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 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)

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

Capitalised terms used on this cover page have the same meaning as defined in the section headed "Definitions" in this circular, unless the context requires otherwise.

The Disposals have been approved by written shareholders' approval, pursuant to Rule 14.44 of the Listing Rules in lieu of general meeting of the Company. This circular is being despatched to the Shareholders for information only.

27 June 2022

CONTENTS

In this circular, unless the context otherwise requires, 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 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)
"Independent Valuer"	RHL Appraisal Limited, the independent valuer engaged by the Company for the valuation of the JV Company
"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
"Latest Practicable Date"	21 June 2022

"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 circular, 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
"Valuation Report"	the valuation report on the equity interest of the JV Company as at 31 March 2022 prepared by the Independent Valuer, the text of which is set out in Appendix II to this circular
"Vendor" or "PCKSP"	Panyu Chu Kong Steel Pipe Co., Limited（番禺珠江鋼管有限公司）, a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the 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
(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:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head office and principal place of business in the PRC:
2/F., 3-5 Golden Dragon City
Yayun Avenue
511450 Panyu District
Guangzhou City
Guangdong Province
The PRC

Principal place of business in Hong Kong:
Unit 605-606, 6th Floor,
Tower III, Enterprise Square,
No. 9 Sheung Yuet Road
Kowloon Bay
Kowloon
Hong Kong

27 June 2022

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

Reference is made to the Company's announcement dated 26 April 2022 in relation to the Disposal.

The Company has obtained a written Shareholders' approval of the Disposal Agreement and the transactions contemplated thereunder in accordance with Rule 14.44 of the Listing Rules from Mr. Chen and Bournam, who collectively hold 706,261,000 Shares, representing approximately 69.85% of the issued Shares as at the Latest Practicable Date. Accordingly, the written approval from Mr. Chen and Bournam will be accepted in lieu of holding a general meeting of the Company and no general meeting will be convened for the purpose of approving the Disposal Agreement and the transaction contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

The purpose of this circular is to provide you with, among other things, further information in relation to the Disposal Agreement and the transaction contemplated thereunder and other information as required under the Listing Rules.

THE DISPOSAL AGREEMENT

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

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.

The ultimate beneficial owners of AHQ are Mr. Tariq Abdul Hadi Abdullah Al-Qahtani, Mr. Salah Abdul Hadi Abdullah Al-Qahtani, Mr. Abdullah Abdul Hadi Abdullah Al-Qahtani, Mrs. Haifa Saleh Hamad Al-Sugair, Mrs. Shams Abdul Hadi Abdullah Al-Qahtani, Mrs. Mai Abdul Hadi Abdullah Al-Qahtani, and Mrs. Doha Abdul Hadi Abdullah Al-Qahtani. 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.

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) SR8.5 million (equivalent to approximately RMB14.45 million) shall be payable within seven working days after signing the Disposal Agreement;

(iii) SR2.85 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 (i) 100% of the equity value of the JV Company of approximately SR62.2 million (equivalent to approximately RMB105.7 million) as at 31 December 2020; and (ii) the valuation of the JV Company as at 31 March 2022 of approximately SR35.9 million (equivalent to approximately RMB61.03 million as contained in the Valuation Report.

The parties underwent negotiation regarding the disposal of 50% equity interest in the JV Company in July 2021 and determined the consideration of the Disposal in early January 2022. By then, the audited financial statements of the JV Company as at 31 December 2021 was not available. As such, the consideration for the Disposal was determined with reference to the equity value of the JV Company as at 31 December 2020, instead of the equity value of the JV Company as at 31 December 2021.

Based on the audited financial statements of the JV Company as at 31 December 2021, 100% equity value of the JV Company was SR124.3 million (equivalent to approximately RMB211.4 million). The significant increase in equity value of the JV Company as at 31 December 2021 as compared to that of 31 December 2020 was due to the increase in fair value of building, plant and machinery of the JV Company of SR70 million as at 31 December 2021 which was recognised as revaluation reserve.

The major difference between the equity value of the JV Company as at 31 December 2021 and valuation of the JV Company as at 31 March 2022 as disclosed in the Valuation Report was mainly due to the following reasons:

(i) as mentioned above, the JV Company has revaluated its building, plant and machinery as at 31 December 2021 based on asset approach and there was an increase in fair value of building, plant and machinery of SR70 million. Without considering the increase in fair value of the JV Company, 100% equity value of the JV Company as at 31 December 2021 was SR54.3 million (equivalent to approximately RMB92.31 million); and

(ii) income approach was adopted for the valuation of the JV Company. Income approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realising those benefits.

In general, there are three methods to valuate the JV Company: asset approach, market approach and income approach. The Independent Valuer considers and the Company concurs that income approach is the most suitable method to access the value of JV Company due to the following reasons: (i) asset approach and market approach might not be able to capture the future economic benefits contributed by the assets of the JV Company and from the business operation of the JV Company easily; (ii) market approach is not an appropriate valuation method for the JV Company since the JV Company has been operating at a loss at both EBITDA and net profit levels; (iii) income approach is able to take into account of the future economic prospect of the JV Company reflected in the financial projections by the JV Company.

Based on the aforesaid, the Directors believe that the equity value of the JV Company as at 31 December 2020 and the valuation of the JV Company as disclosed in the Valuation Report are more relevant in determining the consideration for the Disposal.

As the valuation was prepared based on income approach, which involves the use of the discounted cash flows, the valuation as set out in the Valuation Report is regarded as a profit forecast under Rule 14.61 of the Listing Rules.

The valuation was performed based on the following principal assumptions:

1. There will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of the JV Company.

2. The financial information of the JV Company was prepared in accordance to the applicable accounting standards.

3. There will be no material changes in inflation and interest rates from those prevailing as at the valuation date.

4. The availability of finance will not materially constrain the forecasted growth of the JV Company.

5. The JV Company will be able to procure and retain competent key personnel and operating staffs.

6. The risk-free rate was estimated to be 3.25% as at the valuation date, based on the 10-year zero coupon swap rates of Saudi Arabia.

7. The average geared equity beta was estimated to be 1.23 as at the valuation date, based on the geared equity beta of the comparable companies.

8. Size premium of 5.01% was estimated with reference to the CRSP Deciles Study 2021.

9. Risk premium of 5.00% was added by taking into consideration the operation stage of the JV Company and the uncertainty of the realization of future cash flow.

10. The cost of equity, calculated by using the Capital Asset Pricing Model, was estimated to be 19.31% as at the valuation date.

11. Pre-tax cost of debt and after-tax cost of debt was estimated to be 3.06% and 3.06% respectively.

12. The percentage of equity to total capital was taken as 68.22%, based on average debt-to-equity ratio of the comparable companies.

