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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)

CONNECTED AND DISCLOSABLE TRANSACTION

The Board wishes to announce that on 30 December 2016, Lianyungang Kaidi entered into the Purchase Agreement with GZMT for the purchase of the Spare Parts and Production Line from the latter for the maintenance of machines, installation of rolling line electrical drive system equipment and transformation of steel transportation system of bimetal composite processing plant in Lianyungang, the PRC. GZMT is ultimately, wholly and beneficially, owned by Mr. Chen Chang, the controlling Shareholder and chairman of the Company, and is therefore an associate of Mr. Chen Chang and a connected person of the Company.

In accordance with the Listing Rules, as one or more of the applicable percentage ratios calculated is expected to exceed 5% but all are less than 25%, the Purchase Transaction constituted a connected and disclosable transaction of the Company under Chapter 14 and 14A of the Listing Rules and the Purchase Transaction should have been subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules and the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

However, due to oversight, the above connected and disclosable transaction has not been reported and announced by the Company or approved by the Independent Shareholders. As such, the Company has failed in complying with the Listing Rules of Rule 14.34, Rule 14A.35 and Rule 14A.36. Accordingly, an EGM will be convened for the purpose of, inter alia, obtaining the approval of the Independent Shareholders to ratify the Purchase Transaction.

The Company shall arrange to issue a circular to its Shareholders providing full details of the Purchase Transaction. The Company will also form the Independent Board Committee and appoint independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and the Purchase Transaction is in ordinary course of business of the Company and in the interests of the Company and the Shareholders as a whole as required by Rule 14A.45 of the Listing Rules. Their opinion will be included in the circular. The Company anticipates that the aforesaid circular will be circulated to its Shareholders by no later than 31 May 2017.

INTRODUCTION

On 30 December 2016, Lianyungang Kaidi entered into the Purchase Agreement with GZMT for the purchase of the Spare Parts and Production Line for the maintenance of machines, installation of rolling line electrical drive system equipment and transformation of steel transportation system of bimetal composite processing plant in Lianyungang, the PRC. The purchase of the Spare Parts and Production Line is mainly for the construction of the bimetal composite plate processing plant in Lianyungang, the PRC as per the Company's announcement dated 18 November 2016 and the circular dated 9 January 2017.

PRINCIPAL TERMS OF THE PURCHASE AGREEMENT

Date : 30 December 2016

Parties : (1) Lianyungang Kaidi, as purchaser; and
(2) GZMT, as vendor.

Purchase Transaction : Pursuant to the Purchase Agreement, Lianyungang Kaidi shall purchase from GZMT Spare Parts and Production Line for the maintenance of machines, installation of rolling line electrical drive system equipment and transformation of steel transportation system of bimetal composite processing plant in Lianyungang, the PRC.

Consideration : The consideration for the Purchase Transaction is approximately RMB173.6 million and was determined after arm's length negotiations between the parties with reference to other quotations obtained from other independent third parties in the market for the engagement.

The consideration shall be payable in cash in 3 instalments based on certain milestones as follows:

- 1) 50% of the consideration, shall be paid within 15 days upon signing of the Purchase Agreement;
- 2) 40% of the consideration, shall be paid within 2 years upon the satisfaction of the final functionality assessment of the Spare Parts and Production Line;
- 3) the remaining balance of 10% of the consideration, shall be paid after 2 years upon the satisfaction of the final functionality assessment of the Spare Parts and Production Line and fulfillment of the obligation by GZMT in relation to the product warranty.

As at the date of this announcement, the first instalment of approximately RMB86.8 million was paid, representing 50% of the total consideration.

The Directors (except the independent non-executive Directors who will further consider the advice to be given by the independent financial adviser to be appointed) consider that the terms of the Purchase Transaction are fair and reasonable, which are conducted on normal commercial terms and in the ordinary course of business of the Group and in the interests of the Company and its Shareholders as a whole.

Mr. Chen Chang, the controlling Shareholder and chairman of the Company, is the sole shareholder of GZMT. In view of Mr. Chen Chang's relationship with GZMT and with reference to the Group's adopted standard of corporate governance, Mr. Chen Chang (who is materially interested in the Purchase Transaction), Ms. Chen Zhao Nian and Ms. Chen Zhao Hua, being the

daughters of Mr. Chen Chang and executive Directors of the Company, have abstained from voting on the Board's resolutions in approving and ratifying the Purchase Transaction. Other than the aforesaid Directors, no Director had a material interest in the Purchase Transaction which would require him to abstain from voting on the relevant Board's resolutions.

INFORMATION ABOUT THE GROUP AND GZMT

The Company is an investment holding company and through its subsidiaries is principally engaged in the manufacture and sale of longitudinal welded steel pipes and property development.

GZMT is a limited liability company established in the PRC and is principally engaged in the manufacture and sale of machine tools. GZMT is ultimately, wholly and beneficially owned by Mr. Chen Chang, the controlling Shareholder and chairman of the Company, and is therefore an associate of Mr. Chen Chang and a connected person (as defined in the Listing Rules) of the Company.

