94,851	(253,403)	(67,632)
Non-controlling interests	(473)	(584)	(59)	(59)	–
	235,366	(1,025,780)	94,792	(253,462)	(67,632)
OTHER COMPREHENSIVE INCOME					
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Exchange differences on translation of foreign operations	1,237	1,914	(1,741)	1,590	299
Other comprehensive income for the year/period, net of tax	1,237	1,914	(1,741)	1,590	299
TOTAL COMPREHENSIVE INCOME YEAR/PERIOD	236,603	(1,023,866)	93,051	(251,872)	(67,333)
Attributable to:					
Owners of the parent	237,076	(1,023,282)	93,110	(251,813)	(67,333)
Non-controlling interests	(473)	(584)	(59)	(59)	–
	236,603	(1,023,866)	93,051	(251,872)	(67,333)

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	At 31 December			At 30 June
	2015	**2016**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS				
Property, plant and equipment	2,457,260	2,260,046	286,862	255,690
Property under development	–	1,196,775	–	–
Investment properties	2,306,804	1,138,221	1,138,221	1,138,221
Long term prepayments and deposits	136,315	86,259	40,667	8,671
Prepaid land lease payments	922,281	1,053,837	52,115	51,407
Goodwill	4,075	–	–	–
Investment in a joint venture	38,790	37,335	34,555	21,389
Available-for-sale investment	800	800	800	–
Deferred tax assets	65,393	–	–	106,175
Pledged deposits	416,683	94,023	482,723	500,027
Total non-current assets	6,348,401	5,867,296	2,035,943	2,081,580
CURRENT ASSETS				
Property under development	808,127	1,036,362	2,601,118	2,682,720
Inventories	654,740	323,290	134,970	11,631
Trade and bill receivables	656,627	503,099	237,307	212,524
Prepayment, deposits and other receivables	725,854	530,377	202,614	268,715
Due from holding companies	–	–	316,700	304,764
Due from related parties	–	–	2,130,081	2,738,454
Pledged deposit	302,871	425,385	57,103	56,773
Investment deposit	–	–	–	297,308
Cash and cash equivalents	240,480	417,873	14,563	12,320
Total current assets	3,388,699	3,236,386	5,694,456	6,585,209
CURRENT LIABILITIES				
Trade payables	746,625	683,391	437,148	337,788
Interest-bearing bank and other borrowings	1,636,091	2,130,258	1,231,850	208,788
Contract liabilities	–	–	–	1,197,062
Other payables and accruals	457,043	923,370	1,194,759	278,786
Provision	24,348	29,268	–	–
Due to holding companies	775,885	519,713	–	–
Due to related parties	485,463	396,438	–	41,072
Tax payables	63,925	64,197	12,358	12,347
Total current liabilities	4,189,380	4,746,635	2,876,115	2,075,843
NET CURRENT ASSETS/ (LIABILITIES)	(800,681)	(1,510,249)	2,818,341	4,509,366

	At 31 December			At 30 June
	2015	2016	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	5,547,720	4,357,047	4,854,284	6,590,946
NON CURRENT LIABILITIES				
Long term bank and other borrowings	964,141	666,946	1,339,378	3,149,100
Deferred tax liabilities	612,947	588,232	562,821	559,265
Government grants	84,858	239,961	20,253	18,082
Total non-current liabilities	1,661,946	1,495,139	1,922,452	3,726,447
NET ASSETS	3,885,774	2,861,908	2,931,832	2,864,499
EQUITY				
Equity attributable to owners of the parent				
Issued capital	1,350,931	1,350,931	1,350,931	1,350,931
Other reserves	2,521,554	1,498,272	1,580,901	1,513,568
	3,872,485	2,849,203	2,931,832	2,864,499
Non-controlling interests	13,289	12,705	–	–
Total equity	3,885,774	2,861,908	2,931,832	2,864,499

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent								
	Share capital	Capital reserve	Statutory reserve fund	Asset revaluation reserve#	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	1,153,221	57,620	113,788	1,153,715	959,465	(110)	3,437,699	13,762	3,451,461
Profit for the year	–	–	–	–	235,839	–	235,839	(473)	235,366
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	1,237	1,237	–	1,237
Total comprehensive income for the year	–	–	–	–	235,839	1,237	237,076	(473)	236,603
Appropriation of statutory reserve	–	–	28,991	–	(28,991)	–	–	–	–
Capital injection from shareholders	197,710	–	–	–	–	–	197,710	–	197,710
At 31 December 2015 and 1 January 2016	1,350,931	57,620*	142,779*	1,153,715*	1,166,313*	1,127*	3,872,485	13,289	3,885,774
Loss for the year	–	–	–	–	(1,025,196)	–	(1,025,196)	(584)	(1,025,780)
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	1,914	1,914	–	1,914
Total comprehensive income for the year	–	–	–	–	(1,025,196)	1,914	(1,023,282)	(584)	(1,023,866)
At 31 December 2016	1,350,931	57,620*	142,779*	1,153,715*	141,117*	3,041*	2,849,203	12,705	2,861,908

	Attributable to owners of the parent								
	Share capital	Capital reserve	Statutory reserve fund	Asset revaluation reserve#	Retained profits	Exchange fluctuation reserve	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2016 and 1 January 2017	1,350,931	57,620	142,779	1,153,715	141,117	3,041	2,849,203	12,705	2,861,908
Profit for the year	–	–	–	–	94,851	–	94,851	(59)	94,792
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	(1,741)	(1,741)	–	(1,741)
Total comprehensive income for the year	–	–	–	–	94,851	(1,741)	93,110	(59)	93,051
Disposal of a subsidiary	–	–	–	–	(59)	–	(59)	(12,646)	(12,705)
Dividends paid to shareholders	–	–	–	–	(10,422)	–	(10,422)	–	(10,422)
At 31 December 2017 and 1 January 2018	1,350,931	57,620*	142,779*	1,153,715*	225,487*	1,300*	2,931,832	–	2,931,832
Loss for the period	–	–	–	–	(67,632)	–	(67,632)	–	(67,632)
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	299	299	–	299
Total comprehensive income for the period	–	–	–	–	(67,632)	299	(67,333)	–	(67,333)
At 30 June 2018	1,350,931	57,620*	142,779*	1,153,715*	157,855*	1,599*	2,864,499	–	2,864,499
At 31 December 2016 and 1 January 2017	1,350,931	57,620	142,779	1,153,715	141,117	3,041	2,849,203	12,705	2,861,908
Loss for the period	–	–	–	–	(253,403)	–	(253,403)	(59)	(253,462)
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	–	–	–	–	–	1,590	1,590	–	1,590
Total comprehensive income for the period	–	–	–	–	(253,403)	1,590	(251,813)	(59)	(251,872)
Dividends paid to shareholders	–	–	–	–	(10,422)	–	(10,422)	–	(10,422)
At 30 June 2017	1,350,931	57,620*	142,779*	1,153,715*	(122,708)*	4,631*	2,586,968	12,646	2,599,614

The asset revaluation reserve arose from a change in use from owner-occupied property to investment property carried at fair value.