13. The percentage of debt to total capital was taken as 31.78%, based on average debt-to-equity ratio of the comparable companies.

14. There is no income tax applicable to the JV Company.

15. The terminal growth rate of 2.6% was adopted based on 20-year average inflation rate in Saudi Arabia.

KTC Partners CPA Limited, the reporting accountants of the Company, has reported to the Directors as required by Rule 14.62 of the Listing Rules, regarding the calculations of the discounted future cash flows used in the valuation. The report from KTC Partners CPA Limited as required under Rule 14.62 of the Listing Rules and the letter from the Board relating to the profit forecast of the JV Company are set out in the Appendix III and Appendix IV to this circular, respectively.

CONDITIONS PRECEDENT

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.

The transaction contemplated under the Disposal Agreement are conditional on the Company having obtained the Shareholders' approval of the Disposal Agreement and the transaction contemplated thereunder in accordance with the Listing Rules and other applicable laws, which has been satisfied by the obtaining of a written Shareholder's approval from Mr. Chen and Bournam, who collectively hold a total of 706,261,000 Shares, representing approximately 69.85% of the issued Shares as at the Latest Practicable Date.

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.

PCKSP 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.

The ultimate beneficial owners of AHQ are Mr. Tariq Abdul Hadi Abdullah Al-Qahtani, Mr. Salah Abdul Hadi Abdullah Al-Qahtani, Mr. Abdullah Abdul Hadi Abdullah Al-Qahtani, Mrs. Haifa Saleh Hamad Al-Sugair, Mrs. Shams Abdul Hadi Abdullah Al-Qahtani, Mrs. Mai Abdul Hadi Abdullah Al-Qahtani, and Mrs. Doha Abdul Hadi Abdullah Al-Qahtani. 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 audited 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 SR572.7 million (equivalent to approximately RMB973.6 million) and SR124.3 million (equivalent to approximately RMB211.4 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:

	For the year ended 31 December 2021	**For the year ended 31 December 2020**
	SR'000	*SR'000*
Revenue	101,130	145,830
Loss before taxation	(17,569)	(5,175)
Loss after taxation	(17,569)	(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 audited 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. Based on the Valuation Report as set out in Appendix II to this circular, in view of the economic overview and industry overview of Saudi Arabia, it is expected that the JV Company will record profits in the foreseeable future. The consideration of SR41.5 million offered by AHQ is significantly higher than the valuation of 50% interest of the JV Company as at 31 March 2022 of approximately SR17.9 million. The Board believes that the Disposal will allow the Group to immediately realise profits on its investment in the JV Company and minimise unforeseen investment risk in Middle East 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 capital from the divestment, replenish its liquidity and improve the financial position of the Group. The Disposal will not have material effect on the business and operation of the Group.

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 audited financial information of the JV Company, the net book value of the JV Company as at 31 December 2021 was approximately RMB211.4 million. The deficit of the consideration for the Disposal under the net book value of 50% equity interest in the JV Company as at 31 December 2021 was approximately RMB35.1 million.

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

Given that the Completion is expected to record a gain of approximately RMB70.55 million, the consolidated total assets of the Group is expected to increase by approximately RMB70.55 million. On the above basis, the consolidated total assets of the Group is expected to increase by approximately RMB70.55 million and the total liabilities of the Group is expected to remain unchanged upon Completion.

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 OF THE DISPOSAL

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

IMPLICATIONS UNDER THE LISTING RULES

As one of the applicable percentage ratios by reference to Rule 14.07 of the Listing Rules 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.

Pursuant to Rule 14.44 of the Listing Rules, written shareholders' approval may be accepted in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the transactions; and (b) a written approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the voting rights at that general meeting to approve the transaction.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, none of the Shareholders has any material interest in the Disposal Agreement and the transaction contemplated thereunder and hence, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Disposal Agreement and the transaction contemplated thereunder.

The Company has obtained a written Shareholders' approval of the Disposal Agreement and the transaction contemplated thereunder from Mr. Chen and Bournam, who collectively hold 706,261,000 Shares, representing approximately 69.85% of the issued Shares as at the Latest Practicable Date, particulars of which are as follows:

	Numbers of shares held	**Percentage of shareholding in the Company**
Bournam *(Note)*	701,911,000	69.42%
Mr. Chen	4,350,000	0.43%
Total	706,261,000	69.85%

Note: Bournam is wholly and beneficially owned by Mr. Chen.

Accordingly, the written approval from Mr. Chen and Bournam will be accepted in lieu of holding a general meeting of the Company and no general meeting will be convened for the purpose of approving the Disposal Agreement and the transaction contemplated thereunder pursuant to Rule 14.44 of the Listing Rules.

RECOMMENDATION

The Directors are of the opinion that the Disposal is in the interests of the Company and the Shareholders as a whole, and the terms of the Disposal Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 2019, 2020 and 2021, 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).

- Annual report of the Company for the year ended 31 December 2021 published on 13 May 2022, from pages 97 to 250;
- Annual report of the Company for the year ended 31 December 2020 published on 22 April 2021, from pages 95 to 242; and
- Annual report of the Company for the year ended 31 December 2019 published on 28 April 2020, from pages 103 to 246.

2. STATEMENT OF INDEBTEDNESS

Bank and other borrowings

As at the close of business on 30 April 2022, 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 comprised the following:

	RMB'000
Bank loans	
– Secured	1,408,625
Other borrowing	
– Unsecured	276,909
Fixed rate bonds	
– HKD90 million 12% Notes due 2022	72,676
– USD3 million 7% Bonds due 2022	9,934
– HKD3 million 5% Bonds due 2023	2,530
– HKD2 million 6% Bonds due 2022	1,687
– HKD2 million 6% Bonds due 2022	1,687
– HKD1 million 6% Bonds due 2023	843
	1,774,891

As at 30 April 2022, 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 RMB575,266,000;

(b) a charge over certain leasehold lands of the Group with a net carrying amount of approximately RMB497,752,000; and

(c) a charge over certain of the properties under development and completed properties held for sale by the Group amounting to RMB1,183,053,000.

Fixed rate bonds

As at the close of business on 30 April 2022, 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 an aggregate principal amount of approximately RMB89.4 million and interest accrued of approximately RMB13.9 million.

Financial Guarantee

As at 30 April 2022, the Group had the following outstanding contingent liabilities:

- guarantee of RMB81.0 million to certain purchasers of the Group's properties for mortgage facilities

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 as at the close of business on 30 April 2022.

The Directors have confirmed that there has been no material change in the borrowings and contingent liabilities of the Group since 30 April 2022.

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 30 April 2022.

