**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)**

# (1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO DIRECT LAND RESUMPTION BY GUANGZHOU CITY LAND DEVELOPMENT CENTRE; AND (2) TERMINATION OF VERY SUBSTANTIAL DISPOSAL RELATING TO DISPOSAL OF EQUITY INTEREST OF PCKSP

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 2:30 p.m. on Friday, 23 October 2020 is set out on pages EGM-1 to EGM-3 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 enclosed 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 54, 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.

**PRECAUTIONARY MEASURES FOR THE EGM**

Please see page 1 of this circular for measures being taken to try to prevent and control the spread of the Novel Coronavirus (COVID-19) at the EGM, including:

- compulsory temperature check and health declaration
- compulsory wearing of surgical face mask throughout the EGM
- prohibit attendance at the General Meeting if the attendee has a fever. Persons exhibiting flu-like symptoms may also be refused admittance
- no corporate gifts will be distributed and no refreshments will be served at the EGM

Any person who does not comply with the precautionary measures may be denied entry into the EGM venue. The Company reminds Shareholders that they may appoint the chairman of the meeting as their proxy to vote on the relevant resolutions at the EGM as an alternative to attend the EGM in person.

8 October 2020

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# PRECAUTIONARY MEASURES FOR THE EGM

The health of Shareholders, staff and stakeholders is of paramount importance to us. In view of the ongoing novel coronavirus (COVID-19) pandemic, the Company will implement the following precautionary measures at the EGM to protect attending Shareholders, staff and stakeholders from the risk of infection:

(i) Mandatory body temperature checks will be conducted for every Shareholder, proxy or other attendee at each entrance of the meeting venue. Any person with a body temperature of over 37.2 degrees Celsius may be denied entry into the meeting venue or be required to leave the meeting venue.

(ii) Each attendee is mandatorily required to wear a surgical face mask throughout the meeting and inside the meeting venue, and to maintain a safe distance between seats.

(iii) No food and beverage will be served and there will be no distribution of corporate gifts.

(iv) Each attendee will be required to submit a completed health declaration form prior to entry into the EGM venue. Each attendee will be asked whether (a) he/she has traveled outside of Hong Kong within the 14-day period immediately before the EGM; and (b) he/she is subject to any compulsory quarantine order prescribed by the Hong Kong government. Anyone who responds affirmatively to any of these questions will be denied entry into the meeting venue or be required to leave the meeting venue.

To the extent permitted under the laws of Hong Kong, the Company reserves the right to deny any person entry into the EGM venue or require any person to leave the EGM venue in order to ensure the safety of the attendees at the EGM.

In addition, the Company reminds all Shareholders that physical attendance in person at the meeting is not necessary for the purpose of exercising voting rights. Shareholders may appoint the chairman of the meeting as their proxy to vote on the relevant resolution(s) at the meeting instead of attending the meeting in person, by completing and returning the proxy form attached to this circular.

If any Shareholder chooses not to attend the meeting in person but has any question about any resolution or about the Company, or has any matter for communication with the Board, he/she is welcome to send such question or matter in writing to our principal place of business in Hong Kong or to our email at ir@zhujiang.com.hk.

The proxy form can be downloaded from the Company's website at www.pck.com.cn or pck.todayir.com or the designated website of the Stock Exchange at http://www.hkexnews.hk. If you are not a registered Shareholder (if your Shares are held via banks, brokers, custodians or the Hong Kong Securities Clearing Company Limited), you should consult directly with your banks or brokers or custodians (as the case may be) to assist you in the appointment of proxy.

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

| | |
|---|---|
| "Board" | the board of Directors |
| "Bournam" | Bournam Profits Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Chen Chang |
| "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) |
| "Compensation" | the compensation receivable by PCKSP pursuant to the Land Resumption Compensation Agreement |
| "Direct Land Resumption" | the resumption of the Land by the Guangzhou LDC pursuant to the Land Resumption Compensation Agreement |
| "Director(s)" | the director(s) of the Company |
| "EGM" | the extraordinary general meeting of the Company to be convened and held to consider, and if thought fit, approve the Direct Land Resumption contemplated under the Land Resumption Compensation Agreement |
| "Group" | collectively, the Company and its subsidiaries from time to time |
| "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% equity interest of PCKSP |

| | |
|---|---|
| "Guangzhou LDC" | Guangzhou City Land Development Centre*（廣州市土地開發中心）, being an office of the Guangzhou City People's Government Land Acquisition Office*（廣州市人民政府徵用土地辦公室）in the PRC |
| "HKD" or "HK$" | 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)" | 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" | a piece of land owned by PCKSP with a site area of approximately 280,197 $m^2$ and located at the north side of Yayun Avenue, Dalong Street, Panyu District, Guangzhou City, Guangdong Province, the PRC（中國廣東省廣州市番禺區大龍街亞運大道北側）, which is the same piece of land as the one identified as 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）in the Company's previous announcements and circulars referred to in the paragraphs headed "Termination of very substantial disposal relating to disposal of equity interest of PCKSP" above |
| "Land Resumption Compensation Agreement" | the agreement dated 15 September 2020 and entered into between, among others, the Guangzhou LDC (as the land resumption authority) and PCKSP (as the existing land-use-right owner) in respect of the Direct Land Resumption |
| "Latest Practicable Date" | 30 September 2020 |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "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 subsidiary of the Company |

| | |
|---|---|
| "PRC" | the People's Republic of China, which, for the purpose of this circular, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Remaining Group" | The Group other than the Land |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | ordinary share(s) of HK$0.1 each in the share capital of the Company |
| "Shareholder(s)" | the holder(s) of issued Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Xingchen" | Guangzhou Xingchen Consultation Company Limited*（廣州星宸諮詢有限公司）, a company established in the PRC with limited liability, being an investment company owned by limited partnership funds which are managed by Guangzhou Yuexiu Industry Investment Fund Management Co., Ltd.*（廣州越秀產業投資基金管理股份有限公司）and ultimately owned by certain state-owned enterprises in the PRC including Guangzhou Yuexiu Group Company Limited（廣州越秀集團有限公司） |
| "$m^2$" | square metres |

* *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)*
Mr. CHEN Guo Xiong *(Vice Chairman)*
Ms. CHEN Zhao Nian

*Independent non-executive Directors:*
Mr. CHEN Ping
Mr. TIAN Xiao Ren
Mr. AU YEUNG Kwong Wah

*Registered office:*
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*Head office and principal place of business in the PRC:*
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*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

8 October 2020

*To the Shareholders*

Dear Sir or Madam,

**(1) VERY SUBSTANTIAL DISPOSAL IN RELATION TO DIRECT LAND RESUMPTION BY GUANGZHOU CITY LAND DEVELOPMENT CENTRE; AND (2) TERMINATION OF VERY SUBSTANTIAL DISPOSAL RELATING TO DISPOSAL OF EQUITY INTEREST OF PCKSP**

## INTRODUCTION

Reference is made to the Company's announcement dated 15 September 2020.

On 15 September 2020, PCKSP, an indirect wholly-owned subsidiary of the Company, entered into the Land Resumption Compensation Agreement with, among others, the Guangzhou LDC, pursuant to which the Guangzhou LDC has agreed to resume, and PCKSP has agreed to offer to be resumed, the Land for a Compensation of RMB3,453.4 million (subject to an early completion bonus payment of RMB690.7 million).

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

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

**THE LAND RESUMPTION COMPENSATION AGREEMENT**

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

**Date:**

15 September 2020

**Parties:**

| | |
|---|---|
| Land-use-right owner: | PCKSP, an indirect wholly-owned subsidiary of the Company |
| Land resumption authorities: | Guangzhou City Land Development Centre*（廣州市土地開發中心）, which is the authority managing the land reserve of the Guangzhou City government. The actual implementation of the Direct Land Resumption will be carried out by Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）. |
| Existing mortgagees of the Land: | Guangdong Yuecai Trust and Xingchen |

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

**Land to be resumed**

The Land is located at the north side of Yayun Avenue, Dalong Street, Panyu District, Guangzhou City, Guangdong Province, the PRC (中國廣東省廣州市番禺區大龍街亞運大道北側)[1] and has a site area of approximately 280,197 $m^2$.

The current use of the Land is industrial. It is contemplated that the use of the Land will be changed to "comprehensive" (綜合) after the Direct Land Resumption (subject to final planning decision).