* These reserve accounts comprise the consolidated reserves of RMB2,521,554,000, RMB1,498,272,000, RMB1,580,901,000 and RMB1,513,568,000 as at 31 December 2015, 2016, 2017 and 30 June 2018, respectively in the unaudited consolidated statements of financial position.

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit/(loss) before tax	356,119	(985,074)	80,621	(252,131)	(177,363)
Adjustments for:					
Finance costs	126,700	110,048	139,308	94,626	76,704
Share of a loss of a joint venture	582	1,460	2,779	670	13,166
Bank interest income	(15,596)	(14,206)	(35,303)	(34,551)	(17,751)
Net (gain)/loss on disposal of property, plant and equipment	(43)	–	(9,357)	8,582	4,172
Loss/(gain) on disposal of prepaid land premiums	–	–	12,542	(5,397)	–
Gain on disposal of subsidiaries	–	–	(476,950)	–	(8,948)
Loss on disposal of an equity investment	–	–	–	–	800
Depreciation	100,817	119,871	72,080	56,480	17,219
Amortisation of prepaid land lease payments	19,378	22,647	12,564	11,757	709
Changes in fair value of investment properties	(627,882)	–	–	–	–
Changes in fair value of Investment deposit	–	–	–	–	(2,908)
Impairment/(reversal of impairment) of trade receivables	(17,865)	1,271	966	168	–
Provision against slow-moving and obsolete inventories	3,455	23,675	–	(4,825)	–
Impairment of items of property, plant and equipment	–	311,667	–	–	–
Impairment of goodwill	–	4,075	–	–	–
	(54,335)	(404,566)	(200,750)	(124,621)	(94,200)
Decrease in inventories	117,155	307,775	99,241	27,775	123,339
Increase in property under development	(14,931)	(228,235)	(367,981)	(46,461)	(81,683)
Decrease in trade and bill receivables	273,057	152,257	207,376	172,777	24,783
(Increase)/decrease of prepayments and other receivables	(239,436)	198,654	101,202	24,733	(34,105)
(Increase)/decrease of pledged deposits	(297,795)	200,146	(20,418)	(669,188)	330
Increase/(decrease) of trade and bill payables	(50,411)	(63,234)	53,370	(130,115)	(99,360)
Increase of other payables and accruals	10,178	466,327	426,276	221,366	281,187
Increase/(decrease) in provision	(5,612)	4,920	–	(8,000)	–
Decrease in an amount due from a joint venture	119,783	–	–	–	–
Increase/(decrease) in an amount due to related parties	424,120	(88,083)	(782,989)	(349,360)	(553,563)
Increase/(decrease) in Government Grants	70,005	155,103	11,547	8,587	(2,171)
Cash generated from/(used in) operations	351,778	701,064	(473,126)	(872,507)	(435,443)

	Year ended 31 December			Six months ended 30 June	
	2015	2016	2017	2017	2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from /(used in) operations	351,778	701,064	(473,126)	(872,507)	(435,443)
Interest received	15,596	14,206	35,303	34,551	447
Income Tax paid	–	(27)	(850)	(850)	(11)
Net cash generated from/(used in) operating activities	367,374	715,243	(438,673)	(838,806)	(435,007)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(183,052)	(167,516)	(15,456)	(15,930)	(26)
Capital expenditure of an investment property	(145,118)	(28,192)	–	–	–
Addition to prepaid land lease payments	(63,363)	(157,380)	–	–	–
Proceeds from disposal of items of property, plant and equipment	2,502	1,634	–	–	–
Proceeds from disposal of prepaid land lease payments	–	–	34,272	34,272	–
Purchases of available-for-sale investment	(800)	–	–	–	–
Collection of investment deposits	440,000	–	–	–	–
Payment for investment deposits	(420,000)	–	–	–	(294,400)
Net cash from/(used in) investing activities	(369,831)	(351,454)	18,816	18,342	(294,426)
CASH FLOWS FROM FINANCING ACTIVITIES					
Capital injection from shareholders	197,710	–	–	–	–
New bank and other borrowings	1,909,115	3,351,638	2,515,221	2,290,339	1,875,135
Repayments of bank and other borrowings	(1,521,291)	(3,125,861)	(1,464,445)	(1,489,303)	(972,010)
Repayment of short term notes	(300,000)	–	–	–	–
Increase/(decrease) in an amount due to holding companies	(147,116)	(256,172)	(836,413)	(245,449)	11,936
Interest paid	(140,308)	(110,048)	(139,308)	(94,626)	(76,704)
Proceeds from sales and leaseback arrangements	54,000	–	–	–	–
Capital element of finance lease rental payment	(61,900)	(34,489)	(45,948)	(26,118)	(106,653)
Interest element of finance lease rental payments	(11,368)	(11,470)	(10,819)	(4,855)	(4,813)
Net cash generated from/(used in) financing activities	(21,158)	(186,402)	18,288	429,988	726,891

	Year ended 31 December			Six months ended 30 June	
	2015	**2016**	**2017**	**2017**	**2018**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(23,615)	177,387	(401,569)	(390,476)	(2,542)
Effect of foreign exchange rate changes, net	111	6	(1,741)	–	299
Cash and cash equivalents at beginning of the year/period	263,984	240,480	417,873	417,873	14,563
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	240,480	417,873	14,563	27,397	12,320
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	240,480	417,873	14,563	27,397	12,320

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION

Capitalised terms used herein, unless otherwise defined, shall have the same meanings as those defined in the circular.

Panyu Chu Kong Steel Pipe Co., Ltd. (the "**Target Company**") is a limited liability company incorporated in the People's Republic of China. The Target Company principally engaged in manufacture and sale of welded steel pipes and the provision of related manufacturing services.

Reference is made to the Company's announcement dated 27 February 2019. Reference is also made to the 2018 Announcement, the 2018 Circular and the Company's announcement dated 15 October 2018 regarding a very substantial disposal of the Company in relation to Change of Land Use and the disposal of 59% of the equity interest in the Target Company.

Pursuant to the terms of the Previous Agreement, after four months upon signing of the Previous Agreement and immediately before the completion of Change of Land Use, the Vendor shall transfer 40% of the equity interest in the Target Company to the Nominee as nominated by the Investment Manager.

