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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)**

**MAJOR TRANSACTION:  
DISPOSAL OF 50% EQUITY INTEREST IN A  
JOINT VENTURE COMPANY**

The Board announces that on 26 April 2022 (after trading hours), PCKSP, an indirect wholly-owned subsidiary of the Company, entered into the Disposal Agreement with AHQ, pursuant to which AHQ has conditionally agreed to purchase, and PCKSP has conditionally agreed to sell, the 50% equity interest in the JV Company. The consideration payable by AHQ is SR41.5 million (or equivalent to approximately RMB70.55 million). Upon Completion, the Group will cease to hold any interests in the JV Company.

As one of the applicable percentage ratios in respect of the Disposal is more than 25% but less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the requirements of reporting, announcement and shareholders' approval under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the Disposal, thus no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal. As the Company has obtained a written approval of the Disposal from Mr. Chen and Bournam, who collectively hold 706,261,000 Shares, representing approximately 69.85% of the issued Shares as at the date of this announcement, pursuant to Rule 14.44 of the Listing Rules, the Company is not required to convene a general meeting for approving the Disposal.

A circular setting out, among other matters, details of the Disposal and a valuation report in respect of the JV Company is expected to be despatched to the Shareholders on or before 30 June 2022, which is more than 15 business days after the date of this announcement as additional time will be required to prepare the circular.

**As the Disposal is subject to the fulfilment of conditions precedent and may or may not proceed, Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.**

## **THE DISPOSAL AGREEMENT**

The Board announces that on 26 April 2022 (after trading hours), PCKSP, an indirect wholly-owned subsidiary of the Company, entered into the Disposal Agreement with AHQ, pursuant to which AHQ has conditionally agreed to purchase, and PCKSP has conditionally agreed to sell, the 50% equity interest in the JV Company. The consideration payable by AHQ is SR41.5 million (equivalent to approximately RMB70.55 million).

Details of the Disposal Agreement are summarised as follows:

### **Date**

26 April 2022

### **Parties**

Vendor: PCKSP, an indirect wholly-owned subsidiary of the Company

Purchaser: AHQ

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

The JV Company has been recorded in the financial statements of the Company using the equity method of accounting. The Group's investment in the JV Company has been accounted for as "Investment in a joint venture" on the balance sheet of the Company and the profit or loss of the JV Company has been accounted for as "Share of loss of a joint venture" in the income statement in the prior annual reports of the Company.

### **Assets to be disposed of**

Pursuant to the Disposal Agreement, AHQ has conditionally agreed to acquire for and the PCKSP has conditionally agreed to dispose of 50,000 shares in the capital of the JV Company, representing 50% equity interest in the JV Company, at the consideration of SR41.5 million (equivalent to approximately RMB70.55 million).

### **Consideration and payment terms**

The consideration of SR41.5 million (equivalent to approximately RMB70.55 million) shall be paid in cash as follows:

- (i) SR1.1 million (equivalent to approximately RMB1.87 million) was paid as an advance payment on 27 January 2022;
- (ii) SR 8.5 million (equivalent to approximately RMB14.45 million) shall be payable within seven working days after signing the Disposal Agreement;

- (iii) SR 2.85 million (equivalent to approximately RMB4.845 million) shall be payable within fourteen working days after signing the Disposal Agreement;
- (iv) SR10 million (equivalent to approximately RMB17 million) shall be payable within seven working days after receiving power of attorney and board resolution from PCKSP;
- (v) SR9.05 million (equivalent to approximately RMB15.39 million) shall be payable within seven working days after receiving no objection certificate from the lenders of the JV Company; and
- (vi) the balance of SR10 million (equivalent to approximately RMB17 million) shall be payable within seven working days from execution of the amended Articles of Association of the JV Company before the Notary Public in Saudi Arabia.

The consideration for the Disposal was arrived at after arm's length negotiations between AHQ and PCKSP with reference to the equity value of the JV Company of SR62.2 million (equivalent to approximately RMB105.7 million) as at 31 December 2020.

### **Condition**

Completion shall be conditional upon and subject to all necessary consents, licences and approvals required to be obtained on the part of AHQ and PCKSP in respect of the Disposal and the transactions contemplated thereunder having been obtained and remain in full force and effect.

### **COMPLETION**

Completion shall take place after completion of registration with the ministry of investment and ministry of commerce for change of shareholders of the JV Company in respect of the Disposal which is expected to be completed on or before 31 October 2022. Upon Completion, the Group will cease to hold any interests in the JV Company.

### **INFORMATION OF THE COMPANY AND THE VENDOR**

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

PSKSP is an indirect wholly-owned subsidiary of the Company. It is an investment holding company for holding the equity interest of the JV Company.

### **INFORMATION OF AHQ**

AHQ was established under the Laws of Saudi Arabia and is principally engaged in the business of providing materials, equipment, and engineering services. AHQ offers oil and gas casing, tubing, line pipes, valves, flanges, turbines, compressors, pumps and chemical injection products to oil, gas, construction, petrochemical, water and power industries.