The Land was previously used by the Group as factory and office buildings to house the Group's principal production facilities of welded steel pipes. As at the date of this circular, the Group's production lines have already been relocated to Lianyungang and Zhuhai, and the Group's production activities are mainly carried out in these new production bases. The demolition of the buildings and constructions on the Land have been completed.

As at 30 June 2020, the book value of the Land (on industrial use basis) as recognised in the Company's accounts was RMB48.8 million.

The Company has engaged an independent valuer, RHL Appraisal Limited, to prepare a valuation report on the value of the Land using direct comparison approach. According to the valuation report, as at 31 August 2020, the market value of the Land for industrial use is RMB389.7 million. Besides, the valuation of the Land at redevelopment usage (residential and commercial) is at around RMB 5.74 billion. A copy of the said valuation report is set out in Appendix II to this circular.

**Compensation and payment terms**

In consideration of PCKSP agreeing to offer the Land for resumption by the Guangzhou LDC, PCKSP shall receive the Compensation in the amount of RMB3,453.4 million (subject to an early completion bonus payment described below).

The amount of the Compensation was determined in accordance with the applicable urban renewal policies and regulations, which represents a prescribed percentage of the commercial-use value of the Land based on the average of the valuations of the Land by two valuers.

[1] Which is the same piece of land as the one identified as 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) in previous announcements and circulars.

Given that the method of determining the amount of compensation is prescribed by applicable urban renewal policies and regulations and is generally applicable to similar land resumptions, the Directors consider that the Compensation is a fair amount which PCKSP can reasonably expect to obtain by offering the Land to be resumed by the Guangzhou LDC. Please also refer to the paragraph headed ''Reasons and benefits for entering into the Land Resumption Compensation Agreement'' below for further details on the Directors' view that the Compensation is fair and reasonable and in the interest of the Company and its shareholders as a whole.

The Compensation will be paid by the Guangzhou LDC in cash in the following manner:

(1) RMB690.7 million (representing 20% of the Compensation) shall be paid within 60 days after the signing of the Land Resumption Compensation Agreement;

(2) RMB690.7 million (representing 20% of the Compensation) shall be paid within 60 days after the completion of the deregistration of the ownerships of the Land and the buildings and the constructions thereon (if any);

(3) RMB690.7 million (representing 20% of the Compensation) shall be paid within 60 days after the completion of employee resettlement, laying-off of staff, relocation of equipment and pipelines, site leveling and site enclosure work;

(4) RMB345.3 million (representing 10% of the Compensation) shall be paid within 60 days after receiving the acknowledgment from the relevant authority regarding (i) the filing of a soil pollution investigation report confirming that the level of pollutants in the soil of the Land does not exceed the prescribed level; or (ii) the filing of the completion of the works undertaken under the soil remediation plan; and

(5) RMB1,036.0 million (or 30% of the Compensation) shall be paid within 60 days after the delivery of the Land to the Guangzhou LDC by the signing a land transfer confirmation.

Since the works stipulated in paragraph (3) above are considered to be completed as at the date of the Land Resumption Compensation Agreement, the Guangzhou LDC has further agreed that the first three instalments of the Compensation (in the aggregate amount RMB2,072.1 million, representing 60% of the Compensation) shall be paid to PCKSP in one lump sum on the day on which the deregistration of the ownerships of the Land was completed (and in any event not later than the day after such deregistration).

If PCKSP is able to deliver the Land within 12 months after the signing of the Land Resumption Compensation Agreement, the Guangzhou LDC shall pay PCKSP an early completion bonus of RMB690.7 million, representing 10% of the market value of the Land on commercial use basis. The bonus shall be paid by the Guangzhou LDC within 60 days after the signing of the land transfer confirmation.

**Rights and obligations of the existing mortgagees of the Land**

Pursuant to the Land Resumption Compensation Agreement, Guangdong Yuecai Trust and Xingchen, as existing mortgagees of the Land, consent to the Direct Land Resumption. In addition, PCKSP, Guangdong Yuecai Trust and Xingchen shall register the cancellations of the mortgages over the Land within three days after the Land Resumption Compensation Agreement has become effective. Guangdong Yuecai Trust and Xingchen shall have the priority to receive the Compensation directly from the Guangzhou LDC for the settlement of the liabilities owed to them by PCKSP. The mortgages over the Land have been canceled as at the Latest Practicable Date.

Assuming the repayments to Guangdong Yuecai Trust and Xingchen will be made on 31 October 2020, the Group will owe Guangdong Yuecai Trust RMB1.68 billion in principal and RMB359.53 million in interest, and the Group will owe Xingchen RMB398.14 million in principal and RMB104.07 million in interest. These liabilities represent the loans granted by Guangdong Yuecai Trust and Xingchen under the Previous PCKSP Disposal Agreements and the interest accrued thereon. Subject to the termination of the PCKSP Disposal Agreements, the Group shall also pay Guangdong Yuecai Trust an early termination fee of RMB108.10 million.

## CONDITION PRECEDENT

Completion of the Direct Land Resumption is subject to the approval by the Shareholders at the EGM in accordance with the requirements under the Listing Rules.

In the event that the condition precedent of the Direct Land Resumption is not fulfilled, the Land Resumption Compensation Agreement shall be terminated, and all payments received by PCKSP from the Guangzhou LDC in connection with the Direct Land Resumption will be refunded without interest to the Guangzhou LDC. In such event, the Previous PCKSP Disposal Agreements (as defined below) and the plan under those agreements will remain valid and effective, and the Company will continue to explore other options to realise the value of the Land.

## COMPLETION

Completion of the Direct Land Resumption shall occur when PCKSP delivers the Land to the Guangzhou LDC free of encumbrances by signing the land transfer confirmation with the Guangzhou LDC.

It is expected that the Direct Land Resumption will be completed within 12 months from the date of the Land Resumption Compensation Agreement.

**TERMINATION OF VERY SUBSTANTIAL DISPOSAL RELATING TO DISPOSAL OF EQUITY INTEREST OF PCKSP**

On 12 February 2018, the Group entered into a capital injection and cooperation agreement (the "**First PCKSP Disposal Agreement**") with, among others, Guangdong Yuecai Trust and Guangzhou Asset Management Company Limited*(廣州資產管理有限公司)(the "**Investment Manager**") in relation to the cooperation to facilitate the change of the use of the Land from "industrial" to "commercial and residential", and the disposal (actual and deemed) of an aggregate of 59% of the equity interest in PCKSP (whose only asset would be the Land upon completion) to Guangdong Yuecai Trust (the "**First PCKSP Disposal**").

On 27 February 2019, the Group further entered into a share investment agreement (the "**Second PCKSP Disposal Agreement**", together with the First PCKSP Disposal Agreement, the "**Previous PCKSP Disposal Agreements**") with, among others, Xingchen, in relation to (i) the nomination of Xingchen by the Investment Manager under the terms of the First PCKSP Disposal Agreement as its nominee to acquire 40% equity interest of PCKSP; and (ii) the disposal of the remaining 40% equity interest of PCKSP to Xingchen, for a total consideration of RMB2,448 million with a possible payment of a premium of RMB272 million (the "**Second PCKSP Disposa**l", together with the First PCKSP Disposal, the "**Previous PCKSP Disposals**").

The Land has been mortgaged to Guangdong Yuecai Trust and Xingchen under the Previous PCKSP Disposals.

The Previous PCKSP Disposals were approved by the Company's shareholders at the extraordinary general meetings held on 19 April 2018 and 16 April 2019, respectively.

As at the date of this circular, the Previous PCKSP Disposals have not be completed. PCKSP is still held as to 20% by Guangdong Yuecai Trust and 80% by the Group. The Group has not received any of the consideration under the Second PCKSP Disposal.

After the signing of the PCKSP Disposal Agreements, the Company, Guangdong Yuecai Trust and Xingchen had continued to explore various alternatives to realise the value of the Land, which is the main objective of the Previous PCKSP Disposals. The parties subsequently determined that the Direct Land Resumption was a more efficient and certain means to realise the value of the Land. Thus the parties to the PCKSP Disposal Agreements agree to pursue the Direct Land Resumption and terminate the Previous PCKSP Disposals.

On 15 June 2020, the parties to the Previous PCKSP Disposal Agreements entered into two supplemental agreements (the "**PCKSP Disposal Supplemental Agreements**") to provide a framework for the unwinding of the Previous PCKSP Disposals to pave the way for the negotiation and implementation of the Direct Land Resumption by the Guangzhou City government.