On 27 February 2019 (after trading hours), the Vendor (an indirect wholly-owned subsidiary of the Company), Xingchen, the Target Company (a subsidiary of the Vendor), Guangzhou Pearl River Coating, Guangdong Yuecai Trust, the Investment Manager, the Guarantors and the Company entered into the Disposal Agreement in relation to (i) the nomination of Xingchen by the Investment Manager under the terms of the Previous Agreement (being the subject matter of the 2018 Announcement and the 2018 Circular) as its nominee to acquire 40% equity interest of the Target Company; and (ii) the disposal of the remaining 40% equity interest of the Target Company by the Vendor to Xingchen, for a total consideration of RMB2,448 million with a possible payment of the Premium of RMB272 million.

Upon completion of the Disposal, the Target Company will be owned as to 20% by Guangdong Yuecai Trust and 80% by Xingchen. The Group will cease to have any equity interest in the Target Company, and the Target Company will cease to be a subsidiary of the Company.

The financial information of the Target Company for the years ended 31 December 2015, 2016 and 2017 and the six-month period ended 30 June 2018 is presented in Renminbi ("**RMB**"). All values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

2. BASIS OF PREPARATION

The Financial Information of the Target Company for the years ended 31 December 2015, 2016 and 2017 and the six-month period ended 30 June 2018 has been prepared solely for the purpose of inclusion in the circular to be issued by the Company in connection with the disposal of the Target Company in accordance with paragraph 14.68(2)(a)(i)(A) of the Listing Rules

The Financial Information has been prepared in accordance with the relevant accounting policies of the Company adopted in the preparation of the consolidated financial statements of the Company and its subsidiaries for the years ended 31 December 2015, 2016 and 2017 and the six-month period ended 30 June 2018, which conform with International Financial Reporting Standards, which include all International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board.

The Financial Information has been prepared under the historical cost convention as modified by the revaluation of investment properties at fair value.

The Financial Information does not contain sufficient information to constitute a complete set of financial statements as defined in International Accounting Standard 1 "Presentation of Financial Statements" or an interim financial report as defined in International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board.

UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE REMAINING GROUP

Introduction

The following is a summary of an illustrative and the unaudited pro forma statement of financial position, the unaudited pro forma statement of profit or loss, the unaudited pro forma statement of comprehensive income, the unaudited pro forma statement of cash flows of the Remaining Group (the "**Unaudited Pro Forma Financial Information**"), which have been prepared on the basis of the notes set out below for the purpose of illustrating the effects of the Disposal on (a) the financial position of the Remaining Group as if the Disposal had been completed on 30 June 2018; and (b) the results and cash flows of the Remaining Group as if the Disposal had been completed on 1 January 2017. Capitalised terms used herein, unless otherwise defined, shall have the same meanings as those defined in the Circular.

The Unaudited Pro Forma Financial Information of the Remaining Group has been prepared by the Directors of the Company in accordance with paragraph 4.29 of the Listing Rules for illustrative purposes only, based on their judgments, estimations and assumptions, and because of its hypothetical nature, it may not give a true picture of the financial position of the Remaining Group as at 30 June 2018 or at any future date or the results and cash flows of the Remaining Group for the year ended 31 December 2017 or for any future period following the completion of the Disposal.

The Unaudited Pro Forma Financial Information is based on the unaudited consolidated statement of financial position of the Group as at 30 June 2018, the audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flows of the Group for the year ended 31 December 2017 extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2017, after giving effect to the pro forma adjustments relating to the Disposal as described in the accompanying notes. Narrative description of the pro forma adjustments that are (i) directly attributable to the transactions and not relating to future events or decisions; and (ii) factually supported, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position, results and cash flows of the Remaining Group that would have been attained had the Disposal been completed on 30 June 2018 and 1 January 2017, respectively. The Unaudited Pro Forma Financial Information does not purport to predict future financial positions or results of the Remaining Group.

UNAUDITED PRO FORMA STATEMENT OF FINANCIAL POSITION

	The Group as at 30 June 2018	Pro forma adjustments					The Remaining Group as at 30 June 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
NON-CURRENT ASSETS							
Property, plant and equipment	2,946,617		(255,690)	255,690			2,946,617
Investment properties	1,138,221		(1,138,221)	1,138,221			1,138,221
Long term prepayments and deposits	95,490		(8,671)	8,671			95,490
Prepaid land premiums	1,100,049		(51,407)				1,048,642
Investment in Joint Ventures	21,389		(21,389)	21,389			21,389
Deferred tax assets	106,175		(106,175)				–
Pledged Deposit	500,027		(500,027)	500,027			500,027
Total non-current assets	5,907,968						5,750,386
CURRENT ASSETS							
Inventories	222,174		(11,631)	11,631			222,174
Property under development	2,682,720		(2,682,720)	2,682,720			2,682,720
Trade and bill receivables	587,539		(212,524)	212,524			587,539
Prepayment, deposits and other receivables	621,075		(268,715)	267,300			619,660
Due from related parties	84,706		(3,043,218)	3,043,218			84,706
Financial assets at fair value through profit or loss	297,308		(297,308)	297,308			297,308
Pledged deposit	137,977		(56,773)	56,773			137,977
Cash and cash equivalents	56,834		(12,320)	12,320	2,448,000	(2,448,000)	164,834
						108,000	
Total current assets	4,690,333						4,796,918
CURRENT LIABILITIES							
Trade and bill payables	839,412		(337,788)	337,788			839,412
Contract liabilities	1,399,460		(1,197,062)	1,197,062			1,399,460
Other payables and accruals	680,507		(278,786)	278,786		(159,000)	521,507
Interest-bearing bank and other borrowings	2,345,993		(208,788)	208,788		(700,000)	1,645,993
Due to director	35,949						35,949
Due to the Remaining Group	–		(41,072)	41,072			–
Tax payables	60,759		(12,347)	12,347	109,707		170,466
Total current liabilities	5,362,080						4,612,787
NET CURRENT LIABILITIES	(671,747)						184,131

	The Group as at 30 June 2018	Pro forma adjustments					The Remaining Group as at 30 June 2018
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
TOTAL ASSETS LESS CURRENT LIABILITIES	5,236,221						5,934,517
NON-CURRENT LIABILITIES							
Long term bank loans and other borrowings	3,644,300	(240,000)	(3,149,100)	3,149,100		(1,440,000)	1,964,300
Bonds payable	146,998						146,998
Government grants	369,940		(18,082)	18,082			369,940
Deferred tax liabilities	573,330		(559,265)	559,265			573,330
Total non current liabilities	4,734,568						3,054,568
NET ASSETS	501,653						2,879,949
EQUITY							
Equity attributable to owners of the parent							
Share capital	88,856						88,856
Reserves	400,614	240,000			2,179,296	(41,000)	2,778,910
	489,470						2,867,766
Non-controlling interests	12,183						12,183
	501,653						2,879,949