3. WORKING CAPITAL

As at the Latest Practicable Date, the Directors, after due and careful enquiry, are of the opinion that after taking into account the Disposal, the present internal resources of the Group as well as the banking and other facilities available to the Group, the Group will have sufficient working capital for at least 12 months from the date of this circular in the absence of unforeseeable circumstances. The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

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 2021, being the date to which the latest published audited consolidated financial statements of the Group were made up.

5. FINANCIAL AND OPERATIONAL PROSPECTS OF THE GROUP

In 2022, with the resumption of business activities, the demand for oil and gas across countries is constantly increasing. Oil and gas prices rebounded significantly since the start of 2021. However, persistence of the COVID-19 pandemic globally and sluggish economic recovery have added uncertainties to the economy of the world and have reduced the demand for oil and gas. The Group expects 2022 will still be a challenging year for the oil and gas industry.

2022 is the second year of the "14th Five-Year Plan" development. According to the Medium and Long-Term Oil and Gas Pipeline Network Planning (《中長期油氣管網規劃》), the scale of domestic oil and gas pipeline network is expected to increase to 240,000 kilometers by 2025, of which the mileages of natural gas, crude oil and refined oil pipeline are expected to reach 163,000 kilometers, 37,000 kilometers and 40,000 kilometers, respectively. During the 14th Five-Year Plan period, China's oil and gas pipeline mileage is expected to increase by 71,000 kilometers, and the capital expenditure on pipeline investment in China is expected to exceed RMB1 trillion during the 14th Five-Year Plan period. In order to keep up with the schedule of the "14th Five-Year Plan" and achieve its goal, construction of oil and gas pipeline is set to gain momentum and there will be more opportunities in the future.

In addition, China Oil & Gas Pipeline Network Corporation ("**PipeChina**"), established in late 2019, will take over the relevant oil and gas pipeline infrastructure assets of three large oil companies in China and officially put them into operation, inject capital into the construction of oil and gas infrastructure, accelerate the process of marketization, vigorously promote the pipeline construction plan, enhance the speed of construction of pipeline networks, achieve interconnection and interoperability of pipeline networks, establish the "national network" covering the west-east gas transmission, north-south gas transmission, coastal delivery to inland, east-west synergy, north-south interoperability in accordance with the national plan, enhance oil and gas transportation capacity, and ensure a safe and stable supply of oil and gas energy. Following the establishment of PipeChina, it is believed that China's oil and gas pipeline network construction will be substantially accelerated in the future.

In early 2021, China reiterated its commitments at the Leaders Summit on Climate regarding "striving for carbon emissions peak by 2030 and carbon neutrality by 2060", signaling that ecology-focused, green and low-carbon development will be the dominant strategy in the future. It indicates that China will be more focused on clean energy like wind power, gas, and hydropower. The construction of a series of pipeline and gas storage facilities, smart grid, construction of wind power and offshore wind power will be accelerated and will boost the demand of our products in the future.

VALUATION REPORT ON

50% Equity Interest in
Al Qahtani PCK Pipe Company
as at 31 March 2022

PREPARED FOR

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited

DATE	:	27 June 2022
REF. NO.	:	BV/O/O/7288/22

CONTENTS

Ref. No. : BV/O/O/7288/22
Date : 27 June 2022

The Board of Directors
Chu Kong Petroleum and Natural Gas
Steel Pipe Holdings Limited
Unit 605 – 606, 6/F,
Tower III, Enterprise Square,
No. 9 Sheung Yuet Road,
Kowloon Bay, Kowloon,
Hong Kong

Dear Sirs/Madams,

Re: Business Valuation of 50% Equity Interest of Al Qahtani PCK Pipe Company as at 31 March 2022

In accordance with the instructions of **Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited** (the "**Client**"), we RHL Appraisal Limited ("**RHL**") have undertaken a valuation to determine the fair value of **50% equity interest** (the "**Interest**") of **Al Qahtani PCK Pipe Company** (the "**Company**") as at **31 March 2022** (the "**Valuation Date**") regarding the proposed disposal of the Interest of the Company.

INTRODUCTION

This report has been prepared in accordance with instructions from the Client to determine the fair value of the Interest as at the Valuation Date. This report outlines our latest findings and valuation conclusion.

Background of the Company

Al Qahtani PCK Pipe Company is a joint venture company formed in 2011 by Abdel Hadi Abdullah Al Qahtani & Sons., Co (the "**AHQ**") and Panyu Chu Kong Steel Pipe Co. Ltd (the "**PCKSP**"), an indirectly wholly-owned subsidiary of the Client. The Company is a Limited Liability Company registered in the Kingdom of Saudi Arabia. The Company's main business operation is producing longitudinal submerged arc welded (LSAW) steel pipes and high frequency welded (HFW) steel pipes.

In 2019, the Company completed its construction of a production facility to produce longitudinal submerged welded steel pipe in Dammam, Kingdom of Saudi Arabia. The Company's primary business objective is to produce and sell its steel pipes to Saudi Aramco, which requires certain quality approvals and licenses from Saudi Aramco. The Company had obtained the final clearance from Saudi Aramco during the first quarter of 2019 and had commenced its commercial production accordingly.

On 26 April 2022, PCKSP 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 Company. The consideration payable by AHQ is SAR41.5 million. Upon completion, the Client will cease to hold any interests in the Company.

PURPOSE OF VALUATION

The purpose of this valuation is to express an independent opinion on the fair value of the Interest as at the Valuation Date solely for the use of the management of the Client regarding the proposed disposal of 50% of equity interest of the Company, and we acknowledge that the report will be made available to the Client for public documentation purpose only.

BASIS OF VALUATION

Our valuation was carried out on a fair value basis. Fair value is defined as "*the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.*"

BASIS OF OPINION

The valuation procedure includes review of the financial and economic condition of the subject business, an assessment of key assumptions, estimates, and representations made by the management of the Company (the "**Management**"). All matters essential to the proper understanding of the valuation are disclosed in the valuation report.

The following factors also form a considerable part of our basis of opinion:

- The business nature of the Company;
- Consideration and analysis on the micro-economic and macro-economic factors;
- Assumptions on the market and on the subject business that are considered to be fair and reasonable;
- Assessment on the leverage and liquidity of the subject business.

In arriving at our opinion, we have assumed and relied extensively upon the accuracy and completeness of the information provided to us by the Management such as financial statements, documents, oral conversation through correspondences.

We also conducted research using various sources including governmental statistical releases and other publications to verify the information provided and we have no reason to doubt the accuracy of the data and information.

Our opinion is based upon economic, market, financial and other conditions as they exist and can be evaluated on the date of this report and we assume no responsibility to update or revise our opinion based on events or circumstances occurring after the date of this report. In reaching our opinion, we have made assumptions with respect to such economic, market, financial and other conditions and other matters, many of which are highly uncertain and beyond our control or the control of any party involved in this valuation exercise.