REASONS FOR THE TRANSACTION

The Group is involved in the manufacture and sale of welded steel pipes. It is required to purchase spare parts of machines used for the manufacturing and processing of steel pipes from time to time. Such spare parts are used by the Group as components for (i) the repair and maintenance of its machines and production lines; and (ii) the installation of new production lines and facilities. Whilst some of the spare parts are general accessory items, some have to be tailor-made (with the Group providing the designs) and require ancillary processing work thereon.

Furthermore, the Group has to construct the bimetal composite plate processing plant in Lianyungang, the PRC as per the Company's announcement dated 18 November 2016 and the circular dated 9 January 2017. The Group required GZMT to co-operate for the installation of bimetal composite plate processing plant in Lianyungang.

In view of the considerably long history of purchasing spare parts from GZMT, and that GZMT has been a reliable supplier which is capable of providing spare parts with the required technical and quality requirements that suit the Group's needs and maintaining confidentiality of the Group's designs and technology of the relevant spare parts, the Directors, including the independent non-executive Directors, consider that it is in the best interest of the Group to enter into the Purchase Agreement and the Purchase Transaction to continue to purchase Spare Parts and Production Line from GZMT on an arm's length basis.

LISTING RULES IMPLICATIONS

In accordance with the Listing Rules, as one or more of the applicable percentage ratios calculated is expected to exceed 5% but all are less than 25%, the Purchase Transaction constituted a connected and disclosable transaction of the Company under Chapter 14 and 14A of the Listing Rules and should have been subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules and the reporting, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

However, due to oversight, the above connected and disclosable transaction has not been reported and announced by the Company or approved by the Independent Shareholders. As such, the Company has failed in complying with the Listing Rules of Rule 14.34, Rule 14A.35 and Rule 14A.36. Accordingly, an EGM will be convened for the purpose of, inter alia, obtaining the approval of the Independent Shareholders to ratify the Purchase Transaction. As Mr. Chen Chang, the controlling Shareholder and chairman of the Company, is the sole shareholder of GZMT, he is required to abstain from voting in the extraordinary general meeting for the ratification of the Purchase Transaction.

The Company shall arrange to issue a circular to its Shareholders providing full details of the Purchase Transaction. The Company will also form the Independent Board Committee and appoint independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of Purchase Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and the Purchase Transaction is in ordinary course of business of the Company and in the interests of the Company and the Shareholders as a whole as required by Rule 14A.45 of the Listing Rules. Their opinion will be included in the circular. In view of the considerable time required for the appointment of the independent financial adviser and the preparation of the independent advice given to the Independent Board Committee, the Company anticipates that the aforesaid circular will be circulated to its Shareholders by no later than 31 May 2017. Disclosure of the Purchase Transaction will be made in the Company's 2016 annual report which will be published on or around 28 April 2017.

REMEDIAL ACTION

In order to minimize the likelihood for the recurrence of a similar oversight to occur in the future, the Company will tighten its internal control by providing training to the Group's senior management on connected transactions and notifiable transactions, and to emphasis the importance of identifying such transactions prior to execution, so that similar events will not occur in the future. In addition, the management and accounting staff of the Company will conduct reviews of the trading volume of any connected transaction on a monthly basis.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (珠江石油天然氣鋼管控股有限公司), a company incorporated in the Cayman Islands with limited liability and the shares of which are listed and traded on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries from time to time
“GZMT”	廣州市珠江機床廠有限公司(Guangzhou City Pearl River Machine Tool Works Co., Ltd.*), a limited liability company established in the PRC which is wholly and beneficially owned by Mr. Chen Chang, the controlling Shareholder and chairman of the Company
“Independent Board Committee”	The independent committee of the Board comprising the Company's independent non-executive Directors, Mr. Chen Ping, Mr. See Tak Wah and Mr. Tian Xiao Ren, which will be established to advise the Independent Shareholders in respect of the Purchase Transaction
“Independent Shareholders”	Shareholders of the Company other than Mr. Chen Chang and his associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Lianyungang Kaidi”	連雲港凱帝重工科技有限公司(Lianyungang Kaidi Heavy Equipment Technology Co. Ltd*), a limited liability company established in the PRC which is a wholly-owned subsidiary of the Company
“percentage ratios”	shall have the meaning as ascribed to it under Chapter 14 of the Listing Rules
“PRC”	the People’s Republic of China, which, for the purpose of this announcement, excludes the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan
“Purchase Agreement”	the purchase agreement entered into between Lianyungang Kaidi as purchaser and GZMT as vendor dated 30 December 2016 in relation to the sale and purchase of the Spare Parts and Production Line
“Purchase Transaction”	the transaction(s) contemplated under the Purchase Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	holder(s) of the share(s) of the Company
“Spare Parts and Production Line”	certain spare parts for maintenance of machines, installation of rolling line electrical drive system equipment and transformation of steel transportation system of bimetal composite processing plant in Lianyungang, forming the subject matter of the Spare Parts Purchase and Production Line Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

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

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

Guangdong Province, the PRC, 27 April 2017

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