UNAUDITED PRO FORMA STATEMENT OF PROFIT OR LOSS

	The Group for the year ended 31 December 2017	Pro forma adjustments				The Remaining Group for the year ended 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 7)*	*(Note 8)*	*(Note 9)*	*(Note 6)*	
REVENUE	873,293	(516,851)		516,851		873,293
Cost of sales	(815,182)	515,710		(515,710)		(815,182)
Gross profit	58,111					58,111
Other income and gains	140,553	(540,545)		540,545		140,553
Gain on disposal of subsidiaries	–		2,392,911			2,392,911
Selling and distribution expenses	(107,330)	81,093		(81,093)		(107,330)
Administrative expenses	(475,632)	224,934		(223,375)	(41,000)	(515,073)
Exchange gain/(loss), net	(44,121)	9,873		(9,873)		(44,121)
Finance costs	(426,286)	139,308		(139,308)		(426,286)
Impairment of property, plant and equipment and goodwill	(18,006)					(18,006)
Other expenses	(12,873)	3,078		(3,078)		(12,873)
Share of a loss of a joint venture	(2,779)	2,779		(2,779)		(2,779)
PROFIT/(LOSS) BEFORE TAX	(888,363)					1,465,107
Income tax expenses	14,608	(14,171)	(109,707)	14,171		(95,099)
PROFIT/(LOSS) FOR THE YEAR	(873,755)					1,370,008
Attributable to:						
Owners of the parent	(872,219)					1,371,544
Non-controlling interests	(1,536)					(1,536)
	(873,755)					1,370,008

UNAUDITED PRO FORMA STATEMENT OF COMPREHENSIVE INCOME

	The Group for the year ended 31 December 2017	Pro forma adjustments				The Remaining Group for the year ended 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 7)*	*(Note 8)*	*(Note 9)*	*(Note 6)*	
PROFIT/(LOSS) FOR THE YEAR	(873,755)					1,370,008
OTHER COMPREHENSIVE INCOME						
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:						
Exchange differences on translation of foreign operations	153,862	1,741		(1,741)		153,862
Net other comprehensive loss to be reclassified to profit or loss in subsequent periods	153,862					153,862
OTHER COMPREHENSIVE INCOME FOR THE YEAR	153,862					153,862
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(719,893)					1,523,870
Total comprehensive (loss)/income attributable to:						
Owners of the parent	(718,357)					1,525,406
Non-controlling interests	(1,536)					(1,536)
	(719,893)					1,523,870

UNAUDITED PRO FORMA STATEMENT OF CASH FLOWS

	The Group for the year ended 31 December 2017	Pro forma adjustments				The Remaining Group for the year ended 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 7)*	*(Note 8)*	*(Note 9)*	*(Note 6)*	
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax	(888,363)	(80,621)	2,392,911	80,621	(41,000)	1,463,548
Adjustments for:						
Finance costs	426,286	(139,308)		139,308		426,286
Share of a loss of a joint venture	2,779	(2,779)		2,779		2,779
Bank interest income	(38,792)	35,303		(35,303)		(38,792)
Government grant income	(26,914)					(26,914)
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	(5,879)	(3,185)		3,185		(5,879)
Gain on disposal of a subsidiary	–	476,950	(2,392,911)	(476,950)		(2,392,911)
Depreciation	143,045	(72,080)		72,080		143,045
Amortization of prepaid land lease payments	26,456	(12,564)		11,005		24,897
Impairment of trade receivables	1,721	(966)		966		1,721
Reversal of impairment of deposits and other receivables	(12)					(12)
Provision against slow-moving and obsolete inventories	7,020					7,020
Impairment of items of property, plant and equipment	18,006					18,006
	(334,647)					(377,206)
Decrease in inventories	115,276	(99,241)		99,241		115,276
(Increase) in property under development	(306,941)	367,981		(367,981)		(306,941)
Decrease in trade receivable	243,051	(207,376)		207,376		243,051
Decrease in prepayment, deposit and other debtors	54,423	(101,202)		101,202		54,423
Decrease in pledged bank deposit	400,171	20,418		(20,418)		400,171
Decrease in trade and bills payables	(119,999)	(53,370)		53,370		(119,999)
Increase in other payables and accruals	498,416	(426,276)		426,276	(159,000)	339,416
Decrease in provision	(29,268)					(29,268)
Increase/(decrease) in amounts to related parties	–	782,989		(782,989)		–
Decrease in government grants	–	(11,547)		11,547		–
Cash generated from operations	520,482					318,923
Interest received	38,792	(35,303)		35,303		38,792
Corporate income tax paid	(1,612)	850		(850)		(1,612)
Net cash from operating activities	557,662					356,103

	The Group for the year ended 31 December 2017	Pro forma adjustments				The Remaining Group for the year ended 31 December 2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Note 1)	*(Note 7)*	*(Note 8)*	*(Note 9)*	*(Note 6)*	
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchases of items of property, plant and equipment	(10,086)	15,456		(15,456)		(10,086)
Payment for addition to prepaid land lease payments	63,251	(34,272)		34,272		63,251
Proceeds from disposal of items of property, plant and equipment	109,440					109,440
Proceeds from disposal of a subsidiary	–				108,000 41,000 159,000 700,000	1,008,000
Increase in amounts due from related parties	2,231					2,231
Purchases of investment deposit	(408,220)					(408,220)
Receipt of government grant	32,320					32,320
Net cash used in from investing activities	(211,064)					796,936
CASH FLOWS FROM FINANCING ACTIVITIES						
New bank loan and other borrowings	5,781,560	(2,515,221)		2,515,221		5,781,560
Repayment of bank and other borrowing	(6,284,883)	1,464,445		(1,464,445)	(700,000)	(6,984,883)
Proceeds from issue bonds and notes	143,406					143,406
Repayment of bonds	(88,680)					(88,680)
Interest paid	(471,472)	139,308		(139,308)		(471,472)
Decrease in amounts due to directors	101,431					101,431
(Increase)/decrease in an amount due to holding companies	–	836,413		(836,413)		–
Capital element of finance lease rental payments	(81,720)	45,948		(45,948)		(81,720)
Interest element of finance lease rental payments	(11,200)	10,819		(10,819)		(11,200)
Net cash used in from financing activities	(911,558)					(1,611,558)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(564,960)					(458,519)
Effect of foreign exchange rate changes, net	162,285	1,741		(1,741)		162,285
Cash and cash equivalents at beginning of the year	439,067					439,067
CASH AND CASH EQUIVALENTS AT END OF YEAR	36,392					142,833
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	36,392					142,833

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

(1) The unaudited consolidated statement of financial position of the Group as at 30 June 2018 was extracted from the interim report of the Company for the six months ended 30 June 2018 dated 30 August 2018. The audited consolidated statement of profit or loss, the audited consolidated statement of comprehensive income and the audited consolidated statement of cash flow of the Group for the year 31 December 2017 was extracted from the annual report of the Company for the year ended 31 December 2017 dated 28 March 2018.