We have planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject business. We believe that our valuation provides a reasonable basis for our opinion.

ECONOMIC AND INDUSTRY OVERVIEW

Economic Overview of Saudi Arabia

Saudi Arabia is the largest economy in the Middle East and the wealthiest Arab country. The policy of large-scale public works undertaken by the authorities, as well as foreign direct investment and the soundness of the banking and financial system, have enabled the country to become the leading regional economy. Saudi Arabia is an oil-dependent economy with the largest proven crude oil reserves in the world. According to HKTDC Research[1], the oil sector accounted for 23.3% of the country's GDP in 2020. As one of the world's largest oil producers, the country was responsible for 11% of global production in 2020.

In 2021, increasing oil price and stabilization of the COVID-19 pandemic contributed to an estimated GDP growth of 3.3% by the World Bank[2]. According to the World Bank's "*Saudi Arabia's Economic Update – April 2022*", GDP growth is expected to accelerate to 7% in 2022 before moderating to 3.8% and 3.0% in 2023 and 2024 respectively. Stronger oil output is the main driver behind the recovery which is expected to grow by 13% in 2022 following the end of the OPEC+ production cuts in December 2022. The non-oil sector is expected to continue its growth trajectory, estimated at 4% in 2022 and 3.2% in the medium-term.

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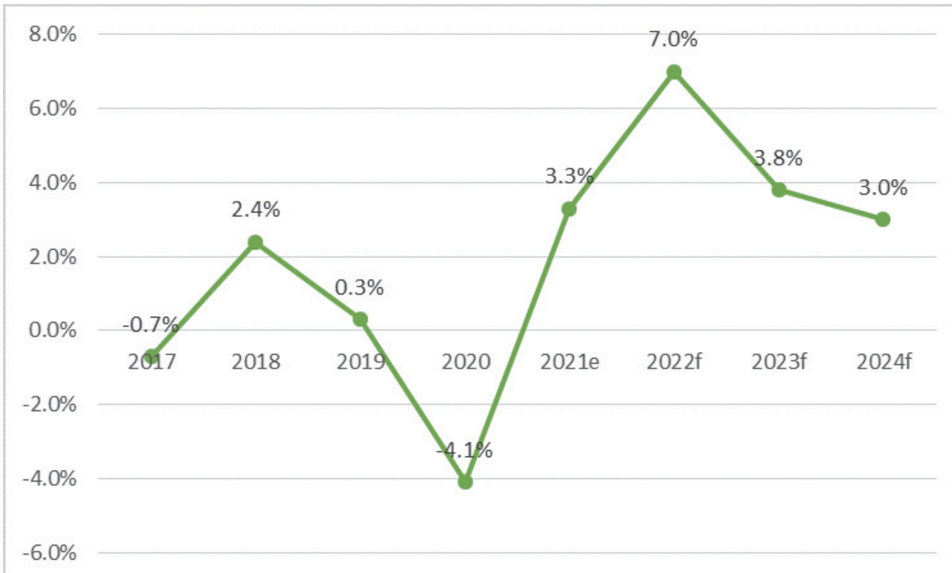
1 HKTDC Research: Saudi Arabia Market Profile, 18 October 2021

2 The World Bank: Macro Poverty Outlook for East and North Africa, Saudi Arabia's Economic Update – April 2022, 14 April 2022

Chart 1 Real GDP Growth of Saudi Arabia (2017 – 2024f)



Sources: IMF, World Economic Outlook Database; World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Industry Overview

According to the statistics from World Steel Association[3], total steel production in the Middle East region in 2021 was 41.2 million metric tons, in which Saudi Arabia contributed 21% to the regional production or 8.7 million metric tons. Saudi Arabia is the largest producer in the Gulf Cooperation Council (the "**GCC**"), a political and economic union of Arab states bordering the Gulf. Saudi Arabia ranked 21st in the global steel production by volume.

Saudi Arabia has the largest steel production capacity[4] in the GCC with 11.6 million metric tons per year in 2020, accounted for 44% production capacity in the GCC. Annual utilization rate ranged between 41% and 71% in 2016 – 2020.

Steel production in Saudi Arabia recovered from 5% decline in 2020 and recorded 12% growth in 2021. The recovery is underpinned by official announcement in mid-November 2020 that the Public Investment Fund would invest USD40 billion, or 5% GDP per annum in 2021 – 2022. Saudi Arabia moves forwards the implementation of Vision 2030 targets, with affordable housing as a key initiative. The Housing Program was created in 2018, as part of Vision 2030, to achieve the Vision's objective for Saudi families to access appropriate housing. The Housing Program is expected to provide regular support to domestic steel producers in Saudi Arabia.

3 World Steel Association: December 2021 crude steel production and 2021 global crude steel product totals

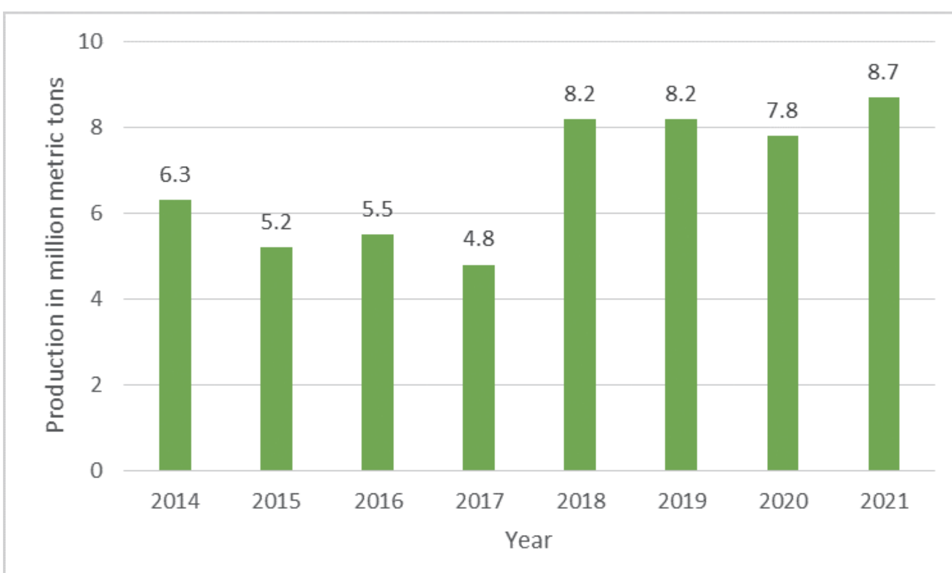
4 OECD: Latest Developments in Steelmaking Capacity 2021

Table 2 Production Capacity and Capacity Share in the GCC in 2020

Country	Production Capacity *(Million Metric Tons)*	Capacity Share *(%)*
Bahrain	1.0	4%
Kuwait	1.4	5%
Oman	4.2	16%
Qatar	3.2	12%
Saudi Arabia	11.6	44%
UAE	4.8	18%
Total	26.2	100%

