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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 IN RELATION TO THE LAND RESUMPTION

The Board announces that on 20 June 2019 (after trading hours), Guangdong Pearl Steel Investment, an indirect wholly-owned subsidiary of the Company, entered into the Land Resumption Compensation Agreement with GPDLC, pursuant to which GPDLC will resume, and Guangdong Pearl Steel Investment will sell, the Land of Phase III GDC. The Initial Compensation payable by GPDLC will be RMB1.16 billion (subject to upward adjustment as set out in the paragraph headed “Adjustment to the Initial Compensation” below).

The Land of Phase III GDC, which has not been developed yet, was initially reserved for Phase III of the property project named GDC.

The Land Resumption will be conditional upon the approval of Shareholders at the EGM in accordance with the requirements under the Listing Rules.

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

An EGM will be convened to be held for Shareholders to consider and, if thought fit, to approve the Land Resumption. As no Shareholder has a material interest in the Land Resumption, no Shareholder is required to abstain from voting. A circular setting out, among other matters, details of the Land Resumption and a valuation report in respect of the Land of Phase III GDC in commercial use, together with a notice of EGM to approve, among other matters, the Land Resumption is expected to be despatched to the Shareholders on or before 31 July 2019, which is more than 15 business days after the date of this announcement as additional time will be required to prepare the circular.

Completion of the Land Resumption is subject to the approval of the Shareholders at the EGM. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

THE LAND RESUMPTION COMPENSATION AGREEMENT

The Board announces that on 20 June 2019 (after trading hours), Guangdong Pearl Steel Investment, an indirect wholly-owned subsidiary of the Company, entered into the Land Resumption Compensation Agreement with GPDLC, pursuant to which GPDLC will resume, and Guangdong Pearl Steel Investment will sell, the Land of Phase III GDC. The initial compensation payable by GPDLC (the “**Initial Compensation**”) will be RMB1.16 billion (subject to upward adjustment as set out in the paragraph headed “Adjustment to the Initial Compensation” below).

Details of the Land Resumption Compensation Agreement are summarised as follows:

Date

20 June 2019

Parties

Vendor: Guangdong Pearl Steel Investment, an indirect wholly-owned subsidiary of the Company

Purchaser or GPDLC: Guangzhou City Panyu District Land Development Centre* (廣州市番禺區土地開發中心)

To the best of the Directors’ knowledge, information and belief, and having made all reasonable enquiries, GPDLC and its ultimate beneficial owners are Independent Third Parties.

Land of Phase III GDC to be resumed

The Land of Phase III GDC, which has not yet been developed, was initially reserved for Phase III of the property project named GDC. The Land of Phase III GDC has a site area of approximately 34,809 m² and is located at east of the intersection of Changsha Road and Qinghe Road, Dalong Street, Panyu District, Guangzhou City, Guangdong Province, the PRC (中國廣東省廣州市番禺區大龍街清河路與長沙路交匯處以東). The current usage of the Land of Phase III GDC is commercial. As at 31 December 2018, the book value of the Land of Phase III GDC as recognized in the Company’s accounts was RMB1.16 billion (the “**Book Value**”).

The Land of Phase III GDC has not yet been developed over years and has not been generating revenue for the two financial years immediately preceding the Land Resumption. The Land is not under mortgage. No buildings nor constructions is erected on the Land of Phase III GDC. Therefore, no material cost in relation to land restoration work is expected.

The Company has engaged an independent valuer, RHL Appraisal Limited, to prepare a valuation report (the “**Valuation Report**”) using direct comparison approach in respect of the Land of Phase III GDC in order to support its market value when determining the consideration. According to the preliminary Valuation Report, as at 31 May 2019, the market value of the Land of Phase III GDC in commercial use is approximately RMB1.162 billion.

Compensation and Payment Terms

The Initial Compensation of RMB1.16 billion will be paid in cash as follows:

- (1) RMB400 million shall be payable by GPDLDC within 60 days after signing of the Land Resumption Compensation Agreement;
- (2) RMB400 million shall be payable by GPDLDC within 60 days after completion of the land settlement procedure; and
- (3) RMB360 million shall be payable by GPDLDC within 60 days after signing of the land transfer confirmation.

No material transaction costs will be borne by the Vendor. It is expected that the above payments will be received on or before end of September 2019. The above payments will be refunded without interest to GPDLDC in the event that the condition precedent as set out below could not be fulfilled.