(2) The adjustments represent the shareholder loan from the Investor of RMB240 million transfer from loan to equity of the Target Company, being the payment for the 19% of equity interest in the Target Company pursuant to previous agreement. The shareholder loan of RMB1,680 million was received in March 2018.

(3) These adjustments represent the exclusion of assets and liabilities of the Target Company as at 30 June 2018, assuming the Disposal had taken place on 30 June 2018. The assets and liabilities of the Target Company as at 30 June 2018 are extracted from the unaudited consolidated statement of financial position of the Target Company as set out in Appendix II of the Circular.

(4) The adjustment reflects the reinstatement of assets and liability of the Target Company. It is the Director's intention that the asset and liabilities shall be transferred to the wholly-owned member of the Remaining Group at nil consideration. The only assets held by the Target Company was the Land and the net book value of the prepaid land premium was RMB51.4 million and the deferred tax asset derived from the deductible loss of the Target Company of RMB 106 million.

(5) These adjustments represent:

i. the estimated gross proceeds from the Disposal of RMB2,448 million; and

ii. the estimated gain on the disposal of the Target Company as if the Disposal had taken place on 30 June 2018.

The calculation of the estimated gain on the Disposal to be recognised in the statement of profit or loss, as if the Disposal had taken place on 30 June 2018, is as follows:

	Notes	*RMB'000*
Consideration for the 80% equity interest in the Target Company		2,448,000
Less: Net assets of the Target Company as at 30 June 2018	*(a)*	(158,997)
		2,289,003
Less: Estimated tax provision	*(b)*	(109,707)
Estimated gain on the Disposal after taxation as if the Disposal had taken place on 30 June 2018		2,179,296

Notes:

(a) The amount represents the net book value of the Land and the deferred tax assets held by the Target Company as at 30 June 2018. The only assets to be held by the Target Company is the Land and the deferred tax assets after the Asset Reorganisation and the completion of the Disposal.

(b) The amount represents taxes directly attributable to the Disposal estimated by the directors of the Company.

(6) These adjustments represent consideration for the Disposal (assuming no Premium is payable) will be payable in the following manner:

	RMB'000
Set off against the outstanding balance of the Shareholder's Loan	1,440,000
Settlement of bank and other borrowing	700,000
Settlement of other liabilities of the Target Company	159,000
Payment of land restoration fee of the Land	41,000
Receivable from Xingchen in cash	108,000
	2,448,000

(7) These adjustments represent the exclusion of the financial performance and cash flows of the Target Group for the year ended 31 December 2017, which were extracted from the financial information of the Target Group for the year ended 31 December 2017 as set out in Appendix II to the Circular, assuming the Disposal had taken place on 1 January 2017. The adjustment is not expected to have a continuing effect on the Remaining Group.

(8) These adjustments represent:

i. the estimated gross proceeds from the Disposal of RMB2,448 million;

ii. the estimated gain on the Disposal as if the Disposal had taken place on 1 January 2017.

The calculation of the estimated gain on the Disposal to be recognised in the statement of profit or loss, as if the Disposal had taken place on 1 January 2017, is as follows:

	Notes	*RMB'000*
Consideration for the 80% equity interest in the Target Company		2,448,000
Less: Net assets of the Target Company as at 1 January 2017	*(a)*	(55,089)
		2,392,911
Less: Estimated tax provision	*(b)*	(109,707)
Estimated gain on the Disposal after taxation as if the Disposal had taken place on 1 January 2017		2,283,204

Notes:

(a) The amount represents the net book value of the Land held by the Target Company as at 1 January 2017. The only asset to be held by the Target Company is the Land after the Asset Reorganisation and the completion of the Disposal.

(b) The amount represents taxes directly attributable to the Disposal estimated by the directors of the Company.

(9) The adjustment reflects the reinstatement of the financial performance and cash flows of the Target Group for the year ended 31 December 2017, assuming the Asset Reorganisation and the Disposal had taken place on 1 January 2017. After the Asset Reorganisation, the only asset held by the Target Company was the Land and the only effect would be the depreciation for the year ended 31 December 2017 of RMB1.5 million.

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

To the Directors of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings 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 statement of financial position as at 30 June 2018, unaudited pro forma statement of profit or loss, unaudited pro forma statement of comprehensive income and unaudited pro forma statement of cash flows for the year ended 31 December 2017 and related notes as set out in Appendix III to the circular dated 26 March 2019 (the "**Circular**") issued by the Company (the "**Unaudited Pro Forma Financial Information**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in the relevant notes.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Disposal (as defined in the Circular) on the Group's financial position as at 30 June 2018 as if the Disposal had taken place on 30 June 2018, and the Group's financial performance and cash flows for the year ended 31 December 2017 as if the Disposal had taken place on 1 January 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's interim report for the six months ended 30 June 2018, on which no audit or review report has been published, and the Group's financial performance and cash flows for the year ended 31 December 2017 has been extracted by the Directors from the Group's audited consolidated financial statements for the year ended 31 December 2017, on which an audit report has been published.

Directors' responsibility 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 ("**AG**") 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* 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 behaviour.

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*, 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 the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of the Disposal on unadjusted financial information of the Group as if 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 transaction 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 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 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 purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Certified Public Accountants
Hong Kong
26 March 2019

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited., an independent valuer, in connection with its valuation as at 31 January 2019 of the Property held by Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited.

永利行評值顧問有限公司
RHL Appraisal Limited
Corporate Valuation & Advisory
T +852 2730 6212
F +852 2736 9284
Room 1010,10/F, Star House
Tsimshatsui, Hong Kong

26 March 2019

The Board of Directors
Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

Unit 1, 15/F,
Tower 3, China Hong Kong City,
No. 33 Canton Road, Tsim Sha Tsui,
Kowloon, Hong Kong

Dear Sir/Madam,

INSTRUCTIONS

We refer to your instruction for us to value the property interest (the "**Property**") to be disposed by Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "**Company**") located in the People's Republic of China ("**PRC**"). We confirm that we have carried out property inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 January 2019 (the "**Valuation Date**").