Please refer to the following announcements and circulars issued by the Company in relation to the Previous PCKSP Disposals and the terms of the PCKSP Disposal Supplemental Agreements:

**Regarding the *First PCKSP Disposal***

- Announcement dated 12 February 2018
- Circular dated 27 March 2018
- Announcement dated 19 April 2018
- Announcement dated 15 October 2018
- Announcement dated 15 June 2020

**Regarding the *Second PCKSP Disposal***

- Announcement dated 27 February 2019
- Circular dated 26 March 2019
- Announcement dated 16 April 2019
- Announcement dated 15 June 2020

Pursuant to the terms of the PCKSP Disposal Supplemental Agreements, the Previous PCKSP Disposal Agreements shall be terminated upon the receipt by Guangdong Yuecai Trust and Xingchen of all the amounts payable under the respective PCKSP Disposal Supplemental Agreements by the end of October 2020, which will amount to RMB2,649.8 million (assuming the loans will be repaid on 31 October 2020 and interests shall accrue up to that date). Such payment shall be financed by:

(i) 60% of the Compensation, amounting to RMB2,072.1 million, which will be received by the end of October 2020 according to the terms of the Land Resumption Agreement; and

(ii) a bridging loan facility of not less than RMB577.7 million to be provided by banks or other financial institutions in the PRC.

The Company is negotiating the terms of the aforesaid loan facility with various banks and financial institutions, and expects to secure such loan facility by mid-October 2020. The loan facility is expected to be secured by the balance of the Compensation receivable under the Land Resumption Agreement as collateral.

After the termination of the Previous PCKSP Disposal Agreements, the Company shall have no further obligation to sell the equity interest of PCKSP to Guangdong Yuecai Trust or Xingchen, and the Company shall remain the owner of 100% of the equity interest in PCKSP.

The Board considers that the terminations of the Previous PCKSP Disposals will not have any material adverse effect on the operations, business and financial position of the Group.

**INFORMATION OF THE COMPANY AND PCKSP**

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.

PCKSP is an indirect wholly-owned subsidiary of the Company. After the relocation of the Group's production lines to Lianyungang and Zhuhai, PCKSP currently has no active business operations except for the holding of the Land and the carrying out of the asset reorganisation contemplated by the Previous PCKSP Disposals.

**INFORMATION OF THE GUANGZHOU LDC**

The Guangzhou LDC is an office of Guangzhou City People's Government Land Acquisition Office*（廣州市人民政府徵用土地辦公室）, which is responsible for, among other things, providing services for state-owned land transfer, bidding, auction, and pre-development of land in Guangzhou City.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Guangzhou LDC is a PRC government department, and the Guangzhou LDC and its ultimate beneficial owners are Independent Third Parties.

## REASONS AND BENEFITS FOR ENTERING INTO THE LAND RESUMPTION COMPENSATION AGREEMENT

The Directors are of the view that the terms of the Land Resumption Compensation Agreement, including the amount of the Compensation, are fair and reasonable and are in the interests of the Company and its shareholders as a whole after considering the following factors:

(i) As it is the Guangzhou government's intention to implement the Direct Land Resumption with a view to expediting infrastructure construction in the area, the Directors believe that the Direct Land Resumption is a more direct and efficient way to realise the value of the Land to reduce the Group's liabilities and interest burden. According to the terms of the Land Resumption Agreement, the Group is expected to receive RMB2,072.1 million, representing 60% of the Compensation, by the end of October 2020. In contrast, the consideration under the Second PCKSP Disposal will only be received upon completion of the transfer of 80% of the issued share capital to Xingchen, which is unlikely to take place by October 2020 since more time is required for the completion of the assets reorganisation contemplated by the Previous PCKSP Disposals.

(ii) The amount of the Compensation, being RMB3,453.4 million (with a possible early completion bonus of RMB690.7 million), is higher than the total consideration received or receivable by the Group for (i) the injection of capital of RMB240 million by Guangdong Yuecai Trust for 19% of equity interest in PCKSP under the First PCKSP Disposal; and (ii) the disposal of 80% of the equity interest in PCKSP for RMB2,448 million under the Second PCKSP Disposal (with a possible payment of a premium of RMB272 million).

(iii) Being able to complete the Direct Land Resumption 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.

(iv) The counterparties to the Previous PCKSP Disposals are supportive of the Direct Land Resumption, and have already entered into the PCKSP Disposal Supplemental Agreements which provide a defined roadmap for the unwinding of the Previous PCKSP Disposals if the Direct Land Resumption is consummated.

The Directors are of the view that the Direct Land Resumption will not have any material adverse effect on the business and operations of the Group.

After the Direct Land Resumption, 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.

## FINANCIAL EFFECT OF THE DIRECT LAND RESUMPTION

### Earnings

Based on the information available, assuming no early completion bonus shall be payable, the Company is expected to record a gain before tax from the Direct Land Resumption in the amount of RMB2,908.5 million, based on the Compensation of RMB3,453.4 million, the book value of the Land as at 30 June 2020 of RMB48.8 million, the demolition cost associated with the closure of the manufacturing plant of PCKSP of RMB148 million, the compensation payable to Guangdong Yuecai Trust of RMB108.1 million and the estimated costs to be incurred by the Company to consummate the Direct Land Resumption of RMB240 million. There will be no tax directly associated with the Direct Land Resumption.

If PCKSP is entitled to and receives the early completion bonus, then the Company's gain before tax from the Direct Land Resumption is expected to be RMB3,599.2 million.

### Assets and liabilities

As a result of the Direct Land Resumption, the consolidated fixed assets of the Group will be reduced by RMB48.8 million.

Upon full payment of the Compensation for the Direct Land Resumption and taking into consideration the estimated cost to consummate the Direct Land Resumption of RMB240 million, and the repayment of debts, compensation and interests owed to Guangdong Yuecai Trust and/or Xingchen of RMB2,649.8 million, the consolidated cash in bank of the Group will increase by RMB563.6 million (exclusive of related taxes), while the consolidated bank and other borrowings of the Group will be reduced by RMB2,078.1 million. The consolidated net assets of the Group will increase by RMB2,592.9 million.

If PCKSP is entitled to and receives the early completion bonus, the consolidated cash in bank of the Group will increase by RMB1,254.3 million (exclusive of related taxes), and the consolidated net assets of the Group will increase by RMB3,283.6 million.

The above calculations are only estimates provided for illustrative purposes and are subject to further review by the auditors of the Company.

**INTENDED USE OF PROCEEDS FROM THE DIRECT LAND RESUMPTION**

After deducting all relevant expenses, the net proceeds from the Direct Land Resumption (assuming no early completion bonus shall be payable) will amount to approximately RMB3,451.4 million.

It is intended that the net proceeds from the Direct Land Resumption will be applied as to:

(i) RMB2,649.8 million for repayment of debts, compensation and interests owed to Guangdong Yuecai Trust and/or Xingchen as at 31 October 2020 (assuming the loans will be repaid on 31 October 2020 and interests shall accrue up to that date), among which (a) RMB2,147.6 million will be paid to Guangdong Yuecai Trust; and (b) RMB502.2 million will be paid to Xingchen, and such amount may also be used to repay the bridging loan obtained by the Group for the purpose of repayments to Guangdong Yuecai Trust and/or Xingchen as referred to in the paragraph headed "Termination of very substantial disposal relating to disposal of equity interest of PCKSP" above.

(ii) RMB240.0 million for the cost to be incurred by the Company to consummate the Direct Land Resumption, including the cost for the preparation of a soil pollution report and the completion of the relevant soil remediation work;

(iii) RMB362.2 million for repayment of other debts of the Group; and

(iv) the balance of RMB199.4 million will be used for working capital of the Company.

If PCKSP is entitled to and receives the early completion bonus, it is intended that RMB400 million will be applied to the repayment of other debts of the Group, and the balance of RMB290.7 million will be used as the 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 Direct Land Resumption constitutes a very substantial disposal of the Company and is subject to the announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

**EGM**

An EGM will be convened to be held for the Shareholders to consider and, if thought fit, to approve the Direct Land Resumption. As no Shareholder has a material interest in the Direct Land Resumption, no Shareholder is required to abstain from voting.