Sources: OECD: Latest Developments in Steelmaking Capacity 2021

Chart 2 Steel Production in Saudi Arabia



Sources: Statista, published by Salma Saleh, 14 February 2022; World Steel Association: December 2021 crude steel production and 2021 global crude steel production totals

Table 2 Utilization Rate of Steel Production Capacity in Saudi Arabia

Year	Production Capacity *(Million Metric Tons)*	Utilization Rate *(%)*
2016	11.6	47%
2017	11.6	41%
2018	11.6	71%
2019	11.6	71%
2020	11.6	67%

Sources: Statista, published by Salma Saleh, 14 February 2022; World Steel Association: December 2021 crude steel production and 2021 global crude steel production totals; OECD: Latest Developments in Steelmaking Capacity 2021

SOURCES OF INFORMATION

In conducting the valuation, we have considered, reviewed and relied upon the following key information provided by the Management and other pertinent data concerning the Company which includes but not limited to the following:

- Copy of Share Sale Agreement between Panyu Chu Kong Steel Pipe Co, Ltd and Abdel Hadi Abdullah Al-Qahtani and Sons Company dated 26 April 2022 provided by the Management;
- Copy of audited financial statements of the Company for the year ended 31 December 2021 and 2020 provided by the Management;
- Copy of unaudited financial statements of the Company for the three months period ended 31 March 2022 provided by the Management;
- Copy of financial projections (the "**Projections**") of the Company for the period between 1 April 2022 and 31 December 2027 provided by the Management;
- Background information of the Company provided by the Management;
- Discussions with and representations made by the Management;
- Thomson Reuters Eikon;

- Stout Restricted Stock Study Companion Guide 2021;
- CRSP Deciles Study 2021;
- Country and Equity Risk Premiums dated 1 January 2022 by Aswath Damodaran.

APPROACH AND METHODOLOGY

The fair value of the Interest is conducted by one or more of the three generally accepted valuation approaches: asset approach, market approach and income approach.

Asset Approach

A means of estimating the value of a business and/or equity interest using methods based on the market value of individual business assets less liabilities. It is founded on the principle of substitution, i.e. an asset is worth no more than it would cost to replace all of its constituent parts.

Market Approach

Market Approach considers prices recently paid for similar related to the subject company's major business industry, with adjustments made to the indicated market prices to reflect condition and utility of the appraised business relative to the market comparatives.

In general there are two methods under the market approach, namely the guideline merged and acquired company methods and the guideline publicly traded company method. Guideline merged and acquired company method is based on acquisitions and sales of entire companies, divisions or certain equity interests of either publicly traded or private companies. Guideline publicly traded company method is based on the adoption of multiples that are drawn from companies traded in major stock exchanges to the fundamental data of the subject company. Depending on the nature of the underlying business and other company specific conditions, various multiples may be used to evaluate the business ownership interests.

Income Approach

This approach focuses on the economic benefits generated by the income producing capability of an enterprise. The underlying theory of this approach is that the value of an enterprise can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, Income Approach estimates the future economic benefits and discounts these benefits to its present value using a discount rate appropriate for the risks associated with realizing those benefits.

Determination of the Valuation Approach

Among the three approaches, we consider that Income Approach is more appropriate for valuing the Company.

Asset Approach and market approach might not be able to capture the future economic benefits contributed by the subject assets and from the business operation easily. Market approach is not appropriate to the Company since the Company has been operating at a loss at both EBITDA and net profit levels. Income approach is able to take into account of the future economic prospect of the Company reflected in the financial projections provided by the Management.

Based on the above considerations, we have therefore adopted the Income Approach in determining our opinion of value as reasonable future projections of the Company could be estimated on the basis of economy and industry outlook, historical financial and operation results.

Projections

Projections for the period between 1 April 2022 and 31 December 2027 were provided and prepared by the Management. Details of the Projections is presented in the Appendix B – Cash Flow Projections of this report. We have reviewed the calculation and had discussion with the Management regarding the assumptions and basis of the Projections as below:

Revenue:

Revenue includes the sale of goods to customers only. The Management expected the surging oil price since the 4th quarter of 2021 to drive demand of its steel pipes products from the oil and gas sectors in Saudi Arabia and thus assumed a significant high growth rate in 2022. As advised by the Management, the outstanding sale order on the book of the Company as at 31 December 2021 has already met around one-third of the full year's forecast for 2022. After 2022, an average of around 5% growth rate was assumed throughout the remaining projection period based on the information in the "KSA Steel Market Supply and Demand Overview" dated 22 September 2020 by the Industrial Clusters of the Kingdom of Saudi Arabia.

Cost of Sales:

Cost of Sales includes raw materials, consumables, depreciation, direct and indirect overheads related to the production. The Management expected gross margin of the Company to improve to around 16%, which is 40% of Industry Median of the Iron & Steel sector in Saudi Arabia, throughout the projection period due to the rising demand in steel products from the oil & gas industry and implementation of Vision 2030's Housing Program.

Selling and Distribution/General and Administrative (the "SG&A") Expenses:

Selling and distribution expenses are those arising from the Company's efforts underlying the marketing, selling and distribution functions. All other expenses, excluding cost of sales, selling and distribution expense, and financial charges are classified as general and administrative expenses. The Management assumed the SG&A expense to revenue ratio reduced to 3.1% in 2022 from the 3-year average of 4.9% due to implementation of cost restructuring of the Company in 2022. The SG&A expense will then grow in line with the revenue growth rate throughout the remaining projection period.

Tax and Other Surcharges:

As advised by the Management, a local company registered in Saudi Arabia is not subject to income tax.

Capital Expenditure:

As advised by the Management, capital expenditure is not required throughout the projection period since the production plant was completed and commenced operation in 2019.

Net Working Capital:

The Management estimated the net working capital based on the average of turnover days of account receivables, inventory, prepayment and other current assets, account payables, and accrued expenses and other current liabilities of the comparable companies.

Determination of Discount Rate

Discount rate is applied for calculation of the present value of cash flows. We can obtain the Company's cost of equity with reference to the public comparable companies, based on the **Capital Asset Pricing Model** (hereinafter referred to as "**CAPM**") using beta of its proxies.

The CAPM only measures the systematic risk component, however, disregards the unsystematic risk component. To compensate for the unsystematic risk of the investment, we have included other risk adjustments such as size risk premium and company specific risk.