This letter which forms part of our valuation report explains the basis and methodologies of valuation, clarifying assumptions, valuation considerations, title investigations and limiting conditions of this valuation.

BASIS OF VALUATION

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

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

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

VALUATION METHODOLOGY

For both current market value and redevelopment value, Direct Comparison Approach is adopted by making reference to the comparable market transactions/asking cases as available. Comparable properties of similar size, scale, nature, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of market value.

VALUATION CONSIDERATIONS

In valuing the property interest, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the International Valuation Standards 2017.

VALUATION ASSUMPTION

In our valuation of market value, unless otherwise stated, we have assumed that:

i. transferable land use rights in respect of the Property for specific terms at nominal annual land use fees have been granted and that any premium payable has already been fully paid; and

ii. the Property is connected to main services and sewers which are available on normal terms.

And for valuation of redevelopment value (please see footnote No.5 of Property particulars and opinion of value):

i. the land usage of redevelopment is legally and feasible and complied with any planning regulation of subject locality;

ii. the planning parameters assumed is reasonable and no conflict with any land sale policy or planning regulation applied for the subject locality; and

iii. the suitability of the ground condition and the services for any future redevelopment are satisfactory and no extraordinary expenses or delay will be incurred during the development period.

TITLE INVESTIGATION

We have been shown copies of various documents relating to the Property. However, we have not examined the original documents to verify the existing titles to the Property or any amendment which does not appear on the copies handed to us. We have relied considerably on the information given by the Company's PRC legal advisers, Guangzhou Office of Dentons, concerning the validity of the titles to the Property.

LIMITING CONDITIONS

We have conducted on-site inspections to the Property on 20 December 2018 by our staff Mr. Charlie Chan (Bsc in Geomatics).

We have not carried out detailed on-site measurement to verify the correctness of the areas in respect of the property but have assumed that the areas shown on the documents handed to us are correct. All dimensions, measurements and areas are approximate.

We have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the Property. Our valuation is prepared on the assumptions that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the Property or on adjoining or neighboring land or that the Property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

We have relied very considerable extent on the information provided by the Group and have accepted advices given to us on such matters, in particular, but not limited to tenure, planning approvals, statutory notices, easements, particulars of occupancy, size and floor areas and all other relevant matters in the identification of the Property. The plans including but not limited to location plan, site plan, lot index plan, outline zoning plan, building plan if any, in the report are included to assist the reader to identify the Property for reference only and we assume no responsibility for their accuracy.

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

We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of the legal advisers of the Group. Neither have we verified the correctness of any information supplied to us concerning the Property.

REMARKS

We have valued the property interest in Renminbi (RMB).

We enclose herewith the "Property Particulars and Opinion of Value".

Serena S. W. Lau
FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)
Managing Director

Jessie X. Chen
MRICS, MSc (Real Estate), BEcon
Senior Associate Director

Ms. Serena S. W. Lau is a Registered Professional Surveyor (GP) with over 20 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Lau is a Professional Member of The Royal Institution of Chartered Surveyors, an Associate of Australian Property Institute, a Fellow of The Hong Kong Institute of Surveyors as well as a registered real estate appraiser in the PRC.

Ms. Jessie X. Chen is a Registered Professional Surveyor (Valuation) with over 7 years' experience in valuation of properties in HKSAR, Macau SAR, mainland China and the Asia Pacific Region. Ms. Chen is a Professional Member of The Royal Institution of Chartered Surveyors.

PROPERTY PARTICULARS AND OPINION OF VALUE

Property	Description	Particulars of occupancy	Market value as at 31 January 2019 *RMB*
Various parcels of land with buildings erected thereon located at North of Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong Province, the PRC	The Property comprises of several industrial land parcels (the "**Land**") with a total site area of 280,226.75 sq.m. (3,016,336 sq.ft.) where various industrial buildings completed in about 1994 to 2002 are erected thereon. The total gross floor area of the Property is approximately 42,375.95 sq.m (456,130 sq.ft.). The land use rights of the Property were granted for various terms expiring from 25 August 2047 to 28 May 2053 respectively for industrial use.	The Property is owner-occupied for industrial use.	418,000,000 (RENMINBI FOUR HUNDRED AND EIGHTEEN MILLION DOLLARS ONLY)

Notes:

1. Pursuant to 6 Real Estate Title Certificates, the land use rights of portion of the Property with a site area of approximately 192,540.50 sq.m. have been granted to the Target Company. Details of such certificates are as follows:

State-owned Land Use Right Certificate	Land Use	Land Use Right Term	Approximate Site Area *(sq.m.)*
粵(2019)廣州市不動產權第07203735號	Industrial	3 Dec 2048	52,469.45
粵(2016)廣州市不動產權第07204361號	Industrial	3 Dec 2048	33,324.80
粵(2016)廣州市不動產權第07204362號	Industrial	3 Dec 2048	10,773.80
粵(2019)廣州市不動產權第07203737號	Industrial	3 Dec 2048	19,691.55
粵(2019)廣州市不動產權第07203736號	Industrial	28 May 2053	42,972.60
粵(2016)廣州市不動產權第07204663號	Industrial	3 Dec 2048	33,308.30
Total:			**192,540.50**

2. Pursuant to six Real Estate Title Certificates, the land use rights of the remaining portion of the Property with a site area of approximately 87,686.25 sq.m. have been granted to the Target Company. Details of such certificates are as follows:

State-owned Land Use Right Certificate	Issuance Date	Land Use	Land Use Right Expiry Date	Approximate Site Area *(sq.m.)*	Approximate Gross Floor Area *(sq.m.)*
粵(2016)廣州市不動產權第07204206號	2 Feb 2016	Industrial	25 Aug 2047	33,291.49	19,651.59
粵(2019)廣州市不動產權第07203740號	20 Feb 2019	Industrial	25 Aug 2047		97.46
粵(2019)廣州市不動產權第07203739號	20 Feb 2019	Industrial	25 Aug 2047		96.34
粵(2019)廣州市不動產權第07203742號	20 Feb 2019	Industrial	25 Aug 2047	54,394.76	333.54
粵(2019)廣州市不動產權第077203738號	20 Feb 2019	Industrial	25 Aug 2047		19,451.37
粵(2019)廣州市不動產權第07203741號	20 Feb 2019	Industrial	25 Aug 2047		2,745.65
Total:				**87,686.25**	**42,375.95**

3. As per our inspection, besides the buildings as shown on the certificates in Note.2 above, there are various other buildings for industrial use erected on the Land. However, we have not been provided any building ownership certificate or construction permit regarding such buildings. Therefore, we have not taken such buildings into consideration in our valuation. We have also made no allowance for any payable taxation, administrative fees or any removal or demolition expenses of such buildings.

