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CHU KONG PETROLEUM AND NATURAL GAS STEEL PIPE HOLDINGS LIMITED

珠江石油天然氣鋼管控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1938)

**(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**

The Board announces that on 15 September 2020 (after trading hours), 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 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 amounts are expected to be paid out of the proceeds from the Direct Land Resumption and a bridging loan facility.

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.

An EGM will be convened to be held for 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.

A circular setting out, among other things, details of the Direct Land Resumption and a valuation report in respect of the Land in industrial use, together with a notice of EGM to approve, among other things, the Direct Land Resumption is expected to be dispatched to the Shareholders on or before 30 October 2020, which is more than 15 business days after the date of this announcement as additional time will be required to prepare the content of the circular, including but not limited to the valuation report in respect of the Land.

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

THE LAND RESUMPTION COMPENSATION AGREEMENT

The Board announces that on 15 September 2020 (after trading hours), 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.

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 m².

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 announcement, 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 preliminary valuation report, as at 31 August 2020, the market value of the Land for industrial use is RMB389.7 million. Besides, based on RHL Appraisal Limited’s preliminary estimation, the valuation of the Land at redevelopment usage (residential and commercial) with assumed maximum plot ratio of two and maximum permitted gross floor area of 560,453.00 sq.m. is at around RMB 6 billion. The above figures are subject to the finalisation of the valuation report.

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 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 with reference to the market values of the commercial-use land parcels in the proximity of the Land.

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.

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.

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 Disposal**”, 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 announcement, 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.

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 Xincheng, 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

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.

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.

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.

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.

A circular setting out, among other things, the details of the Direct Land Resumption and the valuation report in respect of the Land in industrial use, together with a notice of the EGM to approve, among other things, the Direct Land Resumption is expected to be dispatched to the Shareholders on or before 30 October 2020, which is more than 15 business days after the date of this announcement as additional time will be required to prepare the content of the circular, including but not limited to the valuation report in respect of the Land.

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

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (珠江石油天然氣鋼管控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1938)
“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* (廣東粵財信託有限公司), 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
“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
“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 announcement, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of issued Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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)

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

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

Guangdong Province, the PRC, 15 September 2020

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chen Chang, Ms. Chen Zhao Nian and Ms. Chen Zhao Hua; and three independent non-executive Directors, namely Mr. Chen Ping, Mr. Tian Xiao Ren and Mr. Au Yeung Kwong Wah.