The computation of the estimated cost of equity is shown as follows:

$$Ke = R_f + \beta_{eg} \times ERP + SP + CSR$$

where K_e = return of geared equity
R_f = risk free return
β_{eg} = geared equity beta
ERP = equity risk premium
SP = size premium
CSR = company specific risk

Then we calculated the **Weighted Average Cost of Capital** (hereinafter referred to as "**WACC**") by weighting the rate of returns required by equity and debt holders using the proportions of the firm's value attributed from each source of capital (equity and debt).

$$WACC = K_e \times W_e + K_d \times (1 - T) \times W_d$$

where K_e = cost of equity
K_d = cost of debt
W_e = percentage of equity to total capital
W_d = percentage of debt to total capital
T = tax rate

The following criteria have been adopted for the selection of comparable companies:

- Public listing location in the Saudi Stock Exchange Tadawul as at the Valuation Date;
- Publicly listed in more than three years prior to the Valuation Date;
- Principal place of business based in Saudi Arabia; and
- Major revenue generated from manufacturing, sales and trading of steel pipe products.

Based on the above searching criteria, on the best effort basis, the exhaustive list of selected comparable companies which are engaged in the similar business include:

(a) Saudi Steel Pipes Company SJSC (Reuters stock code: 1320.SE)

Saudi Steel Pipes Co SJSC is a Saudi Arabia-based company, which is engaged in the steel pipes manufacturing sector in the Middle East and North Africa region. The Company operates through two segments: Steel Pipe Segment includes manufacturing of welded steel pipes by high frequency induction welding and galvanizing, coating, threading and bending of the pipes used in oil and gas, water and construction sectors, as well as Process Equipment Segment, which includes design, manufacture, assemble and maintain heavy process equipment for the utilization of oil and gas, power generation, desalination, mining, solar energy and offshore plants. Its product range includes black and galvanized steel pipes, ERW/HFI galvanized and threaded steel pipes, seamless pipes, pipes with three-layer external coating by polyethylene and polypropylene in different diameters, pipes with epoxy coating inside, bended pipes in different diameters, space frame and submerged arc welded pipes.

(b) Arabian Pipes Company SJSC (Reuters stock code: 2200.SE)

Arabian Pipes Company SJSC is a Saudi Arabia-based joint stock company engaged in the manufacturing and export of welded and coated steel pipes for the oil and gas, construction, and agriculture sectors. The Company's product line consists of various applications, which include line pipe for oil, gas and petrochemical industries; casing pipe for oil and water wells, and pipe for agriculture, structural, pilling and construction requirements. The Company's manufacturing facility is located in Riyadh's second Industrial City, with annual production capacity of 160,000 metric tons. In addition, the Company owns a pipe coating plant in Riyadh, Saudi Arabia. The Company exports its products to the United Arab Emirates, Kuwait, Qatar, Bahrain, Oman, Libya, Jordan, Sudan, Yemen, Egypt, Nigeria, Iran and Iraq, among others.

(c) National Metal Manufacturing and Casting Company SJSC (Reuters stock code: 2220.SE)

National Metal Manufacturing and Casting Co SJSC (Maadaniyah) is a Saudi Arabia-based public shareholding company that manufactures steel wire and wire related products. The Company manufactures drawn steel wire rod, pre-stressed concrete steel wire strand (PC strand), spring wire, matters spring wire, strengthening wire strand for electrical power and high and low galvanized steel wire, fasteners, nails, bolts and welding wire, metal casting of various types, axles, and spare parts for trucks, vehicles and equipment, as well as wholesale and retail trade in building materials and industrial materials; ownership of land and property and constructing building on them; ownership of patents and their use to achieve industrial objectives inside and outside the Kingdom of Saudi Arabia, and contracting activities and representation of local and foreign companies.

Taking account of the above, we suggested an appropriate weighted average cost of capital was determined at 14.20% as at the Valuation Date.

Discount for Lack of Marketability

Discount for lack of marketability is normally applied to valuation of non-publicly traded company. Marketability discount reflects the ability of converting shares into immediate cash. Compared to publicly listed companies, private companies do not have a known market price and there exist no public market for trading of shares. Therefore, a privately held company is theoretically worth less than a public company with the same business, given other things being the same.

Taking account of the above, a median discount for lack of marketability of 15.8% was applied in the valuation of equity value of the Company based on the Stout Restricted Stock Study Companion Guide 2021.

CALCULATION

Based on the above parameters and inputs, the calculation of this valuation is presented as follows:

Fair value of 50% equity interest in Al Qahtani PCK Pipe Company

(in Saudi Arabia Riyals)				**Value**
(1)	Net present value			388,927,835
(2)	Add:	Revaluation adjustment of PP&E		70,000,000
(3)		Cash & bank balances		3,639,351
(4)	Less:	Loans		419,223,683
(5)		Due to related parties		704,419
(6)		Zakat payable		48,298
(7)	Equity value before DLOM		= (1)+(2)+(3)-(4)-(5)-(6)	42,590,786
(8)	DLOM		= (7) x 15.8%	6,729,344
(9)	Equity value after DLOM		= (7) – (8)	35,861,442
(10)	50% equity value after DLOM		= (9) x 50%	17,930,721

* Figures above are subjected to rounding

ASSUMPTIONS AND NOTES TO VALUATION

Assumptions considered having significant sensitivity effects in this valuation have been evaluated in arriving at our assessed values.

General Assumptions

1. We assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business.

2. In arriving at our opinion, we have assumed and relied extensively upon the accuracy and completeness of the information provided to us by the Management such as financial statements, the Projections, documents, oral conversation through correspondences and interviews. We do not independently investigate nor otherwise verify the data provided and do not express an opinion or offer any form of assurance regarding its accuracy and completeness.

3. We are given the Projections. We are confirmed by the Management that the Projections can be used as a proxy for the financial performance of the Company. We do not independently investigate nor otherwise verify the data provided and do not express an opinion or offer any form of assurance regarding its accuracy and completeness.

4. The financial information of the Company was prepared in accordance to the applicable accounting standard. We did not independently investigate nor otherwise verify the data provided and do not express an opinion or offer any form of assurance regarding its accuracy and completeness.

5. There will be no material changes in inflation and interest rates from those prevailing as at the Valuation Date.

6. The availability of finance will not materially constrain the forecasted growth of the Company.

7. The Company will be able to procure and retain competent key personnel and operating staffs.

8. Risk-free rate (R_f): The risk-free rate was estimated to be 3.25%, based on the 10-year zero coupon swap rates of Saudi Arabia as at the Valuation Date.

9. Geared equity beta (β_{eg}): The average geared equity beta of comparable companies of the Company as at the Valuation Date, 1.23, was taken as the beta for the Company.

10. Size premium (SP): Size premium of 5.01% was estimated with reference to CRSP Deciles Study 2021.

11. Company Specific risk (CSR): Taking into consideration the operation stage of the Company and the uncertainty of the realization of future cash flow, a risk premium of 5.00% was added based on our internal assessment.