4. The property is situated at north of a composite development which is located at the northern side of Yayun Avenue（亞運大道）in Shiji Town. The subject locality comprises mainly industrial complexes, rural villages and various newly developed residential developments.

5. As advised by the Group, the Target Company shall apply to the relevant government authorities for resumption of the Land. After resumption and changing the use of the Land from “industrial” to “commercial and residential”, the relevant government authorities will resell the Land in the open market and certain amount of the resale price will be returned to the Target Company as compensation. The amount and basis of the compensation are still under negotiation and to be determined by resell price of the Land.

For reference purpose only, under assumption that the permitted usage of the Land has been changed to "commercial and residential" and based on the current information as advised by the Company, detailed planning parameter after redevelopment is assumed to be as listed below:

Total Gross Site Area:	287,162.50 sq.m.
Total Net Site Area:	280,226.75 sq.m.
Redevelopment Usage:	Residential and Commercial
Area Breakdown:	84,068.03 sq.m. for commercial usage; 196,158.73 sq.m. for residential usage
Plot Ratio:	2.5 for commercial usage and 2 for residential usage
Land Use Right Tenure:	40 years for commercial use and 70 years for residential use commencing on the Valuation Date
Maximum Permitted Gross Floor Area (sq.m.):	
Commercial:	210,170.06 sq.m.
Residential (Held for Sale):	313,853.96 sq.m.
Residential (Unsold Portion):	78,463.49 sq.m.

Based on such planning details, assumed that the land has been changed to "commercial and residential" as at the Valuation Date, the redevelopment value of the Land is at **RMB4,530,000,000**. In the valuation of redevelopment value, no any payable land premium or administrative fees for changing the usage from "industrial" to "commercial and residential" has been considered. And we have assumed that the planning for redevelopment is legally and feasible and complied with any planning regulation of subject locality.

6. We have been provided with a legal opinion by the Group's PRC legal adviser, Guangzhou office of Dentons, regarding the legal title of the property, which contains, inter alia, the followings:

    i. The Property is legally held by the Group;

    ii. The Property is subject to mortgage in favour of Guangdong Yuecai Trust Co. Limited*（廣東粵財信託有限公司）for a total consideration of RMB1,680,000,000 and Guangzhou Xingchen Consultation Company Limited*（廣州星宸諮詢有限公司）as second mortgage for a consideration of RMB400,000,000;

    iii. The Group is entitled to transfer, lease, mortgage or dispose of the property freely in the market upon release of the current mortgage; and

    iv. The property is free from any other third party's encumbrance.

1. 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 Company. 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.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the SFO, which were required 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 which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in Shares and options of the Company

Name of Director	Capacity	Position	Number of Shares held	Percentage of shareholding in the Company
Chen Chang	Interest of controlled corporation, *(Note 1)*	Long Short	701,911,000 525,742,000 *(Note 2)*	69.42% 52.0%
	Beneficial interest	Long	4,350,000	0.43%

Note:

1. These shares are held by Bournam, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Chang. By virtue of the SFO, Mr. Chen is deemed to be interested in the 701,911,000 shares held by Bournam.

2. Bournam has pledged 525,742,000 shares of the Company, representing 52.0% of total number of issued shares of the Company, in favour of independent third parties.

Long positions in associated corporation

Mr. Chen Chang beneficially owns the entire issued share capital of Bournam. Bournam is the beneficial owner of about 69.42% of the issued shares of the Company.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executives of the Company and their associates had any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required 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 which he was taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as is known to any Director, the following person(s) (other than the Directors or chief executives of the Company) had interests or short positions in the Shares or underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholder	Capacity	Position	Number of Shares held	Percentage of shareholding in the Company
Bournam	Beneficial owner *(Note 1)*	Long Short	701,911,000 525,742,000 *(Note 2)*	69.42% 52.0%
Hammer Capital Private Investments Limited (“**Hammer Capital**”)	Beneficial owner *(Note 3)*	Long	422,600,000	41.79%
Cheung Siu Fai	Interest of controlled corporation *(Note 3)*	Long	422,600,000	41.79%
Tsang Ling Kay Rodney	Interest of controlled corporation *(Note 3)*	Long	422,600,000	41.79%

Notes:

1. The entire share capital of Bournam is solely and beneficially owned by Mr. Chen Chang. Mr. Chen is deemed under the SFO to be interested in the 701,911,000 Shares held by Bournam.

2. Bournam has pledged 525,742,000 Shares, representing 52.0% of total number of issued shares of the Company, in favour of independent third parties.

3. On 18 October 2018, the Company issued unlisted warrants in the aggregate amount of HK$313,320,000 to Hammer Capital, which confer the holder the right to subscribe for up to 373,000,000 Shares. As at the date of this Circular, no warrant has been exercised. In addition, Hammer Capital also held security interest in 49,600,000 Shares. Each of Mr. Cheung Siu Fai and Mr. Tsang Ling Kay Rodney had 50% control of Hammer Capital and deemed to be interested in the Shares which Hammer Capital was interested in by virtue of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other persons (other than the Directors or chief executives of the Company) who had interests or short positions in the Shares or underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or was proposing to enter into a service contract with any member of the Group which does not expire or is not terminable by such member of the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors and their respective associates had any interests in a business, which competes or is likely to compete either directly or indirectly with the business of the Group which would be required to be disclosed under Rule 8.10 of the Listing Rules.

5. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any asset which have been, since 31 December 2017, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

6. DIRECTORS' INTERESTS IN CONTRACTS OR ARRANGEMENTS

As at the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any contract or arrangement subsisting which is significant in relation to the business of the Group.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries were engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

8. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the date of this circular and are material:

(a) the Disposal Agreement;

(b) the loan agreement in the amount of RMB400 million entered into between the Xingchen and Guangzhou Pearl River Coating dated 30 November 2018;

(c) the Previous Agreement;

(d) the capital injection agreement of acquiring 1% of the equity interest in the Target Company from the Vendor dated 2 February 2018;

(e) the loan agreement entered into between the Investor and the Target Company dated 2 February 2018;

(f) the rescheduling agreement dated 22 June 2018 entered into between the Company and holders of the USD bonds due 2018 in respect of the new repayment schedule of the USD bonds due 2018;