CONDITION PRECEDENT

Completion of the Land Resumption is subject to the satisfaction of the approval for the Land Resumption Compensation Agreement and the Land Resumption contemplated thereunder by the Shareholders at the EGM having been obtained. In the event that the condition precedent of the Land Resumption is not fulfilled, the Company will seek other buyer to purchase the Land of Phase III GDC.

Adjustment to the Initial Compensation

GPDLDC will appoint an independent valuer in the PRC to do the valuation of the Land of Phase III GDC (the “**Second Valuation Report**”).

The Initial Compensation shall be adjusted in circumstance (i) but no adjustment shall be made in circumstance (ii):

- (i) If the valuation as stated in the Second Valuation Report (the “**Final Valuation**”) exceeds the amount of RMB1.16 billion, the compensation will be adjusted to the Final Valuation and the difference between the adjusted compensation and the Initial Compensation will be payable by GPDLDC by end of November 2019;
- (ii) If the Final Valuation equals or is less than RMB1.16 billion, no adjustment shall be made to the Initial Compensation.

COMPLETION

Completion of the Land Resumption shall take place after the condition precedent has been fulfilled. On completion, Guangdong Pearl Steel Investment shall transfer the Land of Phase III GDC to GPDLDC free of encumbrances by signing the land transfer confirmation with GPDLDC.

LIABILITIES ON BREACH

1. In the event that GPDLDC fails to pay the compensation of the Land Resumption payable by it without reasons, GPDLDC will be liable to pay to the Vendor a late payment penalty calculated at a rate of 0.05% of the total amount payable on a daily basis.
2. In the event that, after the Land Resumption Compensation Agreement becomes effective, the Vendor fails or causes a delay in completing the land transfer and settlement procedure in respect of the Land of Phase III GDC in accordance with the Land Resumption Compensation Agreement, the Vendor will be liable to pay to GPDLDC a penalty calculated at a rate of 0.05% of the compensation already paid by GPDLDC on a daily basis and will be liable for any loss suffered by GPDLDC.
3. In the event that, after the Land Resumption Compensation Agreement becomes effective, the Vendor breaches the terms of the Land Resumption Compensation Agreement, including mortgaging or leasing out the Land of Phase III GDC, etc, the Vendor will be liable to pay to GPDLDC a penalty calculated at a rate of 10% of the total compensation of the Land Resumption.

INFORMATION OF THE COMPANY AND THE VENDOR

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. The Vendor is principally engaged in property development and investment.

INFORMATION OF GPDLDC

GPDLDC is an office of Guangzhou City Panyu District People's Government Land Acquisition Office* (廣州市番禺區人民政府徵用土地辦公室), which is responsible for providing services for state-owned land transfer, bidding, auction, and pre-development of land; responsible for policy investigation and formulation of peasant collectively owned land in Panyu, Guangzhou, the PRC.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, (i) GPDLDC is a government department in the PRC; and (ii) GPDLDC and its ultimate beneficial owners are Independent Third Parties.

REASONS AND BENEFITS FOR ENTERING INTO THE LAND RESUMPTION COMPENSATION AGREEMENT

The Group is principally engaged in the manufacture and sales of welded steel pipes and property development and investment. The GDC was developed by the Group in 2013 after the conversion of part of the Group's industrial land in Panyu into commercial use. The Land of Phase III GDC was for commercial use and has not yet been developed.

The Board considers that the Land Resumption can provide the Group with instant cash flow as opposed to, based on the Company's experience with Phase I of GDC, realizing return after years of development. It was stated in the annual report of the Company for the year ended 31 December 2018 that the Company's short-term interest-bearing bank and other borrowings and finance costs were approximately RMB2,012.8 million and RMB374.5 million respectively. The realized funds can be used for repayment of existing debts which can reduce loan interests from banks, thereby reducing cost and improving the cash flow position for investing in future steel pipe projects. Moreover, the Board anticipates that upon the sale of the Land of Phase III GDC, the value of neighboring properties may be benefited from the possible uplifting market value. The Group can then enjoy appreciation in property price of the unsold properties in Phase II of GDC. Accordingly, the Directors are of the view that both the property business and the long-term development of steel pipe business will be benefited from the Land Resumption and thus the Company started negotiation with GPDLDC in mid-April 2019. As it takes time for the valuer to be appointed by GPDLDC to finalize the Final Valuation and in order to satisfy the funding needs of the Group and further reducing the debt level and financial expenses of the Group, entering into the Land Resumption Compensation Agreement can provide immediate cash to the Group. The steel pipe business will remain as the Group's core business. The Land Resumption will not have material effect on the business and operation of the Group.