Notice of the EGM is set out on pages EGM-1 to EGM-3 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 the Hong Kong Branch Share Registrar office of the Company, Tricor Investor Services Limited, at Level 54, 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 the holding of 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

The register of members of the Company for the EGM will be closed from Tuesday, 20 October 2020 to Friday, 23 October 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 19 October 2020.

## RECOMMENDATION

The Directors are of the opinion that the Direct Land Resumption is in the interests of the Company and the Shareholders as a whole, and the terms of the Land Resumption Compensation Agreement are fair and reasonable. Accordingly, the Directors recommend the Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve the Direct Land Resumption.

**As the Direct Land Resumption is 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 2017, 2018 and 2019 and the unaudited consolidated financial statements of the Group for the six months ended 30 June 2020, 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 2020 published on 11 September 2020, from pages 22 to 54;
- Annual report of the Company for the year ended 31 December 2019 published on 28 April 2020, from 103 to 246;
- Annual report of the Company for the year ended 31 December 2018 published on 18 April 2019, from pages 116 to 262;
- Annual report of the Company for the year ended 31 December 2017 published on 19 April 2018, from pages 115 to 234.

## 2. STATEMENT OF INDEBTEDNESS

### Bank and other borrowings

As at the close of business on 31 August 2020, 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 | 1,880,525 |
| – Unsecured | 1,350 |
| Government loans | |
| – Secured | 302,000 |
| Other borrowing | |
| – Secured | 2,098,483 |
| – Unsecured | 335,653 |
| Fixed rate bonds | |
| – HKD140 million 12% Bonds due 2022 | 122,381 |
| – USD3 million 7% Bonds due 2020 | 12,574 |
| – HKD10 million 6% Bonds due 2020 | 8,194 |
| – HKD10 million 7% Bonds due 2021 | 7,538 |
| – HKD3 million 5% Bonds due 2020 | 2,655 |
| | 4,771,353 |

As at 31 August 2020, 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 RMB1,135,952,000;

(b) a charge over certain leasehold lands of the Group with a net carrying amount of approximately RMB804,346,000;

(c) certain of the Group's time deposits amounting to RMB2,000; and

(d) a charge of certain of the properties under development, investment properties and completed properties held for sale of the Group amounting to RMB1,346,789,000.

**Fixed rate bonds**

As at the close of business on 31 August 2020, 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 approximately RMB153.3 million and interest accrued of approximately RMB5.8 million.

**Contingent liabilities**

As at 31 August 2020, the Group had the following outstanding contingent liabilities:

(a) guarantee of RMB121.6 million to certain purchasers of the Group's properties for mortgage facilities; and

(b) guarantee RMB550.0 million to joint venture for banking facilities in Saudi Arabia of which RMB550.0 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 August 2020.

The Directors have confirmed that there has been no material change in the borrowings and contingent liabilities of the Group since 31 August 2020.

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 August 2020.

## 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 net proceeds from the completion of the Direct Land Resumption, the present internal resources of the Group as well as the banking and other facilities available to the Group and the expected refinancing of bank and other borrowings upon maturity, the Group will have sufficient working capital for at least the 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 were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2019, 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 Land Resumption, the Group will continue to carry out its existing businesses. The management discussion and analysis of the Group for each of the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 is set out below. The financial data in respect of the 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 (www.pck.com.cn) or (pck.todayir.com).

### (a) For the six months ended 30 June 2020

#### *(i) Financial review*

*Revenue*

During the six months ended 30 June 2020, the Remaining Group recorded a revenue of approximately RMB367.7 million (1H2019: RMB491.9 million), representing a decrease of approximately 25.2% as compared with the corresponding period in 2019. The revenue decrease was due to the outbreak of the Corona Virus Disease 2019 ("**COVID-19**") that affected production and delivery of steel pipes.

During the six months ended 30 June 2020, the revenue from domestic sales and overseas sales represented approximately 95.4% (1H2019: 78.8%) and approximately 4.6% (1H2019: 21.2%) respectively of our total revenue. Decrease in overseas sales was due to the outbreak of COVID-19 around the world that affected production and delivery of steel pipes.

*Gross Profit and Gross Profit Margin*

During the six months ended 30 June 2020, gross profit of the Remaining Group was approximately RMB85.6 million (1H2019: RMB103.4 million), representing a decrease of approximately 17.2% as compared with the corresponding period in 2019. The overall gross profit margin was approximately 23.3%, which was higher than that for the same period in 2019 which was approximately 21.0%. The decrease in gross profit was due to the decrease in sales during the Period. Increase in gross profit margin was due to increase in steel pipes manufacturing services, the gross profit margin of which was high.

*Other income and gains*

Other income and gains for the six months ended 30 June 2020 were approximately RMB2,919.5 million (1H2019: RMB2,966.9 million), representing a decrease of approximately 1.6% as compared with the corresponding period in 2019. Such decrease was mainly due to a decrease in subsidy income and compensation income from the PRC government.

*Selling and distribution expenses*

Selling and distribution expenses for the six months ended 30 June 2020 were approximately RMB24.5 million (1H2019: RMB35.4 million), representing a decrease of approximately 30.7% as compared with the corresponding period in 2019. The decrease in selling and distribution expenses was due to a decrease in sales during the period under review.

*Administrative expenses*

Administrative expenses for the six months ended 30 June 2020 were approximately RMB120.0 million (1H2019: RMB162.0 million), representing a decrease of approximately 26.0% as compared with the corresponding period in 2019. The decrease in administrative expenses was mainly due to the closure of the manufacturing operation of Panyu Chu Kong Steel Pipe Co. Ltd ("**PCKSP**") (an indirect subsidiary of the Company which will be disposed of) (as disclosed in the Company's announcement dated 15 June 2020 and the announcements referred to therein) and closure of certain non-core operations.

*Finance costs*

Finance costs for the six months ended 30 June 2020 were approximately RMB173.4 million (1H2019: RMB233.4 million), representing a decrease of approximately 25.7% as compared with the corresponding period in 2019. The decrease in finance costs was mainly due to a decrease in average loan balance during six months ended 30 June 2020.

*Other expenses*

The Remaining Group recorded other expenses of approximately RMB54.9 million for the six months ended 30 June 2020 (1H2019: RMB10.6 million), representing an increase of approximately 419.2% as compared with the corresponding period in 2019. The increase was due to a provision of claim arising from litigation during the six months ended 30 June 2020.

*Income tax expenses*

Income tax credit of approximately RMB138,000 was recorded for the six months ended 30 June 2020 (1H2019: tax expenses: RMB11.5 million).

*Gain for the period*

The net gain attributable to ordinary equity holders of the Company was approximately RMB2,685.3 million (1H2019: gain of RMB2,695.3 million). Gain per share was RMB2.66 (1H2019: gain per share of RMB2.67).

***(ii) Business review***

*Steel pipe business*

During the six months ended 30 June 2020, we received new orders of approximately 366,000 tonnes of steel pipes. We delivered approximately 112,000 tonnes of welded steel pipes during the six months ended 30 June 2020.

*Property development*

Apart from the steel pipe manufacturing business, 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 GDC, 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 $m^2$.

The Remaining Group has recorded most of the sales of first phase of GDC in 2018. The Remaining Group has pre-sold the second phase of GDC and the total contracted sales were approximately RMB991 million. The third phase of GDC has been sold to Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）as disclosed in the Company's announcement dated 20 June 2019.

The steel pipe business will remain as the Group's core business.

***(iii) Liquidity and financial resources and capital structure***

As at 30 June 2020, our cash and bank balances and current ratio, as a ratio of current assets to current liabilities, were approximately RMB13.7 million (as at 31 December 2019: RMB58.6 million) and 0.96 (as at 31 December 2019: 2.08) respectively.

On 27 April 2020, the Company entered into a subscription agreement (the "**Subscription Agreement**") with an independent third party, pursuant to which the Company agreed to issue, and the subscriber agreed to subscribe for 12% bonds due in April 2022 in an aggregate principal amount of HK$140,000,000 (the "**Bonds**"). Pursuant to the Subscription Agreement, certain specific performance obligations (the "**Specific Performance Obligations**") are imposed on Mr. Chen, an executive director and controlling shareholder of the Company, during the term of the Subscription Agreement, including Mr. Chen shall remain (i) the single largest direct or indirect shareholder of the Company; and (ii) the chairman of the board of directors and executive director of the Company. Any breach of the Specific Performance Obligations may constitute a breach under the Subscription Agreement, pursuant to which the bondholder is entitled to redeem the Bonds immediately upon the occurrence of the breach in accordance with the terms and conditions of the Bonds.