(g) the loan amendment deed dated 22 June 2018 entered into between the Company, the Vendor, Mr. Chen Chang (Chairman of the Board, an executive Director and a controlling shareholder of the Company), Bournam and an investment fund as lender in respect of the further loan of HKD250 million to the Company and issue of the unlisted warrants carrying rights to subscribe for warrant shares to be issued by the Company;

(h) the transfer agreement dated 25 October 2017 entered into between PCKSP as vendor and 廣州寧進裝飾工程有限公司 (Guangzhou Ningjin Decoration Works Company Limited*) as purchaser in respect of the disposal of property located at No. 9, 11 Dalong Street, Limin Street, Shiji Town, Panyu District, Guangzhou, the PRC*（中國廣州番禺區石基鎮大龍街利民街9號11號）;

(i) the assets transfer agreement dated 11 September 2017 entered into between PCKSP as vendor and 江陰市長鵬再生資源有限公司 (Jiangyin City ChangPeng Recycled Resources Company Limited*) as purchaser in relation to the disposal of right of use of the land parcel located at Jiangyin, Jiangsu Province, PRC and the production plant erected thereon; and

(j) the asset transfer agreement dated 19 April 2017 entered into between 連雲港艾可新型建材有限公司 (Lianyungang Aike New Construction Materials Limited*) as vendor and 江蘇雲港投資發展有限公司 (Jiangsu Yungang Investment Development Company Limited*) as purchaser in relation to the disposal of land parcels located at Lianyungang, Jiangsu Province, PRC and the production plants erected thereon.

9. EXPERTS AND CONSENTS

The following is the qualifications of the experts who have given opinions, letters or advice contained in this circular:

Name	Qualifications
Ernst & Young	Certified Public Accountants
RHL Appraisal Limited	Independent qualified professional valuer

As at the Latest Practicable Date, each of the experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or reference to its name, in the form and context in which they appear.

As at the Latest Practicable Date, each of the experts did not have any shareholdings in the share capital of any member of the Group nor had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for the securities in any member of the Group.

As at the Latest Practicable Date, each of the experts had not had any direct or indirect interests in any assets which have been, since 31 December 2017 (being the date to which the latest published audited accounts of the Company were made up), 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.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at Suite Nos 1, 2 and 19, 15th Floor, Tower 3, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong during normal business hours from the date of this circular up to and including the date which is 14 days from the date of this circular:

(a) the memorandum of association and the articles of association of the Company;

(b) the letter from the Board, the text of which is set out on pages 6 to 27 of this circular;

(c) the annual reports of the Company for the years ended 31 December 2015, 2016 and 2017;

(d) the interim report of the Company for the six months ended 30 June 2018;

(e) the report on the unaudited pro forma financial information of the Group prepared by Ernst & Young, the text of which is set out in Appendix III to this circular;

(f) the property valuation report on the Land prepared by RHL Appraisal Limited, the text of which is set out in Appendix IV to this circular;

(g) the material contracts referred to in paragraph headed "8. Material contracts" in this appendix;

(h) the letter of consent referred to under the paragraph headed "9. Experts and consents" in this appendix;

(i) circular issued pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued since 31 December 2017; and

(j) this circular.

11. GENERAL

(a) The company secretary of the Company is Ms. Wong Pui Shan. Ms. Wong is a fellow member of the Association of Chartered Certified Accountants, a member of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Ms. Wong hold a Master's degree of Science in Finance from the Chinese University of Hong Kong and a Bachelor's degree of Arts in Accountancy from the Hong Kong Polytechnic University.

(b) The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(c) The head office and principal place of business of the Company in PRC is at Qinghe Road, Shiji Town, 511450 Panyu District, Guangzhou City, Guangdong Province, the PRC.

(d) The head office and principal place of business of the Company in Hong Kong is at Suite Nos 1, 2 and 19, 15th Floor, Tower 3, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

(e) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(f) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text thereof.

CHU KONG PETROLEUM AND NATURAL GAS STEEL PIPE HOLDINGS LIMITED
珠江石油天然氣鋼管控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1938)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that a extraordinary general meeting (the "**EGM**") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "**Company**") will be held at Portion 2, 12/F., The Centre, 99 Queen's Road Central, Hong Kong, at 11:00 a.m. on Tuesday, 16 April 2019 to consider and, if thought fit, pass with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTIONS

"**THAT:**

a) the disposal agreement dated 27 February 2019 entered into among Chu Kong Steel Pipe Group Co., Limited (珠江鋼管集團有限公司), Guangzhou Xingchen Consultation Company Limited (廣州星宸諮詢有限公司), Panyu Chu Kong Steel Pipe Co., Limited (番禺珠江鋼管有限公司), Guangzhou Pearl River Petroleum Steel Pipe Coating Co. Limited (廣州珍珠河石油鋼管防腐有限公司), Guangdong Yuecai Trust Co. Limited* (廣東粵財信托有限公司), Guangzhou Asset Management Company Limited* (廣州資產管理有限公司), Mr Chen Chang and the Company in connection with the disposal of an aggregate of 80% equity interest in Panyu Chu Kong Steel Pipe Co., Limited and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

b) any one director of the Company be and are hereby authorized to do all such acts and things and to sign and execute all such documents, instruments and agreements for and on behalf of the Company as they may consider necessary, appropriate, desirable or expedient to give effect to or in connection with this resolution."

By order of the Board
Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited
Chen Chang
Chairman

Guangdong Province, the PRC, 26 March 2019

* *For identification purpose only*

Notes:

1. Any member entitled to attend and vote at the EGM is entitled to appoint one or more proxies to attend and vote instead of such member in accordance with the articles of associate of the Company. A proxy need not be a member of the Company.

2. The register of members will be closed from Thursday, 11 April 2019 to Tuesday, 16 April 2019 (both days inclusive), during which period no share transfers will be registered. In order to qualify to attend and vote at the EGM, all transfer forms accompanied by relevant share certificates must be lodged with the Company's share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday on 10 April 2019.

3. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the corporation, must be either under its common seal or under the hand of an officer or attorney duly authorised.

4. To be valid, a form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be completed and deposited with the Company's share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof.

5. In the case of joint holders of a share, any one of such holders may vote at the EGM, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such holders is present at the above meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members in respect of such share shall alone be entitled to vote in respect thereof.

6. The English translation of the Chinese names or words in this notice, where indicated, is included for identification purpose only, and should not be regarded as the official translation of such Chinese names or words.

As at the date hereof, the Board comprises three executive Directors, namely Mr. CHEN Chang, Ms. CHEN Zhao Nian and Ms. CHEN Zhao Hua; and three independent non-executive Directors, namely Mr. CHEN Ping, Mr. SEE Tak Wah and Mr. TIAN Xiao Ren.