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

## INFORMATION OF THE JV COMPANY

The JV Company is a limited liability company established in Saudi Arabia with a paid-up registered capital of SR100 million, which is owned as to 50% by PCKSP and 50% by AHQ.

The principal business of the JV Company is manufacturing and sale of steel pipe. The JV Company has one LSAW production line.

Based on the preliminary audit financial statements of the JV Company, the book value of the total assets and the equity of the JV Company as at 31 December 2021 was approximately SR490.5 million (equivalent to approximately RMB833.9 million) and SR43.6 million (equivalent to approximately RMB74.1 million) respectively. The revenue and loss before tax and after tax of the JV Company for the year ended 31 December 2020 and 31 December 2021 are as follows:

	<b>For the year ended 31 December 2021 SR '000</b>	<b>For the year ended 31 December 2020 SR '000</b>
Revenue	101,130	145,830
Loss before taxation	(18,589)	(5,175)
Loss after taxation	(18,589)	(5,175)

## REASONS AND BENEFITS FOR ENTERING INTO THE DISPOSAL AGREEMENT

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

The JV Company was set up in 2011. It commenced construction of production mill and LSAW production line in 2014 and began to record sales since 2019. Despite the Group's continuous effort to enhance the production and operation efficiency of the JV Company, it has been making loss since its incorporation. According to the unaudited annual results announcement of the Company as at 31 December 2021, the Group's investment in the JV Company has been decreased to nil due to loss making since incorporation. The Disposal can minimise further loss arising from the JV Company in the foreseeable future. In addition, after the Disposal, the Group can concentrate on its main operation in Zhuhai and Lianyungang, the PRC.

The Board considers that the Disposal can provide the Group with the capital from the divestment, replenish its liquidity and improve the financial position of the Group. The Disposal will not have any material effect on the business and operation of the Group.

Based on the aforesaid, the Directors are of the view that the terms of the Disposal Agreement are fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

## **FINANCIAL EFFECT OF THE DISPOSAL**

Based on the information available, it is expected that the Group will realise a gain on the Disposal of approximately RMB70.55 million is expected. There is no tax directly associated with the Disposal. The 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 DISPOSAL**

After deducting the related expenses, the net proceeds from the Disposal will amount to approximately RMB70 million, which are intended to be applied for the repayment of debts of the Group.

## **IMPLICATIONS UNDER THE LISTING RULES**

As one of the applicable percentage ratios in respect of the Disposal is more than 25% but less than 75%, the Disposal constitutes a major transaction of the Company and is subject to the requirements of reporting, announcement and Shareholders' approval under Chapter 14 of the Listing Rules.

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder has a material interest in the Disposal, thus no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal. As the Company has obtained a written approval of the Disposal from Mr. Chen and Bournam, who collectively hold 706,261,000 Shares, representing approximately 69.85% of the issued Shares as at the date of this announcement at the general meeting of the Company, pursuant to Rule 14.44 of the Listing Rules, the Company is not required to convene a general meeting for approving the Disposal.

A circular setting out, among other matters, details of the Disposal and a valuation report in respect of the JV Company is expected to be despatched to the Shareholders on or before 30 June 2022, which is more than 15 business days after the date of this announcement as additional time will be required to prepare the circular.

## **DEFINITIONS**

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

“AHQ”	Abdel Hadi Abdullah Al Qahtani & Sons, Co., a Saudi Arabia corporation established under the Laws of Saudi Arabia
“Board”	the board of Directors
“Bournam”	Bournam Profits Limited, a company incorporated in British Virgin Islands and is wholly-owned by Mr. Chen

“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)
“Completion”	completion of the Disposal in accordance with the terms of the Disposal Agreement
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the 50% equity interest in the JV Company to AHQ pursuant to the Disposal Agreement
“Disposal Agreement”	the agreement dated 26 April 2022 entered into between AHQ as the purchaser and PCKSP as the Vendor in respect of the Disposal
“Group”	collectively, the Company and its subsidiaries from time to time
“Independent Third Party(ies)”	individual(s) or company(ies) which is/are independent of and not connected with any member of the Group, the Directors, chief executive and substantial shareholders of the Company and its subsidiaries and their respective associates (within the meaning of the Listing Rules)
“JV Company”	Al-Qahtani PCK Pipe Company, a joint venture company established as a limited liability company in accordance with the Saudi Companies Regulation and the Saudi Foreign Investment ACT in Saudi Arabia
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chen”	Mr. Chen Chang, an executive Director and the controlling shareholder of the Company
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Saudi Arabia”	The Kingdom of Saudi Arabia

“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
“SR”	Saudi Riyal, the lawful currency of Saudi Arabia
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor” or “PCKSP”	Panyu Chu Kong Steel Pipe Co. Ltd (番禺珠江鋼管有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company

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

*For the purpose of this announcement and solely for the purpose of illustration, all amounts in SR are translated into RMB at an exchange rate of SR1:RMB1.7. No representation has been made by the Company that any amount have been, could have been or could be converted at such rate or at any other rates or at all.*

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

Guangdong Province, the PRC, 26 April 2022

*As at the date of this announcement, 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.*