12. Cost of equity (K_e): The cost of equity as at the Valuation Date per calculation by adjusted CAPM, 19.31%, was estimated.

13. Cost of debt (K_d): Pre-tax cost of debt was estimated to be 3.06% as advised by the Management. After-tax cost of debt of 3.06% was used.

14. Percentage of equity to total capital (W_e): The percentage of equity to total capital, calculated by average debt-to-equity ratio of the comparable companies of the Company, 68.22%, was taken for the Company.

15. Percentage of debt to total capital (W_d): The percentage of debt to total capital, calculated by average debt-to-equity ratio of the comparable companies of the Company, 31.78%, was taken for the Company.

16. Tax rate (T): Advised by the Management, there is no income tax applicable to the Company.

17. Terminal growth rate: The terminal growth rate of 2.6% was adopted based on 20-year average inflation rate in Saudi Arabia.

VALUATION COMMENTS

As part of our analysis, we have reviewed information, documentation and other pertinent data concerning the Company as has been made available to us. Such information has been provided by the Management. We have assumed the accuracy of, and have relied on, such information to a considerable extent in arriving at our opinion of value.

We confirm that we have made relevant searches and enquiries and obtained such further information as is considered necessary for the purposes of this valuation exercise.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. The assumptions made in our valuation are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Management, the Company and RHL Appraisal Limited.

RISK FACTORS

The following factors may affect the result of this valuation.

Economic and Political Risks

Political and economic policies of local government may affect the Company's operational results and may result in their inability to sustain their business growth.

Uncertainties with respect to the legal and tax system could materially and adversely affect the operational performance of the Company.

Industry Competition

There are/may be a number of competitors in the market providing similar products or services. Any future outbreak or occurrence of unpredictable events may change the demand or operating costs which may adversely affect the Company's operational results.

Risks relating to the operation

The business relies on the ability to retain competent key personnel and operating staffs. If the Company is not able to retain or recruit competent staffs for its operation, the revenue may decline and the Company may not be able to maintain the profitability.

Future Performance and Profitability

If the Company is not able to continue to maintain existing customers and/or attract new customers to its business at commercially viable fee levels, the revenue may decline and the Company may not be able to maintain the profitability.

Uncertainty and adverse changes in the economy could have a material adverse impact on the business and operating results.

Risks related to epidemics

The business and operation of the Company may be adversely affected or disrupted by epidemics, including COVID-19, and respective government's policies and measures to tackle epidemics. The duration and scale of such epidemic cannot be predicted or controlled by the Company and hence it may have significant and adverse impact on the Company's business operations and the Projections.

Information bias

Research and information from the Company or research database are subject to bias or may not meet with the actual future results.

OPINION OF VALUE

Based on the results of our investigations and analysis outlined in this report, we are of the opinion that the fair value of the Interest as at the Valuation Date, free from any encumbrances, is reasonably and approximately stated as **SAUDI ARABIA RIYALS SEVENTEEN MILLION NINE HUNDRED AND THIRTY ONE THOUSAND ONLY (SAR17,931,000).**

This report is issued subject to our limiting conditions in the Appendix A.

Yours faithfully,
For and on behalf of
RHL Appraisal Limited

Alexander C.Y. Lau
Director

Vincent J. Y. Lee, CFA
Senior Manager

ALE/LJY
Analysis and report by:
Vincent J.Y. Lee, CFA

APPENDIX A

LIMITING CONDITIONS

APPENDIX A – LIMITING CONDITIONS

1. As part of our analysis, we have reviewed financial and business information from public sources together with such financial information, client representation, project documentation and other pertinent data concerning the project made available to us during the course of our valuation. We have assumed the accuracy of, and have relied on the information and client representations provided in arriving at our opinion of value.

2. We have explained as part of our service engagement procedure that it is the director's responsibility to ensure proper books of accounts are maintained, and the financial statements give a true and fair view and have been prepared in accordance with the relevant companies' ordinance.

3. We accept no responsibility for the realization and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with this report. We assumed that financial and other information provided to us are accurate and complete.

4. We do not provide assurance on the achievability of any financial results estimated by the Company because events and circumstances frequently do not occur as expected; differences between actual and expected results may be material; and achievement of the forecast results is dependent on actions, plans, and assumptions of the Management.

5. RHL Appraisal Limited shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made.

6. No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond what is customarily employed by valuers.

7. Our conclusions assume continuation of prudent client policies over whatever period of time that is considered to be necessary in order to maintain the character and integrity of the assets valued.

8. We assume that there are no hidden or unexpected conditions associated with the business valued that might adversely affect the reported value. Further, we assume no responsibility for changes in market conditions after the date of this report.

9. This valuation report has been prepared solely for the use of the designated party. The valuation report should not be otherwise referred to, in whole or in part, or quoted in any document, circular or statement in any manner, or distributed in whole or in part or copied to any their party without our prior written consent.

10. This report is confidential to the client for the specific purpose to which it refers. In accordance with our standard practice, we must state that this report and valuation is for the use only of the party to whom it is addressed and no responsibility is accepted with respect to any third party for the whole or any part of its contents.

APPENDIX B

CASH FLOW PROJECTIONS

APPENDIX B – CASH FLOW PROJECTIONS

(In SAR)	**1/4/2022 31/12/2022**	**1/1/2023 31/12/2023**	**1/1/2024 31/12/2024**	**1/1/2025 31/12/2025**	**1/1/2026 31/12/2026**	**1/1/2027 31/12/2027**
Revenue	265,559,945	300,867,631	315,485,357	333,778,750	350,467,688	367,991,072
Cost of sales	(221,099,108)	(253,152,266)	(265,451,730)	(280,843,927)	(294,743,325)	(309,480,491)
Gross profit	**44,460,837**	**47,715,365**	**50,033,627**	**52,934,823**	**55,724,363**	**58,510,581**
Selling & distribution expenses	(1,476,612)	(2,631,873)	(2,759,744)	(2,919,767)	(3,065,755)	(3,219,043)
General & administrative expenses	(6,771,368)	(7,204,580)	(7,554,616)	(7,992,670)	(8,392,303)	(8,811,918)
Operating profit/(loss)	**36,212,857**	**37,878,912**	**39,719,267**	**42,022,386**	**44,266,305**	**46,479,620**
Finance cost	(13,237,315)	(17,043,687)	(17,871,758)	(18,908,051)	(19,853,453)	(20,846,126)
Other income	3,220,328	3,344,963	3,507,479	3,710,860	3,896,403	4,091,223
Profit before Zakat	**26,195,870**	**24,180,188**	**25,354,988**	**26,825,195**	**28,309,255**	**29,724,717**
Zakat	–	–	–	–	–	–
Net profit after Zakat	**26,195,870**	**24,180,188**	**25,354,988**	**26,825,195**	**28,309,255**	**29,724,717**
Add: Depreciation	10,006,943	14,000,000	14,000,000	14,000,000	14,000,000	14,000,000
Finance cost x (1- tax rate)	13,237,315	17,043,687	17,871,758	18,908,051	19,853,453	20,846,126
Less: Capital Expenditure	–	–	–	–	–	–
Change in working capital	(29,671,356)	(2,880,240)	(8,157,575)	(10,208,819)	(9,266,800)	(9,776,776)
Free Cash Flow (FCF)	**19,768,772**	**52,343,635**	**49,069,171**	**49,524,427**	**52,895,908**	**54,794,067**