On 1 June 2017, the Company 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 Profits Limited 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 Company 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 unlisted warrants in the amount of HKD313,320,000 were issued pursuant to a specific mandate granted to the Board at the extraordinary general meeting held on 9 October 2018.

On 30 April 2018, the Company failed to redeem the bonds (the "**Bonds**") with a principal amount of US$72 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. The Company has to pay interest on the Bonds at the rate of 7.6% per annum during the standstill period.

As at 30 June 2020, our aggregate borrowings were approximately RMB2,841.8 million (as at 31 December 2019: approximately RMB3,086.4 million), of which approximately RMB2,676.1 million (as at 31 December 2019: RMB2,900.5 million) were bank loans, other borrowings and government loans, approximately RMB158.9 million (as at 31 December 2019: RMB178.0 million) were USD and HKD bonds and approximately RMB6.8 million (as at 31 December 2019: RMB7.9 million) were lease liabilities.

Included in the aggregate borrowings as at 30 June 2020, there were property development loan of around RMB1,227.4 million. Excluding the above loan, the loans for our steel pipe business as at 30 June 2020 were around RMB1,614.4 million. We have 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 we receive sales proceeds from our customers, we will repay the short term borrowings.

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings and bonds over total assets was approximately 34.7% as at 30 June 2020 (as at 31 December 2019: 36.6%).

The maturity profile of our total borrowings as at 30 June 2020 was approximately 39% (as at 31 December 2019: 42%) of the total borrowings repayable within one year, and approximately 61% (as at 31 December 2019: 58%) of the total borrowings repayable over one year.

We had net current liabilities of approximately RMB142.2 million as at 30 June 2020. The Group has received around RMB991.3 million from pre-sale of Phase II of GDC as at 30 June 2020. The Group has sufficient cashflow to meet its short term obligations.

As at 30 June 2020, approximately 83% (as at 31 December 2019: 83%) of our total borrowings were denominated in RMB which carried interest rates linked to the benchmark lending rate published by the People's Bank of China, approximately 8% (as at 31 December 2019: 8%) of our total borrowings were denominated in RMB which carried fixed interest rate and approximately 9% (as at 31 December 2019: 9%) of our total borrowings were denominated in USD and HKD which carried fixed interest rate.

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

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 2020.

***(v) Employees and remuneration***

As at 30 June 2020, we had 807 full time employees in total (as at 31 December 2019: 1,162). To retain our employees, we provide 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 2020, we pledged certain property, plant and equipment, leasehold land, time deposits, certain properties under development, completed properties held for sale and trade receivable with an aggregate net book value of RMB1,154.7 million (as at 31 December 2019: RMB1,201.1 million), RMB810.2 million (as at 31 December 2019: RMB792.5 million), RMB2,000 (as at 31 December 2019: RMB2,000), RMB1,202.1 million (as at 31 December 2019: RMB1,267.3 million), RMB108.1 million (as at 31 December 2019: RMB109.4 million) and RMB15.3 million (as at 31 December 2019: nil) respectively, to secure bank loans and other borrowings granted to the Group.

***(vii) Gearing ratio***

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings and bonds over total assets was approximately 34.7% as at 30 June 2020 (as at 31 December 2019: 36.6%).

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

During the six months ended 30 June 2020, most of our operating transactions were settled in RMB except for export sales which were mostly denominated in USD. Apart from the 9.5% of borrowings and bonds denominated in USD/HKD, most of our assets and liabilities were denominated in RMB. We did not adopt formal hedging policies nor instruments of foreign currency for hedging purposes during the six months ended 30 June 2020.

***(ix) Contingent liabilities***

As at 30 June 2020, the Remaining Group guaranteed RMB111.6 million (as at 31 December 2019: RMB94.3 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 30 June 2020, the Remaining Group guaranteed RMB556.2 million (as at 31 December 2019: RMB548.1 million) for banking facilities in Saudi Arabia of which RMB556.2 million (as at 31 December 2019: RMB511.5 million) was utilized by our joint venture company in Saudi Arabia.

**(b) For the year ended 31 December 2019**

***(i) Financial review***

*Revenue*

Revenue of the Remaining Group mainly comprises (i) sales of steel pipe, and (ii) sales of property.

For the year ended 31 December 2019, our revenue was approximately RMB1,194.0 million, representing a decrease of approximately RMB487.6 million or 29.0% as compared with that of 2018. The decrease in revenue was mainly due to the decrease in sales of property recognized in 2019. Excluding sales of property of Phase I of GDC of RMB52.3 million in 2019 (2018: sales of property of Phase I of GDC of RMB610.4 million), sales of steel pipes in 2019 representing an increase of approximately RMB70.5 million or 6.6% as compared with that of 2018.

Sales of property of GDC was approximately RMB52.3 million in 2019 as compared with approximately RMB610.4 million in 2018, representing a decrease of approximately 91.4% or RMB558.1 million. Most of the units under Phase I of GDC had been sold in 2018. Remaining parts of the units under Phase I of GDC was sold in 2019.

*Gross Profit and Gross Profit Margin*

Gross profit of steel pipe sales for 2019 was approximately RMB201.4 million as compared with approximately RMB192.9 million in 2018, representing an increase of approximately 4.4% or RMB8.6 million. Gross profit margin for 2019 was approximately 17.6% which was similar to that of 18.0% in 2018.

Gross profit of property sales was approximately RMB10.8 million in 2019 as compared with approximately RMB130.6 million in 2018, representing a decrease of 91.8% or RMB119.9 million.

*Other income and gains*

Other income and gains in 2019 mainly represented gain on resumption of land use rights, bank interest income and subsidy income from government. Other income and gains increased by approximately 12.1% or RMB360.2 million from approximately RMB2,990.1 million in 2018 to approximately RMB3,350.3 million in 2019. Increase in other income and gains was mainly due to gain on resumption of land-use-rights from local authority in 2019.

*Selling and distribution expenses*

Selling and distribution expenses decreased by approximately 12.4% or RMB7.9 million from approximately RMB63.7 million in 2018 to approximately RMB55.8 million in 2019. The decrease was mainly due to the decrease in sales.

*Administrative expenses*

Administrative expenses decreased by approximately 23.1% or RMB101.0 million from approximately RMB435.7 million in 2018 to approximately RMB334.7 million in 2019. The decrease in administrative expenses was mainly due to the closure of manufacturing operation of PCKSP during the year whereas overall administrative expenses decreased.

*Finance costs*

The finance costs for 2019 was approximately RMB450.1 million as compared with that of 2018 of approximately RMB374.5 million, representing an increase of RMB75.6 million or 20.2%. The effective interest rate in 2019 was approximately 8.9% (2018: 6.0%). Increase in finance costs was due to increase in average interest rate throughout the year.

*Other expenses*

Other expenses decreased by approximately 25.7 % or RMB24.0 million from approximately RMB93.4 million in 2018 to approximately RMB69.4 million in 2019. The decrease was mainly due to loss of disposal of subsidiaries, property, plant and equipment and compensation incurred in 2018.

*Income tax expenses*

Income tax credit decreased from RMB52.3 million in 2018 to RMB13.1 million in 2019.

Income tax credit was the combined effect of (i) income tax expenses were recorded in 2019 mainly because the Group sold the Phase III of GDC during the year and there was tax provision on the gain on resumption of land use right; (ii) income tax credit of additional deferred tax assets which related to the available tax losses by PCKSP in 2019 as the Group expects there will be gain on disposal of land in Panyu and (iii) land appreciation tax in 2019 as the Group sold properties.

Income tax credit was recorded in 2018 for deferred tax assets which related to partial of the available tax losses carried forward by PCKSP as the Group expects there will be gain on disposal of land in Panyu.

*Gain for the period*

As a result of the reasons discussed above, the Remaining Group recorded a gain of approximately RMB2,767.8 million in 2019 (2018: RMB2,410.9 million).

***(ii) Business review***

*Steel pipe business*

In 2019, the Remaining Group received new orders of approximately 341,000 tonnes of welded steel pipes and most orders were received from domestic customers. The Group has received some sizeable orders like orders from China Petroleum & Chemical Corporation (中國石油化工股份有限公司) ("**Sinopec**"), and Guangxi Natural Gas Pipe Project. The Remaining Group delivered approximately 327,000 tonnes of welded steel pipes during 2019.