Based on the above and that the Initial Compensation is close to the valuation as assessed by the independent valuer appointed by the Company, the Directors are of the view that the terms of the Land Resumption Compensation Agreement are fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

The Company currently has no plan of disposing the Group's other assets after completion of the Land Resumption.

FINANCIAL EFFECT OF THE LAND RESUMPTION

Based on the information available, no gain or loss before tax from the Land Resumption is expected (assuming that no adjustment will be made to the Initial Compensation), as the Initial Compensation equals to the Book Value of the Land of Phase III GDC as at 31 December 2018, both being RMB1.16 billion. There is no tax directly associated with the Land Resumption. The calculations are only estimates provided for illustrative purposes and are subject to further review by the auditors of the Company.

If the adjusted compensation is higher than the Book Value, the Company will have gain from the Land Resumption.

INTENDED USE OF PROCEEDS OF THE LAND RESUMPTION

After deducting expenses, the net proceeds from the Land Resumption will amount to approximately RMB1,158 million. It is intended that the net proceeds from the Land Resumption will be applied as to RMB960 million for repayment of debts of the Group in the following manner: (i) as to RMB527.2 million will be used to repay current portion of long term loans due in this year with interest rate of 5.4%; and (ii) as to RMB432.8 million will be used to repay secured bank loans due in this year with interest rates ranging from 5.0% to 6.3%.

The balance of RMB198 million will be used for working capital of the Company.

IMPLICATIONS UNDER THE LISTING RULES

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

An EGM will be convened to be held for Shareholders to consider and, if thought fit, to approve the Land Resumption. As no Shareholder has a material interest in the Land Resumption, no Shareholder is required to abstain from voting. A circular setting out, among other matters, details of the Land Resumption and valuation report in respect of the Land in commercial use, together with a notice of EGM to approve, among other matters, the Land Resumption is expected to be despatched to the Shareholders on or before 31 July 2019, which is more than 15 business days after the date of this announcement as additional time will be required to prepare the circular.

DEFINITIONS

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

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| “Board” | the board of Directors |
| “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 incorporated 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) |
| “Director(s)” | the director(s) of the Company |

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| “EGM” | the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, to approve the Land Resumption contemplated under the Land Resumption Compensation Agreement |
| “GDC” | a 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 |
| “GPDLC” | Guangzhou City Panyu District Land Development Centre* (廣州市番禺區土地開發中心), being an office of Guangzhou City Panyu District People’s Government Land Acquisition Office* (廣州市番禺區人民政府徵用土地辦公室) in the PRC |
| “Group” | collectively, the Company and its subsidiaries from time to time |
| “Independent Third Party(ies)” | individual(s) or company(ies) which is/are independent of and not connected with any member of the Group, the Directors, chief executive and substantial shareholders of the Company and its subsidiaries and their respective associates (within the meaning of the Listing Rules) |
| “Land of Phase III GDC” | the land initially reserved for Phase III of GDC which has a site area of approximately 34,809 m ² and is located at east of the intersection of Changsha Road and Qinghe Road, Dalong Street, Panyu District, Guangzhou City, Guangdong Province, the PRC (中國廣東省廣州市番禺區大龍街清河路與長沙路交匯處以東), which is owned by Guangdong Pearl Steel Investment within the land of site area of land certificate number G39-000012 |
| “Land Resumption” | the resumption of the Land by GPDLC pursuant to the Land Resumption Compensation Agreement with compensation |
| “Land Resumption Compensation Agreement” | the land resumption compensation agreement dated 20 June 2019 entered into between GPDLC as the purchaser and Guangdong Pearl Steel Investment as the Vendor in respect of the Land Resumption |

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| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “PRC” | the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Share(s)” | ordinary share(s) of HK\$0.1 each in the share capital of the Company |
| “Shareholder(s)” | the holder(s) of issued Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Vendor” or “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 an indirect subsidiary of the Company |

* *Unofficial transliteration from Chinese name for identification purposes only*

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

Guangdong Province, the PRC, 20 June 2019

As at the date of this announcement, 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.