REPORT ON THE DISCOUNTED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF 50% EQUITY INTEREST OF AL–QAHTANI PCK PIPE COMPANY

KTC Partners CPA Limited
Certified Public Accountants (Practising)
和信會計師事務所有限公司

TO THE BOARD OF DIRECTORS OF CHU KONG PETROLEUM AND NATURAL GAS STEEL PIPE HOLDINGS LIMITED

We refer to the discounted cash flows on which the business valuation (the "**Valuation**") dated 27 June 2022 prepared by RHL Appraisal Limited in respect of the appraisal of the fair value of 50% equity interest of AL-Qahtani PCK Pipe Limited (the "**Target Company**") as of 31 March 2022 was based. The Valuation is prepared based on the discounted cash flows and is regarded as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Directors' Responsibilities

The directors of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "**Directors**") are responsible for the preparation of the discounted cash flows in accordance with the bases and assumptions determined by the Directors and as set out in the Valuation. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control For Firms That Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor' Responsibilities

Our responsibility is to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted cash flows used in the Valuation. The discounted cash flows do not involve the adoption of accounting policies.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised), ''Assurance Engagements Other Than Audits or Reviews of Historical Financial Information'' issued by the HKICPA. This standard requires that we plan and perform our work to obtain reasonable assurance as to whether, so far as the calculations are concerned, the Directors has properly compiled the discounted cash flows in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation. We reviewed the arithmetical calculations and the compilations of the discounted cash flows in accordance with the bases and assumptions adopted by the Directors. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the calculations are concerned, the discounted cash flows have been properly compiled in all material respects in accordance with the bases and assumptions adopted by the Directors as set out in the Valuation.

Other matters

Without qualifying our opinion, we draw to your attention that we are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted cash flows are based and our work does not constitute any valuation of the Target Company or an expression of an audit or review opinion on the Valuation.

The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Further, since the discounted cash flows relates to the future, actual results are likely to be different from the discounted cash flows because events and circumstances frequently do not occur as expected, and the differences may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of, arising out of or in connection with our work.

KTC Partners CPA Limited
Certified Public Accountants (Practising)
Hong Kong, 27 June 2022

Chow Yiu Wah, Joseph
Practising Certificate Number: P04686

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

We refer to the valuation report dated 27 June 2022 (the "**Valuation Report**") prepared by RHL Appraisal Limited in relation to the appraised value of the JV Company as at 31 March 2022 (the "**Valuation**"). The Valuation was prepared based on income approach, which involves the use of the discounted cash flows. Accordingly, the Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules. Capitalised terms used herein shall have the same meanings as defined in the circular of the Company dated 27 June 2022 unless the context otherwise requires.

We have reviewed the bases and assumptions upon which the Valuation have been prepared and for which RHL Appraisal Limited is responsible. We have also considered the report from the reporting accountants of the Company, KTC Partners CPA Limited, regarding whether the discounted future estimated cash flows of the JV Company, so far as the calculation are concerned, have been properly applied, in all material respects, in accordance with the respective bases and assumptions as set out in the Valuation Report.

Based on the foregoing, we hereby confirm that we have made the profit forecast of the JV Company after due and careful enquiry.

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

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
Mr. Chen	Interest of controlled corporation *(Note)*	Long	701,911,000	69.42%
	Personal interest	Long	4,350,000	0.43%

Note:

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

Long positions in associated corporation

Mr. Chen beneficially owns the entire issued share capital of Bournam, which is the beneficial owner of approximately 69.42% of the issued Shares.

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.

(b) Interests of substantial Shareholders

As at the Latest Practicable Date, so far as the Directors are 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)*	Long	701,911,000	69.42%

Note:

The entire share capital of Bournam is solely and beneficially owned by Mr. Chen. 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 2021, 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 Disposal Agreement;

(b) the sale and purchase agreement in the amount of RMB102.1 million entered into between Panyu Chu Kong (Lianyungang) Co. Limited* (番禺珠江鋼管(連雲港)有限公司) and National East, Central and West Regional Cooperation Demonstration Zone (Lianyungang Xuwei New District) Management Committee*（國家東中西區域合作示範區(連雲港徐圩新區)管理委員會）in relation to the sale of five parcels of land in Lianyungang dated 9 December 2021;

(c) the land use right transfer agreement in the amount of RMB30.25 million entered into between Chu Kong Steel Pipe (Yunfu) Company Limited *（珠江鋼管(雲浮)有限公司）and Yunfu City's Yun'an District Natural Resources Bureau（雲浮市雲安區自然資源局）dated 4 June 2021; and

(d) the land resumption compensation agreement in the compensation amount of RMB3,453.4 million entered into between Panyu Chu Kong Steel Pipe Co. Ltd and Guangzhou City Land Development Centre*（廣州市土地開發中心）dated 15 September 2020.

9. EXPERTS AND CONSENTS

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

Name	Qualifications
KTC Partners CPA Limited	Certified Public Accountants
RHL Appraisal Limited	Independent qualified 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 2021 (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 ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.pck.com.cn or www.pck.todayir.com) from the date of this circular up to and including the date which is 14 days from the date of this circular:

(a) the Disposal Agreement;

(b) the letter from the Board, the text of which is set out on pages 3 to 12 of this circular;

(c) the Valuation Report, the text of which is set out in Appendix II to this circular;

(d) the report from KTC Partners CPA Limited in relation to the profit forecast of the JV Company, the text of which is set out in Appendix III to this circular;

(e) the letter from the Board in relation to the profit forecast of the JV Company, the text of which is set out in Appendix IV to this circular; and

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

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 each of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Chartered Governance Institute and the Chartered Governance Institute. Ms. Wong holds 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 the PRC is at 2/F., 3-5 Golden Dragon City, Yayun Avenue, 511450 Panyu District, Guangzhou City, Guangdong Province, the PRC.

(d) The principal place of business of the Company in Hong Kong is at Unit 605-606, 6th Floor, Tower III, Enterprise Square, No. 9 Sheung Yuet Road, Kowloon Bay, 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.