Our joint venture company Al-Qahtani Pck Pipe Company ("**AHQ**") (the "**JV Company**") in Saudi Arabia has also been awarded a new order of steel pipes from Saudi Arabian Oil Company ("**Saudi Aramco**") for supplying approximately 26,248 tons of steel pipes for its Saudi Aramco Marjan Project. The JV Company enabled the Group to expand its market shares in Saudi Arabia and neighboring countries.

*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 $m^2$ 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 $m^2$. The Panyu Land was divided into three phases for development.

Most of the units under Phase I of GDC have been sold. The Group had pre-sold the units under Phase II of GDC and the total contracted sales were approximately RMB794 million as at 31 December 2019. Shops of Phase I are rented for rental income. The Phase III of GDC was sold to Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）as disclosed in the Company's announcement dated 20 June 2019, circular dated 7 November 2019 and announcement of poll result of the extraordinary general meeting on 28 November 2019 respectively.

The steel pipe business will remain as the Group's core business.

***(iii) Liquidity and financial resources and capital structure***

The Remaining Group's gearing ratio is calculated based on the sum of bank loans, other borrowings and fixed rate bonds and notes divided by total assets. The gearing ratio of the Remaining Group as at 31 December 2019 and 2018 were approximately 36.6% and 45.9%, respectively. Decrease in gearing ratio in 2019 as compared with that of 2018 was due to the Remaining Group's repayment of borrowings during the year.

On 27 April 2017, the Company 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, HK$155,000,000 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.

As at 31 December 2019, the Remaining Group's total borrowings amounted to approximately RMB3,086.4 million, of which approximately 58% (2018: 56%) were long term borrowings and approximately 42% (2018: 44%) were short term borrowings. The total borrowings including, (i) loan of RMB1.33 billion in relation to the property development business; (ii) net borrowings under steel pipe business was around RMB1,759.0 million. The Remaining Group had to finance its working capital of steel pipe business 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 Group received sales proceeds from its customers, it would then repay the short term borrowings. Taking into account the Group's cash in hand and the available banking facilities of RMB290.3 million, the Remaining Group has sufficient liquidity and is in a strong financial position to repay its short term borrowings.

As at 31 December 2019, the current assets of the Remaining Group exceeded its current liabilities by approximately RMB140.6 million. Phase II of GDC has been pre-sold which enabled to increase the cashflow of the Group. The Remaining Group has sufficient cashflow to meet its short term obligations.

As at 31 December 2019, approximately 83% (2018: 63%) of the total borrowings were denominated in Renminbi, which carried interest rates linked to the benchmark lending rate published by the People's Bank of China; approximately 8% (2018: 19%) of the total borrowings were denominated in Renminbi which carried fixed interest rate; and approximately 9% (2018: 18%) of the total borrowings were denominated in US dollar and HK dollar which carried fixed interest rate.

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

On 27 February 2019, the Remaining Group has entered into the disposal agreement (the "**Disposal Agreement**") with Guangzhou Xingchen Consultation Company Limited (廣州星宸諮詢有限公司) ("**Xingchen**"), Guangdong Yuecai Trust and Guangzhou Asset Management in relation to (i) the nomination of Xingchen by the Guangzhou Asset Management under the terms of the Agreement as its nominee to acquire 40% equity interest of PCKSP; and (ii) the disposal of the remaining 40% equity interest of PCKSP to Xingchen, for a total consideration of RMB2,448 million with a possible payment of the premium of RMB272 million. Details of the above were disclosed in the Company's announcement and circular dated 27 February 2019 and 26 March 2019 respectively.

The very substantial disposal and connected transaction in relation to disposal of 80% equity interest of PCKSP was approved by the Shareholders of the Company in extraordinary general meeting held on 16 April 2019.

On 20 June 2019, the Remaining Group has entered into a land resumption compensation agreement ("**Land Resumption Compensation Agreement**") with Guangzhou City Panyu District Land Development Centre* (廣州市番禺區土地開發中心) ("**GPDLDC**"), pursuant to which GPDLDC would resume, and the Group would sell the land of Phase III GDC at the final compensation of RMB1,524,628,500 (according to the final valuation report). The land resumption contemplated under the Land Resumption Compensation Agreement were approved by the Shareholders at the extraordinary general meeting held on 28 November 2019.

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

***(v) Employees and remuneration***

As at 31 December 2019, the Remaining Group had a total of 1,162 full time employees (2018: 1,110 employees). To retain our employees, we provide 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***

The Remaining Group pledged certain property, plant and equipment, leasehold lands, deposits, certain properties under development and completed properties held for sale with an aggregate net book value of approximately RMB1,201.1 million (2018: RMB833.4 million), RMB792.5 million (2018: RMB618.6 million), RMB2,000 (2018: RMB426.6 million), RMB1,267.3 million (2018: RMB1,105.9 million) and RMB109.4 million (2018: RMB373.9 million) respectively as at 31 December 2019 to secure bank loans granted to the Remaining Group.

***(vii) Gearing ratio***

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings and bonds over total assets was approximately 36.6% as at 31 December 2019 (as at 31 December 2018: 45.9%).

***(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 and HK dollar. Most of the Group's assets and liabilities are denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect that future currency fluctuations would materially impact the Group's operations. The Group did not adopt formal hedging policies nor instruments of foreign currency for managing the exchange risk exposure during the year ended 31 December 2019.

***(ix) Contingent liabilities***

As at 31 December 2019, the Remaining Group guaranteed RMB94.3 million (2018: RMB128.2 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 31 December 2019, the Remaining Group guaranteed RMB548.1 million (2018: RMB538.9 million) to joint venture company for banking facilities in Saudi Arabia of which RMB511.5 million (2018: RMB333.5 million) was utilized by the joint venture company.

**(c) For the year ended 31 December 2018**

***(i) Financial review***

*Revenue*

Revenue of the Remaining Group mainly comprises (i) steel pipe sales, and (ii) property sales.

For the year ended 31 December 2018, our revenue was approximately RMB1,620.5 million, representing an increase of approximately RMB747.2 million or 85.6% as compared with that of 2017. The increase in revenue was mainly due to the increase in domestic orders received by the Remaining Group and recognition of property sales. Major oil and gas projects in the PRC have been recovered. The Remaining Group recognised most of property sales of Phase I of GDC in 2018.

Our domestic sales accounted for approximately 75.1% of our total steel pipe revenue in 2018, as compared to approximately 53.6% in 2017. All sales of properties were domestic sales.

*Gross profit and gross profit margin*

Gross profit of steel pipe sales for 2018 was approximately RMB192.9 million as compared with approximately RMB58.1 million in 2017, representing an increase of approximately 231.9% or RMB134.8 million. Gross profit margin for 2018 was approximately 18.0% which was higher than that of last year as the Remaining Group has delivered some sizeable orders to Sinopec which were mainly manufacturing services with high profit margin.

Gross profit of property sales was around RMB69.5 million or 12.7% in 2018.

*Change in fair values of investment property*

The Remaining Group has adopted the accounting policy of measuring investment property by using fair values. Accordingly, gains or losses arising from the changes in the fair values of investment property are reflected as profit or loss for the reporting period. The Group has transferred part of the investment property – Phase I and Phase II of GDC in prior years. The Group has engaged RHL Appraisal Limited, an independent valuer, to value the investment property. According to the valuation report as at 31 December 2018 issued by RHL Appraisal Limited, the market value of Phase III of GDC as at 31 December 2018 was RMB1.16 billion. Gain of RMB21.8 million was resulted from the fair values of the investment property in 2018 (2017: nil).

*Other income and gains*

Other income and gains in 2018 mainly represented bank interest income, subsidy income from government and gain on disposal of Land of Phase III GDC. Other income and gains decreased by approximately 1.9% or RMB59.0 million from approximately RMB3,049.1 million in 2017 to approximately RMB2,990.1 million in 2018. Decrease in other income and gains was mainly due to a forfeiture of customer deposit in 2017 but nil in 2018.

*Selling and distribution expenses*

Selling and distribution expenses decreased by approximately 40.6% or RMB43.6 million from approximately RMB107.3 million in 2017 to approximately RMB63.7 million in 2018. The decrease was mainly due to the decrease in overseas sales.

*Administrative expenses*

Administrative expenses decreased by approximately 8.1% or RMB38.6 million from approximately RMB474.3 million in 2017 to approximately RMB435.7 million in 2018. The decrease in administrative expenses was mainly due to decrease in research and development expenses and bank charges during the year. Included in the administrative expenses, there was one-off expenses of around RMB41 million in relation to asset reorganisation (as disclosed in the Company's announcement dated 12 February 2018). If excluded such one-off expenses, administrative expenses were further reduced.

*Finance costs*

The finance costs for 2018 was approximately RMB374.5 million which were lower than that of 2017 which was approximately RMB426.3 million. The effective interest rate in 2018 was approximately 6.0% (2017: 7.3%). Decrease in finance costs was due to decrease in average interest rate.

*Impairment of property, plant and equipment*

The Remaining Group recorded no impairment on property, plant and equipment for the year ended 31 December 2018 (2017: RMB18.0 million).

*Other expenses*

Other expenses increased by approximately 625.8% or RMB80.6 million from approximately RMB12.9 million in 2017 to approximately RMB93.4 million in 2018. The increase was mainly due to loss of disposal of subsidiaries, property, plant and equipment and compensation incurred in relation to asset reorganization (as detailed in the Company's announcement dated 12 February 2018) during the year.

*Exchange loss*

The Remaining Group recorded exchange gain of approximately RMB16.2 million in 2018 as compared to exchange loss of approximately RMB44.1 million in 2017. The exchange gain was mainly due to depreciation of HKD against RMB which resulted in an exchange gain on RMB liability.

*Income tax credit*

Income tax credit increased from RMB14.6 million in 2017 to RMB113.4 million in 2018.

Deferred tax credit was recorded in 2018 as the Remaining Group expects there will be gain on disposal of land in Panyu. For more details, please refer to the announcement of the Company dated 12 February 2018 and 27 February 2019.

*Gain for the year*

As a result of the reasons discussed above, the Remaining Group recorded a gain of approximately RMB2,410.9 million in 2018 (2017: RMB2,036.1 million).

***(ii) Business review***

*Steel pipe business*

In 2018, the Remaining Group received new orders of approximately 360,000 tonnes and approximately 87% were received from domestic customers. The Group has received some sizeable orders like orders from China Petroleum & Chemical Corporation (中國石油化工股份有限公司) ("**Sinopec**"), Shenzhen-Zhongshan Bridge (深中通道) and construction projects in Hong Kong. The Remaining Group delivered approximately 348,000 tonnes of welded steel pipes during 2018.

*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 $m^2$ 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 $m^2$. 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 RMB1,662.3 million as at 31 December 2018. Sale of properties for the Group in 2018 was around RMB549.3 million.

***(iii) Liquidity and financial and capital structure***

On 27 April 2017, the Company 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, HK$155,000,000 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.

As at 31 December 2018, the Remaining Group's total borrowings amounted to approximately RMB4,575.1 million, of which approximately 56% (2017: 35%) were long term borrowings and approximately 44% (2017: 65%) were short term borrowings. Included in the total borrowings, (i) there was a bank loan of RMB490 million that was overseas loan under domestic guarantee(內保外貸)which was secured by bank deposit in PRC; (ii) loan of RMB1.47 billion in relation to the property development business. Net borrowings under steel pipe business was around RMB2,616.9 million. The Group had to finance its working capital of steel pipe business 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 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 RMB86.4 million, the Group had sufficient liquidity and was in a strong financial position to repay its short term borrowings.

As at 31 December 2018, the current liabilities of the Remaining Group exceeded its current assets by approximately RMB39.7 million. Phase II of GDC has been pre-sold in order to increase the cashflow of the Remaining Group. The Remaining Group has sufficient cashflow to meet its short term obligations.

As at 31 December 2018, approximately 63% (2017: 61%) of the total borrowings were denominated in Renminbi, which carried interest rates linked to the benchmark lending rate published by the People's Bank of China; approximately 19% (2017: 15%) of the total borrowings were denominated in Renminbi which carried fixed interest rate; approximately 0% (2017: 0%) 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 18% (2017: 24%) 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***

On 12 February 2018, the Remaining Group has entered into an agreement (the "**Agreement**") with Guangdong Yuecai Trust and Guangzhou Asset Management (collectively the "**Investor**") in relation to the cooperation to facilitate the change of use of 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. CKSPG and the PCKSP shall complete an asset reorganisation, after which, the only asset held by the PCKSP shall be the Land. Pursuant to the Agreement, the Investor 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 use of the Land; and acquire 40% of the equity interest in PCKSP from the CKSPG for a consideration equivalent to 40% of the fair value of the Land (after the change of use of the Land).

The very substantial disposal in relation to disposal of 59% equity interest of PCKSP has been approved by the Shareholders at the extraordinary general meeting held on 19 April 2018.

The capital injection under the Agreement has been completed on 12 October 2018. Guangdong Yuecai Trust has made capital injection into PCKSP in the amount of RMB240 million and acquired 19% of the registered capital of PCKSP (on enlarged basis). Following the completion of the capital injection, PCKSP is now held as to 20% by Guangdong Yuecai Trust and 80% by CKSPG.

Except the above, the Remaining Group had no other material acquisitions or disposals during the year ended 31 December 2018.

***(v) Employees and remuneration***

For the year ended 31 December 2018, staff costs (including Directors' remuneration in the form of salaries and other benefits) were approximately RMB155.4 million (2017: RMB178.0 million).

The Remaining Group remunerates its employees based on their performance, experience and prevailing industry practice. The emoluments of the Directors are recommended by the Remuneration Committee and are decided by the Board, having regard to the Remaining Group's operating results, individual performance and comparable market statistics. Competitive remuneration package is offered to retain elite employees. Our 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 2018.

As at 31 December 2018, the Remaining Group had a total of 1,110 full time employees (2017: 1,600 employees).

***(vi) Charge on assets***

The Remaining Group pledged certain property, plant and equipment, land use rights, time deposits, certain properties under development and completed properties held for sale with an aggregate net book value of approximately RMB833.4 million (2017: RMB1,477.5 million), RMB618.6 million (2017: RMB1,003.4 million), RMB426.6 million (2017: RMB413.7 million), RMB1,105.9 million (2017: RMB1,355.9 million) and RMB373.9 million (2017: nil) respectively as at 31 December 2018 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 2018 and 2017 were approximately 45.9% and 57.6%, 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 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 2018.

***(ix) Contingent liabilities***

As at 31 December 2018, the Remaining Group guaranteed RMB128.2 million (2017: RMB174.1 million) to certain purchasers of the Remaining Group's properties for mortgage facilities.

As at 31 December 2018, the Remaining Group guaranteed RMB538.9 million (2017: RMB217.8 million) to joint venture for banking facilities in Saudi Arabia of which RMB333.5 million (2017: RMB200.5 million) was utilized by the joint venture.

**(d) 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, forfeiture of customer deposit and gain on disposal of Land of Phase III GDC. Other income and gains increased by approximately 3.5% or RMB103.0 million from approximately RMB2,946.1 million in 2016 to approximately RMB3,049.1 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 RMB4.7 million from approximately RMB470.0 million in 2016 to approximately RMB474.3 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%).

*Gain for the year*

The Remaining Group recorded a gain of approximately RMB2,036.1 million in 2017 (2016: RMB1,410.8 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 Remaining Group has entered into a global frame agreement with Petroliam Nasional Berhad ("**Petronas**"). The Remaining Group would 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 $m^2$ which accounted for 25% of the total area of the parcels of land owned by the Remaining Group in Panyu (the "**Panyu Land**"). The total construction area of the Panyu Land is 550,000 $m^2$. 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, HK$155,000,000 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.

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 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 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 Trust. The Remaining 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 Remaining 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. Since there is only one production line in the Jiangyin production base and the space for its expansion is limited, the 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 Group's management. The net proceeds from the disposal will be used as repayment of bank loan by the Group. The disposal will not have material effect on the business and operation of the 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 $m^2$. 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 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), RMB1,003.4 million (2016: RMB1,061.8 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 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 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 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 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.

## 6. FINANCIAL AND TRADING PROSPECTS OF THE REMAINING GROUP

Upon completion of the Land Resumption, the 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 Group. As disclosed in the interim report of the Company for the six months ended 30 June 2020 and annual report of the Company for the year ended 31 December 2019, in light of the "13th Five-Year Plan" 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 Group in China. The Directors believed that financing costs will be reduced as immediate availability of net proceeds from the Direct Land Resumption can reduce the Group's existing debt level.

Apart from the steel pipe business, the 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 $m^2$. The Group has pre-sold second phase of GDC and leased the shops of GDC. GDC provides a stable income source to provide solid financial support to the Group in the long run. It will also help improving the cash flow of the Group.

*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 August 2020 of the Property held by Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited.*

RHL International
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

8 October 2020

**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**") and its subsidiaries (together as the "**Group**") 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 August 2020 (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

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 2020.

## 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.

## 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, Guangdong Zhuoying Law Firm, concerning the validity of the titles to the Property.

## LIMITING CONDITIONS

We have inspected the Property on 17 September 2020 by Mr. Peter Lai who has over 8 years of experience in property valuation. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the Property is free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out detailed on-site 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** | **Jessie X. Chen** |
| *FHKIS, AAPI, MRICS, RPS(GP), MBA(HKU)* | *MRICS, MSc (Real Estate), BEcon* |
| **Managing Director** | **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 10 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 August 2020 |
|---|---|---|---|
| | | | *RMB* |
| Various parcels of land located at North of Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong Province, the PRC<br><br>位於中華人民共和國廣東省廣州市番禺區石基鎮清河路北側之數幅土地 | The Property comprises of several industrial land parcels (the ''Land'') with total site area of 280,226.75 sq.m. (3,016,336 sq.ft.).<br><br>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 vacant. | 389,700,000 (RENMINBI THREE HUNDRED EIGHTY NINE MILLION AND SEVEN HUNDRED THOUSAND 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07203738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 |

There were 6 buildings erected on the site, pursuant to the recent site inspection, all buildings have been demolished. The sites where the buildings erected on are vacant now. We have not taken into account the values of building in the valuation.

3. 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.

4. As advised, the usage of the property is expected to be changed from existing usage (industrial) to commercial and residential uses after being resumed by the government.

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 |
| 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. |
| Total of Maximum Permitted GFA: | 602,487.51 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 RMB5,740,000,000. 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 legal and feasible and complied with all planning regulation of subject locality.

5. We have been provided with a legal opinion by the Group's PRC legal adviser, Guangdong Zhuoying Law Firm, regarding the legal title of the property, which contains, *inter alia*, the followings:

   i. The land use right of the Property is legally held by the Group;

   ii. Portions of the Property, 5 parcels of land (certificate No. 07204361, 07204663, 07203735-07203777) are subject to two mortgages in favor of 廣東粵財信托有限公司 at the loan amount of RMB1,680,000,000 and 廣州星宸諮詢有限公司 at the loan amount of RMB400,000,000 respectively;

   iii. As the buildings have been demolished, the Group cannot transfer, lease or dispose of the buildings in the market;

   iv. As advised by the Group, the demolishment of the buildings are requested by the government as part of the land resumption agreement. Therefore, the demolishment will not affect the land resumption agreement entered between the Group and the government.

## 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 Securities and Futures Ordinance (Chapter 571) (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 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 (the "**Model Code**") 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 | 701,911,000 | 69.42% |
| | Personal interest | Long | 4,350,000 | 0.43% |

*Note:*

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

***Long positions in associated corporation***

Mr. Chen Chang beneficially owns the entire issued share capital of Bournam Profits Limited, which 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 the Directors were aware, the following persons or corporations (not being a Director or a chief executive of the Company) have an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise been notified to the Company:

| Name of shareholder | Capacity | Position | Number of Shares held | Percentage of shareholding in the Company |
|---|---|---|---|---|
| Bournam | Beneficial owner *(Note 1)* | Long | 701,911,000 | 69.42% |

*Note:*

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.

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 2019, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or 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 Land Resumption Compensation Agreement;

(b) the PCKSP Disposal Supplemental Agreements;

(c) the subscription agreement dated 27 April 2020 entered with an independent third party (the "**Subscriber**") pursuant to which the Company agreed to issue, and the Subscriber agreed to subscribe for 12% bonds due April 2022 in an aggregate principal amount of HK$140,000,000;

(d) the land resumption compensation agreement dated 20 June 2019 entered into between Guangzhou City Panyu District Land Development Centre*(廣州市番禺區土地開發中心)as the purchaser and Guangdong Pearl Steel Investment Management Co., Limited*(廣東珠鋼投資管理有限公司)("**Guangdong Pearl Steel Investment**") as the vendor in respect of the resumption of the land initially reserved for Phase III of GDC, a property development project of the Group, 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;

(e) the share investment 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)("**Chu Kong Steel Pipe**"), Xingchen, PCKSP, the Company, Mr. Chen Chang, Guangzhou Asset Management Company Limited*(廣州資產管理有限公司), Guangdong Yuecai Trust and Guangzhou Pearl River Petroleum Steel Pipe Coating Co. Limited(廣州珍珠河石油鋼管防腐有限公司)("**Guangzhou Pearl River Coating**"); and

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

## 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 2019 (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 5 to 16 of this circular;

(c) the Company's annual reports for the years ended 31 December 2017, 2018 and 2019 and the interim report for the six months ended 30 June 2020;

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

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

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

(g) circulars issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules which has been issued since 31 December 2019; and

(h) 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 2/F, 3-5 Golden Dragon City, Yayun Avenue, 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 54, 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 an 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 2:30 p.m. on Friday, 23 October 2020 to consider and, if thought fit, pass with or without notification, the following resolution as an ordinary resolution of the Company:

### ORDINARY RESOLUTION

"**THAT**:

(i) the land resumption compensation agreement dated 15 September 2020 entered into between Guangzhou City Land Development Centre*（廣州市土地開發中心）, Panyu Chu Kong Steel Pipe Co., Limited*（番禺珠江鋼管有限公司）("**PCKSP**"), Guangdong Yuecai Trust Co. Limited*（廣東粵財信托有限公司）("**Guangzhou Yuecai Trust**"), Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心） and Guangzhou Xingchen Consultation Company Limited*（廣州星宸諮詢有限公司）("**Xingchen**") in respect of the resumption of the piece of land owned by PCKSP with a site area of approximately 280,197 $m^2$ and located at the north side of Yayun Avenue, Dalong Street, Panyu District, Guangzhou City, Guangdong Province, the PRC（中國廣東省廣州市番禺區大龍街亞運大道北側）and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

* *for identification purpose only*

(ii) the termination of (a) the capital injection and cooperation agreement dated 12 February 2018 entered into among Chu Kong Steel Pipe Group Co. Limited ("**CKSPG**"), Guangdong Yuecai Trust, PCKSP, the Company, Guangdong Pearl Steel Investment Management Co., Limited*(廣東珠鋼投資管理有限公司), Mr. Chen Chang and Guangzhou Asset Management Company Limited*(廣州資產管理有限公司)(the "**Investment Manager**") in connection with the disposal of an aggregate of 59% of the equity interest in PCKSP (actual and deemed); and (b) the disposal agreement dated 27 February 2019 entered into among CKSPG, Xingchen, PCKSP, 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, the Investment Manager, Mr. Chen Chang and the Company in connection with the disposal of an aggregate of 80% equity interest in PCKSP (as supplemented by two supplemental agreements dated 15 June 2020) pursuant of the terms thereof be and are hereby approved, confirmed and ratified; and

(iii) any one director of the Company be and is hereby authorised 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, 8 October 2020

*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 Tuesday, 20 October 2020 to Friday, 23 October 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 19 October 2020.

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 54, 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. If tropical cyclone warning signal no. 8 or above, "extreme conditions" caused by super typhoons or a black rainstorm warning is in effect at any time after 9:00 a.m. on Friday, 23 October 2020, the meeting will be postponed and further announcement for details of alternative meeting arrangements will be made. The meeting will be held as scheduled even when tropical cyclone warning signal no. 3 or below is hoisted, or an amber or red rainstorm warning signal is in force. You should make your own decision as to whether you would attend the meeting under bad weather conditions and if you should choose to do so, you are advised to exercise care and caution.

*As at the date hereof, the Board comprises three executive Directors, namely Mr. CHEN Chang, Mr. CHEN Guo Xiong and Ms. CHEN Zhao Nian; and three independent non-executive Directors, namely Mr. CHEN Ping, Mr. TIAN Xiao Ren and Mr. AU YEUNG Kwong Wah.*